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Darden Restaurants, Inc. NYSE:DRI

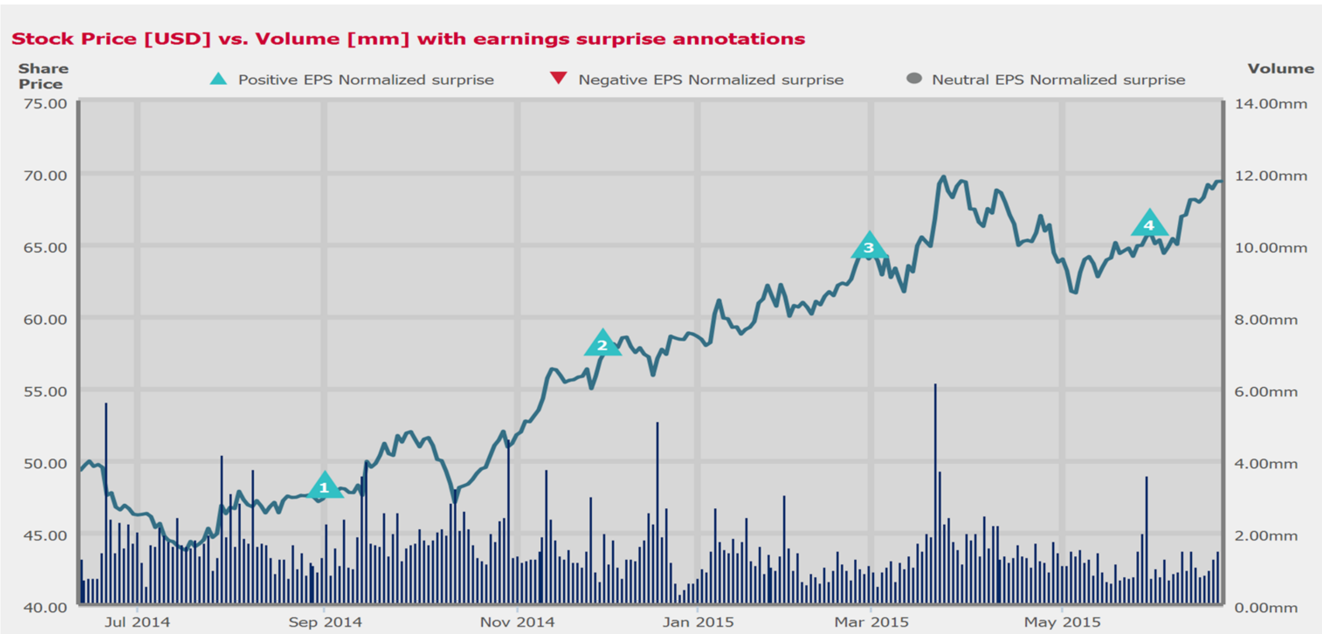
FQ1 2016 Earnings Call Transcripts

Tuesday, September 22, 2015 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.68	▲17.24	0.39	3.17	3.60
Revenue (mm)	1673.83	1687.00	▲0.79	1623.88	6923.40	7207.00

Currency: USD
Consensus as of Sep-22-2015 12:56 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.31	0.32	▲3.23 %
FQ2 2015	0.27	0.28	▲3.70 %
FQ3 2015	0.84	0.99	▲17.86 %
FQ4 2015	0.93	1.08	▲16.13 %

Call Participants

EXECUTIVES

Bill White

Eugene I. Lee
Chief Executive Officer, President and Director

Jeffery A. Davis
Chief Financial Officer and Senior Vice President

Kevin Kalicak

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Will Slabaugh
Stephens Inc., Research Division

Presentation

Operator

Welcome, and thank you for standing by. [Operator Instructions] Today's conference is being recorded. If there are any objections, you may disconnect at this time.

I would now like to introduce your host for today's conference, Kevin Kalicak. Thank you. You may begin.

Kevin Kalicak

Thank you, Dory. And good morning and welcome, everyone. With me today is Gene Lee, Darden's CEO; Jeff Davis, CFO; and Bill White, Treasurer.

As a reminder, comments made during this call will include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to the risks and uncertainties that could cause actual results to differ materially from our expectations and projections. Those risks are described in the company's press release, which was distributed earlier today, and in its filings with the Securities and Exchange Commission.

Today's discussion and presentation may also include certain non-GAAP measurements. A reconciliation of these measurements is in our earnings press release.

In addition, we are simultaneously broadcasting a presentation during this call. This presentation will be posted under the Investors tab on our website at the conclusion of the call.

We plan to release fiscal 2016 second quarter earnings on Friday, December 18, before the market opens, followed by a conference call.

This morning, following prepared remarks from Gene and Jeff, we will take your questions.

Now I will turn the call over to Gene.

Eugene I. Lee
Chief Executive Officer, President and Director

Thank you, Kevin. Good morning, everyone. We're pleased with the progress we made during the first quarter as we significantly outperformed the industry in terms of same-restaurant sales and traffic. Total sales grew 5.7% for the quarter, which was driven by strong same-restaurant sales growth of 3.4% and positive same-restaurant sales at each of our brands, plus the addition of 30 net new restaurants.

Earnings per share on an adjusted basis increased approximately 113% to $0.68, and first quarter adjusted EBIT margins once again showed strong improvement.

Olive Garden continues to build on the positive business momentum generated in fiscal 2015 with its fourth consecutive quarter of same-restaurant sales growth. During the quarter, guest counts turned positive and outperformed the industry by more than 200 basis points. As we've discussed previously, a key element of Olive Garden's culinary strategy is to create menu items that leverage core brand equities. During the quarter, we saw 2 examples of this strategy. First, the Create Your Own Tour of Italy promotion, inspired by one of our most popular core menu items, allowed guests to create their own entrée by choosing from many of their favorite dishes. Additionally, this full price and customized offer, which started in July, outperformed the deep discounted promotion during the same period last year.

Second, we introduced the create-your-own-lunch combination menu platform, which features the choice of unlimited soup or salad, plus the choice of either a mini pasta bowl, a flat bread or one of our highly anticipated and extremely well-received breadstick sandwiches. This platform strengthened Olive Garden's competitive advantage by adding more variety and giving guests the ability to customize their order for great value. The new lunch menu was supported by a successful integrated marketing campaign, which we called Breadstick Nation. That featured Olive Garden food trucks that traveled across the country, making 80 stops and 20 different markets to share more than 50,000 samples of breadstick sandwiches. The campaign clearly resonated with our guests as it generated more than 820 million impressions across traditional and social media. This new platform, coupled with the Breadstick Nation campaign, led to a 3-point improvement in weekday lunch traffic during the quarter. It was the most successful new lunch platform since the introduction of the original soup, salad and breadsticks, and guest preference to the create-your-own-lunch combination was higher than the lunch option of soup, salad and breadsticks during the quarter.

