

Seeking Alpha^α

Transcripts

Portillo's Inc. (PTLO) Q4 2024 Earnings Conference Call Transcript

Feb. 25, 2025 1:38 PM ET | **Portillo's Inc. (PTLO) Stock** | PTLO

**SA Transcripts**

152.93K Followers

Q4: 2025-02-25 Earnings Summary

Play Call



Slides



PR



10-K

EPS of \$0.12 **beats by \$0.06** | Revenue of \$184.61M (-1.73% Y/Y) **misses by \$1.26M**

Portillo's Inc. (NASDAQ:[PTLO](#)) Q4 2024 Earnings Conference Call February 25, 2025 10:00 AM ET

Company Participants

Kyle Nelsen - VP, IR

Michael Osanloo - President and CEO

Michelle Hook - CFO

Conference Call Participants

Sharon Zackfia - William Blair

David Tarantino - Baird

Andy Barish - Jefferies

Brian Harbour - Morgan Stanley

Brian Mullan - Piper Sandler

Jim Salera - Stephens Inc.

Chris O'Cull - Stifel

Gregory Francfort - Guggenheim Partners

Ray Pikion - Morgan Stanley

Operator

Hello and thank you for standing by. Welcome to the Fiscal Fourth Quarter 2024 Conference Call and Webcast. I would now like to turn the call over to Kyle Nelsen, Vice President of Investor Relations at Portillo's to begin. Thank you.

Kyle Nelsen

Thank you, operator. Good morning everyone and welcome to our fiscal fourth quarter 2024 earnings call. You can find our 10-K earnings press release and supplemental presentation on investors.portillos.com.

With me on the call today is Michael Osanloo, President and Chief Executive Officer and Michelle Hook, Chief Financial Officer. Any comments made here about our future results and business conditions are forward-looking statements which are based on management's current expectations and are not guarantees of future performance. We do not update these forward-looking statements unless required by law. Our 10-K identifies risk factors that may cause our actual results to vary materially from these forward-looking statements.

Today's earnings call will make reference to non-GAAP financial measures which are not an alternative to GAAP measures. Reconciliations of these non-GAAP measures to their most comparable GAAP counterparts are included in this morning's posted materials. Finally, after we deliver our prepared remarks we will open the lines for your questions.

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

Michael Osanloo

Thank you Kyle. Good morning everyone. Thank you for joining us for our year-end call. Now before I dive into our results I do want to take a moment to recognize and thank our incredible restaurant team members. Their hard work, dedication, and passion are what makes Portillo's special. Every day they bring energy to our guests delivering the unrivaled experience that keeps people coming back. Their commitment to excellence has been instrumental in elevating our brand and I'm very grateful for everything they do to drive our success.

Now for the fourth quarter our same-restaurant sales were up 0.4% and our full year comp was a negative 0.6%. Total revenue for the quarter was \$184.6 million and full year revenue was \$710.6 million. Restaurant level adjusted EBITDA for the fourth quarter was \$45.2 million and \$168.1 million for the full year with a margin of 23.7%.

We saw good top line momentum in Q4 especially with the addition of kiosks at all of our restaurants. They are driving a comp lift of more than 1% through mix. We believe there's still a lot of untapped potential with kiosks and we're excited to continue exploring their role in our business. Our team has also done a nice job of controlling costs particularly in labor and G&A. This has enabled us to drive strong cash flow in the business. We carried solid traction into January but industry headwinds including weather in February muted some of our early momentum similar to what you heard from others in the restaurant industry.

Looking ahead to the rest of the year we're really excited about the plans we're executing. Our four key traffic driving strategies are number one expansion of kiosk usage and functionality. Number two advertising beyond Chicagoland to increase brand awareness, number three the launch of our Portillo's Perks Loyalty program, and number four simply better operations including further improving speed in the drive room. This is how we'll drive traffic, improve margins, and deliver industry leading unit economics for our shareholders.

Now of course opening new restaurants remains critical to our growth with a focus on building efficient restaurants that deliver strong returns. In 2024 we opened 10 new restaurants two of which are our new more compact restaurant of the future format. This smaller footprint reduces our restaurant size from approximately 7,700 square feet to 6,250 and importantly lowers the average build cost by over \$1 million. We expect these to come in at \$5.2 million to \$5.5 million.

In 2025 we plan to open 12 new restaurants all of which will be restaurant of the future. This includes our first restaurant in Georgia located in the Atlanta suburb of Kennesaw. The majority of the other new restaurants in 2025 will be in Texas where we'll continue to build scale and awareness. Openings in 2025 will still be more concentrated in the back half of the year with the majority opening towards the end of the year but we're optimistic that our strong pipeline will lead to 2026 being more balanced.

