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Portillo's Inc. (PTLO) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-04 Earnings Summary

Insights

EPS of \$0.14 **beats by \$0.10** | Revenue of \$181.43M (1.78% Y/Y) **beats by \$1.84M**Portillo's Inc. (**PTLO**) Q3 2025 Earnings Call November 4, 2025 10:00 AM EST

Company Participants

Chris Brandon

Michael Miles - Chairman of the Board & Interim CEO

Michelle Hook - CFO & Treasurer

Conference Call Participants

Sara Senatore - BofA Securities, Research Division

Brian Mullan - Piper Sandler & Co., Research Division

Gregory Francfort - Guggenheim Securities, LLC, Research Division

Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

James Salera - Stephens Inc., Research Division

Presentation

Operator

Hello, and thank you for standing by. Welcome to Portillo's Third Quarter 2025 Conference Call and Webcast. I would now like to turn the call over to Chris Brandon, Vice President of Investor Relations at Portillo's to begin.

Chris Brandon

Thank you, Operator. Good morning, everyone, and welcome to the Portillo's Third Quarter 2025 Earnings Call.

With me today are Mike Miles, Chairman of the Board and Interim Chief Executive Officer; and Michelle Hook, Chief Financial Officer. You can find our 10-Q, earnings press release and supplemental presentation on 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-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 be happy to take questions from our covering sell-side analysts.

And with that, I'll turn the call over to Mike.

Michael Miles

Chairman of the Board & Interim CEO

Thanks, Chris, and good morning. Although I've had the opportunity to meet many of you over the years at different venues, this is my first time speaking with you as Interim CEO of Portillo's. I was also in this role back in 2014 and '15 after our founder, Dick Portillo, retired.

So, it's not my first time. And as most of you know, I have been Chairman of the Board for the past 10 years. I have been back in the seat for a little over a month, and everything I have seen only reinforces my confidence that Portillo's has a long runway for growth ahead. Each time we enter a new market; our first restaurant is overrun with passionate fans who have been waiting for years for Portillo's to come to town. And the first restaurants opened outside Chicago in California and Arizona, have matured well over the years. We'll do over \$10 million in our Buena Park location this year.

I'm also impressed with the capability of the company today compared to 10 years ago from the talent and training we have in our restaurants to the energy and commitment at the restaurant support center to the experience and perspective we have on the Board of Directors.

Although I've had the privilege of seeing all that develop gradually from the Board level over the past decade, it's that much more pronounced being back in the RSC in Oak Brook every day after a 10-year gap. What hasn't changed is the Portillo's experience. Our unique craveable menu, outstanding value, genuine hospitality and lines that move quickly. Those were the ingredients for the success of Portillo's a decade ago, and they are the foundation of our success today. And the reason that our 98 restaurants averaged \$8.6 million in annual sales and contributed \$163 million of restaurant-level EBITDA over the last 12 months.

Although we have a leadership transition at Portillo's, our first priority remains with our customers and restaurant-level teams. Our operators have rededicated themselves to QSAC, our timeless focus on Quality, Service, Attitude and Cleanliness. And we approach every guest visit with a commitment to make their day.

As you know, in the third quarter, Portillo's announced a strategic reset, slowing development in 2025 and 2026, and refocusing our operations on delivering an outstanding guest experience. As we shared with our second quarter results and when we communicated this reset, we added too many locations too quickly and too close together over the past 24 months, particularly in Texas. This has produced a number of restaurants with initial volumes that are not sufficient to deliver healthy economics.

As a result, we have slowed development to the extent we can, limiting openings in 2025 and 2026 to sites with already signed leases. Quite a few sites in the pipeline were pushed back or dropped. Michelle will speak to the associated costs we recognized in this quarter. We also have to address the low-volume restaurants we opened and are working to drive trial and get the labor equation right at these locations. Going forward, we plan to have more time and distance separating our openings in new markets. We're also deploying a smaller format restaurant that can deliver good unit economics at \$4 million or \$5 million of sales.

It's worth noting that we already profitably operate several smaller restaurants in Chicago that perform well out of similar footprint and with sales in the \$4 million to \$5 million range, including Portillo's #1 in Villa Park. It took years of great customer experiences at #1 and dozens of other restaurants like it in the Chicago market to build the Portillo's brand to the point where # 43 opened in 2016 in the South Loop will do over \$20 million in sales this year.