Additionally, OG To-Go continues to be a focus as we strive to meet our guest's growing need for convenience. This quarter, OG To-Go grew 18%, and we've seen a 2-year growth rate of over 30%, and we continue to be excited about the opportunity that growth in take-out represents for our business.

We also continue the rollout of our tabletop tablets. The tablets are now in more than half of our restaurants, with 80% of the tables choosing to interact with the devices in those restaurants. We continue to see the same benefits as we saw during the test: higher add-on sales, faster dining times and overall higher guest satisfaction scores. We're pleased with the progress of the rollout, and we expect to complete it by the end of the second quarter.

And on a final note on Olive Garden. We've now refreshed 19 restaurants, and we remain pleased with their continued performance. As we've shared previously, we're taking the time to develop individualized plans for each restaurant based on a number of factors to ensure optimal investment levels going forward. We plan to refresh approximately 25 additional locations this fiscal year.

Now let's look at LongHorn Steakhouse. LongHorn continues to be well positioned in the market and delivered strong top line growth driven by positive same-restaurant sales of 4.4%, marking the 10th consecutive quarter that we've outperformed the industry. Two key factors have contributed to that performance include focusing on culinary innovation that leverages our steak expertise and continuing to evolve our marketing strategy with an increased emphasis on one-to-one engagement.

During the quarter, we welcomed Todd Burrowes back to LongHorn as President. Todd's strong operations focus, passion and deep understanding of the brand will further strengthen LongHorn's performance. Operational execution has always been a hallmark of LongHorn's success. I believe we have the opportunity to take our in-restaurant execution to an even higher level under Todd's leadership.

Looking at our Specialty Restaurants. All 5 brands, Yard House, The Capital Grille, Seasons 52, Bahama Breeze and Eddie V's, had positive same-restaurant sales during the quarter, and we are pleased with their continued progress. Each brand is well positioned in its competitive set and has the opportunity to increase their market share through same-restaurant sales growth and the addition of new restaurants.

Now I want to provide an update on our comprehensive real estate plan that we announced in June. Since that time, we have made refinements to our plan. We now intend to separate 488 restaurant real estate properties through a sale leaseback of 64 restaurant properties and a REIT spin that will include 424 restaurant properties to create an independent company called Four Corners Property Trust, which was discussed in its Form 10 filing last month. Using proceeds from the sale leasebacks, debt financing from Four Corners and Darden's balance sheet cash, we will retire approximately $1 billion of debt and pay approximately $100 million of debt repayment cost, largely representing the acceleration of interest payable through 2017.

The rating agencies have conveyed that they anticipate these transactions will be credit-neutral to positive for Darden. These transactions are bond-covenant compliant, and bondholder consent is not required. The approximate annualized financial impact of these restaurant real estate transactions to Darden will include incremental cash rent of $108 million and GAAP rent expense of $116 million, a reduction and depreciation of $51 million and a reduction in interest expense of $45 million, resulting in a run rate reduction to pretax earnings of $20 million. Of course, in the spin-off, Darden's shareholders will receive equity in Four Corners, the new owner of the real estate. We would expect the equivalent per share dividend amount of Darden and Four Corners to be at least equal to the current Darden dividend.

Since announcing the appointment of Bill Lenehan as CEO last month, the process to build up the management team and board is fully underway. We continue to work towards the goal of completing the Four Corners spin by the end of the calendar year.

And one final note on our real estate plan. We continue to pursue a sale leaseback of our restaurant support center.

With that, I'll turn it over to Jeff for our financial update and outlook for fiscal 2016. But before I do that, let me say how excited we are to have Jeff as our new CFO. In the short time he's been here, he's made a meaningful contribution and has proven to be a valuable addition to our executive leadership team. Jeff?

Jeffery A. Davis
Chief Financial Officer and Senior Vice President

Thank you, Gene, and good morning, everyone. I'm excited to be a part of this outstanding organization. I look forward to the opportunity to work with many of you in the future.

As Gene mentioned, we reported strong same-restaurant sales of 3.4%. And as you saw on the release, there was monthly variability in sales performance. We report same-restaurant sales on a fiscal calendar basis. And due to our 53rd week last year, it's not on a comparable calendar basis. In addition to normal holiday shifts, this may create month-to-month variability in our reported results. However, during the first quarter, the monthly variability was completely offset by quarter end. And as a reminder, the upcoming Thanksgiving holiday will be reported in our fiscal second quarter versus fiscal third quarter last year.

Reviewing our earnings performance this quarter. Adjusted EPS from continuing operations more than doubled as adjusted EBIT margins expanded 330 basis points versus the prior year. This was partially driven by leveraging positive same-restaurant sales.

Other significant drivers on margin expansion were 170 basis point improvement in food and beverage expense and 100 basis point improvement in restaurant expense. More specifically, we had significant year-over-year favorability in dairy cost at Olive Garden. We had 6 fewer weeks of deep discounted promotions at Olive Garden versus last year. We continued progress towards previously disclosed cost-reduction initiatives, a 30 basis point improvement in workers' compensation and public liability expense related to historical claims and more efficient restaurant support, resulting in 30 basis point improvement in G&A versus last year.

Moving below operating income. Interest expense was conservatively lower this year as we lapped the $1 billion extinguishment of debt last year. Our effective tax rate was 130 basis points higher than last year. We expect the tax rate for the full year to be within 21% to 24% range we disclosed in June.

From a balance sheet perspective, we received approximately $130 million in proceeds related to the sale and leaseback of 33 restaurant properties, which are included in the 64 Gene mentioned earlier. These proceeds largely drove the increase in our cash balance for the quarter.

Turning to segment performance. Olive Garden segment profit margin of 20.3% grew by 410 basis points from leveraging their positive same-restaurant sales, dairy cost favorability, fewer weeks of deep discounted promotions versus last year and continued progress on cost-reduction initiatives.

LongHorn segment profit margin remained flat at 14.9%. A significant beef cost inflation offset sales leverage and cost reductions.

