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Portillo's Inc. (PTLO) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-05 Earnings Summary

EPS of $0.10 beats by $0.08 | Revenue of $194.07M (6.97% Y/Y) beats by $1.46M

Portillo's Inc. (PTLO) Q3 2026 Earnings Call November 5, 2026 10:00 AM EST

Company Participants

Chris Brandon - Vice President of Investor Relations
Brett Patterson - CEO, President & Director
Kevin Kalicak - CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Conference Call Participants

Margaret-May Binshtok - Wolfe Research, LLC
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Ashley Wallace - BofA Securities, Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Andrew Barish - Jefferies LLC, Research Division
James Salera - Stephens Inc., Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
John-Paul Wollam - ROTH Capital Partners, LLC, Research Division

Presentation

Operator

Greetings, and welcome to Portillo's Third Quarter 2026 Earnings Conference Call. [Operator Instructions]

Please note that this conference is being recorded. I will now turn the conference over to Chris Brandon, Vice President of Investor Relations. Thank you, Chris. You may begin.

Chris Brandon
Vice President of Investor Relations

Thank you, operator. Good morning, everyone, and welcome to Portillo's Third Quarter 2026 Earnings Call. With me today are Brett Patterson, President and Chief Executive Officer; and Kevin Kalicak joining for his first call with Portillo's as Chief Financial Officer.

You can 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. After we deliver our prepared remarks, we will be happy to take questions from our covering sell-side analysts.

And lastly, we will be attending the upcoming Stephens Conference on Tuesday, November 17. as well as the Morgan Stanley Conference on Tuesday, December 1. We look forward to seeing many of you there.

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

Brett Patterson
CEO, President & Director

Thanks, Chris. Good morning, everyone, and thank you for joining us. Before I begin, I want to welcome Kevin to his first earnings call with Portillo's. Kevin is an excellent leader, and I'm glad to have him on the team as we guide Portillo's into its next chapter.

Our third quarter results came in ahead of expectations. Same-restaurant sales increased 1.4%, a 260-basis point improvement from the second quarter. Adjusted EBITDA grew 23.7% to $20.65 million versus the prior year quarter. Kevin will walk through the details and our full-year outlook shortly.

I'm encouraged by the early progress, but let me be clear, 1 quarter is not a trend. We have significant work ahead, and our focus is simple: run great restaurants, and run this company with a discipline to deliver durable sales and profitable growth. As a leadership team, we have taken an honest look at our business over the past several months and confronted a hard reality.

Portillo's has not delivered the returns our investors expected. Those lessons are already shaping our actions. We have strengthened key parts of our leadership team, rightsized our corporate structure, deepened our understanding of our guests through formalized research, identified meaningful operational and supply chain savings and implemented a more rigorous site selection process, which we have already used to exit several future real estate agreements that lack sufficient return potential.

I also want to update you on 2 commitments that I made to you in August. First, we remain on track to deliver $10 million to $15 million in annualized run rate efficiencies. We will share more specifics on these savings when we provide 2027 guidance in January. Second, as part of our ongoing portfolio assessment, we expect to close a mid- to high single-digit number of underperforming restaurants outside of Chicagoland, most of them in the fiscal fourth quarter. These are very difficult decisions, but they're the right ones for the long-term health of the business. Together, these actions are shaping our focus, improving our cost structure and building the foundation for a much stronger company.

Now let me turn to the growth strategy we introduced this morning, which lays out how we will strengthen Portillo's and build a more sustainable, profitable path forward. The full detail is in our earnings release, so I'll focus on the key elements. Kevin, Chris and I will also use this strategy to frame our conversations with investors in the weeks ahead across several forums, including a webcast conference appearance in mid-November.

At its core, this strategy is grounded in one belief: the right to grow must be earned. It builds on the lessons I just described while protecting the distinctive food, hospitality and experience that make Portillo's special. The strategy rests on the 3 pillars I've shared with you before: operational excellence, integrated marketing and disciplined development, all underpinned by a renewed commitment to financial rigor. Together, they are designed to strengthen our business fundamentals and create sustainable long-term shareholder value.