So our development strategy will reflect a return to a more gradual pace, avoiding cannibalization and letting great experiences drive more visits and ultimately more restaurants.

And we will design and build new Portillo's that can succeed at today's new market initial volumes, which are industry-leading, but not yet at the level we achieve over time in established markets.

At the same time, we have focused on driving more transactions. Our most important lever remains the Portillo's experience, the Italian beef sandwich, perfect crinkle-cut fries, family recipe chocolate cake, made-to-order salads, all with the speed and at price points that compete with QSR, but served with a genuine hospitality and a fun and unique atmosphere.

It's a powerful customer proposition and executing it well, has always been our formula for same-store sales growth. We're also leveraging our Portillo's Perks loyalty program that we launched earlier this year. Although it's still scaling, we have already had success using it to stimulate visits. And especially in some of our new markets, we're looking to expand our reach by leveraging affiliate marketing and catering and delivery partners to help drive trial and get that first taste of Portillo's into more new mouths.

In closing, I want to thank our team members, especially those in our restaurants for their continued focus on creating outstanding guest experiences during this period of transition. And I'd like to thank our partners and investors for their support and confidence in this beloved brand.

I know I speak for the entire Board in saying that we believe in Portillo's and our ability to create shareholder value more than ever. In a couple of weeks, we will celebrate a major milestone when we cut the ribbon for our 100th restaurant in Kennesaw, Georgia. It will be an exciting moment for all of us and a reminder that while we've accomplished a lot, we're really just getting started.

I will now hand it over to Michelle to review the details of the third quarter results.

Michelle Hook

CFO & Treasurer

Great. Thank you, Mike, and good morning. During the third quarter, revenues were \$181.4 million, reflecting an increase of \$3.2 million or 1.8% compared to last year.

Our revenue growth in the quarter was driven by non-comp restaurants. Restaurants not in our comp base contributed \$5.6 million of the total year-over-year increase in revenue during the quarter. Same-restaurant sales declined 0.8%, which decreased revenues approximately \$1.2 million in the quarter. The same-restaurant sales decline was attributable to a 2.2% decrease in transactions, partially offset by an increase in average check of 1.4%.

The higher average check was driven by an approximate 3.2% increase in certain menu prices, partially offset by a 1.8% decrease in product mix. We do not foresee taking any additional pricing actions in the remainder of this year. As such, our effective price increase for the fourth quarter is estimated to be in the range of 2.5% to 3%, pending the impact of our fourth quarter Portillo's Perks offers.

Moving on to our costs. Food, Beverage and Packaging costs as a percentage of revenues increased to 34.5% in the quarter from 33.7% in the prior year. This increase was primarily the result of a 6.3% increase in our commodity prices, partially offset by an increase in our average check.

In the quarter, we experienced increases in several categories, including our primary proteins of beef, chicken and pork. We continue to forecast commodity inflation of 3% to 5% in 2025 with the most significant pressures coming from beef.

Labor as a percentage of revenues increased to 26.6% in the quarter from 25.8% in the prior year. The increase was primarily due to lower transactions, incremental wage increases, higher benefit costs and deleverage from our newer restaurant openings. This was partially offset by an increase in our average check and labor efficiencies.

Hourly labor rates were up 3.3% in the third quarter of 2025. We continue to estimate labor inflation of 3% to 4% for the full year.

Other operating expenses increased \$2.3 million or 10.8% in the quarter, compared to the prior year, which was primarily driven by the opening of new restaurants and an increase in repair and maintenance, utilities and advertising expense.

As a percentage of revenues, other operating expenses increased to 12.9% from 11.8% in the prior year. Occupancy expenses increased \$1.4 million or 14.7% in the quarter compared to the prior year, primarily driven by the opening of new restaurants. As a percentage of revenues, occupancy expenses increased 0.7% compared to the prior year.

Restaurant level adjusted EBITDA decreased \$5.3 million to \$36.7 million in the quarter from \$41.9 million in the prior year. Restaurant level adjusted EBITDA margins decreased 330 basis points to 20.2% in the third quarter versus 23.5% in the prior year. We continue to experience more significant pressures on our margins from our non-comp restaurants.