Fine Dining expanded profit -- segment profit margins by 100 basis points as leverage from sales growth more than offset beef cost inflation.

And finally, in Other Business, Seasons 52 and Yard House significantly improved their profitability, resulting in the 360 basis point improvement in segment profit margin.

While we continue to expect margin expansion in the second half of the year, we anticipate that it will significantly moderate versus first half performance as we lap margin improvement initiatives that began in the third quarter of last year.

Given the company's strong first quarter performance and our expectations for the remainder of the year, we are increasing our outlook for fiscal '16 full year adjusted earnings per share from continuing operations to range between $3.15 and $3.30 versus $3.05 and $3.20 previously announced in June. Our same-restaurant sales expectation for the full year remains unchanged at 2% to 2.5%. We also remain on track to deliver 18 to 22 new restaurants, with LongHorn and Yard House accounting for the majority of the openings.

These expectations do not include the impact of any fiscal '16 real estate transactions and related capital structure activities. However, as we approach the completion of the various real estate transactions, we'll provide more details on the specific timing and impacts to our financial performance.

And now I'll turn it back over to Gene for some closing remarks.

Eugene I. Lee
Chief Executive Officer, President and Director

Thank you, Jeff. I want to close by reiterating that our intense focus on improving our food, service and our atmosphere continues to drive our positive business momentum, enabling us to capture market share as our guest rewards us by choosing our brands more frequently. We are excited about our progress, but we know we have a lot of work to do. Our restaurant teams and our support center staff at our restaurant support center are focused on the right priorities. And the progress we are making is a direct result of their hard work and commitment to creating memorable guest experiences.
So thank you to our 150,000 team members who bring our business to life every day. And now we'll take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Joseph Buckley with Bank of America.

Joseph T. Buckley
BofA Merrill Lynch, Research Division

A couple of questions. On the monthly data, it looked like the check increase moderated at both Olive Garden and LongHorn. Is it coincidental that, that happened at both brands? Or is there some effort to make that happen?

Eugene I. Lee
Chief Executive Officer, President and Director

Joe, it's Gene. I think it's more coincidental. And I think it has more to do with our fiscal calendar not matching up to what I would call the operating calendar. As we shift weeks, we just got -- we've got some -- there's some noise in the data.

Joseph T. Buckley
BofA Merrill Lynch, Research Division

Okay. And then secondly, what are the kind of key hurdles or milestones to getting the REIT spin-off done? These reports about the IRS being [indiscernible] to preapproved transactions, I don't know if that is significant or not in the scheme of things. Could you talk about the that?

Bill White

Yes, Joe. It's Bill White. What we would tell you is that the latest public statements that the service has made really, they've talked about a no-rule position applying to PLR requests filed on or after September 14. And so that really, in our minds, is -- does not impact our plans. We're working towards spinning the entity by the end of the calendar year.

Joseph T. Buckley
BofA Merrill Lynch, Research Division

Okay. Maybe one last one. Just on the rent expense line, we've realized some nice improvement. Can you talk about the cost buckets in that line with the savings and efficiencies that are being realized?

Eugene I. Lee
Chief Executive Officer, President and Director

Joe, do you mean restaurant expenses?

Joseph T. Buckley
BofA Merrill Lynch, Research Division

Yes, yes. Did I not say that? That's what I meant to say.

Eugene I. Lee
Chief Executive Officer, President and Director

Restaurant expenses, well, first off, we're getting some leverage from our sales growth. As Jeff mentioned in his comments, we had some favorability in historical claims on workers' comp. We're also continuing to manage the nonconsumer-facing costs very aggressively. And we continue to the work of BCG to bid a lot of work. And we're using our scale, as we've talked about in the past, to bring down these costs. One of the big areas, Joe, is contract services.

Operator

Our next question comes from Matt DiFrisco with Guggenheim.

Matthew James DiFrisco
Guggenheim Securities, LLC, Research Division

Can you just talk a little bit more, I guess, on the August comp trend and what -- just sort of give, I guess, investors little comfort that you don't seem too concerned about the volatility within the quarter. You mentioned something about some moving around weeks. I'm just curious if you could sort of tell us what might be driving sort of that perception of slowdown on both traffic and the overall comp at a couple of those brands? And then also, just curious, I guess, just a follow-up to Joe's question, has there been a change in your view then with the IRS? Or no, there has not been a change since you began the REIT process and there's nothing -- you don't think you'll meet resistance is what we should read through?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. Matt, as far as August goes, again, this goes back to our fiscal calendar versus what I would call the operating calendar comparison. The last week of August was a really bad fiscal comparison, which hurt the overall month. And as we look at it, we don't see a deceleration as we look at what we would call comparable comps or true comps is what [indiscernible] refers to. So we believe that the business is -- on an operating basis is not -- didn't fluctuate -- didn't have as much variability as it shows as we report to the fiscal calendar. As far as the question on the REIT, we're really confident that our proposed transaction will satisfy the requirements of applicable law. And we plan on moving forward and having this deal done by the end of the calendar year.

Matthew James DiFrisco
Guggenheim Securities, LLC, Research Division

Okay. I guess just to read through for layman's terms, the later timing of Labor Day, I guess, is that something to say might have caused the imbalance on fiscal versus actual -- of how you look at it on business quarters? And so what might have been lost in August, you're feeling good enough that that's evenly balanced, then what might have been hurting August, just like July and June had shifts, I mean, are we going to see a lift in September?

Eugene I. Lee
Chief Executive Officer, President and Director

I'm not going to comment on the sales in September at this point in time, but it was the combination of the Labor Day pushback. You've heard some retailers talk about that. And also comparing -- the fiscal calendar back, we're actually comparing against the last week of -- our fiscal calendar was comparing against a week that wasn't really in the center of August last year, not towards the end of August. So those combinations really created for tough fiscal comparison the last week of August.

Operator

Our next question comes from Will Slabaugh with Stephens Inc.

