

Portillo's Inc.

4Q23 Quick Take: SSSG and EBITDA beat as traffic turns positive

Reiterate Rating: BUY | PO: 25.00 USD | Price: 13.75 USD

Positive traffic, margin expansion

PTLO's 4Q results (EBITDA of \$26.1mm vs \$23.5mm BofAE/\$23.1mm VA) should help assuage concerns about growth runway and brand portability. The SSSG beat (4.4% vs 2.8% BofAE/3.7\$ VA) was encouraging, especially because it comprised positive traffic growth - in contrast to the broader industry's trend. Even more impressive in our view was PTLO's ability to do so without sacrificing margin as the restaurant level margin beat handily (24.3% vs 21.9% BofAE/22.7% VA) on operating leverage across labor, occupancy, and other restaurant expenses. We view the slightly higher food costs (34.8% of revenues vs 34.3% BofAE/34.0% VA) as a signal that PTLO continues to offer its customers value and recent price increases have not been excessive.

Report a positive catalyst; guide in focus

F24E new store count came in slightly below cons (9 vs consensus of ~10) though we believe the difference reflects the persistent challenges in construction timelines - and possible conservatism - rather than a lack of addressable trade areas. Given the lower unit count, the higher capex (\$91.5mm midpoint vs \$82mm VA) will raise some question about cost inflation. Higher G&A may reflect an expectation of higher incentive comp, which would pay for itself if PTLO meets its targets. Despite these questions, however, we think the quarter itself was strong enough that the market will respond favorably.

We reiterate our Buy rating and \$25 PO.

Exhibit 1: PTLO's new store guide is slightly lower than consensus although capex and G&A are higher

PTLO F24 Guidance vs Consensus

	Guidance range		Avg	Cons	Vs Cons
New Restaurant Openings	9		9	10	-5%
Commodity Inflation	4%	6%	5%	N/A	
G&A (\$mm)	85	87	86	77	12%
Pre-opening expenses (\$mm)	8	9	8.5	8	7%
CapEx (\$mm)	90	93	92	82	12%

Source: Company reports, Visible Alpha Consensus

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Stock Data

Price	13.75 USD
Price Objective	25.00 USD
Date Established	3-Nov-2023
Investment Opinion	C-1-9
52-Week Range	12.85 USD - 23.99 USD
Mrkt Val (mn) / Shares Out (mn)	778 USD / 56.5
Free Float	87.7%
Average Daily Value (mn)	9.63 USD
BofA Ticker / Exchange	PTLO / NAS
Bloomberg / Reuters	PTLO US / PTLO.OQ
ROE (2023E)	8.5%
Net Dbt to Eqty (Dec-2022A)	63.3%
ESGMeter™	NLA

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Glossary:

RLM – restaurant level margin
PTLO – Portillo's
SSSG – same-store sales growth, comparable sales, comps
QTD/YTD – quarter/year to date
MSD – mid single ditis
VA – Visible Alpha
COGS – cost of goods sold
G&A – general & administrative

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Timestamp: 27 February 2024 09:08AM EST