Looking ahead we continue to develop additional restaurant formats with an eye toward further improving new restaurant economics including a more efficient operating model for our restaurant teams. These include an even smaller restaurant of the future 2.0 that will roll out in 2026 as well as airport and walk-up locations.

On the advertising front we're working to build brand awareness in Texas to capitalize on the untapped potential of large audiences who don't know us yet. In late January we launched our first market-wide ad campaign in Dallas-Fort Worth. The ads focus on introducing Portillo's to new guests. We're telling them who we are, what makes us iconic, and where to find us. We're bringing the buzz and energy of a Portillo's experience to encourage people to visit. Our past experience marketing outside Chicago gives us great optimism that this campaign will drive a meaningful lift.

Additionally, we're launching the Portillo's Perks Loyalty program next month. This program is intended to drive traffic and engagement across Portillo's. We're initially focused on driving enrollment with the goal to hit 1.5 to 1.7 million members by July. Portillo's Perks is not a typical punch card program. It lives in your digital wallet and uses a targeted one-to-one marketing approach to drive specific behaviors based on guest habits and buying patterns. For example, in Chicagoland where we're well known we might focus on encouraging visit frequency, whereas in new markets we can focus on building brand awareness and excitement.

We can gamify frequency through badging, we can elicit trial of new menu items, or we can offer discounts to drive incremental visits. Because this is not a points-based program we can customize the richness of the offer to suit the needs of the business and our guests. To keep our guests coming back we know we need to continue delivering an unrivaled experience across our restaurants. That's why our new COO Tony Darden has a three-pronged approach to strengthen operational excellence further.

First is improving our drive-through efficiency. With a target of reducing drive-through time an additional 45 seconds we've expanded our AI powered drive-through camera pilot to more locations. This tool is showing promise by providing better real-time insights for restaurant leaders to optimize speed.

Second, Tony is focused on training and elevating accountability and engagement within our teams to deliver a more consistent Portillo's experience across the chain. That means restaurant and market leaders getting more shoulder-to-shoulder time with team members, coaching in the moment, reinforcing fundamentals, being attentive, hustling, and responding to guests with urgency and energy. All the things that make our experience uniquely great. Third, he's identified off-premise order accuracy as an opportunity. Ensuring guests receive exactly what they ordered is critical.

Tony's already implementing processes to strengthen accuracy ensuring we uphold the same high standards across all our channels. We're excited by the plans we have in place and remain focused on driving sales and transactions. With continued innovation and an unwavering focus on operational excellence we're confident these efforts will drive the results we're aiming for and set us up for even greater success in 2025.

With that let me hand it over to Michelle.

Michelle Hook

Great, thank you Michael and good morning everyone. As a reminder from a year-on-year comparable basis the fourth quarter of fiscal 2024 was a 13-week quarter and the fourth quarter of fiscal 2023 was a 14-week quarter.

During the fourth quarter revenues were \$184.6 million reflecting a decrease of \$3.2 million or 1.7% compared to last year. Total revenue was negatively impacted by \$13.9 million due to an additional operating week in the fourth quarter of 2023. Excluding the impact of the 53rd week revenues grew 6.1% in the fourth quarter versus last year. Our revenue growth in the fourth quarter was driven by growth from non-comp restaurants and same-restaurant sales growth.

Restaurants not in our comparable restaurant base contributed \$8.6 million in revenue growth during the fourth quarter. Same-restaurant sales increased 0.4% which drove revenues up approximately \$600,000 in the quarter. The same-restaurant sales was attributable to an increase in average check of 4.1% partially offset by a 3.7% decrease in transactions. The higher average check was driven by an approximate 4.7% increase in certain menu prices partially offset by product mix.

Comp on a two-year stack basis was 4.8%. We did not raise prices in the fourth quarter keeping our overall price increase at 4.7%. In January 2025 we implemented a 1.5% price increase. Since we had a price increase in January last year roll off our effective price increase for the first quarter of 2025 is now approximately 4.4%. We also made pricing adjustments March and June of last year and will continue to assess pricing throughout the year. Our goal is to ensure we continue to provide a strong value proposition to our guests.

As we look to 2025 we expect our revenue growth to continue to be driven by the opening of new restaurants combined with modest comp sales growth in the range of flat to 2%. During the first quarter of 2025 we will open one of our 12 targeted new restaurants in the Houston market.

As Michael mentioned we enter January with strong traction but challenges like February's weather has tempered some of our early momentum. Coming into 2025 we anticipated softness in the first half of the year with the goal of driving improvement in the latter half as we evolve kiosk adoption, launch of our Portillo's Perks program, increase brand awareness in our outer markets, and improve our speed in the drive-through.