Will Slabaugh
Stephens Inc., Research Division

I had a question around the Olive Garden comps. And you mentioned one of the reasons that both the margins and the comps improved is -- so some really good uptick on the promotions and then a little bit less of the deep discounting. So I want to center around the deep discounting comment that you made. Can you put any numbers around what the discounting looks like last year and then what that looks like now and sort of what you want the discounting piece of the business to look like going forward?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, good question. Last year, in July, we ran 3-course, which is a heavily discounted promotion. It was at $12.99. This year, our promotion was build your own tours starting at $12.99 with add-ons. So it had more of an effective price range in the $15 to $16 price point. And so that worked really a lot -- really helped us as far as our overall cost management. It helped our labor cost, helped our food cost, so on and so forth. We are going to -- we look out into the future, we're going to continue to look for ways to modify the promotional calendar. Right now, at the end of August, and right now, we're running Buy One Take One against Buy One Take One. We are going to run Never Ending Pasta Bowl against Never Ending Pasta Bowl. So the times of the year, we think we still have to have a strong value message out there. But as I've mentioned in the past, the 3-course and the 2 for $25 constructs are nowhere near as effective as they were 24, 36 months ago, and we are trying to move away from those constructs from a promotional standpoint.

Will Slabaugh
Stephens Inc., Research Division

That's helpful. And just a quick follow-up, if I could, on the food cost basket. So 50 basis points looks like the improvement year-over-year. Wondering how much of that was directly attributable to better commodities versus simply food waste for more efficiency. And what are your updated thoughts on sort of food cost, and beef in particular, given the spike that you said you saw at LongHorn this quarter?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. For Olive Garden, half our commodity favorability was dairy and shrimp. The other half was primarily menu mix, and we saw some improved waste, which we can tie back to the simplification efforts the management has been working on for the last couple of years. Olive Garden actually in the quarter had its best waste ever in the history of the brand since we've been tracking that. So very pleased with the operational improvements on the cost of sales side. On beef, as I've said in the past, beef year-over-year comparisons have a lot to do with when you contracted last year. We believe that we're going to start to have some positive advantages in LongHorn as the beef market starts to weaken, especially we expect to see some significant improvement in the back half of the year. But as we move into '17, we think that the beef market is going to be a much better market for us.

Operator

Next question comes from Brian Bittner with Oppenheimer & Co.

Michael Tamas
Oppenheimer & Co. Inc., Research Division

This is Mike Tamas on for Brian. So you had a couple of quarters of easy comparisons at Olive Garden. Now we're going to be facing much tougher comparison. So can you maybe walk us through how you're thinking about the comps and specifically traffic at Olive Garden as you roll over tougher comparisons?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, I think the way we're thinking about it right now is what's our -- how are we performing against the industry? And we made great progress in the first quarter as we -- our guest counts exceed the industry by 200 basis points. But I would caution everyone to say that the industry did weaken from fourth quarter to first quarter. The industry was 100 basis points -- lost 100 basis points in momentum. So as we look out, I think there's 2 things that we're considering: What's the strength of the industry, and then what's the strength of the Olive Garden brand. And I believe that we have strong momentum in Olive Garden right now. I think that we're executing at a very high level. I believe that the consumer is more aware of Olive Garden today than it was a year ago. I think we've done some pretty interesting marketing campaigns. And as we look out, we think that although the comparisons were -- are a little bit more difficult, they're a little bit more difficult on the sales side, we still have some weak guest count in the back half of last year. And so I think that we will continue to outperform the industry as we move forward.

Michael Tamas
Oppenheimer & Co. Inc., Research Division

Great. And just one quick follow-up. You talked about paying down debt, obviously, and the dividend paid to combined companies. But any thoughts on maybe doing a share buyback? I mean, by our math, it seems like you have plenty of capacity left over. Are you going to do a dividend raise at pro forma Darden or doing some buybacks? Or any thoughts there, please?

Eugene I. Lee
Chief Executive Officer, President and Director

We will look at the capital structure after we complete the deal -- we complete the spin-off.

Operator

Our next question comes from Brett Levy with Deutsche Bank.

Brett Saul Levy
Deutsche Bank AG, Research Division

If we could just spend a little bit of time talking about the labor situation. Obviously, strong improvements across all the other line items. But can you give a little bit of your thoughts on wage retention, turnover and what kind of productivity you are making at the unit level?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. We continue to make strong productivity improvements at the direct labor line. I think our overall direct labor performance was really strong in the first quarter. I think the increases we saw were indirect labor as last year, we weren't accruing a lot of bonus payouts because the performance was weak. We had good performance in the first quarter. So the majority of the labor -- it was an increase, I believe -- labor was actually slightly less than last year but was mostly in the indirect line as we accrued bonuses for management. Wage pressure continues to be a problem. We'll continue to monitor it as we monitor the different states and the different cities and what they're doing with minimum wage. The job market does improve -- is improving. We are seeing in certain markets today it's becoming a little bit more difficult to hire help, so that will eventually put some pressure on our average wage. But right now, I believe that we're managing this very, very effectively.

Brett Saul Levy
Deutsche Bank AG, Research Division

Would you be able to give us any sense as to what your wage rate inflation is? Are you seeing any increases in turnover? Is that something you could quantify? And also, can you give us a little bit more details on where you stand on your commodity basket, not just for the next quarter but for the full fiscal year?

Eugene I. Lee
Chief Executive Officer, President and Director

Sure, I'll comment quickly on the wage rate. Wage rate's somewhere between 1% and 2%. And I think that, that -- as we -- especially in Olive Garden, as we continue to simplify the operation, we're able to remove hours, and that changes the mix of labor hours. And if it's done correctly, allows you to that mix to keep your wage rate at or below last year as we take out some of the higher cost production labor in the back of the house. Jeff, do you want to talk about the commodities basket?

Jeffery A. Davis
Chief Financial Officer and Senior Vice President

Yes, we think about commodities basket and what we've seen is take a look at -- well, your question is about the full year. What we're seeing right now is that we still expect our food and beverage costs to -- the inflation about 1% to 1.5%, which was our original guidance for the year. The front part of the year, we're actually seeing a little more of that inflation, and the expectation is it would continue to wane as we get through the second half of the year.

Brett Saul Levy
Deutsche Bank AG, Research Division

And lastly, can you quantify what your G&A savings were for the quarter and what your outlook is for the rest of this year?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, we'll get back to you on those specifics. We'll have Kevin get back to you on the specific G&A savings. It was 30 basis points quarter-over-quarter, but there are some savings in there. And there's some offsets to those savings. But overall, we're making great progress with our G&A, and we believe our run rate G&A for the year will be somewhere between 4.6% and 4.8%.

Operator

Does that answer your question?

Brett Saul Levy
Deutsche Bank AG, Research Division

I'm sorry, thank you very much.

