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Portillo's Inc. (PTLO) Q2 2024 Earnings Call Transcript

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10-Q

EPS of \$0.11 **beats by \$0.01** | Revenue of \$181.86M (7.49% Y/Y) **misses by \$2.58M**Portillo's Inc. (NASDAQ:[PTLO](#)) Q2 2024 Earnings Conference Call August 6, 2024 10:00 AM ET

Company Participants

Barbara Noverini – Director-Investor Relations

Michael Osanloo – President and Chief Executive Officer

Michelle Hook – Chief Financial Officer

Conference Call Participants

Sara Senatore – Bank of America
Chris O’Cull – Stifel
David Tarantino – Baird
Brian Mullan – Piper Sandler
Andy Barish – Jefferies
Matt Curtis – William Blair
Brian Harbour – Morgan Stanley
Jim Salera – Stephens Inc.
Dennis Geiger – UBS
Gregory Francfort – Guggenheim Securities

Operator

Hello, and thank you for standing by. Welcome to the Fiscal Second Quarter 2024 Conference Call and Webcast.

I would now like to turn the call over to Barbara Noverini, Director of Investor Relations at Portillo’s, to begin.

Barbara Noverini

Thank you, operator. Good morning everyone, and welcome to our fiscal second quarter 2024 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 will 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, Barb, and good morning everyone. Thanks for joining us on our second quarter 2024 earnings call. Let me start by saying that second quarter results fell short of my expectations. Although we did see some top and bottom line improvement compared to Q1, we definitely have room for improvement. There's still work to be done.

In the second quarter, we grew total sales 7.5% with a comp of negative 0.6%. We did manage restaurant level margins to a healthy 24.5%. It was encouraging to see sequential improvement in all three of these metrics in Q2, but in this macroeconomic environment, it's an undeniable headwind on traffic and mix, and that is why we must maintain sharp focus on the factors within our control.

Based on the first half of the year, we now expect to deliver flat to slightly positive comp versus our low single-digit projection earlier in the year. We will still generate 23% to 24% restaurant level margins and I am excited to announce that we now expect to open at least 10 restaurants in fiscal 2024. This 10th restaurant will boost our unit growth percentage close to 12% for 2024, ahead of the 10% plus we communicated at Development Day in September. And more importantly, we'll open this restaurant while reducing total CapEx for the year. Michelle will talk more about this in her section.

Before I hand things over to her, let me benchmark our recent progress against the four strategic pillars we revealed last quarter. These pillars are one, running world-class operations; two, innovating and amplifying the Portillo's experience; three, building restaurants with industry-leading returns; and four, taking great care of our teams. These pillars sit on a foundation of strong culture and help us deliver on our commitments.

So let's dive into some of the specifics. First, I'll reiterate that running world-class operations is the single most important tool we have to drive sales and transactions. When guests taste our food and have a great experience, they recognize the value in our brand and they return over and over again.

In Q2, we took a hard look at our drive-thru experience. Portillo's drive-thru channel is the heartbeat of our operation and a key element of our value proposition. A team member comes to your car, they curate your order and they ensure you're served quickly. We know that convenience and consistency in the drive-thru leads to industry-leading AUV's.

Since our recent leadership change, I've been closely observing and participating in our operations across our system. I've concluded that our processes for measuring success relied on too many metrics that took our GM's focus away from the guest experience. We've realigned our GM's to focus on the factors that matter to drive transactions and sales. We need to refocus on training our team members for the speed and sense of urgency that we're known for, especially in our drive-thrus.

We're already seeing signs of progress. I'm happy to share that year-to-date, our drive-thru speed has actually improved by 15 seconds versus the same time period last year. We're still working to get back to 2019 levels, but with the right focus, we're seeing improvement. Our second pillar is centered on innovating and amplifying the Portillo's experience through digital engagement, marketing efforts and menu innovation.

I'm pleased to announce that last week we launched our first kiosk prototype in one of our suburban Chicago locations. We studied best practices across the restaurant industry to pinpoint how kiosks can enhance the Portillo's guest experience. We're especially excited about helping guests visually explore our menu. Love the idea of using images to suggest entrées and add-ons that appeal to various consumer types. And in Q3, we plan to install kiosks in our flagship downtown Chicago location, followed by two more restaurants in California. We look forward to updating you on this initiative in future quarters.