Now moving on to our costs. Food beverage and packaging costs as a percentage of revenues decreased to 34.1% in the fourth quarter of 2024 from 34.8% in the fourth quarter of 2023. This decrease was due to the increase in our average check partially offset by a 1.8% increase in our commodity prices. In the fourth quarter we experienced increases in produce, dairy, and chicken products. We are estimating commodity inflation of 3% to 5% in 2025 with the most significant pressures coming from beef.

Labor as a percentage of revenues decreased to 24.6% in the fourth quarter of 2024 from 25.4% in the fourth quarter of 2023. This decrease was driven by the increase in our average check and lower variable-based compensation partially offset by incremental investments to support our team members including annual rate increases. Hourly labor rates were up 2.2% in the fourth quarter of 2024. We are estimating labor inflation of 3% to 4% in 2025.

Other operating expenses increased \$1.6 million or 8% in the fourth quarter of 2024 compared to the fourth quarter of 2023 which was primarily driven by the opening of new restaurants and an increase in repair and maintenance expense offset by a decrease in insurance expense. As a percentage of revenues other operating expenses increased to 12% from 10.9% percent in the prior year.

Occupancy expenses increased \$0.4 million or 5.3% in the fourth quarter of 2024 compared to the fourth quarter of 2023 primarily driven by the opening of new restaurants. As a percentage of revenues occupancy expenses increased 0.3% compared to the prior year. Restaurant level adjusted EBITDA decreased 1.1% to \$45.2 million in the fourth quarter of 2024. The comparison was negatively impacted by \$3.5 million due to the additional operating week in the fourth quarter of 2023.

Excluding the impact of the 53rd week restaurant level adjusted EBITDA grew 7.1% in the fourth quarter versus last year. Restaurant level adjusted EBITDA margins increased 20 basis points to 24.5% in the fourth quarter of 2024 versus 24.3% in the fourth quarter of 2023. We are estimating our restaurant level adjusted EBITDA margins to be in the range of 22.5% to 23% percent in 2025.

Our general and administrative expenses decreased by \$1.2 million to \$20.3 million or 11% of revenue in the fourth quarter of 2024 from \$21.6 million or 11.5% of revenue in the fourth quarter of 2023. The decrease was primarily driven by the 14th week in 2023 lower variable based and equity based compensation partially offset by an increase in advertising expense of \$0.3 million. We will continue to invest in advertising in 2025 as well as other strategic initiatives but will remain disciplined in our investment approach. We are estimating G&A expenses to be between \$82 million to \$84 million in 2025.

Pre-open expenses were flat in the fourth quarter of 2024 compared to the fourth quarter of 2023. We are estimating pre-opening expenses to be in the range of \$11 million to \$12 million in 2025. All this led to adjusted EBITDA of \$25.2 million in the fourth quarter of 2024 versus \$26.1 million in the fourth quarter of 2023, a decrease of 3.6%. The comparison was negatively impacted by \$2.4 million due to the additional operating week in the fourth quarter of 2023. Excluding the impact of the extra week, adjusted EBITDA grew 6.3% in the fourth quarter versus last year.

Below the EBITDA line, interest expense was \$6 million in the fourth quarter of 2024, a decrease of \$0.9 million from the fourth quarter of 2023. This decrease was driven by a lower effective interest rate partially offset by additional borrowings on the revolver facility. On January 27th, we reduced our term loan from \$300 million to \$250 million and increased our revolver credit facility from \$100 million to \$150 million. The interest rate on the term debt has been lowered by approximately 40 basis points.

The loans under the new agreement will mature on January 27th, 2030. This new credit agreement gives us more financial flexibility to support our growth strategy and other strategic initiatives. As of today, our outstanding borrowings under the revolver credit facility are \$69 million, which includes approximately \$39 million that was transferred over from our term loan facility and used to pay loan costs as part of our debt amendment in January.

Our effective interest rate on the term loan and revolver was 7.5% versus 8.4% for 2023. Income tax expense was \$1.9 million in the fourth quarter of 2024, an increase of \$2.3 million from the fourth quarter of 2023. Our effective tax rate for the fourth quarter was 13.3%. Our effective tax rate for the year was 16.2% versus 11.5% in 2023. The increase in our effective income tax rate was primarily driven by an increase in the company's ownership interest in Portillo's OpCo.

Our future effective tax rate will fluctuate as Class A equity ownership increases and as equity-based awards are exercised. Cash from operations increased by 38.5% year-over-year to \$98 million year-to-date. We ended the quarter with \$22.9 million in cash. We continue to believe that we are well positioned with our balance sheet to support our growth and new restaurant openings this year and beyond.

