

Portillo's Inc.

4Q Earnings: Strong quarter, guidance likely to again prove conservative

Reiterate Rating: BUY | PO: 25.00 USD | Price: 15.90 USD

Positive traffic as ads bring back Chicagoland guests

Because PTLO's restaurants enter the comp base only after 24 months, Same Store Sales results continue to be dominated by the Chicagoland market, a more densely stored market with slower economic/population growth. PTLO only opened 13 restaurants between 2019 and 2022, less than 20% of the comp base. The incremental ad spend in Chicagoland in 4Q meaningfully contributed to q/q traffic improvement (+1.3% in 4Q from -3.5% in 3Q), but did so in a way that was not margin dilutive; instead of offering discounting/promos, the ads served as a reminder of the core PTLO value proposition.

History of conservative margin guidance

PTLO's outlook for 4-6% commodity inflation and MSD labor inflation is consistent with that of industry peers, suggesting that PTLO will have permission to take modest amounts of incremental price to cover inflation. While the company pointed to a continued margin drag from new restaurants (first year restaurants generate high teens restaurant level margins vs mid-20s for the PTLO system) as the reason that flat RLMs y/y would be "a win," the company's practice has been to provide beatable margin guidance (4Q23 RLM exceeded consensus by 170 bps, far in excess of what the 0.7ppt SSSG beat would have suggested).

F24 EBITDA ticks up on improved RLMs

We lower our 1Q24E SSSG to 2.4% from 3.5% to reflect the significant weather headwind (partly offset by incrementally higher pricing in 1Q from the Jan price action). As a result, our 1Q EBITDA declines slightly from \$22.5mm to \$21.7mm. Our F24E topline is largely unchanged as we expect positive traffic in 2H to offset price rolling off and slightly slower store opens (from 10 to 9 for F24). Our RLM increases from 23.0% to 23.6% as the F23 beats flow through to F24. F24E EBITDA increases from \$107.0mm to \$109.1mm.

LT growth intact; maintain \$25 PO

We continue to see a long growth runway for PTLO – validated against our saturation analysis – and model unit count growth of ~13% annually. At steady state sales of \$7.7bb, assuming stable RLMs and ~8% G&A, we estimate PTLO could generate \$1.4bb in EBITDA. Applying an 11x multiple & a 13% cost of capital we arrive at our PO of \$25.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.79	0.79	0.79	0.89	1.06
GAAP EPS	0.23	0.31	0.48	0.60	0.78
EPS Change (YoY)	NA	0%	0%	12.7%	19.1%
Consensus EPS (Bloomberg)			0.37	0.48	0.60
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	20.1x	20.1x	20.1x	17.9x	15.0x
EV / EBITDA*	17.4x	14.5x	13.6x	12.0x	10.6x
Free Cash Flow Yield*	1.1%	-1.9%	0.7%	-1.7%	-1.2%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 28 February 2024 05:00AM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	761.7	759.4
2025E Rev (m)	841.5	836.4
2026E Rev (m)	928.6	936.7
2024E EPS	0.75	0.79
2025E EPS	0.85	0.89
2026E EPS	0.98	1.06

Sara Senatore

Research Analyst
BofAS
+1 646 743 2110
sara.senatore@bofa.com

Jessica Owusu Afari

Research Analyst
BofAS
+1 646 617 9040
jessica.owusu-afari@bofa.com

Katherine Griffin

Research Analyst
BofAS
+1 646 855 2849
katherine.griffin@bofa.com

Stock Data

Price	15.90 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)	897 USD / 56.4
Free Float	87.8%
Average Daily Value (mn)	11.53 USD
BofA Ticker / Exchange	PTLO / NAS
Bloomberg / Reuters	PTLO US / PTLO.QQ
ROE (2024E)	9.6%
Net Dbt to Eqty (Dec-2023A)	64.3%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Glossary

PTLO – Portillo's

MSD – mid-single digits

SSSG – same-store sales growth, also known as comparable sales or "comps"

G&A – general & administrative expense

RLMs – restaurant-level margins

iQprofileSM Portillo's Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.3%	3.9%	4.2%	5.2%	6.0%
Return on Equity	7.9%	10.0%	9.6%	10.0%	11.0%
Operating Margin	7.0%	8.2%	7.9%	8.8%	9.5%
Free Cash Flow	10	(17)	6	(15)	(11)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.6x	2.1x	1.4x	1.4x
Asset Replacement Ratio	2.3x	3.6x	3.4x	3.4x	3.8x
Tax Rate	13.4%	11.6%	16.0%	18.0%	18.0%
Net Debt-to-Equity Ratio	63.3%	64.3%	53.5%	49.3%	44.4%
Interest Cover	1.5x	2.0x	2.3x	2.6x	3.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	587	680	759	836	937
% Change	9.7%	15.8%	11.7%	10.1%	12.0%
Gross Profit	383	449	500	559	629
% Change	4.0%	17.3%	11.4%	11.9%	12.5%
EBITDA	85	102	109	123	139
% Change	-13.7%	20.4%	6.6%	13.0%	12.8%
Net Interest & Other Income	(28)	(27)	(26)	(28)	(28)
Net Income (Adjusted)	34	44	47	55	68
% Change	NA	32.2%	5.8%	17.5%	22.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	12	25	29	37	50
Depreciation & Amortization	21	24	27	27	28
Change in Working Capital	(3)	(5)	18	(11)	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	27	27	24	25	25
Capital Expenditure	(47)	(88)	(92)	(93)	(107)
Free Cash Flow	10	-17	6	-15	-11
% Change	46.9%	NM	NM	NM	25.7%
Share / Issue Repurchase	0	179	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(3)	(13)	15	15	15