If you've been in the Chicago area recently, you may have seen some of our TV commercials or billboards. This is ramping up to a full relaunch of our advertising efforts in Chicagoland. Our comprehensive advertising campaign kicks off later this month to coincide with the start of the NFL season. The focus is simple and straightforward, just highlighting what we're known for, delicious, craveable food. It's hard not to feel hungry when you see Portillo's in the campaign, and we're confident this will drive guests in much like it did in the fourth quarter of 2023.

Our third strategic pillar is building restaurants with industry-leading returns. I'm really excited about the progress we've made on this front. It took us less than two years to conceptualize, test and build a 6,300 square foot prototype. The 1,500 square foot reduction significantly reduces our build costs. To be clear, that's a 20% reduction in our square footage without constraining our capacity to deliver industry-leading AUV's. We will have three restaurants in Texas with this footprint by the end of the year.

Our final strategic pillar is taking great care of our teams. We continue to invest in our training programs and our leadership development program ignite to prepare our teams for accelerated growth. We maintain very high retention rates by treating our people well. This past quarter, for example, we made a concerted effort to launch and highlight some programs available to team members across the company. We launched the Strive for Greatness Scholarship program to increase access to higher education.

We also implemented a comprehensive employee assistance program that provides a wide range of support benefits, including mental health, financial planning, resources and legal services. This holistic approach ensures we meet the needs of more than 8,000 dedicated team members. When we take care of them, they take care of our guests, ultimately creating value for our shareholders.

With that, let me hand it over to Michelle.

Michelle Hook

Great. Thank you, Michael, and good morning everyone. This quarter, we introduced new tables in our Form 10-Q and supplemental report to offer more detailed information about the composition of our revenue and the variances for both the quarter and year-to-date periods. These additions allow you to see the revenue base of our comparable restaurants and distinguish the year-over-year sales contributions from restaurants not yet included in our comp base. Please refer to the 10-Q and supplemental report for these new tables.

In Q2, revenue growth was driven by the opening of new restaurants. During the second quarter, revenues were \$181.9 million, reflecting an increase of \$12.7 million, or 7.5% compared to last year. Restaurants not in our comparable restaurant base contributed \$12.6 million of the total year-over-year increase. Revenue also benefited \$1.2 million in the second quarter due to the shifting of comparable weeks.

These increases in revenues were partially offset by same-restaurant sales decrease of 0.6%, which drove revenues down \$1 million in the quarter. The same-restaurant sales decrease was driven by a decrease in transactions of 2.3%, partially offset by an increase in average check of 1.7%. The higher average check was driven by an approximate 4.3% increase in certain menu prices partially offset by product mix.

Comp on a two-year stack basis was 5.2%. In June, we re-tiered some of our restaurants in higher cost areas, contributing to an effective price increase of approximately 1%. With earlier pricing actions this puts us at an effective price increase of just over 4% in the third quarter. As Michael mentioned, we are targeting flat to slightly positive same-restaurant sales growth for fiscal 2024.

Moving on to our costs. Food, beverage and packaging costs as a percentage of revenues increased to 33.9% in the second quarter of 2024 from 33.2% in the second quarter of 2023. This increase was primarily due to a 6.9% increase in commodity prices partially offset by increases in our average check.

In the second quarter, we experienced the largest commodity pressures on beef, pork and produce. We had anticipated that the second quarter would mark the peak of commodity inflation for the year. Our projections indicate that inflation will decrease in the latter half as we anticipate some easing in hamburger, produce and French fry costs.

We are still estimating commodity inflation in the mid-single digits in 2024. Labor as a percentage of revenues was flat to prior year at 25.5%. The benefit from increase in our average check and variable based compensation is being offset by the lower transactions and wage rate increases. Hourly labor rates were up 3.1% in the second quarter of 2024 versus the prior year period. We still project labor inflation to be in the mid single digits in 2024.

Other operating expenses increased \$1.1 million or 6% in the second quarter of 2024 compared to the second quarter of 2023, which was primarily driven by the opening of new restaurants. As a percentage of revenues, other operating expenses decreased slightly to 11% from 11.1% in the prior year.

Occupancy expenses increased \$1 million or 11.8% in the second quarter of 2024 compared to the second quarter of 2023, primarily driven by the opening of new restaurants. As a percentage of revenues occupancy expenses increased 0.2% compared to the prior year.