We currently estimate our restaurant-level adjusted EBITDA margins to be in the range of 21% to 21.5% in 2025. Our General & Administrative expenses increased by \$1.7 million to \$20 million or 11% of revenue in the quarter from \$18.3 million or 10.3% of revenue in the prior year. This increase was primarily driven by \$3.3 million in dead site costs.

This increase was partially offset by a \$1.1 million net benefit resulting from the CEO transition. This benefit was due to forfeiture of equity awards, offset by other transition costs.

Following CEO transition costs in the third quarter and projected Board-approved retention payments, we have adjusted our G&A target for 2025. Our updated estimate for fiscal year 2025 G&A is now \$76 million to \$79 million.

Preopening expenses increased by \$1.5 million to \$3.3 million in the third quarter of 2025, compared to \$1.7 million in the prior year, primarily due to the number and timing of activities related to our planned restaurant openings.

During the quarter, we recorded a noncash impairment charge of \$2.2 million related to our legacy Barnelli's trade name, primarily due to an increase in the discount rate. This pasta concept is available at nine co-branded restaurants in our Chicagoland market. Neither the Portillo's trade name nor goodwill was impaired. This impairment charge has been adjusted out of our reported adjusted EBITDA. Please refer to our adjusted EBITDA table in the earnings release and 10-Q for additional adjustments recorded this quarter. Adjusted EBITDA was \$21.4 million in the quarter versus \$27.9 million in the prior year, a decrease of 23.4%.

Due to the change in our estimated G&A expenses this year, we now expect adjusted EBITDA of \$90 million to \$94 million for fiscal year 2025. Below the EBITDA line, interest expense was \$5.7 million in the quarter, a decrease of \$0.8 million from the prior year. This decrease was driven by a lower effective interest rate of 6.9% versus 8.3% for 2024.

At the end of the quarter, we had \$77 million drawn on our revolving credit facility. Our total net debt at the end of the quarter was \$323 million. We have approximately \$69 million of available capacity on the revolver. Income tax benefit was \$1.2 million in the quarter compared to expense of \$2.5 million in the prior year.

Our effective tax rate for the third quarter was impacted by a decrease in our valuation allowance. Our effective tax rate year-to-date was 20.4%. We expect the full year tax rate to be approximately 21% to 23%.

Cash from operations decreased by 32.3% year-over-year to \$48.7 million year-to-date. We ended the quarter with \$17.2 million in cash. We believe our efforts towards simplicity, a revised approach to new market entry, and a restaurant model with healthy unit economics will support our growth potential and drive long-term shareholder returns.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Sara Senatore with Bank of America.

Sara Senatore*BofA Securities, Research Division*

Isiah on for Sara. Just seeing that other restaurant OpEx saw pressure just due to advertising expense, but the traffic decline seems to have accelerated quarter-on-quarter. Could you guys speak to marketing efficacy in the quarter and just how you think about marketing strategy going forward, especially in the light of Denise joining back in September?

Michelle Hook*CFO & Treasurer*

Yes, Isiah, keep in mind that our marketing, it's in two spots. One, as you mentioned, is in OpEx, but then in G&A as well, we do have marketing spend in there, just more geography for you on the P&L. Yes, absolutely, we continue to believe that we need to drive trial and awareness, specifically in our newer markets. And so as we look at campaigns we have ongoing in Dallas, we're making investments in Houston as well, where we have five restaurants today. And we continue to believe that that's a good investment to make as we drive that trial and awareness.

Now having said that, here in our core market of Chicagoland, that still is extremely important to us. We need to make sure that we continue to message the brand and look at our value proposition here. And so we make investments here as well. We have a campaign going on in Chicagoland as we speak right now to continue to message the brand here in our core markets. So we continue to believe in that investment and that that's a good payback for us now and as we look into the future.

Sara Senatore*BofA Securities, Research Division*

I appreciate the clarification. And just as a follow-up, appreciating that you guys aren't taking price or planning to in 4Q, pricing does seem to be running towards the high end of the industry range. How do you guys view your value perception among guests and just your broader value proposition?

Michelle Hook*CFO & Treasurer*

Yes. In terms of pricing, so when we look at where we were at this quarter and then when you look at where the September inflation data was, food away from home was at 3.7%. So we're definitely indexing under that. As I mentioned, we're not planning to take price this quarter. As we go into next year, we'll look at that in relation to our inflationary cost pressures. But as Mike mentioned, we continue to believe that we need to drive traffic into our restaurants. And so we have to be mindful of when and where we take price.