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	44	10	26	20	18
Trade Receivables	9	14	6	8	9
Other Current Assets	12	17	10	11	12
Property, Plant & Equipment	227	296	361	427	506
Other Non-Current Assets	988	1,048	830	833	836
Total Assets	1,280	1,386	1,233	1,298	1,381
Short-Term Debt	4	23	23	23	23
Other Current Liabilities	73	82	100	109	122
Long-Term Debt	314	284	284	284	284
Other Non-Current Liabilities	455	537	302	303	304
Total Liabilities	847	925	709	718	732
Total Equity	433	460	524	580	649
Total Equity & Liabilities	1,280	1,386	1,233	1,298	1,381

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Restaurants

Company Description

Portillo's is a fast casual dining concept that specializes in Chicago street food: Italian beef sandwiches and hot dogs with multiple toppings. It also offers signature items (chocolate cake milkshake, chopped salad) and more traditional limited service menu items like burgers and fries. In operation for 50+ years, Portillo's has 67 restaurants across 9 states. The company sees a long growth runway, from the 67 units concentrated in the Chicago area to upwards of 600.

Investment Rationale

Our Buy rating is based on sustained upside to average volume from new units, store growth potential, segment and geographic tailwinds, and high returns enabled by operational and capital efficiency.

Stock Data

Average Daily Volume

725,187

Exhibit 1: We forecast EBITDA of \$109.1mm in F24 and \$123.2mm in F25

PTLO Income Statement, F23-F25E

\$millions	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E
Revenues	\$679.9	\$178.2	\$194.4	\$191.5	\$195.3	\$759.4	\$197.0	\$215.7	\$209.6	\$214.1	\$836.4
<i>y/y growth</i>	16%					12%					10%
Cost of goods sold, excluding depreciation and amortization	\$230.9	\$60.6	\$65.3	\$64.7	\$68.7	\$259.4	\$65.0	\$70.2	\$68.7	\$73.1	\$277.1
Labor	\$173.9	\$47.9	\$50.6	\$50.4	\$51.5	\$200.3	\$53.0	\$56.2	\$56.3	\$57.6	\$223.1
Occupancy	\$33.4	\$9.5	\$9.2	\$9.2	\$8.9	\$36.8	\$10.5	\$10.2	\$10.3	\$9.9	\$40.9
Other operating expenses	\$76.6	\$20.9	\$20.9	\$20.8	\$21.5	\$84.2	\$23.2	\$23.2	\$22.8	\$23.6	\$92.7
Total operating expenses	\$514.7	\$138.9	\$146.0	\$145.1	\$150.6	\$580.6	\$151.6	\$159.9	\$158.1	\$164.3	\$633.9
Restaurant-level EBITDA	\$165.2	\$39.3	\$48.4	\$46.4	\$44.7	\$178.9	\$45.4	\$55.8	\$51.5	\$49.8	\$202.6
Pre-opening expenses	\$9.0	\$2.3	\$0.3	\$2.4	\$4.0	\$9.0	\$2.7	\$0.3	\$2.8	\$4.6	\$10.4
Restaurant-level EBITDA (with Pre-opening expenses)	\$156.2	\$37.0	\$48.1	\$44.0	\$40.7	\$169.8	\$42.7	\$55.5	\$48.7	\$45.2	\$192
General & administrative expenses	\$78.8	\$20.7	\$21.6	\$20.8	\$22.0	\$85.0	\$22.7	\$23.7	\$22.9	\$24.2	\$94
Total general and administrative expenses	\$78.8	\$20.7	\$21.6	\$20.8	\$22.0	\$85.0	\$22.7	\$23.7	\$22.9	\$24.2	\$93.5
Depreciation and amortization	\$24.3	\$6.4	\$7.0	\$6.8	\$7.0	\$27	\$6.5	\$7.1	\$6.9	\$7.0	\$27
Net income attributable to equity method investment	(\$1.4)	(\$0.2)	(\$0.4)	(\$0.4)	(\$0.4)	(\$1)	(\$0.2)	(\$0.4)	(\$0.4)	(\$0.4)	(\$1)
Other income, net	(\$1.0)	(\$0.3)	(\$0.1)	(\$0.3)	(\$0.4)	(\$1)	(\$0.3)	(\$0.1)	(\$0.3)	(\$0.4)	(\$1)
Income before interest expense and income taxes	\$55.4	\$10.4	\$20.1	\$17.1	\$12.6	\$60.2	\$14.0	\$25.2	\$19.8	\$14.9	\$73.9
EBITDA	\$79.8	\$16.8	\$27.0	\$24.0	\$19.5	\$87.3	\$20.5	\$32.3	\$26.6	\$21.9	\$101.3
Adjusted EBITDA (includes pre-opening)	\$102.3	\$21.7	\$33.0	\$30.0	\$24.4	\$109.1	\$25.5	\$38.3	\$32.7	\$26.8	\$123.2
<i>y/y growth</i>	20%	11%	13%	10%	-7%	7%					13%
Interest expense	\$27.4	\$6.5	\$6.5	\$6.5	\$6.5	\$25.9	\$7.1	\$7.1	\$7.1	\$7.1	\$28.4
Loss on extinguishment of debt											
Other income/expense											
EBT	\$28.1	\$3.9	\$13.6	\$10.6	\$6.1	\$34.3	\$6.9	\$18.1	\$12.6	\$7.8	\$45.4
Income taxes	\$3.2	\$0.63	\$2.18	\$1.70	\$0.97	\$5.5	\$1.25	\$3.26	\$2.28	\$1.40	\$8
Net income	\$24.8	\$3.3	\$11.4	\$8.9	\$5.1	\$28.8	\$5.7	\$14.8	\$10.4	\$6.4	\$37.2
Less: Redeemable preferred units accretion											
Net loss attributable to common shareholders											
Net loss attributable to non-controlling interests											
Net Income attributable to Portillo's Inc											
Shares Outstanding basic	53.8	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4
Shares Outstanding fully diluted	56.4	59.1	59.6	60.1	60.6	59.9	61.1	61.6	62.1	62.6	61.9
Class B shares		17.9	17.9	17.5	17.5						
Post IPO											
GAAP EPS	\$0.31	\$0.06	\$0.19	\$0.15	\$0.08	\$0.48	\$0.09	\$0.24	\$0.17	\$0.10	\$0.60
Adjusted EPS	\$0.79	\$0.13	\$0.28	\$0.23	\$0.15	\$0.79	\$0.16	\$0.32	\$0.25	\$0.17	\$0.89