Restaurant-Level adjusted EBITDA increased 4.3% to \$44.6 million in the second quarter of 2024. Restaurant-Level adjusted EBITDA margins were 24.5% in the second quarter of 2024 versus 25.3% in the second quarter of 2023. This reflects a decline of 80 basis points year-over-year, driven by softer sales. Through the first two quarters of 2024, Restaurant-Level adjusted EBITDA margins were 23.3%, which is 50 basis points lower than prior year. We are still estimating our Restaurant-Level adjusted EBITDA margins to be range of 23% to 24% in 2024.

Our general and administrative expenses decreased by \$1.7 million to \$17.9 million, or 9.9% of revenue, in the second quarter of 2024 from \$19.6 million, or 11.6% of revenue in the second quarter of 2023. The decrease was primarily driven by lower equity and variable based compensation. This was partially offset by expenses associated with our ERP implementation as well as higher advertising expenses.

We have carefully managed G&A expenses this year and have shown that we will achieve greater efficiency in controlling these costs. We remain committed to investing in our growth and supporting our strategic priorities. We will continue allocating funds this year towards strategies aimed at boosting sales, including marketing. We will maintain discipline in these investments and proceed cautiously in our hiring initiatives.

Given our focus on these expenses this year, we are lowering our G&A spend estimates for the year. We are now estimating G&A expenses to be between \$82 million to \$84 million in 2024 versus our previous range of \$85 million to \$87 million.

Pre-opening expenses increased \$1.8 million to 1.2% in the second quarter of 2024 from 0.2% in the second quarter of 2023. This increase was due to the number and timing of executed and planned new restaurant openings. As Michael mentioned, we are now targeting at least 10 new restaurants to open in 2024. As a result of this update and our clear view into our 2025 pipeline, we are now estimating pre-opening expenses to be between \$10 million to \$10.5 million in 2024 from our previously guided range of \$8 million to \$9 million. This number may flex depending on the timing of restaurants we open in early 2025.

All this led to adjusted EBITDA of \$29.9 million in the second quarter of 2024 versus \$29.2 million in the second quarter of 2023, an increase of 2.2%. Below the EBITDA line, interest expense was \$6.6 million in the second quarter of 2024, an increase of \$0.1 million from the second quarter of 2023. This increase was driven by a higher effective interest rate due to the additional borrowings on the revolver facility.

As of today, our outstanding borrowings under the revolver are \$17 million, a decrease of \$15 million from the end of Q1. Our effective interest rate on the 2023 term loan and revolver facility is 8.3% versus 8.2% for 2023.

Income tax expense was \$3.5 million in the second quarter of 2024. Our effective tax rate for the second quarter was 29.1%. Our future effective tax rate will fluctuate as Class A equity ownership increases and as equity based awards are exercised and vest. We continue to expect the full year tax rate to be approximately 21% to 24%.

Cash from operations increased by 33% year-over-year to \$41.6 million year-to-date. We ended the quarter with \$12.4 million in cash. We will be using our cash balance plus operating cash flow to support our growth in new restaurant openings this year and beyond. As Michael mentioned, we will begin opening our smaller footprint restaurants in the fourth quarter of this year at a reduced build cost. As a result, we are reducing our estimated range of capital expenditures for this year. We are now expecting capital expenditures to range between \$85 million to \$88 million versus our previously guided range of \$90 million to \$93 million.

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

Michael Osanloo

Thank you, Michelle. I'm really proud of the culture we've created here at Portillo's, and I am confident in our ability to deliver because of our people. I want to thank all of our frontline team members, our managers, our teams at the restaurant support center, and our teams at the commissaries. Across the organization, we have incredible people focused on ensuring our guests get fresh, made to order food in a fun, energetic environment. The dedication to that experience is a not so secret recipe for success. It's our everyday commitment and it's how we achieve long term, lasting results. Thank you.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question comes from the line of Sara Senatore with Bank of America. Please go ahead.

Sara Senatore

Hi. Great. Hopefully you can hear me. I have just a clarification, please, and then a question. I'll start with a question first, which is the full-year comp guide assumes the second half is stronger than the first half. I know the comparisons are easier, at least on a one year, and you mentioned marketing, but I think you're lapping that as well. So could you just talk about what you see as the primary drivers of that acceleration given, I think it sounds like the operating environment is pretty unchanged through the year even.

And then the clarification was just about CapEx. I know you had innovated some of these new prototypes and you have been targeting building more of your restaurants in these smaller footprints. So did you take even more cost out? Or you just have more of the restaurants that can be in the newest prototype, the smaller footprints. Just how are you getting to that lower CapEx, given how much work you've done – you have done already? Thanks.