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

Michael Osanloo

Thanks, Michelle. We remain committed to driving world-class economics in our restaurants and lightening our capital spent. Our focus is on accelerating revenue, expanding margins, and ensuring that every dollar we invest, whether in new restaurant builds, technology, or operation, delivers strong returns.

With the deployment of our loyalty program, a revamped approach to marketing, and a sharpened focus on operational excellence, we are building durable traffic drivers that we can leverage quarter after quarter. With a disciplined approach to development and an emphasis on efficiency, we will continue to grow profitably while strengthening the guest experience. This is how we'll deliver 2025. Thank you.

Question-and-Answer Session

Operator

Thank you. That concludes our formal remarks. As always, thank you for your interest in Portillo's. At this time, we will open up the line for questions. [Operator Instructions] The first question comes from the line of Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

Good morning. I guess just one clarifying question, Michelle. On the weather year-to-date, is it fair to think -- is there any way to quantify the weather impact you've had through late February, or maybe just tell us if we should expect the first quarter to be below the full year guidance?

Michelle Hook

Yes, Sharon. We're not -- we haven't quantified the weather impact. As we sit here today, we're just starting to get into, I think, some warmer weather here in Chicagoland and the Midwest. Our trends, as we said in January, we came out of the gate stronger. February has been impacted. We still have a whole month to go, Sharon. So, it's hard at this stage to really say definitively, knowing that we have that. But we're confident that for the full year, we're going to be in the 0% to 2% range. So, that's what I can definitively at least say at this moment.

But we're comfortable with the trends, the underlying strength of the business. And as we said, I believe that the momentum we have with loyalty, as well as the advertising that took effect in Dallas, will take hold as we come out of Q1.

Sharon Zackfia

Thanks for that. And then I did have a question about the drive-thru speed. So, that 45 seconds that you're seeking to recoup, is there any kind of rule of thumb on what that does for you in terms of throughput or incremental traffic you can get through the drive-thru? And is there any gaining factor to kind of rolling out this test pretty quickly across the rest of the system if it continues to be successful?

Michael Osanloo

Hi, Sharon. Good morning. Yes, we're really excited about the drive-thru speed. And as a rule of thumb, every 30 seconds of improved throughput in the drive-thru is equivalent to one point of comp. So, the test is going very well. It's relatively straightforward for us to expand and deploy as quickly as possible. You always run into a little bit of permitting issues, things like that. But my expectation is that if the test continues as well as it has been, we will get this deployed and it will have a full impact for the back half of the year.

Sharon Zackfia

Okay. Thank you.

Michael Osanloo

You bet.

Operator

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

David Tarantino

Hi. Good morning. I was wondering if you could elaborate on what you're seeing in the Restaurant of the Future prototype, in particular, sales and margins as you look at kind of the initial performance. I know it's early, but any insight you could offer would be helpful? Thanks.

Michael Osanloo

Here's what I'd say. I'd say there's no -- in terms of revenue, traffic, the feel, the ability to operate and execute, we're thrilled. There's no difference, really, between that and a more traditional prototype. It feels like a really good restaurant. It provides a Portillo's experience. So we're really excited by that.

I think it's emboldened us to be more aggressive with 2.0. I think we feel like there's still some space that we can take out of the restaurants and that even the Restaurant of the Future is still plenty built so that we feel like we can get a little bit more capital efficient in the next iteration. I think you were referring -- there's a question behind your question, David. We have not pushed the needle yet on operational efficiency in the Restaurant of the Future.

It's still early and we're evaluating, but we do expect and plan to generate some incremental efficiencies. Given it's a smaller restaurant, given that there's less need for labor, given there's less need for utility and energy usage, we're very excited by that and we'll reveal what's going on with that once we feel comfortable.

David Tarantino

Great. I think, Michael, you've streamlined the menu in some of the new locations, so could you comment on what you're seeing from that exercise and what the benefits of that might be?

Michael Osanloo

Yes, it's a great question. As you noted, in Houston, we have conducted a test with a streamlined menu. We took somewhere between 15% and 20% of the SKUs out, and it tends to be the tail, the things that are low P mix.

The only negative feedback from guests were on our Italian sausage and our Maxwell Street, our Polish sausage, so we've actually quickly added those back into Houston to some great fan favor, but there's been no impact with the rest of the tail, and so we're really excited about that. As I'm sure you can imagine, it reduces complexity in the kitchen, it's an aid to throughput, it's an aid to accuracy, and it streamlines supply chain and supply chain costs, so we think that we have unlocked something important there.