Our brand research gives us a strong place to start. It confirmed that Portillo's strength goes well beyond the food. Our guests have a powerful emotional connection to this brand, both in Chicagoland and beyond. That connection is the foundation we will build on as we bring more discipline to the decisions that shape our future.

Let me walk through each pillar. First, operational excellence. Running great restaurants is the foundation of everything we do. We have refined our regional leadership structure so field leaders oversee fewer restaurants and can give our teams more focused hands-on support. We are raising standards, strengthening accountability and improving tools so our teams consistently deliver great food, accurate orders, faster service and genuine hospitality. We are also updating hourly and management training supported by certified trainers and evaluating restaurant technology and equipment to improve reliability, product quality and consistency.

Second, integrated marketing. Our recent brand perception, customer segmentation and menu satisfaction studies are now guiding our brand positioning and the guests we target and our menu priorities. The brand study highlighted a clear opportunity: use the strength of the Portillo's brand to drive profitable transactions and more frequent visits. We are acting on that with refined brand positioning and an integrated creative and media strategy.

Our segmentation work identified 2 distinct millennial audiences where Portillo's is uniquely positioned to win. Focusing on these guests creates meaningful growth potential and allows us to invest marketing dollars more effectively. We're also building digital capabilities that match the strength of our brand. A new technology road map will guide our decisions on building out a modern marketing technology platform to improve the experience and drive conversion and sales.

As part of that work, we are fully assessing our Perks loyalty program. To simplify it, increase engagement and drive frequency. We are also putting culinary excellence back at the center of the business. Our menu satisfaction study reinforced a clear priority: protect and improve the food our guests already love, then use thoughtful innovation to create new reasons to visit as you recently saw with our Char'diniera Dog, Dr Pepper Shake and our recent OREO dessert launch. Our new executive chef is now leading menu strategy, core menu quality and a more strategic innovation pipeline.

And third, disciplined development. This may be the most significant change in how we approach growth. We are implementing stricter, data-driven standards for site selection and underwriting. A new restaurant will move forward only if we believe it will generate cash-on-cash returns, consistent with our new restaurant targets and passes rigorous market and site reviews. A site will not advance simply because we want another restaurant. The economics have to work.

We will balance infill opportunities in existing markets with expansion into strategically adjacent new markets. This will enable us to leverage our regional leadership, operating infrastructure and brand awareness as we pursue the significant white space opportunity ahead of us. We are also introducing a more efficient prototype. Our 2028 prototype is approximately 4,600 square feet, more than 40% smaller than our previous average restaurant and requires approximately 1.5 acres compared with 3 acres historically.

Smaller does not mean less Portillo's. The new design preserves the character and experience our guests expect along with the potential for high volumes. Today, nearly 15% of the restaurants in our system generate over $1,500 in sales per square foot with a few surpassing $2,000. We believe the optimized kitchen, more standardized design and greater site flexibility can improve throughput and productivity while targeting a lower capital investment.

Across all 3 pillars, financial rigor will shape how we operate and allocate capital. We are reinforcing restaurant-level accountability for sales and profit and aligning incentives with those outcomes. Kevin will cover our capital allocation priorities in more detail.

Looking to 2027, we plan to open 4 to 6 new restaurants. Guests will begin to see this strategy come to life through more consistent execution, refined brand positioning and new creative, a better digital experience and more food news from our culinary team. We will be clear about our priorities: more rigorous in how we operate and allocate capital and more accountable for the results we deliver. That is how we will protect what makes Portillo's special, build a stronger business, create long-term shareholder value and earn the right to grow. I also want to thank the entire Portillo's team, most importantly, our restaurant managers and team members for the hard work and dedication behind our strong third quarter performance.

With that, I'll turn it over to Kevin to discuss the quarter in more detail.