Michael Osanloo

Great, Sarah, I'll handle the first part and I'll let Michelle clarify on the CapEx. The trends that we're seeing, I mean, keep in mind our transaction trend and our comp trend have improved quarter-over-quarter and it's only recently that we have really put the focus on throughput, which is one of the key enablers for us and we're seeing a benefit of that focus.

We've also, I think I've talked about this a bunch now, but we've initiated a lot of marketing. We know that our business is highly responsive to marketing, particularly in the Chicago area. And we are getting pretty aggressive on marketing, not discounting, but just marketing brand awareness. And so those two – those two things we believe will continue to accelerate our performance into the second half of the year. And that's what gets us to flattish to slightly positive comp.

I'll let Michelle talk about CapEx.

Michelle Hook

Yes, and CapEx, Sara, as we mentioned, we have three restaurants coming online in Q4 this year that are in the 6,300 square footprint. But we were able to pivot into the seven other restaurants that we built that are not restaurant of the future. But we were able to make some improvements in those restaurants as well as we were building those to some of the design elements of that.

And we were able to save some CapEx dollars on those builds as well. And then even more on those three that are coming online in the back half of the year where we mentioned before, the range for those are going to be between \$5.2 million [ph] to \$5.5 million. So we have line of sight on that. And then as we start to build the 25 pipeline as well Sara, in this new footprint, those costs start to come into play this year as well as we're building some of those 2025 restaurants at that lower build cost. So our comfort level with that now is obviously higher. And so that's where we feel very comfortable putting out the lower range of \$85 million to \$88 million.

Sara Senatore

Great. Thank you very much.

Michelle Hook

Yep.

Operator

Thank you. Next question comes from the line of Chris O'Cull with Stifel. Please go ahead.

Chris O'Cull

Yes, thanks. Michael, I know you launched a fresh round of marketing in Chicago here in the third quarter, but I was hoping you could help us understand any tweaks you've made to the messaging or maybe level of investment relative to the campaign you ran late last year?

Michael Osanloo

The messaging is actually – first good morning, Chris. The messaging is very consistent. We see that our business is super responsive when we remind people of how much they love Portillo's. So it's not to be glib, but it's essentially food porn. We show beautiful images of our food. I think we get people excited about it and we just remind them how much they love the taste, the smell, the sites of Portillo's. So that's what it is. It's very consistent with the ad campaign last year.

We have a series of billboards out. We've gotten some TV up, but it really kicks off strong with the onset of the NFL campaign. We bought a lot of spots around Bears games. There's a lot of enthusiasm in the Chicagoland area for the Bears. It's a material spend. It's probably more than we spent in the fourth quarter of last year. Now, I'm sure you're going to try to model that. I don't know how I would encourage you to model it or not model it, but it's a material spend and we think that it is going to help move the needle for us.

Chris O'Cull

Great. And then I know you mentioned the speed of service improved in the drive-thru this quarter. Can you help us understand the most impactful operational changes that drove that improvement and then how much more headroom you have in terms of opportunity there and then Michelle, have you been able to correlate the improvement in throughput to maybe comp sales improvement?

Michael Osanloo

So let me try to answer that for you the whole thing. In 2019, we were almost a minute faster in our drive-thrus than we were in this past sort of trailing 12-month period in a very quick period of time because we really started emphasizing throughput and drive-thru excellence for about the last four weeks to six weeks now. We've carved back 15 seconds of that time. And it's, I don't want to be simplistic, Chris, but it's really just making sure that there's managerial presence outside, and we're coaching up and training our team members on what it means at Portillo's to be fast and efficient.

We just lost our way a little bit. And a manager outside giving real time feedback, real time coaching, making sure that our team members are working as adeptly as our expectations is the key to that success. So we've carved a little bit of that time back, but there's still a bunch to go. I'm very enthusiastic about it because the teams have embraced this. And of course, we're doing contests and competitions and rewarding all the great people at Portillo's and encouraging the not so great to be a little bit better. But I'm very optimistic about this. We are an execution machine. We just need to know what to execute against. And now the teams know.

Chris O'Cull

Great. That's helpful. Thank you.

Michael Osanloo

You bet, Chris.

Operator

Thank you. Next question comes from the line of David Tarantino with Baird. Please go ahead.

David Tarantino

Hi. Good morning. Michael, I just wanted to clarify your comments about what you're seeing in the third quarter. I think you mentioned quarter-over-quarter improvement. Was that related to comps or transactions or both? And I guess the nature of my question is, we've heard the opposite from a lot of the other companies we've seen, so I wanted to clarify that.