It, frankly, is also an enabler to achieving Restaurant of the Future 2.0, when you just don't have to store that much stuff in your coolers and your freezers, and it does help you reduce some kitchen equipment. So we've been watching that very carefully, we're very excited by it, and I think there's an unlock there for us going forward.

David Tarantino

I might go over my limit here, but are you thinking about streamlining the menu elsewhere, maybe in some of your more mature locations as a result of what you're seeing in those locations?

Michael Osanloo

I think for now, we're thinking of it as a new markets strategy. We're not going to go back, we're not going to try to take away beer from our Chicago guests, I think that would cause riots in a restaurant.

David Tarantino

Fair enough. Thank you.

Operator

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

Andy Barish

Hey guys, good morning. Just a clarification, I think I was remembering from ICR that the 0% to 2% does not include the kiosk contribution, am I remembering that correctly?

Michelle Hook

No, Andy, that does include the kiosk contribution, that's in the estimate. What we had said is generally we weren't modeling significant lifts in the front part of the year, because a lot of the strategies, such as loyalty, et cetera, are going to start to roll out as we go into Q2, but it does include the kiosk lift.

Andy Barish

Okay, thanks for that. And then anything on, I know the drive-through channel has been tougher and that's a big focus, obviously, and more impacted by \$5 QSR promotions and things like that, but was there anything to read from the off-premise order accuracy focus? Have you seen a little bit of weakness in that channel or is the weakest channel still really kind of drive-through and some of these operational improvements can start to stem the tide there?

Michelle Hook

Yes, Andy, we definitely see, as we continue to say, more softness in the drive-through. When you think of overall the state of the business and the channels, we're seeing that channel a little bit more pressured, and as we've talked about, that channel is more competitive with QSR and that lower-income consumer. But definitely, as we think about just order accuracy in general, that's the number one reason why guests are dissatisfied.

So speed would be the number two reason, but accuracy, generally speaking, is what we need to continue to focus on in the drive-through. But then when we look at our just off-premise channels in general, those, generally speaking, and we're not alone in this category from a restaurant standpoint, have lower OSAT scores or customer satisfaction scores than your dine-in or drive-through channels. So as we look at those off-premise channels, whether it's picking up in the restaurant or those delivery channels, we have to focus on guest satisfaction in those channels, and then specifically focusing on guest recovery.

So when we talk about order accuracy, we have to make sure that when we do make mistakes, which we know we're going to make mistakes, that we recover that guest and treat them appropriately. So that's a focus.

Michael Osanloo

Yes. I mean, Andy, said another way, it's relatively straightforward to correct a mistake that we make in the dining room. It's kind of doable even in the drive-through, because the guests will notice. It becomes increasingly difficult to correct a mistake when it's for third-party delivery. And that's why I think for us, we're acknowledging that the bar has to be higher, and we need to make fewer mistakes for third-party delivery, because those are very challenging to correct and make the guests happy.

Andy Barish

Thanks. Helpful. And then just finally, on your 3% to 5% commodity inflation, Michelle, how much of beef is locked up at this point?

Michelle Hook

Yes, on the flats, Andy, we have about 50% locked for the full year.

Andy Barish

Okay. And anything just shape-wise we should expect, or is it kind of that inflation spread out evenly through the year?

Michelle Hook

Yes. As we think about inflation over the course of the year, it's looking pretty even at this stage, Andy. I think a little bit more pressure is at least what we're seeing as we get into Q3, and then maybe a little bit easing into Q4. But in terms of, it's not extremely rollercoaster-ish, I would say, but a little bit more pressure is in Q3 versus the other quarters.

Operator

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

Brian Harbour

Yes, thanks. Good morning, guys. The same-store sales guide for this year, sorry if you had mentioned this, but what was sort of the, I guess I'll ask this more directionally, just sort of the assumptions for kind of pricing and mix and different pieces?

I know that traffic is a big focus this year, but I mean, presumably, you feel like mix is kind of helped by the kiosks, and then pricing, I don't know if you're thinking it would fade a bit or whatnot. Could you just comment directly on that?

Michelle Hook

Yes, Brian. So pricing, obviously, is going to continue to be very fluid for us, but obviously, we expected to take price this year, as we indicated. We expected to have positive mix this year, and we expected to come out of the gate with negative traffic as we entered this year with that improving over the course of the back half of the year. But that guide implies pricing a little bit positive mix and negative traffic for the year. That's what that guide implies, with the traffic trends, again, improving as we get into the back half of the year.

Brian Harbour

Yes. Okay. Sounds good. Thanks. Can you talk a little bit about the advertising that you're doing in Texas and, I guess, other plans for this full year, what that looks like, and just kind of the timing of that?