Kevin Kalicak
CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Thank you, Brett, and good morning, everyone. I'm excited to be here with you today on my first earnings call at Portillo's. Since joining in September, I spent time in our restaurants, with the team at the restaurant support center and with our Board listening and learning. What drew me to Portillo's is simple. It's an exceptional brand with a strong foundation. It has a differentiated and craveable menu, passionate guest base and high-volume operating model.

What also excited me about this opportunity was a chance to work with Brett and the rest of the leadership team on the work underway to sharpen the company's direction. That work culminated in the strategy we shared today, which builds on Portillo's strengths and positions us well with commitment to responsible growth and a clear focus on shareholder returns.

After 3 decades in the restaurant industry, I know firsthand how the 3 pillars of our strategy, operational excellence, integrated marketing and disciplined development matter to creating value for both guests and shareholders. Going forward, you can expect me to be disciplined on capital allocation with a focus on creating long-term shareholder value. I look forward to partnering with the team to execute our plan.

Now to the third quarter. Our overall results were stronger than anticipated with positive same-restaurant sales. We achieved this while facing over 200 basis points of traffic headwinds from last year's breakfast test and heavy promotional discounting while also continuing to experience cannibalization from new restaurant growth. Partially offsetting these headwinds was a strong performance of 2 new limited time offers, the Char'diniera Dog and Dr Pepper Shake. These limited time offers brought news and innovation, supporting transactions without the need for deep discounting.

Revenues increased 7% in the third quarter to $194.1 million. This was driven by $10.3 million from the addition of noncomp restaurants and by positive same-restaurant sales of 1.4%, consisting of a 2.1% increase in average check and a 0.7% decrease in transactions. Higher average check was driven by a 2.1% increase in menu price, while transactions improved 270 basis points sequentially from last quarter.

Turning to our margin analysis compared to last year. Food, beverage and packaging costs decreased 10 basis points to 34.4% of revenues. This improvement was driven by an increase in average check and improved food waste and was partially offset by a 2.2% increase in commodity inflation led by continued elevated beef costs.

Labor expense of 26% improved 60 basis points, primarily due to hourly labor efficiencies and an increase in average check. This favorability was partially offset by higher incentive compensation expense, and sales deleverage from lower transactions and lower average weekly sales for noncomp restaurants.

Other operating expenses remained flat year-over-year at 12.9% for the quarter. Occupancy expense of 6% increased 20 basis points versus last year. This was primarily driven by sales deleverage from noncomp restaurants. Our restaurant-level adjusted EBITDA increased to $40.1 million with margins increasing 50 basis points to 20.7%. Our G&A expense decreased to $19.8 million or 10.2% of revenue in the quarter compared to 11% in the prior year. This decrease was primarily driven by $3.3 million of lower dead site costs, resulting from our 2025 strategic reset as well as salary and benefit savings from our workforce reduction at the restaurant support center.

This was partially offset by a $1.4 million restructuring charge associated with the workforce reduction and the absence of a $1.1 million net benefit recognized in connection with the CEO transition last year. Our preopening expenses were $2.6 million lower, driven by fewer restaurant openings in the third quarter versus last year, and adjusted EBITDA increased $5.1 million to $26.5 million or 13.6% of revenue compared to 11.8% last year.

Income tax expense was $1.8 million, and our effective tax rate for the quarter was 27.4%. Cash provided by operating activities increased 26.8% to $61.8 million year-to-date. We reduced our revolver by $12 million in the quarter, resulting in $85 million outstanding and $24.8 million in cash to end the quarter. We now have approximately $61 (sic) [$61 million] of remaining revolver capacity and net debt of $300 million. We will continue to utilize our cash available to pay down debt.

In the fourth quarter, we plan to open one additional restaurant on North Michigan Avenue in downtown Chicago. This will be our second in-line restaurant and will bring our total openings to 8 in 2026. As announced this morning, we plan to close a number of underperforming restaurants outside of Chicagoland, with most of these closures occurring in the fourth quarter of this year. We are not able to share the exact timing, locations or cost with you today as we continue to evaluate lease options for these restaurants. We expect the closures to result in material cash and noncash charges, mostly in the fourth quarter of fiscal 2026.