Michael Osanloo

No, it does sound a little unusual, but if you just hearken back to Q1 for us, we had negative 3.2% transactions. Q2, we improved to negative 2.3%. Q1, our comp was negative 1.2%, we improved to negative 0.6%. And even our mix has improved slightly. So, I think that the flywheel is starting to pick back up for us. I know, David, you're going to – you're thinking of the macroeconomic environment and what's happening to the low end consumer. I'm not, I guess I'm not smart enough to answer that for you. What I can tell you is that our business is gaining momentum, and I think we're doing the right things to help drive our business.

David Tarantino

Great. Thank you. And I guess on that, I guess maybe I was confused. Did that comment on quarter-over-quarter improvement apply to what you're seeing so far in the third quarter? Maybe I misunderstood that.

Michael Osanloo

I don't think, I'm not commenting on the third quarter. I was just commenting on Q2 versus Q1.

David Tarantino

Got it. Okay. Thank you. Sorry for that confusion. And then I had a question on the price increase you recently took, I guess. Can you maybe explain the rationale of that move? And I guess in today's very uncertain environment, your confidence in taking that approach, given the sensitivity on consumer spending?

Michael Osanloo

Yes, I guess I'm not trying to be cute, but I don't think of it so much as a price increase, we have different price tiers, and what we try to do is keep our pricing and our margins fairly neutral, despite what different jurisdictions might do with local labor rates and things like that. And so we've had a number of jurisdictions that labor costs have gone up significantly over a period of time. We did not increase them to the right price tier all in one fell swoop. We've been much more methodical about changing pricing to make sure that there's no sticker shock at any one time. And this is a little bit of cleanup pricing. So that's what we mean by tier pricing. There's a handful of restaurants that were candidly being subsidized by other markets, and now we've put them into the right price tier.

David Tarantino

Got it. Thank you very much.

Michael Osanloo

You bet, David.

Operator

Thank you. Next question comes from the line of Brian Mullan with Piper Sandler. Please go ahead.

Brian Mullan

Thank you. Just follow-up on the topic of throughput. You've spoken about the drive-thru. I'm wondering if you also see an opportunity for improved throughput in the restaurant as well, and if you could just tie that into Chief Operating Officer position if you're looking to fill that role? Or is that something you think you can be handled internally with the team in place?

Michael Osanloo

So the first part of your question, Brian, throughput. Absolutely, I think that there's a throughput opportunity at Portillo's. I think that when you lose your focus on throughput, it's not just in the drive-thru, it's probably inside as well. Our data and our analytics suggest that it's most obvious in the drive-thru. So we definitely can do better in terms of throughput inside the restaurant, and it's actually one of the reasons why we're testing kiosks. So I'm excited about the kiosk test. I think we'll talk more about it in the future, but that, we think is another way of helping with throughput. So throughput for sure in the drive-thru and also inside.

We are actively looking for a new COO, but I'm enjoying my time being close to the operators right now. I work very closely with them. I kind of started my job here at Portillo's, working closely with them, and it gets me a lot of insight into what we're focusing on and what we shouldn't be focusing on. And so it gives me a chance to reinvigorate the team, to be the great execution machine that we are, and just to focus on a few basic things that make us fantastic. We are actively in a search for a COO, but we're not going to rush into anything. We want a world-class leader who fits our culture and appreciates Portillo's for the sleeping giant that it is.

Brian Mullan

Okay, thank you for that. And my follow up actually is on the kiosk. If you were to like what you see from the first couple stores, I assume you'd want to deploy that more broadly. If you could just talk about how not to get ahead of myself, but how quickly you could do something like that if you like what you saw, and then just talk about making sure the consumer experience stays intact for all of your guests. I'm sure some guests would be thrilled. Some might like the interaction that they have at the front counter. So how you're thinking about that?

Michael Osanloo

I'm open to all options to be honest with you, it's been less than a week at one restaurant, so I don't want to jump into any premature conclusions. I love the way it looks. I'm very proud of our team. I'm very proud of how they've deployed it. They really have studied best-in-class performance by other restaurant companies, and we're not too proud to steal great ideas and great concepts.

So I think the deployment of our kiosks are as good as it gets. And I'm super excited to see how it works in our Downers Grove location. We're rolling it out to downtown Chicago. We're doing it in California. I want to see how it looks, and if it does what it seems to do for everybody else, then I think we have something very exciting that we can hopefully very quickly deploy.

Brian Mullan

Thank you.