Operator

Our next question comes from Brian Mullan with Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on development. I guess, one, is there anything you can say around the openings you expect in '26 as you sit here today? Presumably, what will open next year is already underway in some form or fashion has been planned. And then just related to that, if you were going to make any kind of pivot on development beyond next year, I would think it wouldn't be until 2027. So maybe just talk about what scenarios you're contemplating? Is there a world in which you don't build for a while, and you focus on the existing assets? Are there a lot of things just open-ended beyond next year?

Michael Miles

Chairman of the Board & Interim CEO

Yes, Brian, as we said, we're going to plan to open 8 restaurants next year, and you're spot on that a number of those were already in flight. And so, you'll see some additional restaurants in Dallas and Houston, which if we could do it all over again and wave a magic wand, we might not open in 2026. We've probably pushed them out. But we, we've got some other great sites in the pipeline. And as we look ahead to 2027, it's our intention to continue to grow and to grow gradually, as I discussed. So, you won't see us open a bunch of more restaurants in '27 in either the Dallas or the Houston market, but you'll see us expanding in other markets that are growth opportunities for us. We'll probably have our second opening in the Atlanta market in 2027 and look to other locations for growth beyond that.

Operator

Our next question comes from Gregory Francfort with Guggenheim.

Gregory Francfort*Guggenheim Securities, LLC, Research Division*

This is Arian Razai on for Greg. I wanted to ask about the beef cost. And I know it's early, but can you help frame the early thoughts in commodity into the next year? And also maybe like touch on labor inflation guidance. It seems like a lot of companies like are seeing like below 3% wage like year-over-year, but I'm seeing you guys are still like above that. I don't know if it's regional or any outlook on that or any commentary would be super helpful.

Michelle Hook*CFO & Treasurer*

Yes. So in terms of beef cost, obviously, we saw, we've seen pressures on beef all this year. As we go into next year, we don't see any easing on beef costs. We're still putting together plans. I think you've seen other companies who have a more concentrated basket on beef signaled more mid-single digits. We're again putting together that plan. We'll have more information on what we think '26 is going to look like in January for you all. But I imagine what you're hearing today, we're not in any different boat than those folks are. But just for context, about 30% of our basket is beef. So we, that is more heavily weighted for us, but there's still a broader basket for us and with some offsets as we look into next year as well that we think can help mitigate some of those pressures.

On the labor front, year-to-date, we're at about 3%. We came into the year forecasting 3% to 4%. So we're at the lower end of the range. I wouldn't say that there's necessarily more geographical concentration for us. We continue to give increases to our team members within each year. We don't pay minimum wage anywhere. When you look at our average hourly rate, we're above \$17 an hour. So we feel really good about where we sit today, but we still need to make investments in markets and existing team members, but nothing I'd call out in terms of concentration of where those increases are.

Operator

Our next question comes from Chris O'Cull with Stifel.

Christopher O'Cull*Stifel, Nicolaus & Company, Incorporated, Research Division*

This is Ella on for Chris. Mike, I appreciate your prepared remarks on the quarter, but can you elaborate on what enabled the company to deliver a bit better comp performance than what you guided to in the business update?

Michael Miles

Chairman of the Board & Interim CEO

The comp performance in the third quarter was helped out some by our Perks program, which we're beginning to scale and are beginning to learn more about how to use. It's great that we have such an engaged customer base, and they, so when we use the Perks program to stimulate visits, we get an immediate response to it. And we did a little bit of that in the third quarter, and it's helpful both with respect to lapsed guest activation, also getting folks to try new things that are on the menu. And then we've also sent a couple of offers to the entire base that have had a really nice response. And that was a bit of an upside for us in the third quarter.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Great. Just a follow-up on the fourth quarter comp. So the full year comp guidance of down 1% to down 1.5% imply a pretty big decrease in the fourth quarter, both on a 1-year and 2-year basis. Curious, how is the quarter-to-date comp look like and any color on that?

Michelle Hook

CFO & Treasurer

Yes. We're not going to comment on any Q4 comp information other than what you just said, Ella. I will say, though, when you look at what we're lapping in Q4 of last year, we did have a positive comp. So we have a little bit tougher lap coming into Q4, and there's still a lot of unknowns. I mean you all see what's going on in the industry. So it's very fluid right now. We do have a large seasonal catering business here in our core as well. So that can be impactful to us in Q4. So still some unknowns for us, but we feel comfortable about the guide that we put out there.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Thank you so much.