Now turning to our expectations for fiscal '26, which factored in the expected closures in the fourth quarter, we anticipate total revenue of $768 million to $773 million. Based on our outperformance this quarter and estimates for the remainder of the year, we are raising our full year adjusted EBITDA outlook to between $98 million and $101 million, including mid-single-digit commodity inflation, low single-digit labor inflation, restaurant-level EBITDA margin of 20% to 20.5% and G&A expense between $80 million to $82 million.

And finally, Brett shared with you the highlights of our growth strategy. Building on this, I'd like to highlight our capital allocation priorities. We plan to first, reinvest in improved technology and maintenance of our existing restaurant portfolio; second, invest in qualified new restaurant growth; and finally, use excess cash to reduce debt and leverage, strengthening our long-term financial stability.

Based on the collective actions of this strategy, we expect to deliver annual same-restaurant sales of 2% to 3% and in the next 3 years ramp new restaurant growth to a high single-digit percentage while expanding margins by leveraging sales growth and efficiencies. New restaurants are expected to deliver cash-on-cash returns greater than 20%. Thank you for your time today.

Now let's open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first questions come from the line of Margaret-May Binshtok with Wolfe Research.

Margaret-May Binshtok
Wolfe Research, LLC

It's encouraging to hear the sequential improvement in same-restaurant sales on this quarter. So I just wanted to ask first, how same-restaurant sales are trending so far in the fourth quarter? And then on another note, I know your plan now calls for that 2% to 3% same-store sales growth. How long do you think it takes to get to that range? And as you think about the parts of the plan, which are you most excited about and you think is the strongest lever to drive traffic in the near term?

Brett Patterson
CEO, President & Director

Margaret-May, this is Brett, and thank you for the question. I'll take the second part first and then turn it over to Kevin, and he can talk to you about the sequential improvement. We're -- we believe what needs to happen really is as we laid out the strategy and these 3 pillars, right, is there's got to be synergies between all 3. It's not going to be one of those pillars getting better, the other 2 not getting better that will drive traffic. But I believe what we'll see and kind of what we saw through quarter 3 is innovation is -- it's really important to Portillo's because as we've learned more about our customer, the fanaticism of this brand is pretty remarkable.

And so when you give them good news and you give them news that resonates with the brand, they'll come visit. It doesn't have to be at a discount. Actually, it shouldn't be at a discount. So I would say, as we continue to ramp up our innovation pipeline, put really quality food out there and our operations gets more consistent across the board, we'll start to see that kind of natural transition to transaction growth and then on top of that, leverage our price increase, which we anticipate kind of keeping at inflation or better to make sure that we focus on our value proposition.

Kevin Kalicak
CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Yes. And as it relates to the fourth quarter, I think you talked a little bit about the sequential improvement that we saw in the third quarter. Certainly, we're excited about that. As it relates to the fourth quarter, the guidance for our same-restaurant sales is embedded in the total sales guidance of $768 million to $773 million. But I'll tell you that quarter 4 to date, we're running ahead of third quarter same-restaurant sales.

And that is in part is driven by strong performance from the OREO desserts, which has been running for period 10 and continues to run the rest of this week and into next week. Although similar to the third quarter, we continue to face headwinds from last year, most of which were deeply discounted. For instance, like this week, we're wrapping on a free beef sandwich offer, which is a big headwind for the fourth quarter.

Operator

Our next questions come from the line of Gregory Francfort with Guggenheim.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

I had 2 questions. The first is maybe just what the margin implications might be for slowing growth, exiting some of the stores. And just as I look out into next year, what sort of comp maybe would you need to have margins flat or up, just a rough framing there?