Operator

Thank you. Next question comes from the line of Andy Barish with Jefferies. Please go ahead.

Andy Barish

Yes, just a quick clarification, Michelle, on the commodity inflation. I missed it. Did you say that the 6.9% and the 2Q, continues to be what you think will be the peak, increases for the year?

Michelle Hook

Yes, Andy that's correct. We had always anticipated Q2 would be the peak for the year, and we still expect that. So we do expect easing in the back half of the year. And I mentioned, some of the areas we expect easing are in our hamburger, produce and French fry costs in the back half.

Andy Barish

Okay. And then with the pre-opening increase, I mean, it seems as if it implies, some number of openings for 2025 without getting too far for the first quarter of 2025 [ph], without getting too far out in front of guidance or anything, you were hoping 2025 was going to be a more evenly spaced year in terms of openings. Any further insight to that as we get closer that you would like to share at this point?

Michelle Hook

Yes, Andy, I think obviously I mentioned we have a clearer view into the 2025 pipeline, and so we always expected 2024 to not be great. But as we get into 2025, we do expect that cadence to look a little more smooth. And so, as you know, part of that pre-opening cost includes a deferred rent component. So as we get into these 25 restaurants and start incurring some of those costs, that's where that better line of sight gives us confidence that we have a little bit of increase in that line item. But again, yes, we expect 2025 to be a little bit more smooth than what we're seeing in 2024 and what we saw in 2023.

Andy Barish

Got it. And just one final one, Michael, on the marketing in Chicago, can you give us a sense of its ramping up into football next month? Does it continue into the fourth quarter to kind of lap what you did last year? I guess just trying to level set on that.

Michael Osanloo

Yes, it might dribble a hair into the fourth quarter, Andy, but it's primarily a third quarter spent.

Andy Barish

Okay. Thank you very much.

Michael Osanloo

You bet.

Operator

Thank you. Next question comes from the line of Matt Curtis with William Blair. Please go ahead.

Matt Curtis

Hi, good morning. Just a question on the bundled meals. I mean, did the return of Famous 5s in April have any meaningful impact on average ticket for you? And then I guess more broadly, are you comfortable with where you are on value right now relative to tiers, or do you think you need to lean in more on value in the second half?

Michael Osanloo

I would tell you it's a great question. I would tell you we're happy with redeploying the Famous 5. It does seem to be having a positive impact on our business. First, guests like it because it helps curate what they – what they should be getting and especially in our markets, it makes a lot of sense for them. We are seeing a slight check uptick as well as a mix uptick. So I'm happy about that.

In terms of value, we're not a brand that is going to be on sale. We're not a brand that does value meals. We're a brand that provides. We're sort of an EDLP merchant. Everyday low pricing. We provide phenomenal value for what a guest gets. Our price points are excellent. Our beef sandwich is huge. Our fries are huge. No one is calling us out for skimpflation or shorting portions. You can see it in our cost of sales. We spend a lot of money on the food, and we give guests a great value in what they're receiving. So I'm not – for the consumer who wants a great experience and a great, fair price point, I think we're still a wonderful value.

Matt Curtis

Okay, I understood. And then just getting back to drive-thru for a minute, I mean, it's good to hear that the drive-thru speeds are improving, but could you talk about how drive-thru traffic is doing in light of just the promotional intensity across the fast food space right now?

Michael Osanloo

I mean, I think you probably answered your own question, Matt. I mean, drive-thru traffic is a little bit challenged because of the promotional intensity. The big QSRs are largely drive-thru businesses. And while they're engaging in some very aggressive promoting and discounting, we will probably have a little bit of pressure on our drive-thrus. The way for us to mitigate that is by being excellent in the drive-thrus by being speedy, fast, efficient, getting our food into a guest hand that's made to order, not sitting in a bin. It's made to order. It's hot, fresh, fast, and delicious. That's how we compete in the drive-thru. We just got to get it a little bit better in terms of our speed and execution.

Matt Curtis

Okay, understood. Thanks very much.

Michael Osanloo

You bet.

Operator

Thank you. Next question comes from the line of Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Yes, thanks. Good morning, guys. Michael, the kind of slight improvement in mix that you mentioned, was that just to clarify, the prior response, was that largely what drove it, or have you seen anything else in terms of customer behavior that's driven mix? And do you still think that can kind of moderate through the balance of the year?

