Portillo's Inc. (PTLO) Q2 2026 Earnings Call Transcript

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Q2: 2026-08-05 Earnings Summary

Insights

EPS of $0.14 beats by $0.05 | Revenue of $198.95M (5.57% Y/Y) misses by $265.25K

Portillo's Inc. (PTLO) Q2 2026 Earnings Call August 5, 2026 4:30 PM EDT

Company Participants

Chris Brandon - Vice President of Investor Relations
Brett Patterson - CEO, President & Director
Pamela Smith - Interim CFO, Principal Financial & Accounting Officer

Conference Call Participants

Margaret-May Binshtok - Wolfe Research, LLC
Aisling Grueninger - BofA Securities, Research Division
Arian Razai - Guggenheim Securities, LLC, Research Division
Allison Arfstrom - Piper Sandler & Co., Research Division
Nikhil Gunderia - UBS Investment Bank, Research Division
William Prause - Stephens Inc., Research Division
John-Paul Wollam - ROTH Capital Partners, LLC, Research Division
Choi Tompkins - D.A. Davidson & Co., Research Division

Presentation

Operator

Good afternoon. Welcome to the Portillo's Second Quarter 2026 Earnings Conference Call.

[Operator Instructions]

Please note that this event is being recorded. I will now hand you over to the Vice President of Investor Relations, Chris Brandon. Please go ahead.

Chris Brandon
Vice President of Investor Relations

Thank you, Operator. Good afternoon, everyone, and welcome to the Portillo's second quarter 2026 earnings call. With me today are Brett Patterson, President and Chief Executive Officer; and Pamela Smith, Interim Chief Financial Officer.

You will find our 10-Q and earnings press release at investors.portillos.com. 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-Q 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 be happy to take questions from our covering sell-side analysts.

And with that, I will turn the call over to Brett.

Brett Patterson
CEO, President & Director

Thanks, Chris, and good afternoon, everyone. Quarter 2 demonstrated the strength and resilience of the Portillo's brand. While we lapped significant prior year promotional and one-time activities that we chose not to repeat, underlying sales remain resilient, reinforcing the enduring appeal of our brand and the strength of our restaurant teams. Over the past several months, we have taken meaningful steps to strengthen operations, improve our business model and unit economics, and build a more sustainable platform for profitable new unit growth.

This work is grounded in 3 strategic pillars we introduced last quarter: operational excellence, integrated marketing and disciplined development. I'll cover the progress we've made, how we're approaching the next 6 months, and the key takeaways from the second quarter before Pam Smith walks through our results in more detail.

Before we get into that, I'm excited to provide an update on our finance leadership transition. As you may have seen yesterday, we announced that Kevin Kalicak will join Portillo's as Chief Financial Officer. We are thrilled to welcome such an accomplished leader to the team. His leadership will be essential as we continue strengthening our financial rigor and executing our growth strategy.

I also want to thank Pam for stepping in to lead our finance function over the last quarter. She has been a great stabilizing force throughout this transition, and I'm grateful for her steady hand and partnership.

Turning to the business, the work we completed in recent months was part of a broader strategic reset designed to strengthen our foundation, improve operating discipline, and support long-term profitable growth, all while running great restaurants.

The actions we took across our cost structure, development model and operating approach are connected by a common objective, building a more focused and scalable platform for the future. First, we made the purposeful decision to simplify our G&A structure so we can operate with greater focus, move more nimbly, and better support our restaurant teams. After the quarter, we implemented a reduction in force that reduced our corporate headquarters with no direct impact on restaurant-level team members. While this action will create G&A savings, the primary objective was to align our team's resources and decision-making more directly with the priorities that matter most to our operators and guests. Pam will discuss the financial impact in more detail.

Second, we launched an initiative to capture meaningful efficiencies across our supply chain and indirect spending categories. We expect those savings to begin contributing this year and build over time, supporting improved profitability as we scale the business.

Third, we reviewed our development function end-to-end and identified opportunities to simplify processes, reduce costs and improve capital discipline. These changes will begin benefiting the class of 2027 restaurants, while our future prototype design work will support a significantly more efficient development model for 2028 and beyond. We also built a stronger and more robust real estate forecast model to improve site selection, better understand new restaurant performance, and guide future capital deployment.