Operator

Our next question comes from Jeffrey Bernstein with Barclays.

Jeffrey Andrew Bernstein
Barclays PLC, Research Division

Two questions. Just one, I think you made a comment on your prepared remarks about the lumpiness quarter-to-quarter. Obviously, we saw that with the earnings effectively doubling in the first quarter. So I'm just wondering if you could give some thoughts -- I think you said the second half margins versus the first half are going to be significantly less of an uptick. Can you just give a little more thoughts in terms of the magnitude of that and how that might translate into earnings? Seems like just on a quarterly basis, the Street has struggled for the first quarter to kind of nail down the earnings. I'm just trying to figure out the outlook for margin and earnings as we move to the fourth quarter of fiscal '16.

Eugene I. Lee
Chief Executive Officer, President and Director

Jeff, we expect to still have margin improvement in Q3 and Q4. It just won't be at the same rate as it has been since the last half of '15. So we made great margin improvements in Q3 and Q4. We obviously had a great margin improvement in Q1. We expect that we'll see some more significant margin improvement in Q2. But then it's going to moderate in the back half of the year. But when you look at the 2-year stack, and we have it in the presentation, we expect there still to be margin improvement in the back half of the year. As we've stated, the big part of the earnings per share growth for the year will be in the first half of the year. And we expect the second half of the year to moderate, although we still expect EPS to grow in the back half of the year.

Jeffrey Andrew Bernstein
Barclays PLC, Research Division

Got it. And then just a follow-up on earlier question around the core savings. There was no mention there. But I'm assuming it's still the $50 million to $55 million in fiscal '16. Just wondering whether you achieved more than your pro rata share in the first quarter because it seemed like with some earnings guidance perspective, you raised the full year guidance of earnings without necessarily raising the comps. I'm just wondering will the cost savings still the same or whether there's been a shift in terms of when they're being achieved quarter-to-quarter.

Jeffery A. Davis
Chief Financial Officer and Senior Vice President

So our estimate for the year still remains $50 million to $55 million. As it relates to those savings on the course of the year, as Gene had mentioned earlier, there were some items in G&A that offset some of those savings as a result of more discrete types of items. But we expect the $50 million to $55 million for the entire year.

Jeffrey Andrew Bernstein
Barclays PLC, Research Division

Got it. And then just lastly, Gene, you often talk about the Italian segment. Seems like you have a pretty good view on kind of the state of the union. I'm just wondering how you think about the segment versus Olive Garden, specifically seems like Olive Garden is getting better, but the broader segment -- and do you see the entire segment getting better or do you think it's Olive Garden-specific? Seemed like the segment has been challenged by kind of the view of just being more celebratory and more heavy and just not necessarily in line with consumer trend.

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, I don't really want to comment too much on the segment. The segment continue -- however, it does continue to struggle. I just think that we worked hard in Olive Garden over the last couple of years to improve our overall value equation to the consumer. I believe that we've simplified the operation. We've added more value with the $9.99 Cucina Mia, which is getting approximately 6% of sales today. We have more effectively communicated the appropriate message to our consumer. And don't underestimate what we're doing from a convenient standpoint and really capitalizing on To-Go, which I believe is exposing new guests to the Olive Garden experience. And it's an experience that they really enjoy using Olive Garden 4. And so I think about those 4 things, I think that Olive Garden's executing at a high level. And it's a combination of a couple of year's worth of work.

Operator

Our next question comes from Priya Ohri-Gupta with Barclays. [Operator Instructions] Our next question comes from Jason West with Crédit Suisse.

Jason West
Crédit Suisse AG, Research Division

Just going back to the real estate transaction. Can you guys talk about why you made some of the refinements in some of the store counts and things like that? And then secondly, given the chatter out there around the IRS and their no-rule position, do you think you can move forward with this without an IRS signoff, just using private counsel?

Bill White

Yes, Jason, this is Bill again. The refinements we made, there were some just a handful of restaurants that we did exclude from the individual sale leasebacks as well as the Four Corners REIT spin just to ensure full compliance with the covenant. And then the question about pressing forward. Yes, we would -- what we would refer you to is some of the Form 10 filings that we've made around details of the -- of our plans. We don't really have any specifics to say about going on just opinion or anything otherwise. What we can say is that we're going to be fully compliant with all the laws in place and that we're pressing forward with the spin-off of Four Corners.

Jason West
Crédit Suisse AG, Research Division

And just one quick one. I mean, would you be able to say, given the timing you guys have proposed of November, December, what would that imply in terms of the IRS ruling timing to get that done on that schedule?

Bill White

Yes, I think we believe that we're going to be in full compliance. What we can say about the IRS is that the laws haven't changed with the revenue procedure bulletin that they've issued. So it suggests that there's not -- that a retroactive application of any new laws they would contemplate would not take place. So we're expecting to be able to complete our transaction by calendar year-end.

Operator

Our next question comes from Andy Barish with Jefferies.

Andrew M. Barish
Jefferies LLC, Research Division

Just bouncing back on the strong Olive Garden To-Go growth, can you give us a little color maybe on how that impacts the overall quarter in terms of same-store sales with mix and traffic?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, Andy, it's Gene. I think, when we look at To-Go sales, it's definitely having a big impact with the overall quarter for Olive Garden. We don't -- we believe any cannibalization it's creating from our [indiscernible] businesses, we're able to fill that with the extra demand that we have for the business. So To-Go is representing about 9%, 9.5% of our sales today. We have seen a 40% increase in the large party To-Go sales, which we think is a huge opportunity. And I would remind everyone on the call that a large party take-out, To-Go, we're not attributing any guests to -- for us. And that really equates to approximately 50 basis points in guest traffic that we're not accounting for. So it's all part of a strategy now to -- so the way we look at it is it's both what can we do in-restaurant and what can we do from a take-out standpoint. We are testing delivery. We think that, that is a -- large party delivery, we do think that's another avenue for us to really leverage to meet the consumers' demand for this convenience. We just have a great brand in Olive Garden because our food travels so well. It's a great brand to take advantage of what the consumer wants today. And I think that says so much about its flexibility and so much about the strength of the brand that it can pivot from being an in-restaurant experience to a take-out experience and do really well. And back to what I said earlier, I think it attracts a little bit of a different consumer.

Operator

Our next question comes from Keith Siegner with UBS.