Michael Osanloo

I think it's probably a factor, Brian. I don't know if it's the dispositive factor. There's so much noise in that data. Mix continues to perplex me, if I'm being honest. I think at some point, when you're lapping negative mix over negative mixed, it does have to mitigate itself. And so I'm hopeful with mix, we are engaging in some strategies to help with mix. I think the Famous 5 is something that can help with mix. I think that I'm hoping that kiosks actually can help with mix, and so we're taking some strategies to help with mix. But it does perplex me a little bit. The mix challenge that we've been facing.

Brian Harbour

Yes, it makes sense. The normalization of kind of new units just on a sales basis. Has that still been kind of consistent with what you were thinking? And I mean. Michelle, any comments on how you think about that in the second half?

Michael Osanloo

Yes, I'll tell you, as an overarching theme, I'm very happy with our new units. They are performing at our expectations. We're thrilled with the consumer reception. I think we've opened up our sixth restaurant in DFW. That is incredible for a company like us to quickly get to scale to a minimum efficient scale in Dallas in less than two years is something I don't think we could ever have imagined. So we're super excited about the track trends and the trajectory of our new restaurants.

Michelle Hook

Yes, I'd add, Brian, we are going to enter the Houston market. I know we've talked about that before as our new market this year, in the back half of the year. So we're excited about that new market entrance. And then getting up to scale within that market, as Michael mentioned, continued to build out DFW and then just continuing to get scale in the other markets we operate in. We opened up another restaurant in Arizona in the first half of the year. But we're going to focus primarily in the back half of the year on those Dallas and Houston markets.

And as Michael mentioned, we're really excited about those restaurants as well as what it's going to do to the markets to drive awareness. And I think we've continued to talk about as we get scale. That's the key, is to not only drive cost efficiencies within those markets, but to drive awareness. And that's, I think what we're all very excited about as well, is that continued awareness driving efforts through the scale building.

Operator

Mr. Harbour, are you done with the questions?

Brian Harbour

Yes, thank you.

Barbara Noverini

Operator, are there any other questions?

Operator

Yes, we have a question from Jim Salera from Stephens Inc. Please go ahead.

Jim Salera

Hi, guys. Thanks for taking our question. Maybe if I could ask one backward looking and one forward looking question. First, the backward looking one. If my notes served me correctly, I believe last quarter you guys talked about seeing low single-digit same-store restaurant sales growth in April, kind of coming out of 1Q. And obviously the results for the quarter would indicate that those trends kind of deteriorated throughout the quarter. So just any color on kind of the puts and takes there throughout the quarter. If there's anything that happened that we should kind of be aware of continuing into the back half of the year.

Michelle Hook

Yes. I'd say, Jim, the only thing I would call out is, you're absolutely correct. April, we did see a low single-digit comp and I'd say May was a bit more challenged. I say that was probably the most challenged month in the quarter. And then we saw a little bit of pickup as we moved into June. So that's just to give you some color. It was choppy, like everything in this environment. We continue choppiness in the quarter, but that's a out par for the course for this year is how I would characterize it.

Jim Salera

Okay, great. Does that have any kind of analog as we go into 3Q. I know you guys don't want to give too much detail on the quarter, but just kind of as we think about, the progression level in the quarter [ph].

Michelle Hook

Yes, no, I would say, Jim, I think I use the word choppy. I'd continue to use that. If there's choppiness, as Michael mentioned, our advertising is really going to start to kick in later this month as the NFL season kicks into gear. And so we'll see what that does. But we expect to continue to see that choppiness intra quarter, whether that's, Q3 and beyond.

Jim Salera

Okay, great. And maybe one follow up question on the marketing. You know, excited to see the spots around the bears, although I'm a Pittsburgh Steelers fan myself. But if we think about all of the restaurants and kind of food concepts that advertise around football, wings, pizza, how do you kind of pierce the veil and have Portillo's message stand out among all of those other options that consumers have to choose from on game day?

Michael Osanloo

This is going to sound a little cocky, but we're just a brand that punches above its weight in Chicagoland. So in a lot of other markets, it's a different dynamic for us. But in Chicagoland, when Portillo's is on TV or actively marketing, it catches the consumer's attention. We are a 60-year old beloved brand in Chicagoland and we don't advertise regularly, so when we do, it has a very strong positive impact for us.

Jim Salera

Great. Thanks, guys. I'll hop back in the queue.

Michael Osanloo

Thanks, Jim.

Operator

Thank you. Next question comes from the line of Dennis Geiger with UBS. Please go ahead. Thanks.