Early learning is already helping us understand actual performance against prior expectations for recent restaurant classes and will also sharpen future development decisions. Taken together, these actions are expected to generate annualized run rate savings of approximately $10 million to $15 million while creating a more rigorous platform for future unit growth.

As we discussed last quarter, our strategy is anchored in 3 pillars: operational excellence, integrated and targeted marketing, and disciplined development. Together, these pillars are designed to improve restaurant-level performance, engage guests by leveraging sharper insights, and create value through better site selection, rightsized prototypes, and lower build costs. To support these pillars, we commissioned formal studies in 3 areas: customer segmentation, brand perception and positioning, and menu satisfaction.

Those insights combined with feedback from our operators are sharpening our approach to operations, targeted customer engagement, and future restaurant design. One key takeaway is clear. Portillo's has exceptional brand affinity in Chicago and beyond, along with differentiated brand positioning that we believe can travel well across existing and new markets.

I'd also like to highlight a few other actions from the quarter that support this broader strategy. We strengthened our culinary function by adding Christopher Hansen as Executive Chef. Christopher brings deep restaurant experience in culinary strategy and development, and his leadership will help us advance menu innovation as well as culinary creativity, quality, and consistency. We also restructured our development team and processes and engaged a design firm to advance our next prototype. That work is guided by our brand research and focused on 3 priorities: lowering build costs, improving returns, and amplifying the elements that matter most to the Portillo's experience.

Lastly, we opened our first airport location at Dallas-Fort Worth International Airport. At under 3,100 square feet and a kitchen 25% smaller than our former prototypes, this location incorporates equipment enhancements that will allow us to operate more efficiently within a smaller footprint.

Before I turn it over to Pam, I want to briefly touch on our second quarter results and how we are thinking about the business as we move through the back half of the year. Regarding sales performance, several items created meaningful same restaurant sales headwinds in the quarter. Our decision to not repeat last year's buy one get one beef promotion, the discontinuation of the prior year breakfast initiative, and cannibalization represented approximately 250 basis points of headwind.

As we move through the back half of the year, we will remain focused on profitable transaction growth and avoid aggressive discounted activity as we lap significant prior year promotions, including 50% off burgers and buy one get one free sandwiches. With that backdrop, we now expect adjusted EBITDA of $92 million to $96 million for the year.

This updated outlook reflects deliberate choices to protect guest value by underpricing inflation, avoiding aggressive low-margin promotional activity, and re-forecasting our non-comp restaurants based on recent performance and realistic expectations. In summary, over the last quarter, we aligned the organization to better support our restaurants, took meaningful actions to strengthen the business and sharpen our focus on profitable growth.

We captured savings with immediate impact, completed brand research that is shaping our future roadmap, improved capital discipline for the 2027 pipeline and beyond, and advanced prototype redesign work to support stronger cash-on-cash returns. I am confident that our sharper focus and more deliberate execution will position Portillo's for more durable, profitable growth over time. We look forward to sharing more detail on our strategy soon.

Lastly, I want to thank our operators and team members who bring Portillo's energy, hospitality, and culture to life every day. Their focus and execution are what makes this progress possible.

With that, I'll turn it over to Pam to walk through our second quarter results in more detail. Pam?

Pamela Smith

Interim CFO, Principal Financial & Accounting Officer

Thanks, Brett. As Brett noted, second quarter sales were resilient even with the lap of breakfast, BOGO beef, and cannibalization while the team executed meaningful work to position the company for a strategic reset. Perks continued to perform well with Q2 delivering the highest sales penetration in Perks history at 15.1%. This platform will continue to be used for surprise and delight offers to reward our most loyal customers.

Now on to our Q2 results. Revenues were $199 million, reflecting a 5.6% increase versus last year. Revenue growth was driven by the addition of noncomp restaurants, which contributed $13.3 million of the year-over-year increase. Same restaurant sales declined 1.2%, reflecting a 3.4% decrease in transactions, partially offset by a 2.2% increase in average check.