Keith Siegner
UBS Investment Bank, Research Division

Just a couple of questions on all this digital. And just to follow up on that last one, can you talk about where the orders for To-Go are coming now? Is this still a large component via phone? Is it via web? Do you have plans to launch, enhance mobile? Could this make the To-Go growth -- could this continue for a while as you roll some of those things?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, most of the To-Go orders today are still coming through the phone. We are incentivizing people to move over to the web. We're up to approximately 20% online. And we continue to work to develop technology to make it easier for our guests to access our website. We've introduced mobile. The adoption rate continues to rise. We know that when a consumer orders online, that their order is going -- the check average is going to be approximately 20% higher. So we're trying to incent more and more people to use that way of ordering. And hopefully, over time, we can continue to get that to migrate closer to 50%, even hopefully past that. And so we've got some technological things that I don't want to really get into a lot of detail from competitive reasons today, but we want to continue to enable our guests to be able to access Olive Garden from a take-out standpoint very easily.

Keith Siegner
UBS Investment Bank, Research Division

And then another area I want to focus on was the in-store tech [ph]. It sounds like the rollout of the tabletop tablets is going very well. You highlighted all the benefits. I was just wondering, it seems like there's a little bit of debate, let's say, in the industry about full service and loyalty programs. Can that work? Could it not work? Some are trying, some are not. How do you think about the potential for loyalty integrating into tabletop tablets? Is this something you're considering?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, we are considering the best way to implement a loyalty program. And we think that we are in a unique possession because of our 7 brands. And with that, we think we can offer something that others can't offer. I don't want to get into a whole lot of details from a competitive standpoint, but it is something that the team is working on. And I would say that that's Rick Cardenas' top priority as a Chief Strategy Officer for Darden right now. He's developing an effective loyalty program across all our brands.

Operator

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

Christopher Thomas O'Cull
KeyBanc Capital Markets Inc., Research Division

Gene, the company looks to be on track to have high single-digit EBIT margin this year. Where do you think the long-term margin should be for Darden, excluding the impact of future real estate transactions, I guess?

Eugene I. Lee
Chief Executive Officer, President and Director

Chris, you were breaking up. I couldn't hear the question.

Christopher Thomas O'Cull
KeyBanc Capital Markets Inc., Research Division

Let me try that again. It looks like the company is on track to have high single-digit EBIT margin this year. Where do you think the long-term margin should be for the company, excluding the impact of future real estate transactions?

Eugene I. Lee
Chief Executive Officer, President and Director

Well, I think that -- I don't want to put a number out there that I think that we're trying to get to because I think the competitive environment dictates that and the commodity environment will continue to have impact on that. What I do believe is that we can still grow our margins through a few levers. Obviously, same -- being able to leverage same-restaurant sales is the most important piece we can do. I think there's still work that can be done with our menus that we can yield a better -- whether it's a food cost percentage or a gross margin dollar at the food line, Chris, you know how I think about that and how I think about revenue management. I think that's important. I think there's work that can still be done there. I think there's more efficiency in labor, which could be offset by some headwinds with wage rates. But overall, I don't think there's additional costs that can come out of the system. And so I'm not going to put a number out there where we think we can get to, but I do think that there's still a lot of margin enhancement that can be accomplished over the next few years, with the primary focus being on leveraging same-restaurant sales growth.

Christopher Thomas O'Cull
KeyBanc Capital Markets Inc., Research Division

Sans beef inflation, are you pleased with the margin performance at LongHorn?

Eugene I. Lee
Chief Executive Officer, President and Director

I think this -- I think -- when I look at the LongHorn history over the last 18 years, and I look at where beef prices are compared to its history, I think the margins -- I think the operating margins are okay, and I do think that they'll improve dramatically as beef comes down. The real challenge when I look at the LongHorn business and what I've charged Todd with is we've got to raise the average unit volumes. And we're at approximately $3.1 million today, and I believe that even as well as the brands performed over the last couple of years, we need to get those the top line sales closer to $3.4 million, $3.5 million and then the operating margins will be -- would be right in line to where we want them to be.

Christopher Thomas O'Cull
KeyBanc Capital Markets Inc., Research Division

Great. And then, one last question. Bill, what gives you confidence that 6 LongHorns will represent a sufficiently meaningful, active business in the eyes of the IRS?

Bill White

Yes, we're not going to comment on the specifics around that. We think we've got a substantial business purpose. And all of the -- and a big component of that is the taxable REIT subsidiary that you're alluding to, the 6 LongHorn franchise restaurants. So we think it all holds together very well. It's a compelling story for both Four Corners and Darden for a very promising future growth story.

Operator

Our next question comes from Peter Saleh with BTIG.

Peter Mokhlis Saleh
BTIG, LLC, Research Division

I just wanted to ask about the advertising budget and the plan for the rest of the year. Can you just give us an update on where you stand today in terms of percentage of sales on the advertising budget, what you're thinking for the rest of the year and if there's been any changes in the media mix and/or the focus from the advertising perspective on either lunch or the To-Go business?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, so there's a lot in that question. Let me start off by saying that we continually move the media mix every single quarter to try to see what -- which lever is working. So when you think about Olive Garden, you think about media mix. We've got promotional television. We've got brand television. We got lunch television. We even got a little bit of take-out now. And so we think about that. We're constantly moving how much we have in promotional, how much we have in brand, how much we have in lunch to see which vehicle is driving the most guest count. And so we will continue to monitor that. We would expect our advertising spending throughout the rest of the year to be slightly below last year, basically the same. And what we're doing there is we're able to -- the big thing is we're able to cover the inflation. That's what I've charged the team, is how do we cover the 7% to 8% media inflation and not raise our overall cost? We expect our all-in advertising to be approximately -- a little bit less than 4.5% -- 4.5% for Olive Garden, and we'll leverage it down with the other brands from there. LongHorn is going to finish the year around 3.5%.

Operator

Our next question comes from Diane Geissler with CLSA.

Diane Geissler
CLSA Limited, Research Division

I wanted to ask about the remodeling program, which was something you've put on hold while you were doing a little bit more investigative work. It sounds like you're ramping that a little -- more aggressively this year with the 25 units. Can you talk about kind of your comfort level in terms of what you think you'll see in terms of an uptick? And then in terms of the total portfolio, I think we were always thinking it was about 250 to 300 restaurants that need to be refreshed. Can you talk about the sale leaseback if -- will that impact the number of units that you potentially will remodel? Just how that might impact your plans on that front.