Operator

Our next question comes from Dennis Geiger with UBS. Please proceed with your question.

Dennis Geiger

UBS Investment Bank, Research Division

Hi. This is Paul Hao on for Dennis. Thank you so much for the question. I guess my first question is more of a clarification. I understand you don't want to talk about anything about 4Q trends. But just curious if you could provide some color on the comp cadence through third quarter and how did sales and traffic trend exiting like towards the end of the quarter?

And then just a follow-up, I'm wondering if you could elaborate a little bit more on what you have seen in terms of consumer behavior and if there's any notable shifts that you'd like to highlight by either age or income cohorts? Thank you.

Michelle Hook

CFO & Treasurer

Yes. When you look at intra-quarter trends, Mike mentioned we pulled some Portillo's Perks levers. So when you look at, in July, we ran \$1 hotdog week offer. In September, we ran a 50% cheeseburger week offer. And so those were more impactful versus, say, a August comp performance, but that was obviously driven by levers that we pulled with the Portillo's Perks program. And so that's just a little bit of intra-quarter color.

There's always, in September, you have more pressures, but I think we did a nice job of pulling some of those levers with the Perks program to help mitigate some of those pressures, which is why our comp performance came in a little bit better than what we were projecting.

In terms of the consumer, I think you all see what we see. It continues to be a very fluid situation. It continues to be pressured, but it's something that we've been facing all year, and we continue, like the rest of the industry to do what we can to mitigate some of those headwinds.

Operator

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

James Salera*Stephens Inc., Research Division*

Good morning, This is Tyler Prause on for Jim. Thanks for taking our questions. Just kind of a follow-up to the last question to get started. Several of your QSR competitors have called out an outsized impact from the Hispanic and younger consumer cohorts. Just curious if you saw any noticeable step change during those cohorts during the quarter.

Michelle Hook*CFO & Treasurer*

Yes, Tyler, we did not see anything that I would call out as noticeable. We've continued to call out just some pressures that we've had, specifically in our drive-thru channel. I'd say that was a little bit more pronounced in Q3 versus some of the other channels, but nothing specifically with like a Hispanic or other consumer cohort that I would call out.

James Salera*Stephens Inc., Research Division*

Great. That's helpful. And just kind of shifting gears here. You previously called out more of a focused marketing effort in Texas. Can you talk a little bit how that's going? And additionally, with Portillo's now in several unique markets such as Arizona, Texas, Florida and soon to be Georgia, which are effectively at different stages of awareness building, how are you developing a cohesive marketing message to communicate to these different markets effectively?

Michael Miles*Chairman of the Board & Interim CEO*

Yes. It's a great question, Tyler. And I think at a couple of levels. First, tactically, we're pulling just about every lever that we know how in Texas to try and get people to try more Portillo's. It's really the kind of thing where we build our brand by people experiencing it. So everything that we can do to get folks to give us a try from sampling events to offers that we make through the Perks program to some market-wide offers that we're trying in Dallas and we'll be shortly employing in Houston.

All those things help to get us our first visit, and I think that's important to get the ball rolling. And that's really the way that Portillo's has built the brand in every market going back to Chicago for the last 40 or 50 or 60 now years.

I do think there's a germ of a big idea that you also referenced in your question about how we have a cohesive program for new markets. We really have not ever sort of cracked the code on communicating what Portillo's is all about to people who have never heard of us before.

We really rely on the Chicago expatriate community to drive our sales in new markets. And they do a great job. The first couple of restaurants we opened in a market just, we can't keep up with all the demand. People drive for hours to get to those restaurants. But we need to have a clearer way to communicate to folks who have never heard of Portillo's before and don't know somebody from Chicago, what's so great about it.

And you heard somebody mention Denise, who's our new CMO. She's working on that. And it's not the kind of thing that's going to happen overnight, but it is something that we'll be developing over the course of 2026 so that as we go to new markets like Atlanta and beyond, we've got another way to get people to try Portillo's and experience it.

James Salera

Stephens Inc., Research Division

Very helpful. That's all from us now.

Operator

We have reached the end of our question-and-answer session, which concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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