Higher average check was driven by an approximate 2.6% increase in menu prices, partially offset by a 0.4% decrease in product mix. As previously mentioned, Q2 had combined traffic headwinds of approximately 250 basis points from promotional activity, the breakfast pilot in the prior year, and cannibalization from new restaurants. Thus far into the third quarter, we are running slightly positive same restaurant sales, and we are mindful of expected headwinds from promotional activity and cannibalization throughout August and September.

We entered the second quarter with approximately 1.7% of carryover pricing from 2025. Approximately 1% of this carryover pricing rolled off in early April, and the remaining 0.7% lapsed in June. In mid-April, we implemented a 2% price increase across select menu categories. Absent further pricing actions, we expect approximately a 2% menu pricing benefit in the third quarter and anticipate that offers within Perks could have a modest impact on realized pricing.

Turning to costs, food, beverage, and packaging costs increased to 35% of revenue in the quarter from 33.8% last year. This increase was driven primarily by the addition of new restaurants and higher commodity costs of 7%, led by beef and produce, partially offset by an increase in average check. We still expect commodity inflation to be consistent with our original guidance for the fiscal year of mid-single digits. Labor expense was flat versus prior year at 25.7%, primarily due to wage inflation and deleverage from our newer restaurant openings, partially offset by labor efficiencies.

Other operating expenses increased $1.4 million, or 6.5%, primarily driven by the opening of new restaurants, partially offset by lower utilities and insurance costs. As a percentage of revenue, other operating expenses were 11.7%, slightly up from 11.6% last year. Occupancy expenses increased 60 basis points or $1.7 million versus last year. This was driven by the opening of new restaurants, higher occupancy costs, and deleverage from new restaurant openings.

Restaurant-level adjusted EBITDA decreased $1.2 million to $43.2 million, with margins declining approximately 190 basis points to 21.7%. This was mainly driven by food cost inflation not being fully offset by pricing and noncomp restaurant underperformance in the second quarter. G&A expenses increased to $19.6 million, or 9.8% of revenue in the quarter. This is up from $18.8 million or 10% of revenue in the prior year. This increase was driven by higher professional fees, including $0.9 million of dead site costs.

Pre-opening expenses were $0.9 million in the quarter compared to $1.7 million last year. This reflects the timing and scale of activities related to our planned restaurant openings, including expansion into new markets. Adjusted EBITDA of $29.8 million or 15% of revenue is slightly below last year's result of $30.1 million or 16% of revenue. Interest expense was $5.7 million in the quarter, flat to prior year.

Q2 income tax expense was $1.8 million, a decrease of $1.9 million from last year. Our effective tax rate for the quarter was 19.8% versus 26.8% in the prior year, reflecting changes in our valuation allowance related to equity-based compensation expense. We expect to open one additional location in the fourth quarter of 2026, which will be in downtown Chicago and is our second in-line format restaurant. This will bring our total restaurant openings in 2026 to 8, in line with our original guidance for the fiscal year.

Cash provided by operating activities increased 22.4% year-over-year to $35.1 million year-to-date, primarily reflecting favorable timing of operating assets and liabilities. We ended the quarter with $21.3 million in cash. We had $97 million outstanding on our revolver, total net debt of $338 million, and approximately $49 million of remaining revolver capacity.

We are pleased to see the balance sheet in a much healthier position and will utilize our cash available from the recent shift toward free cash flow positivity to pay down debt and reduce our revolver.

Thank you for your time today. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question comes from Margaret-May Binshtok of Wolfe Research.

Margaret-May Binshtok
Wolfe Research, LLC

Brett, I just want to ask, on the last call, you talked a little bit about the brand work as the input that's needed to come back before the strategy starts to take shape. Now that you've done some of that, can you tell us a little bit about the initial learnings coming out of it? And then I also wanted to follow up, you're 5 months into the job now. Are there any kind of broader observations on the brand and the business from the time that you've spent now in the restaurants and with the team?

Brett Patterson
CEO, President & Director

Margaret-May, thank you for the question. Yes. So as it relates to the research, going back to what we talked last time, we had 3 really landmark studies for the brand that we haven't done. The first one was on guest segmentation to really identify who our target customer is and who we need to activate against. We did a quant/qual study on brand perception that led to our brand positioning work. And the third piece of work was our menu satisfaction study that we hadn't done. So look, I will tell you without giving away the full strategy, because our plan is in the very near future to have a fulsome rollout, is 1, we've clearly identified who our target segmentation is for our customers. We've got, we believe, real growth opportunity in a couple of different target areas.