Kevin Kalicak
CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Greg, this is Kevin. I think with the closures, you'll likely see an improvement in margins given that these are underperforming restaurants. And so those will lift the base naturally. And then I think as we continue to look at what's ahead in '27 and beyond, if we're targeting that 2% to 3% sales growth -- same-store sales growth, margins should be flat to slightly improve as we talked about, leveraging same-restaurant sales, leveraging G&A, those factors, particularly as we begin to ramp up new unit growth in the next 3 years.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

Okay. Great. And my second question is, Brett, I mean, you've now had a couple of quarters here. Like as you keep getting -- digging into the business and kind of increasing your learnings, what has shifted in your thinking, kind of any major opportunities that maybe presented yourself from the last time we spoke? I'm just curious how you're thinking about it.

Brett Patterson
CEO, President & Director

Yes. Thanks, Greg. I don't know how much has really shifted since the last call. I think my first call, it was obviously, I was just still drinking from a fire hose and learning the brand. But if I had to tell you, probably the most surprising thing that really occurred last quarter is when we got our research back, Greg, honestly, the research kind of confirmed what we believe, but I would say it was almost amplified about how much passion there is for this brand and love the brand. And it was really because it was outside of Chicagoland as well.

And so when we do these studies, we went really deep to all of our markets, talk to lapsed users, new users, loyal fans. And I would say that the brand love stands out. It's a towering strength for us. We learned a lot about our food. And so I'd say those kind of crystallize maybe some thoughts and -- but how we approach the strategy going forward is when you get the type of fanaticism, our job is to shepherd the brand a little bit differently than if we're trying to convince people why to love us.

And so I said, really continuing on, you hear us use like rigor and discipline a lot as we speak. I would say that's what we really need to focus on this organization is really commitment to really good processes that will manufacture better outcomes for the business. And I think you're starting to see that in quarter 3, and you should see that continue on in quarter 4 and 2027.

Operator

Our next questions come from the line of Sara Senatore with Bank of America.

Ashley Wallace
BofA Securities, Research Division

This is Ashley on for Sara. Just congrats on a really nice quarter. Restaurant margins, they were up 40 bps on the 1.4% comp, and beef was still inflationary. So overall, very impressive. Could you just help us unpack what drove that between the labor model changes in the lower volume units and the early supply chain savings? And just how much do you think carries into next year as the savings program builds?

Kevin Kalicak
CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Yes. Thanks for the question, Ashley. So as it relates to the margins in the quarter specifically, clearly, our improvement in labor was the big driver being 60 basis points favorable year-over-year. And a lot of that was labor model improvements, particularly in some of our lower volume restaurants and adjusting to accommodate the demand that is more the expectation there now. So I think that's the biggest one in terms of the commodities.

Commodities were relatively benign in total at 2.2%, which was in line with our pricing, despite elevated beef costs. So pretty straightforward there. As far as the cost savings, none of the cost savings initiatives have materialized in the food cost line. They're more on the G&A savings line at this point. So yet to come on some of those savings, and we'll probably talk more about that in the fourth quarter as we tee up the '27 outlook.

Ashley Wallace
BofA Securities, Research Division

Just on catering, it's always been a nice differentiator for Portillo's, and 4Q is the biggest season for it. Can you just give us some color on how catering is trending into the holiday season? And how big a piece of the business come in the newer markets where the brand is still building awareness?

Brett Patterson
CEO, President & Director

Yes. Thank you for the question. One of the things that I think Kevin and I as being new to the brand are realizing how -- like your comment on how powerful catering is for us, particularly in the fourth quarter. But right now, we're feeling good. We're on track, if not a little ahead of where we were last year in catering. And we've amplified our plans this year with our operations teams being ready for it. And so we've got a really strong playbook that existed from our prior teams, and they do a really good job. So we see that as not necessarily a headwind or tailwind, but if we can hold serve in quarter 4, that's kind of baked into our assumptions for guidance.

Operator

Our next question comes from the line of Chris O'Cull with Baird.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Congrats, Kevin, on the new role. I had a follow-up question, Brett, about the consumer research that you guys have conducted and you were talking about earlier. I'm just curious why -- what the research tells you about why people try Portillo's but don't become regular customers, particularly outside of Chicago?