Michael Osanloo

Yes. In Texas, it's really -- we have a great opportunity ahead of us on increasing awareness. We're just -- the awareness -- when I look at the awareness in DFW versus Arizona, for example, there's a material opportunity for us, and awareness directly correlates to sales in our restaurants. So that's what this is about. There's outdoor, which are large billboards. They're conveniently located on very busy highways, pointing out where the closest Portillo's is and announcing to the Texas community that we're open.

The marketing campaign itself is on TV, and it's on -- we know that when we are on TV in our outer markets, it works really well. We've done it in the past when we were penetrating Minneapolis, Indianapolis. We've done it in Arizona. We've done it multiple times in Chicago. And so there's a TV campaign, which is a lot of crowdsourced material from social media, which I think is a wonderful dynamic of using traditional media and current social media to get the best of on TV. So we're optimistic about it. It's been on the air just a few weeks, and we will definitely report out on how we felt about it towards the end of the quarter.

Operator

Mr. Harbour, are you done with your questions?

Brian Harbour

Yes, thank you.

Operator

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

Brian Mullan

Hey, thanks. A question on development. I'm wondering if you could update us on the drive-through only or non-traditional format. Where does that stand? I think you opened one last year. Do you feel like you've got that format fully ready to go, or do you need to see another iteration or two before you move forward in a more rapid way with those? Just any update on that format.

Michael Osanloo

Yes, we did open one in Orland Park, which is a southeast suburb of Chicago. We've been very happy with it so far, and I think we're getting awfully close on a great format. It's got the restaurant of the future kitchen in it, so it's a smaller, more compact kitchen. But at this point, that concept is we're fine-tuning it, making it great. It's not so much being super aggressive with it, but being, I think, thoughtfully growing those. And they make a lot of sense in places where we have density and saturation for an incremental occasion.

So we're going to keep building them in Chicagoland for sure. And we're actively looking at a couple of other markets where we feel we have brand awareness and scale to justify the pickup-only location. There was a point, I don't know, I don't want to overcook it, but we are looking at in-line locations and airport locations this year. And so we'll communicate that as we have more certainty around those. But I am excited to do a walk-up location, you know, think of a busy downtown location or a denser population location with a walk-up. So we're excited to try one of those.

Brian Mullan

Okay, thank you. And then a question on loyalty, which is new. Maybe talk about the decision, I think you went with an app-less loyalty program. Just any background there and how we should think about why this was the best option for Portillo's versus maybe a more traditional app-based approach that we might be more used to seeing? So just any color on that would be great to understand.

Michael Osanloo

I think everything that the advisors told us and every bit of consumer research that we invested in would suggest that consumers are approaching app fatigue and opening yet another restaurant-based app is just something that they're not as interested in doing and that the typical usage pattern consolidates down to a couple apps. So we don't want to try to compete against that. An app-less loyalty program sits in your Apple wallet or your Google wallet and it allows us to communicate to you one-on-one in a very convenient manner.

So if you're going in and looking for an airline ticket or concert ticket, you want to use Apple Pay for something, the program sits there. It tells you what offers you have. If you want us to or allow us to, we can communicate to you proactively. So if I know you're going into your second favorite burger joint, I can remind you how great our burgers are and I can send you an offer real time if it's Geofenced. So it allows us to do a level of one-to-one customer relationship management that is truly special and unique. And we think that we've picked the pieces, the best pieces of what all the great restaurant companies are doing and assembled something unique.

Brian Mullan

Great. Thank you.

Operator

Next question comes on the line of Jim Salera with Stephens Inc. Please go ahead.

Jim Salera

Hey, Michael, Michelle. Good morning. Thanks for taking our questions. I wanted to maybe drill down on your expectations for QSR traffic growth in 2025. I just kind of do back-of-the-envelope math with pricing and the positive mix commentary. It implies kind of down traffic for you guys down high-low single digits to maybe low-mid single digits.

And at least the commentary we've heard is like QSR traffic for the industry is going to be down like call it 50 to 100 basis points. And so I don't know if you guys have maybe a more conservative forecast on the industry or if you anticipate your traffic to be less in the industry. Any color on that would be helpful?

Michael Osanloo

I think there's just an acknowledgement of the fact that we ended Q4 last year down negative 3.7 on traffic. And so we believe that we will have some traffic momentum this year, especially with rolling out loyalty program, with the marketing that we're doing, with operational improvements. I mean, we've talked about those. But you're not going to flip the switch overnight. So it's not like you're going to go from negative 3.7 to positive in the first quarter, especially with some of the weather in February.