The second, I'm very excited because we got very clear brand positioning. It was very clear to us after this research and what we know intuitively in talking to our operators and teams, what our brand strengths really are and those competitive advantages. So we've now really locked in on what we believe is a really solid brand positioning. And the third piece, and this is still kind of coming in as we speak, but looking at our food to make sure that we kind of honor what matters most to the Portillo's guests and our legacy items and innovation of the future is quality and abundance.

And so we've got really clear line of sight now to where we're really winning on that and then where we have opportunities. And so bringing on Christopher as our culinary lead chef will be really imperative as we move forward to going after some of that work. So again, I think we've -- I would say to sum it up, we've got really strong clarity now around the brand, and that'll take shape in our growth strategy work we'll roll out soon.

As far as how, after my first 5 months, I would say still, like I mentioned last time, very few surprises. It was to see the brand research and realize that we've got a brand that many of you know and people certainly that are familiar with the brand is a very special brand. The guest loyalty, I would say fanaticism, kind of brand love or net promoter score is as high as anybody in the industry once they get to know the brand. And so we know outside of Chicago, it actually is absolutely just as strong. It's just how we get them in the door the first time to hook them. So that was, that was more clarity, and it was good to see that outside of Chicago that we've got that resonance as well.

And I would say so not surprising, but I think where the work really has to be is we just have to continue to build better business disciplines and make sure that, look, we have a very clear strategy, a focused strategy, and very resilient disciplines towards achieving that strategy and will be a very bright future for this brand.

Operator

The next question comes from Sara Senatore of Bank of America.

Aisling Grueninger
BofA Securities, Research Division

This is Aisling on for Sara. My question is just on the guidance. You lowered restaurant-level margin guidance roughly 75 bps to the midpoint. I just wanted to get your thoughts on what changed versus the prior view? And is this lower margin outlook more of a function of weaker-than-expected sales leverage or commodity pressure? Or is this just kind of the lower near-term margin baseline as you work through the reset? Just any color here would be helpful.

Brett Patterson
CEO, President & Director

Yes, great. Thank you for your question. What I would say is that with the guidance and when my first earnings call, the question was asked and we kind of -- we reaffirmed at that point with an understanding. I hadn't had much time to really get under the hood of the brand and look at it. And we certainly had an opportunity that over the last 13 weeks. So I'd say the guidance adjustment was really -- it was a couple of areas, and one is the noncomp restaurants. We just had to reset and adjust the noncomp locations based on what was in kind of the original guidance versus where we see them today from a performance standpoint and be more realistic. So there was a noncomp adjustment, particularly in our Texas, Arizona market.

And the other piece was, yes, there's been some -- a little bit more commodity inflation in the second quarter. However, we do think that will moderate Q3 and Q4 and will be on our guidance. So I would say it had more to do with just kind of resetting that noncomp base and what we've seen thus far and giving ourselves some room there to make sure that we have time to operate those a little bit differently than maybe we have in the past, which will come to light more later this year and early next year.

Operator

The next question comes from the line of Gregory Francfort of Guggenheim.

Arian Razai
Guggenheim Securities, LLC, Research Division

This is Arian Razai on for Greg. I wanted to ask your thoughts on beef market and the outlook into the next year. And I'm sorry if I missed that. It looks like a 2-year stack is decelerating. And how much of the miss is actual the beef lap, the buy one, get one beef lap, versus the structural traffic softness? I'm just trying to kind of gauge the underlying trend ex-promotional distortions?

Brett Patterson
CEO, President & Director

So just want to clarify, is that 2 separate questions, one on beef commodity and the other on underlying trends or those together?

Arian Razai
Guggenheim Securities, LLC, Research Division

Yes, correct. 2 separate. Yes, thank you.

Brett Patterson

CEO, President & Director

Okay, 2 separate. Got you. Okay. Yes. Thank you, just wanted clarity on that.

Pamela Smith

Interim CFO, Principal Financial & Accounting Officer

So with regard to beef commodity costs, we did see a higher impact in the second quarter, but we are 85% hedged in Q3 and Q4, and the rest of our basket is about 63% locked. And so we are feeling very comfortable about where costs will be for the rest of the year and expect to hit guidance by the end of this year.