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, the sale leaseback will have no impact on our refreshing our restaurants. We continue to be pleased with the initial 19 restaurants. We've got a good read on approximately 10 of those restaurants. And we're seeing approximately 7% lift in those restaurants. We've got a couple of things going on right now. As I've mentioned in the last call, we have this Olive Garden what we're calling Olive Garden of the future under development. We're going to try to build an Olive Garden that would be -- obviously, very competitive in 2025. And so we believe, through this process, as we redesign the Olive Garden of the future, not dissimilar to what was done back in the late '90s with the Tuscan farmhouse. We believe there's going to be constant inspiration in that process that will help us with future remodels. And so we are going to move forward and do another 25 this year. We've got some restaurants out there that we think can significantly benefit from this capital investment. Dave and team are being very strategic in which restaurants they're refreshing. In those restaurants, there's some deferred maintenance that needs to be taken care of. And so we need to get in there and do those before we get the inspiration from what we're calling this Olive Garden of the future.

Diane Geissler
CLSA Limited, Research Division

I think part of the previous plan was that you would do it on a geographic basis so that the consumer would sort of see the new planet, sort of all of the local restaurants. Sounds as if it will be more kind of pick and choose in terms of what marketplace you go into. Is there a way we should be thinking about in terms of like the number of units total that need to be remodeled and how that might be staged over time? And then how do you deal with sort of consumer confusion if the restaurants look vastly different than what they've looked previously?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, I think the plan still is to do this by market. And each market has different needs, and it depends on how many Revitalias we have in certain markets versus farmhouses. So I think that there's a lot of efficiencies by doing the refreshes market-by-market. We can put one team in there to manage the process. So I would look for it to still be done on a market-to-market basis. As we look forward, we haven't really determined what the pace will be. We want to get some work, continue to get learnings from this. And I think after we get this Olive Garden of the future done and up and operating, and we get the inspirations from that, I think we'll be in a better position to lay out exactly how we're going to move forward refreshing these Revitalia restaurants.

Operator

Our next question comes from Sara Senatore with Bernstein.

Sara H. Senatore
Sanford C. Bernstein & Co., LLC., Research Division

One question and then a follow-up, if I may. You talked about beef favorability in 2016 and certainly 2017. One of the things I think we've noticed is that the whole steak category has been quite strong, and it seems to be correlated with how much inflation we've seen in beef prices just because the relative value versus grocery stores has gotten so much better. Maybe can you give a little bit of historical perspective? Is that the case? And I guess if so, as you look out to beef disinflation or deflation, would you expect to see potentially moderating top line but better margins?

Eugene I. Lee
Chief Executive Officer, President and Director

Sara, I'm not sure that I'm going to subscribe to as the beef market comes back, we're going to have some top line pressure. I do thing we're going to have some margin improvement with that. I think overall, the steakhouse category from a value standpoint has done a better job than the bar and grill in some of the other full service dinner houses with the overall value creation. I think it's something that, over time, Olive Garden has -- had struggled with the price point for an entrée without protein versus a protein-centric entrée that a steakhouse restaurant is selling. And that was one of the real reasons we went back to Cucina Mia at $9.99. We thought we had to have something that compete effectively against the steakhouse category. And so I think when I think about steakhouse, I think that there's a consumer out there that's a little financially healthier that is opting into the steakhouse experience because of the quality and the value that you're getting from that experience. And I think that's what's driving that category right now. I think we've done a better job in the steakhouse category with culinary innovation and creating overall value to the consumer.

Sara H. Senatore
Sanford C. Bernstein & Co., LLC., Research Division

And so in that context, you mentioned needing to get volumes higher. Like, to your point, that category has actually been -- LongHorn in particular and the category, generally, has done a good job. What else can be done then to grow volumes, given that the environment actually seems pretty salutary at this point for steakhouses? So can you just talk a little bit about -- when you look at it, is it the value proposition could be better still? Is it that brand messaging isn't perfect yet? The focus on getting volumes higher. Clearly, the right one, but given that the performance has actually been very good, I'm just trying to figure out what else -- what other levers you have to pull.

Eugene I. Lee
Chief Executive Officer, President and Director

When we think about LongHorn, the issue is a little bit more geographic than overall brand. We have -- where LongHorn has a dominant market position and has a lot of legacy, we've had stronger -- strong average unit volumes. We have a little bit more growth in those markets. What's weighing on LongHorn today is some of the newer development that has happened over the last couple of years. And LongHorn has a history of taking a little bit longer to break into new markets and for the consumer to really understand the value equation of that brand. And so the big challenge for LongHorn right now is effectively competing in marketplaces where they're the third or fourth steakhouse in the market. And our ramp-up time is taking longer than we would like. But in our heritage markets where we've got a strong foothold, we have -- our average unit volumes are where they need to be, and the margins of that business are where they need to be. So LongHorn is more about really da geographic challenges we have as we've been growing the brand.

Sara H. Senatore
Sanford C. Bernstein & Co., LLC., Research Division

Great. Understood. And if I may, just one quick follow-up for Jeff. We talked about moderating margin expansion. You and I talked about you have some real supply chain expertise. Now that you've been there a bit longer, is there -- are there any particular areas you could talk about, about what the opportunities look like to you?

Jeffery A. Davis
Chief Financial Officer and Senior Vice President

No, I mean, I would like to just go back to the fact that one of

the opportunities we have is to leverage our scale. And as we think about how we continue to look to our supplier base, to go out and continue looking at our contracts and using that scale to bring better cost to our overall organization.

Operator

Our next question comes from Andrew Strelzik with BMO Capital Markets.

Andrew Strelzik
BMO Capital Markets Equity Research

I'm wondering how you're thinking about kind of the multiyear growth profile of the business going forward. And given the stabilization and operational improvements that you've seen, are you getting more comfortable with potentially talking about larger metrics and targets going forward? And if not, why not?

Eugene I. Lee
Chief Executive Officer, President and Director

Well, I think that's a really good question. And we are really focused right now on 2 things, improving the execution of our brands; and then secondarily, completing the REIT spin. I think once we get the REIT spin behind us, we will look at where we are as a company and determine and look at -- look at where we are as a company, but also look at the overall operating environment and determine what our longer-term sales and EPS targets are, as we move forward for the organization. We believe, as we look at this today, we've made tremendous progress in the last year. And as we look at our opportunity today, we believe that there is a chance for us to increase new restaurant growth into '17 and '18 and, from there, be able to really determine what our long-term EPS targets would be. We really need to fully understand where the capital structure is going to be and how we're going to use our cash flow to drive shareholder value.