So what I think, Jim, what we're saying is expect us to steadily improve on traffic over the course of the year. And that algorithm is what gets you to 0% to 2% same store sales with some modest pricing. No one wants to be aggressive on pricing. We're excited about the mix improvements, but it's modest pricing, some mix improvement, and positive momentum over the course of the year on traffic to get to that 0% to 2%.

Michelle Hook

Yes, I would just add on, obviously, to what Michael said, not all quarters are going to be created equally. And so as we, again, implement these strategies, we expect to see traffic improvement throughout the year, and then driving that positive trend as we get into the back half of the year and exit the year. But obviously, we didn't expect some of the impacts that we've seen in February.

So that creates a little bit more headwinds in Q1 than I think we and others in the industry anticipated. But I don't think that that's an indicator of the fundamentals of the business. But we want to acknowledge, Jim, what the trends are in the industry, what the consumer is feeling. And I think you see some of that as well built into what we believe a conservative guide is for the year.

Jim Salera

Okay, great. And maybe shifting gears a little bit, thinking about the new location in Atlanta, any thoughts on what quarter we should see that open up? And I know, obviously, it's not in place now. But just any thoughts on, should we expect that opening to be kind of similar to the Colony in Dallas? Or is there maybe another good comp we should think about as you enter a new market? And that's kind of what I assume is the flagship store.

Michael Osanloo

I think I referenced earlier that it's in the back half of the year. Unfortunately, with our pipeline right now for '25, most of our restaurant openings are in the back half of the year. So I can't even hazard a guess what Kennesaw is going to do, to be totally honest with you. We do seem to have a lot of pent up demand when it's a first in market restaurant. So we're obviously excited by it. And we hope that it does well. But the volumes are just very, very difficult to predict.

Jim Salera

Okay, great. I'll hop back into the Q&A. Thanks, guys.

Operator

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

Chris O'Cull

Yes, good morning, guys. I apologize if I missed this. But Michael, when do you expect to start using the new loyalty program to kind of drive frequency in the Chicago area? And then have you tested any programs or offers to determine what could be most effective? And I'm just curious what those may be.

Michael Osanloo

It's in -- I don't think you missed it, because I haven't actually said it. But it's in soft launch right now. We're rolling it out to test with our team members and sort of friends of friends. But we expect to be in full launch mode at the beginning of March. And so my expectation is you will start seeing a positive impact in Q2 as we roll it out and then start using it to drive traffic, frequency, et cetera. So we have a whole host of things that we're planning on doing, Chris. But it would be a little premature for me to share all that. Okay.

Chris O'Cull

Thanks, guys.

Michael Osanloo

You bet.

Operator

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

Gregory Francfort

Hey. Thank you very much. I had two questions. My first is, Michael, can you just maybe update us on what the new store maturity curve is looking like in Texas and how those stores are comping as they enter the store base and maybe year two, three performances there?

Michael Osanloo

Yes. I would say it's the newest restaurants in Texas are performing much more alike in a more mature market. I think that our strategy of quickly achieving density in Dallas-Fort Worth has been very effective. We now have seven restaurants. We feel like we have good scale. And we feel like we can actively market and sort of shout our brand to the world.

So you saw that the first couple had these extraordinary curves where enormous volume and then it came down. But the more recent ones are much more consistent with what we expect in a mature market where it starts off at a relatively modest pace, but then picks up from there. So there's less of a curve, more of a ramp on the more recent ones.

Michelle Hook

Just as a reminder on what's entering the count base this year that's in Texas. So the colony are first in market, enters the count base in Q1. Then the next one doesn't enter the count base until Q3, which is in Allen. And then we only have one more that enters the count base in Q4, which is Arlington. So just as a reminder of what's entering the count base this year, that's what the cadence is for the Texas restaurants, those three.

Gregory Francfort

Thank you. That's helpful. And then just the other question I had was, as you go into Colorado and Georgia, you're starting to sign leases. Are those going to be the 6,000 square foot boxes or is that going to be bigger boxes? And I guess any changes to kind of the pacing or strategy versus maybe Dallas as a good example?

Michael Osanloo

On the size of the box. So everything we're building this year is already that smaller box, what we're calling Restaurant of the Future. And you know as well as we do that the process to get a new restaurant in place is anywhere from 18 months to it can be as much as 30 months.

And so we're actively in permitting for the class of '26. That's what we're doing now. And so that's why we say go on Restaurant of the Future 2.0 today. It's still going to be mid- '26 before you see that restaurant, just as a function of permitting and construction cycle. So everything in '25 is Restaurant of the Future, which is that 6,250 square foot format with the lower build costs, et cetera. Everything in '26 will be Restaurant of the Future either 1.0 or 2.0. And so you'll get a blend of lower cost, lower size restaurants there. You know one important thing to note too, we're not building these restaurants to do smaller volumes. We're building these restaurants to do the volumes that we're comfortable that a Portillo's can and should do, but we're very conscious of what the cash on cash return is on these restaurants.