Brett Patterson

CEO, President & Director

Yes, I'll take the underlying trends and what were reported for quarter 2. We talked about there's really 3 significant headwinds we were lapping. One was the buy one, get one beef in May, and that was a significant headwind at a time a deep discount that we chose that that's not part of our strategy going forward. The second one was we're lapping the breakfast initiative for last year, which was anywhere between 70 to 100 basis points, depending on the period for the company. And the third was, I mentioned in the script that we have a new kind of real estate forecast model. And then out of that model, we've learned a lot about our newer markets, as well as cannibalization impact. And I think one of the great things about this brand is, as you all know, is people will drive a long way to come to Portillo's.

And we see it when we open Kennesaw. We see it in a lot of our openings. The downside of that is if you impact a restaurant with another location fairly close by, there's significant cannibalization. And that's really what we've seen to great detail in a couple of markets. So those 3 things had a pretty profound headwind in quarter 2. But to give some solace that this is an underlying trend, as we mentioned in July, with less noise from last year. We still have the breakfast lap and a few other things, but we are positive quarter to date and some markets that are performing really well.

Operator

The next question comes from the line of Brian Mullan of Piper Sandler.

Allison Arfstrom

Piper Sandler & Co., Research Division

This is Allison Arfstrom on for Brian. Thanks for the question. I wanted to ask about the ongoing operational improvements around throughput and labor. What have you seen working so far in the first half? Has anything surprised you? And how did these learnings inform the second half and beyond plans?

Brett Patterson

CEO, President & Director

Allison, thanks for the question. I would say the focus, we mentioned this on the last call of our Texas market or some of our lower volume restaurants that we had some productivity initiatives that we were working towards. And we've seen those come to fruition as evidenced by our labor percent of total sales stayed flat the last year, even with wage inflation and some -- and noncomp restaurants. So we've seen productivity in those markets.

What I could tell you is we're now getting learning from our Dallas-Fort Worth location where we've got a much smaller kitchen, we've designed it differently from a layout standpoint, and we have new equipment, which will generate future efficiencies in the back house productivity. We're going to take the next step with that and we're going to continue to deploy that model into some of our Texas locations and the kind of current prototype to see what kind of benefit we can get there. So that's how we're looking at productivity is really, we've got, I'd say, very good productivity in most of our locations. It's just when we hit certain volume bands, we've got some opportunities to tighten that up and we'll take those learnings from what we've done earlier in the year as well as the Dallas-Fort Worth Airport.

Operator

The next question comes from the line of Dennis Geiger of UBS.

Nikhil Gunderia

UBS Investment Bank, Research Division

This is Nikhil on for Dennis. Thanks for taking my question. So I know you briefly touched on menu innovation in the prepared remarks. Just on that topic, we saw the limited time Dr Pepper Shake was available starting yesterday, if I'm not mistaken. So we're just curious on the appetite to lean into beverages and expand the offering to include refreshers, dirty sodas, or energy drinks. Has that been tested before? Is it in test? And I guess, is that something that's within the plan?

Brett Patterson

CEO, President & Director

Yes, thanks for the question, Nikhil. I would say one of the reasons we brought on Christopher, Chef Christopher, was exactly that, right? We know beverages are certainly really popular across the industry right now. They're turning well with a lot of different cohorts. And so we've got that opportunity because we have equity in beverages with the shakes, the cake shakes. And coming off our recent menu set, we know those score very well from a satisfaction standpoint. So that's why we leaned in on this innovation with Dr Pepper, which has been trending. So you'll see over time, there'll be further innovation around that beverage platform, and I think it will link very well to the customer segments that we're going to be attached to and building towards.

Operator

The next question comes from the line of Jim Salera of Stephens Inc.

William Prause

Stephens Inc., Research Division

This is Tyler Prause on for Jim. With the transaction softness broad-based across your entire footprint, are there areas of outperformance? And to what extent are elevated gas prices driving demand headwinds across your markets? If so, are there any ways to offset that impact?