Exhibit 3: PTLO reported 4Q SSSG and adj. EBITDA margin above expectations

PTLO reported 4Q23 results vs BofAE vs Visible Alpha consensus

\$ in millions	Reported 4Q22	Reported 4Q23	y/y change	BofAE 4Q23E	Consensus 4Q23	Variance (vs BofAE) 4Q23	Variance (vs Consensus) 4Q23
SRS Growth	6.0%	4.4%	-2 ppts	2.8%	3.7%	1.6 ppts	0.7 ppts
Total Restaurants - EOP	72	84	17%	84	84	0%	0%
Revenues	\$150.9	\$187.9	25%	\$183.6	\$185.6	2%	1%
Cost of goods sold, excluding D&A	\$52.8	\$65.5	24%	\$63.0	\$63.2	4%	4%
Labor	\$40.0	\$47.7	19%	\$48.8	\$48.8	-2%	-2%
Occupancy	\$7.9	\$8.5	7%	\$9.6	\$9.5	-12%	-11%
Other operating expenses	\$18.1	\$20.5	14%	\$22.0	\$22.0	-7%	-7%
Total operating expenses	\$118.8	\$142.1	20%	\$143.4	\$143.5	-1%	-1%
Cost of goods sold, excluding D&A	35.0%	34.8%	-16 bps	34.3%	34.0%	54 bps	82 bps
Labor	26.5%	25.4%	-116 bps	26.6%	26.3%	-121 bps	-92 bps
Occupancy	5.2%	4.5%	-72 bps	5.2%	5.1%	-73 bps	-63 bps
Other operating expenses	12.0%	10.9%	-106 bps	12.0%	11.9%	-108 bps	-93 bps
Restaurant-level EBITDA	\$32.0	\$45.7	43%	\$40.1	\$42.1	14%	9%
Restaurant-level EBITDA margin (%)	21.2%	24.3%	310 bps	21.9%	22.7%	248 bps	166 bps
Pre-opening expenses	\$2.9	\$4.0	35%	\$2.9	\$2.8	35%	41%
General & administrative expenses	\$17.7	\$21.6	22%	\$19.8	\$19.5	9%	10%
Depreciation & amortization	\$5.1	\$6.5	28%	\$6.8	\$6.6	-4%	-1%
Income before interest expense and income taxes	\$6.4	\$14.5	125%	\$10.7	\$11.4	35%	27%
Interest expense	\$8.4	\$6.9	-17%	\$6.5	\$6.4	7%	9%
Income tax (benefit)	(\$1.7)	(\$0.4)	-79%	\$0.6	\$1.2	-156%	-130%
Reported EBITDA	\$11.5	\$22.7	96%	\$17.5	\$18.0	29%	26%
Adjusted EBITDA (includes pre-opening)	\$18.1	\$26.1	44%	\$23.5	\$23.1	11%	13%
Adjusted EBITDA margin (%)	12.0%	13.9%	192 bps	12.8%	12.4%	110 bps	150 bps
Reported net income	\$2.7	\$9.6	264%	\$3.6	\$3.9	168%	145%
Reported diluted EPS	\$0.1	\$0.06	11%	\$0.06	\$0.04	0%	55%
Shares outstanding	48	59	21%	59	62.8	-1%	-7%
GAAP EPS	\$0.08	\$0.13	63%	\$0.06	\$0.04	114%	231%
Adjusted net income (est)	\$9.2	13.0	42%	\$9.6	\$5.3	36%	144%
Adjusted diluted EPS (est)	\$0.15	\$0.22	49%	\$0.15	\$0.06	51%	299%
Tax rate	88.0%	-3.8%	-9,185 bps	15.0%	23.2%	-1,884 bps	-2,708 bps

Source: BofA Global Research estimates, Company reports, Visible Alpha

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Price objective basis & risk**Portillo's Inc. (PTLO)**

We set our \$25 PO based on steady state earnings power. We assume PTLO grows its store base at 13% to reach 725 stores in the long term, and that average volumes grow with inflation. At \$7.7 bb in sales, assuming stable RLMs and 8% G&A, PTLO would generate \$1.4 bb in EBITDA. Applying an 11x multiple and discounting back equates to a \$25 fair value in one year.

Risks to our PO: potential industry headwinds from wage inflation (MSD-HSD run rate for the industry) and food cost volatility, inability to fully offset downward pressure on

volumes and margins from new store openings, and execution risks as the company looks to sustain a 10% unit growth rate.

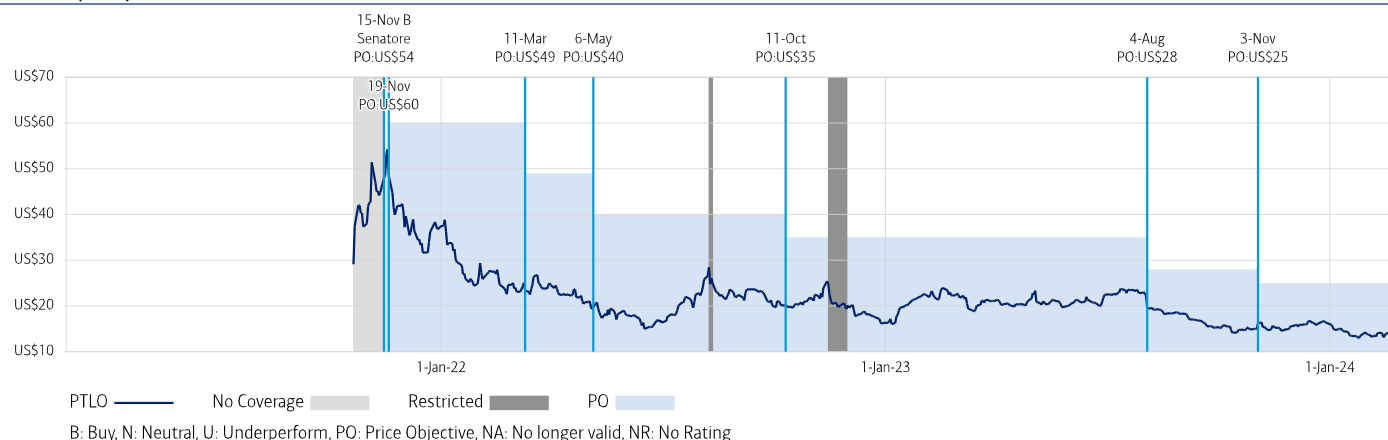
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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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