Gregory Francfort

And maybe to increase potentially the white space longer term. And Michael, just a follow-up on that strategy. Any changes from maybe how you entered Dallas-Fort Worth in terms of pacing or marketing or anything like that?

Michael Osanloo

What I -- I love getting to some efficient scale because then it allows us to very efficiently market and start increasing awareness. It took us the better part of 10 years to get to an awareness level in Arizona that is sort of reasonable. Our goal is to achieve that in Texas in two years.

So we're just dramatically increasing the speed with which people get to know us so that we can stabilize the business and become a steady, durable transaction and comp driver out of these markets. So I like getting to scale quickly, Greg. I think it's very important for us. You've got to follow it on with aggressive marketing to build awareness, but one without the other doesn't really work well.

Gregory Francfort

Thanks for the perspective. Thanks, Michael.

Michael Osanloo

You bet.

Operator

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

We have a question. Do you want to take it?

Michael Osanloo

Who is it?

Operator

It's Ray Pikion from Morgan Stanley.

Michael Osanloo

Sure, yes.

Operator

Please go ahead.

Ray Pikion

Hi, how are you? My question is more focused on the drive-through. What are some of the fundamental changes that you're making to the drive-through as it stands today? Just some side comments before I answer that. Like in the Chicago area, in the suburbs, you know, in the colder weather, the way the drive-through window is situated, it's real close to the food. And I noticed that when I go through the drive-through, the kids are talking to each other with the window open and the food gets very cold when it's delivered. Not the end of the world, but not the greatest way to do things.

Secondly, I mean, pre-COVID, I noticed that the lines were long because there was a lot of business coming through. And during COVID, a lot of business coming through. And I used to drive through thinking to myself, man, look how long those lines are. But when I'd get in the line, the line would go really fast, kind of like Chick-fil-A goes through now. And, you know, the drive-through has improved, but it's still not as fast as the pre-COVID time period.

And I feel that's an intangible that's being missed. That if it was, you know, just a little bit more efficient, I'd be looking at the long line saying, oh man, there's an intangible. You go through that line and you're like, holy cow, look how long it is. And you're saying that's a lot of business and you're excited. And then when you get in the line, it goes fast. You're excited to be a part of it. But when the line goes slow, you're no longer excited to be a part of it.

That is such an intangible nuance, but it's hugely important. And I think you guys are missing a lot of return business, residual business that could add up to a lot of money. And it's a real basic, I guess, question. What are the fundamental things that you're doing old school that are going to improve that drive-through as it stands today?

Michael Osanloo

So, Ray, nice to meet you. This might be better in an offline conversation, but let me just respond quickly to some of the things that you said. I think we've acknowledged on the last three or four calls that we have gotten slower and it's the emphasis on why we're reclaiming that 45 seconds. We're about 45 seconds slower than pre-COVID. So 100% agree with you. We acknowledge that. It's why we have a number of different initiatives in the drive-through to get that 45 seconds back. We were actually a minute, we gained 15 seconds. We have active initiatives to get that other 45 seconds back.

I'm hoping that you had a one-off idiosyncratic experience when you're talking about the windows being open and kids chit-chatting and stuff. So maybe offline, if you can let us know what restaurant you were at. That is certainly not normal at a Portillo's and is not acceptable at a Portillo's.

So we can certainly coach up any teams that are doing that because those windows are automatic, they open and shut with motion sensor, and it is meant to only open when you're passing food in and out. In our newer restaurants, you may or may not have seen that we're actually using a side door with an air curtain that keeps all the heat inside, and that's how we're facilitating food to the guests. So sounds like you have some local experience with Portillo's. Happy to hear more about it and figure out what went wrong with your experience.

Ray Pikion

Generally, no, I'm very happy with Portillo's. The food is fantastic. I know that the drive-thru is so key to everything.

Michael Osanloo

Yes, we agree. We love our drive-thrus.

Ray Pikion

And I have noticed an improvement. It's funny you said 15 seconds because I would say it's about 25% better than it was, but not quite where it needs to be.

Michael Osanloo

I agree with you 100%. Not only does it need to be where it was, but our goal is to get better than we ever were.

Ray Pikion

I appreciate your comments. Well, thank you for the information.

Michael Osanloo

You bet.

Operator

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

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

View all [earnings call transcripts](#)

Comments

Newest