Pamela Smith

Interim CFO, Principal Financial & Accounting Officer

I'll speak a little bit to transaction. As Brett mentioned before, we were lapping a BOGO beef promotion last year. And so, as we chose not to chase a deep discount promotion this year, our transactions are down and that's essentially what we expected because we were not going to chase the deep discounts. In regard to the overall market in terms of what consumers are facing, I believe it is very difficult for consumers these days, but that's part of the reason why we are hopefully trying to focus on giving them the proper value equation and a proper and consistent guest experience every time they enter one of our restaurants.

Brett Patterson

CEO, President & Director

Yes, Tyler, I would say too, as far as transactions go, we did see markets that were certainly stronger, and one thing we're proud about right now is our Chicagoland is performing very well. It's -- and I would say there are markets outside of Chicago, but as we know, with the size of our business and how -- what percentage of it is Chicago, they perform very well in quarter 2 and continue to perform very well at the beginning of quarter 3. I think those markets that have been a little more challenged, we talked about those headwinds, but they also faced a heavier cannibalization than maybe some of our core markets have.

Operator

Jim, does that conclude your questions?

William Prause
Stephens Inc., Research Division

Yes.

Operator

The next question comes from the line of JP Wollam of ROTH Capital Partners.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

Great. I want to maybe focus on kind of non-Chicagoland. But Brett, you mentioned sort of right-sizing the expectations for the noncomp-based units. I'm just wondering if -- can you quantify sort of where the more tenured Texas, and maybe you can include Arizona and that unit economics sit today relative to the Chicago base. Just trying to get an understanding of your expectations and whether that's shifted from kind of the former team's expectations for new markets. And I have one follow-up.

Brett Patterson
CEO, President & Director

Yes, no, let me -- I'll talk about the noncomp a little a little bit broader, right? I think when we look -- and this is particular in Texas and now part of Arizona, part of Phoenix, I would say there's 3 factors that are really contributing to the underperformance. One is, look, we -- candidly, we just built too many too quickly. In Dallas, we built 12 in 3.5 years. In Houston, we built 6 in 16 months, which that -- with this brand, as the more we learn and the model we're using now that we know is quite a bit more accurate, that's not something that we would repeat going forward.

Number two, I mean, full candor, locations and sites that we've opened in those markets. They don't model appropriately right now for sales and returns. So based on what we know today, there's certainly -- we would look at both those markets in a very different way in Dallas and Houston. And third, the build cost, that we went in those market with are truly prohibitive to generating a reasonable return based on those sales. And again, that's something that we -- as we move forward with development, we can't do. So I would tell you, yes, there's -- it's had a profound impact by having that many restaurants in that size market and it happened so quickly that it's certainly put pressure on our restaurant-level margins.

And as I mentioned on the last call, in order for us to solve this, we're doing a full assessment of all of our real estate locations, and we'll make the right strategic decision for the business that's going to support our shareholders and the company.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

Great. And maybe that kind of leads into just a quick follow-up. But I think last quarter you talked about actually pruning some of the leases you had signed. And just curious if there's any update as we think about kind of '27. But have you cut further in that pipeline? Or are you and Jennifer actively beginning to add to the pipeline?

Brett Patterson
CEO, President & Director

Yes. We're -- we feel good about where we're at in '27 when we came out and said 4 to 6 last time. So we're still finalizing that right now. Obviously, the clock's ticking. I'm sure before next time we get together, we'll have that locked. And now we're starting to actively look into '28. So we do have some sites already identified for '28, which our plan is Q1 of 2028, we will launch the brand new prototype that's being designed right now, which will be taking our 2.0 and continue to further reduce footprint and also look at the kitchen layout to use new equipment designed to be more efficient and be able to execute high volumes at a much smaller and cost-efficient unit.

Operator

The next question comes from the line of Andrew Tompkins of D.A. Davidson.

Choi Tompkins

D.A. Davidson & Co., Research Division

This is Andrew. I was just wondering with a number of additional openings in Texas this year, what have you learned from this year's Texas class regarding site quality, productivity, and awareness?

Brett Patterson

CEO, President & Director

Yes. We did -- yes, most of our growth, as you know, was Texas this year. And so, again, I mentioned on the last call, right, we brought Jennifer in as our Chief Development Officer. We've done a really an end-to-end scrub of all the processes, Andrew. And one of that was the -- how we were using a forecasting model before to kind of get to what we believe sales were going to be. And I would say our biggest learning now is that model has absolutely reinforced the performance we're seeing in Texas is what would we expect using this model, right?