Brett Patterson
CEO, President & Director

Yes. So that's a really good question. I don't know how you're stating it is fact. And so what we really learned is we do generate the same type of loyalty and regulars. What you find outside of Chicago, it becomes more of a -- it's a longer destination. So if you look at -- for instance, you look at some of our sites in Texas, for people to travel to us, it's a long way, right? You look at Chicagoland, your frequency is going to be higher because you have one every couple of miles. And so what we learned was, yes, we love Portillo's just as much as somebody in Chicago, but destination, it's much harder. They're not as readily available for us to dine.

And so you're not going to have the same frequency with somebody that's having to drive 10 or 15 miles to a Portillo's as you would a couple of miles. So we continue to see our Perks penetration increase. We see our membership increase, and that's -- a lot of that's driven by outside the Chicagoland market. So I think as part of that is as we look at our future real estate, and that's what we talked about as adjacent growth markets and the right infills that don't really cannibalize, we'll start to build more of that awareness and more of that kind of the access to the brand more so than we have now.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Is there -- since the repeat visits aren't as frequent as they are in Chicago, is there an opportunity? Or is there a plan to maybe expand the customer base or try to reach more people in these markets outside of Chicago?

Brett Patterson
CEO, President & Director

Yes. I think -- so when we talk about -- we did that guest segmentation work, Chris, and that is -- that was specifically designed to do exactly what you said, is to understand who uses us, why they use us and then where those white space opportunities so we can be much more effective in communicating with them. And that is Denise and her team on the marketing side are working through that now to kind of create the personas. We'll create -- we'll leverage a different type of communication based on those 2 audiences. So we do believe that's going to drive trial and more frequency once we can tap into those audience. Because prior to that, our communication has been kind of just very broad, right, and not specific to certain targets. And this will really help us refine exactly who we go after and bring into the brand.

Operator

Our next questions come from the line of Andy Barish with Jefferies.

Andrew Barish
Jefferies LLC, Research Division

And yes, maybe one for Kevin, just as you get settled in, having come from an organization with vast resources and insights and support. I mean, as you look at '27 for Portillo's in terms of like technology infrastructure, things, is it an investment year? Or are there just ways to kind of implement processes to make what's there more efficient, again, after kind of the G&A saves from the workforce reductions this year?

Kevin Kalicak
CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Andy, thanks for the question. Yes, I mean, I think it's twofold, right? I think when we think about some of the things that happen here in the Restaurant Support Center, I think certainly, there's not quite the investment. Certainly, there's a little bit in the marketing stack and what Brett talked about in terms of the highlights and the strategy. As we think about going out into the restaurants, there's a decent amount of tech out there that we need to look at and see are there ways to improve operations, make it smoother for our teams. I know the iPad, the tablets for our drive-thru operators is a little bit of a pain point. And so it's looking at all of those. I don't know that I would call it necessarily an investment year. But as I mentioned, as we look at our fourth quarter and talking about our guide into '27, I think that will -- we'll have a little bit more content for you going into that.

Brett Patterson
CEO, President & Director

Andy, this is Brett. I was going to -- Kevin made some really good points. I think one of the things Kevin and I really began to line on, and we mentioned in the script, is kind of the rigor behind how and where we spend money. And so we're really committed to anything we spend money is going to have to have a return on it, right? And so if we say operational investments in training and food quality, some of those will take a little bit longer to see the return on that.

But there are some like we're talking about with technology and marketing that, to Chris' earlier question, that will have a much quicker return because we're going to target a specific group of people. So we're balancing that of how much do we need and the strength in operations will have a little bit of a lag time on the return versus what are some of those immediate returns. But Kevin nailed the priorities for how and where we're going to invest.

Andrew Barish
Jefferies LLC, Research Division

Okay. Very helpful. And then I'm happy to hear about the good start to the 4Q. I think there's like a half a dozen units maybe entering the comp base in the 4Q. I want to say a bunch of those are Texas. Are there any just thoughts on how that's -- we should take that into account in terms of the 4Q?