Operator

Our next question comes from Howard Penney with Hedgeye Risk Management.

Howard W. Penney
Hedgeye Risk Management LLC

I have 2 questions. The first one is on the Olive Garden assets and the phrase or the word "refresh" has a different connotation to it than remodel. It's kind of a softer term, if you will, and maybe expresses a little less urgency. And I was wondering if the momentum that you're seeing in the business, if I'm reading that correctly, the momentum you're seeing in the business, you have less of a need to remodel the stores as much as you did sort of the last 2 years and -- or 3 years?

Eugene I. Lee
Chief Executive Officer, President and Director

Howard, no, I don't think it's changing the sense of urgency. I think what -- where we're at is we want to make sure we're going to invest this capital to refresh, remodel, whatever we want to call it. We want to make sure it is, first and foremost, it is the appropriate amount. Second, it's going to have the desired outcome that we wanted to have. And from there, we have to pace it and we have to ensure that we continue to improve and evolve with current learnings on how to make these investments more valuable to us. What we want to guard against is designing a look and a feel and rolling it out, taking 2 or 3 years to do that, and you get to the end of year 3 and realize what you were rolling out really isn't where you need to be today. And so our proponent of more of this evolving refresh over time and using your current knowledge to make those dollars work as hard as they possibly can at the time you're making the investment. I think it would just be wrong to lock in on a certain look and feel and just roll it out to 300 restaurants and try to go as fast as you possibly can. I want to get into the system where we're rolling in X number of refreshes every single year.

Howard W. Penney

Hedgeye Risk Management LLC

Great. And just hang onto that last question about longer-term targets. I assume, Gene, as you took over the role of CEO, you made a presentation to the board as to a 3 to 5-year plan as to where you saw the business. And I was wondering, in that plan, if you presented long-term targets and growth and profitability and revenues, and if you could share what those targets were.

Eugene I. Lee
Chief Executive Officer, President and Director

Well, yes, Howard, I did present a longer-range plan and potential for the company. But at this point in time, with the pending spin and where we're at, we're not at the point where we want to give out our long-range targets. And I will commit to the investment community that we will get those out in the next 3 to 6 to 9 months on what we think this business can achieve. But I want to get through this spin and understand where we are post spin and determine what the opportunity for Darden is moving forward.

Operator

Our next question comes from Priya Ohri-Gupta with Barclays.

Unknown Analyst

This is actually Diana Choo [ph] on for Priya. I was wondering if you could give us an update on the consensus solicitation for the 35s and 37s, and speak to where you are in that process?

Bill White

Yes, Diana, this is Bill White. The update we would tell you is we did not give consent for the modest increase we were seeking for the covenant basket size. But as we've said previously, that was not a condition to pursuing the real estate transactions where we're marching forward on. And so really, with some pretty minor modifications in those plans, we're fully covenant compliant. We simply don't have the extra room we were hoping to accommodate for future transactions, whether they be the roughly 80 or so properties, fee simple properties left behind or others from future acquisitions. 20 years is a long time, but we are perfectly comfortable moving forward with our consent.

Operator

Our next question comes from John Ivankoe with JPMorgan.

John W. Ivankoe
JP Morgan Chase & Co, Research Division

If the question was on labor, Gene, and I think you touched on it a couple of different ways, saying you think you, perhaps, have an opportunity to just be more efficient at the store level, but you're acknowledging the reality that wage rates are increasing in various parts of the United States, I guess, anywhere from moderately to very significantly. So -- but just asking about your experience, I mean, having lived through hot labor markets and changing labor markets before in the past, does it make sense for Darden to lead by example or just lead from an employee perspective and start to change the way that employees are compensated or what their incentive structures may be, and especially as we think about maybe some significant cost of goods sold or leased, perhaps, into '16, reinvest even more in labor than maybe some of your peers are to differentiate the business through that extent?

Eugene I. Lee
Chief Executive Officer, President and Director

John, I would just say that we believe that our employment proposition today is really strong. We compete for talent every single day. And when you look at where the average Darden employee is today, it's approximately $15 an hour, which is double the federal minimum wage. And we think that through a few avenues, that our employment proposition is incredibly strong. We have a great opportunity for employees -- hourly employees that grow into management. Last year, we promoted 1,000 hourly team members into management. We have programs that allow our team members to move up to the restaurants, our team members to go cross brand. If they think -- after they become proficient in maybe a casual environment, they can move to a more polished or in a Fine Dining environment. And so as we look at this today, we keep coming back to there are so many things that we do for Darden -- Darden team members. And it's a compelling proposition. Our turnover rates are 20% lower than our competition. We continuously win best employment practices for each -- for the majority of our brands. We think that our employees are really in a good position, and we're going to do what we need to do to ensure that we have the best talent at all levels in our organization. And that will be -- and we'll be at the forefront of that. And we believe today we are getting the best talent.

Operator

Our final question comes from Todd Duvick with Wells Fargo.

Michael K. Walsh
Wells Fargo Securities, LLC, Research Division

Michael Walsh filling in for Todd. Just another couple of quick bomb hole [ph] of questions. I think in the past, you've noted that you like to maintain an investment-grade profile. And we got a number of months here before the REIT transaction takes place and, at which time, you look at your capital structure. But do you foresee, within that capital structure still maintaining investment-grade profile? And with that, is there any type of credit metrics that you use, whether it's a lease-adjusted leverage target that you would manage to?

Bill White

Yes, Michael, this is Bill. I think -- just to address the last part of your question first, I think you hit the nail on the head. The lease-adjusted -- really, lease-adjusted debt-to-EBITDAR is probably one of the more key metrics we focus on, and we'll be targeting in the range of 2.5x or less. And certainly, the agencies are quite comfortable that where we're moving in that direction is, if not neutral, a positive to the credit profile. So maintaining, preserving and solidifying the investment-grade credit profile is a priority.

Operator

At this time, I'm showing no additional questions.

Kevin Kalicak

All right. So I think we're done. Thank you for your questions. I want to remind you that we expect to release our second quarter results on Friday, December 18, before the market opens, with a conference call to follow. Thank you all and have a great day.

Operator
Thank you for joining today's conference. That does conclude the call at this time. All participants may disconnect.