So I'd say it's just -- it's a much more sophisticated model that we're using today, a lot of different attributes been plugged in, and I'd say we know now much more about why sites work well, such as Kennesaw, Georgia, who continues to perform very well. Schertz, our opening in May in San Antonio, is doing very, very well, right? And so when you look at those site attributes, we now know it's not a portability issue, which I know has been a lot of question and the research confirms that as well. It really comes down to a real estate strategy.

So I would say what we learned is, if we had things to do over again, we wouldn't make a lot of those decisions. But we were already committed and we're going to figure out the best way to move forward with those locations here very shortly.

Operator

The next question comes from the line of Patrick Johnson of Baird.

Unknown Analyst

This is Patrick on for David Tarantino at Baird. Brett, I was encouraged to hear that you're in positive territory to start the quarter, and I was hoping you could delve a bit deeper into the levers you think you have to drive that transaction recovery or sustain a transaction recovery in the second half here? And just how are you thinking about maybe the most impactful initiatives that you guys can deploy? And I know you mentioned that there are continued headwinds in September and October. Is there any way to maybe quantify that relative to what you guys lapped here in the second quarter as well?

Brett Patterson
CEO, President & Director

Yes, let me -- I'll tell you what we're going to combat some of those headwinds with is when we think about our 3 pillars of our strategy, the first one is operational excellence. And I would say that Tony Darden and his team are doing a really good job of identifying some very specific KPIs that will help drive traffic in the restaurants. And so his team's narrowed down in a couple that we've done a lot of research to find out where we might have an experience that are creating low satisfaction or low intent to return. And we're buttoning up that now with really intense focus. So I'd say operationally, you've got an opportunity to close the gap in some of those areas.

The second is the marketing piece. I would say, generally we've been fairly underspent on marketing, we're very fortunate to have a brand with such high awareness and where the majority of our restaurants are that we haven't had to spend a ton of marketing but there's always that avenue, right, is to say if we wanted to spend more for high ROI marketing we could. We know with food innovation, we -- the Char'diniera Dog that we launched in quarter 2 performed very well for us. So because we haven't had a lot of innovation in the past, I think it creates additional visitation for our core consumers.

And so there's that opportunity we're working on right now with again bringing on Christopher, we've got some ideas for innovation for the rest of the year. So I'd say that's how we're going to combat it. What we're not going to do right now is we haven't really disclosed exactly what our guidance is for sales and what the size of laps we're going to be. But I would say it's probably not as significant as the buy one get one beef and breakfast and cannibalization that we had in quarter 2, but it will be fairly significant. I would -- if I had to guess, it would be more than 200 basis points of headwind as we lap those discounts.

Unknown Analyst

Great. That's helpful. And I know you mentioned there were some significant opportunities for supply chain savings, and I was hoping maybe you could delve into that a little bit more just in terms of what those specific opportunities are, maybe what the timeline is on execution, and could you clarify if the $10 million to $15 million in savings from the actions you cited, if the supply chain savings were included in that? Or is that incremental to that figure?

Brett Patterson
CEO, President & Director

Yes, the $10 million to $15 million is the combination of both the G&A reduction as well as the indirect spend and supply chain. So it would be all 3 of those. And it's a wide range right now because we're in the early stages of the indirect spend and supply chain. But what I would tell you is I believe we'll have a real clear line of sight to that before our next call about really what that total is. And look, as you -- I think you can expect, sometimes when companies grow really quickly and all the focus is really on development and getting new restaurants in the dirt, sometimes there's opportunities that are left behind.

And I would say my earlier comment on just really having clear priorities and a very disciplined approach to our business processes, the supply chain and indirect spends fall into that category. And so we'll see some immediate benefits even recognizing some in quarter 3, but quarter 4. So your annual run rate is going to be that $10 million to $15 million right now of pure flow-through from a savings standpoint.

Operator

Ladies and gentlemen, with no further questions in the question queue, we have reached the end of the question and answer session. That concludes this event. Thank you for attending. And you may now disconnect your lines.

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