Kevin Kalicak
CFO, Principal Financial Officer, Principal Accounting Officer &Treasurer

Yes. I think as it relates to the fourth quarter, certainly, as it relates to the closures, there's the level of total sales guide that is in reduction, that is embedded in the guidance related to those closures. And then as you look at some of those new restaurants that are entering the comp base, I think they're generally going to be on the lower end of volumes and seeing some continued slide in comp performance as they continue to lap their or roll off their honeymoon.

Operator

Our next questions come from the line of Jim Salera with Stephens.

James Salera
Stephens Inc., Research Division

I wanted to start by just walking through the decision to close some of the underperforming restaurants outside Chicagoland. Is there anything you can take away from what specifically about the locations that made them underperform kind of initial expectations and as you've continued to densify outside of Chicagoland, why there wasn't maybe the pickup that you initially expected?

Brett Patterson
CEO, President & Director

Yes, Jim, this is Brett. Thank you for the question. I would -- I'll tell you there's a few factors. And I mentioned my first -- the first call I was on and I had before I joined, had an opportunity to fully drive a lot of those markets and visit the restaurants. And my comments then were a lot of the sites were very, a, very green; b, very casual dining like. And so what I would say we've really learned about Portillo's and the model -- the new model we've created is we have a much deeper understanding now of really what drives the volumes to our restaurants. And there -- again, there's this fanaticism where people are willing to drive a long way. But at some point, they're not going to come once or twice a week when they live 15, 20 miles away.

So I would say one is sites played a huge role into what we're seeing there. Number two is that infill cannibalization. I mean we ramped up so quickly in those markets and plugged in a lot of infills as all we did is redistributed sales from those geographic areas. And so that put a lot of pressure on the business models. And then third is when you're going to new markets is how do you really create awareness. And we did a little bit of damage to ourselves with how we branded the restaurants.

We took -- in some of them, we just have the name Portillo's. We took off what we do, what we serve. And for new market penetration, they don't -- if they don't know what you do, it's kind of hard for people to figure out. And so I think there are some of those awareness opportunities. And that's why the new strategy is, one, we feel really good about our new sales forecast model because it's rooted in all the data. We have a really clear understanding of what drives volumes in Chicago and outside of Chicago. And two, being very selective on infills, so we don't have a strong cannibalization. And then third, having those adjacent markets where you start to create awareness.

So for example, Florida, where we've got -- we're opening a new one in Lutz next year. We've got one in St. Pete, one in Brand and one in Tampa. Can you potentially look at adjacent markets and kind of Florida and start to build out another core market. So that's how we're thinking about it a little bit differently now.

James Salera
Stephens Inc., Research Division

Great. And then how should we think about the long-term unit TAM? I mean I know you guys previously, I think it was 900 plus. It sounds like that's probably too high at this point, but maybe you can just help us kind of size up what that opportunity looks like? And also, could we think about markets that are maybe closer to the core in the upper Midwest or places that have, I'll say, a similar talent to where you guys are most successful in Chicagoland?

Brett Patterson
CEO, President & Director

Yes. Look, it's a really good question. I don't want to give you an answer right now. We haven't done the work to say, okay, across the Continental U.S., what's our total white space? Because to your second point, what we've focused on with our new strategy for real estate right now is those adjacent markets and infills, including the Chicagoland area. So ideally, what we'd like to have a growth model that continues to expand our core market as well as go into markets we know that we have a higher chance of success.

And so we do well. We know we've got another one coming in Buford, Georgia. We'll see how that does because Kennesaw still does very well for us. We performed well in Florida. And so take -- but how many we put there and how many we put in the Chicagoland area is what we're determining now just based on the site selection? Because as we said before, we're at the point now is we'll get to the growth number we mentioned in the -- on the call.

But more importantly, we need to make sure that we derisk the capital investment and make sure we go in sites that do the volumes and give us the cash-on-cash returns. So I know there was this belief that can you still do Chicagoland volumes in the new prototype or can you do Chicago -- I'm not so sure that doing Chicagoland volumes would be something that we put as a goal. If we can drive 21% restaurant-level margins in a $5 million restaurant, that would put us in the top decile of fast casual.