Dennis Geiger

Thanks. Good morning, guys. Just curious, anything additional to highlight on customer behaviors either day part or day of the week, I guess the channels I'd be particularly interested in if anything off-premise delivery, if you're seeing anything notable there, and if there's any implications off the back of those observations.

Michael Osanloo

I'm going to steal my partner's line here. When she says choppy, I'd say it's the same dynamic. There's, within every channel, there's some choppiness. There's some elements of third party delivery that are very strong, some elements that are not as strong. Some elements, sometimes you find a week or two where the day part is strong, others not so strong. On average, though, Dennis, it's pretty consistent for us, and we're seeing similar performance across channels on average.

Dennis Geiger

Very helpful, Michael – very helpful. One other, if I could, just as it relates to guest satisfaction scores, I know we've been seeing some real solid strengths there. Not sure if I missed, but just kind of the latest update there. I know you talked value earlier, but value scores, but more broadly, on satisfaction scores, what you're seeing, and again, how you think about those scores, looking ahead, what that means? Thank you.

Michael Osanloo

Yes, I think they continue to be very, very strong for us. I'm kind of consciously deemphasizing them a little bit with the organization because I – when they are accurate, they're a leading indicator, and I want to make sure that our teams are engaging in the right behaviors that drive these scores and not trying to manage scores. So when it comes to things like accuracy, speed, overall satisfaction, we remind the teams that the way to control those is to smile, to be fast, that if a guest has a problem, resolve the problem in the guests favor, and so just be a good human being. And so that's what we try to emphasize, not to manufacture scores.

And I think that that message is getting through. We're seeing signs of meaningful improvement in our restaurants. We're seeing signs of, some behavior changes, especially when it comes to friendliness, speed, things that really matter to a guest. And I'm sorry, Dennis, to build on that, we are not going to differentiate ourselves on price points. We're not going to be a discount brand. We are going to differentiate ourselves by exceptional execution. We're going to be friendly. We're going to be fast. We're going to get you hot, delicious food as quickly as we can. That's the way Portillo's succeeds in this environment.

Dennis Geiger

Makes sense. Thank you.

Michael Osanloo

Thanks, Dennis.

Operator

Thank you. Next question comes from the line of Gregory Francfort with Guggenheim Securities. Please go ahead.

Gregory Francfort

Hey, thanks. I had two questions. The first is, maybe just as a follow up on that, so the store managers, I guess you're changing what metrics the store managers are bonused on, and maybe what were those and what are they now?

Michael Osanloo

We're not actually changing that Greg. Store managers at Portillo's are bonused on sales, and the way it's communicated to them is sort of the old Texas Roadhouse model. Not too proud to steal a great concept. They get a percentage of the incremental profit that they generate for the company. So our store managers, we try to create an ownership mindset, and it's based on sales, and so that's what I want it to be. I think in the past, we got a little cute, and we had them working on lots of different metrics, and now we've stripped a lot of that away, and I'm trying to create as much simplicity and focus as possible.

Gregory Francfort

Got it. Okay, thanks. And maybe for Michelle, just on wage inflation and labor hours. I mean, I think you're saying, I think the first two quarters of the year have been 3.1% wage inflation each quarter. You're still seeing mid singles for the year. Is that a pickup expect in the second half and I think that line you've been managing quite well. Is that labor hours that you've been managing well? Is there insurance swings? I'm just trying to think what else might be in there that we might be missing. Thanks.

Michelle Hook

Yes. No, Greg. Yes, you got that right. So the first two quarters, it was 3.1%. We do expect it to tick up as we give our annual rate increases. Those will come into play in the Q3 time period. So we expect a little bit of tick up into Q3 and into Q4. But you're right. We are very focused on how we deploy labor in our restaurants, and we continue to look for efficient ways to manage labor.

We look for efficiencies within our kitchens. And so you're seeing some of that bear out in those labor numbers. We're definitely deploying labor according to what our ideal labor grid says. There were situations several years ago where we were, managing not purposefully, but our labor was. We weren't managing to those hours, to those ideal hours. As we sit here today, I feel comfortable that where that labor utilization number is pretty, in a pretty good spot. And so you hit the nail on the head. It's really just efficiencies that we continue to work on in the kitchens and offset by some of those wage rate increases.

But that's what we expect to see. A little bit of tick up in the back half. That puts us, you know, in that, call it 4% to 6% range, but closer to the low end Greg.

Gregory Francfort

Got it. Thank you, guys. Appreciate all the help.

Operator

Thank you. [Operator Instructions] Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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