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



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.

Analyst Certification

I, Sara Senatore, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa Johns International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK.US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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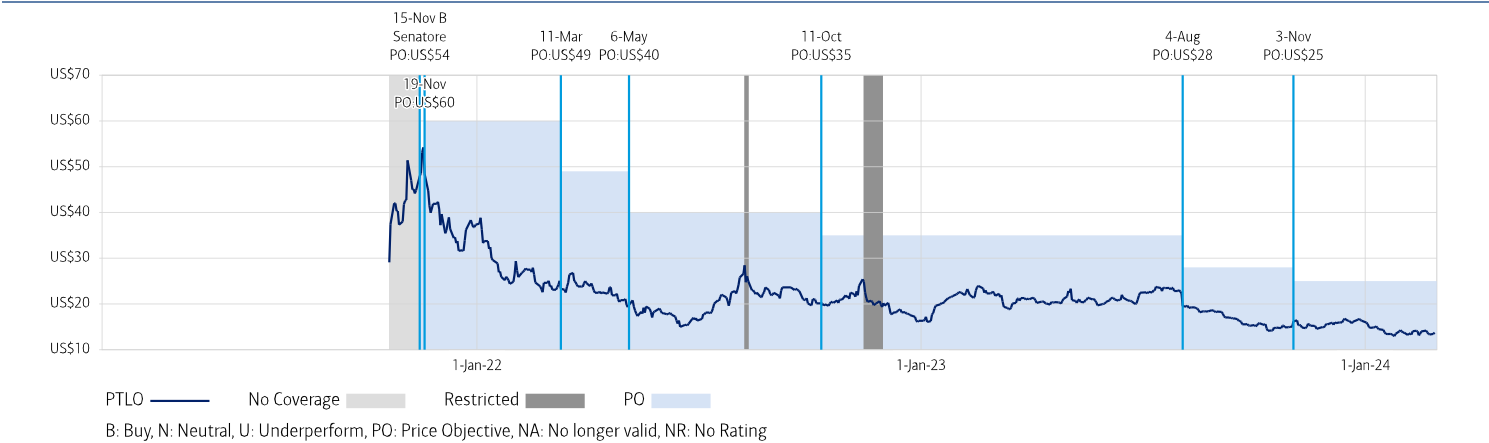
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Disclosures

Important Disclosures

Portillo's Inc. (PTLO) Price Chart



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

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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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