Operator

Our next questions come from the line of Sharon Zackfia with William Blair.

Sharon Zackfia
William Blair & Company L.L.C., Research Division

Can you talk about the simplification of the loyalty program and kind of what you think works well currently and what you'd like to change?

Brett Patterson
CEO, President & Director

Sharon, this is Brett. Thank you. We are just -- I would say it's premature to comment on where we see the Perks program going. I would say what we do like about it now is it does give us access to data and to our loyal fans that we really hadn't had another opportunity to get at. And we do know that it is a lever that we can pull to engage a group of people to visit us. And so it's really our kind of top form of communication for whether it's launching these LTOs we mentioned. The second, the surprise and delight is, it's interesting, because there's another brand that recently launched a loyalty program that kind of had the same program with the surprise and delight.

So I'm not sure we completely run away from that, but I think it's just too early to say what is -- what's the best use of that loyalty program for us and how do we compare it to others in the marketplace. So for now, I'd say it's something we focus on and continue to grow that base because the frequency is higher than our normal guest. And so we know if we can continue to drive higher frequency and expand the loyal guests, then we benefit from a transaction standpoint.

Sharon Zackfia
William Blair & Company L.L.C., Research Division

And I'm sorry if I missed this, but for the smaller format locations that you'll begin to open in '28, what are the targeted AUVs for those locations?

Brett Patterson
CEO, President & Director

Yes. the target AUV -- and I would guess I'm a little bit different than maybe how we communicated before. I don't believe in you create a prototype for a targeted AUV. As mentioned, we have roughly 15% of our restaurants that do over $1,500 in sales per square foot. So I don't believe we should put a governor on a 4,600 square foot restaurant, Chick-fil-As, they've got those sized restaurants, and we know the volumes they do. So I don't see it as a governor.

I see the site selection as what will drive our sales volume and believe we can do the volumes we see in our higher-volume restaurants at a smaller prototype, again, because we have a large percentage of drive-thru. We have a large percent of off-premise and dine-in, right? So we have -- and catering. So we have 4 really unique channels that are very strong for us. And so I don't -- as long as you get people in and out of drive-thru, you can get food out quickly and accurately on time, I don't see sales as a governor. I say it's the site selection that will be the governor on sales.

Operator

Our final questions will come from the line of JP Wollam with ROTH Capital Partners.

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

Maybe just kind of starting on the restaurant-level margin. I think there was some commentary in the press release about evaluating and investing in additional tech. And I just kind of want to square that with the labor savings that you've already made and kind of some of the COGS improvements that are still yet to come. Brett, as you think about the business, and identifying Chicagoland separately from then kind of your remaining new market or other markets, like where are we, inning-wise, with just how you're seeing in-store operations? And what's still kind of an opportunity there as we look forward?

Brett Patterson
CEO, President & Director

Yes. Thanks, JP. Really good question. I would say we're in the early innings, and I'm not saying that's because our operators don't do a good job. We're in the early innings because we're -- we need to provide better resources and tools for our operators to do their job. Right now, it's at these volumes and more than a 50-year history of executing in the same way. It's important that we understand why that works, how it works, but also understand if I can get a piece of equipment that can make my fries more hot, more crispy and last longer, why wouldn't I do that, right?

And so some of those things are what we're really trying to work through now. If we look at tablet technology and our drive-thru that actually has a screen on it to where the guest can confirm that's the order that they order, then it comes out more accurately. So I think it's a lot of those type of things we're looking through. The other piece on operations is, look, candidly, we didn't have a very strong training culture at all.

And we are going to over-index on having well-trained team members and managers leading our restaurants. And so that will be -- I would say that part of it is in the really early innings. But I can say with confidence is, we execute very well compared to the industry. I'd say we just have more inconsistency across the fleet, and that's what we really need to tighten up.

Operator

Ladies and gentlemen, thank you so much. That does conclude our question-and-answer session. And with that, we have reached the end of our teleconference. We appreciate your participation. You may disconnect your lines at this time, and enjoy the rest of your day.

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