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Darden Restaurants, Inc. NYSE:DRI

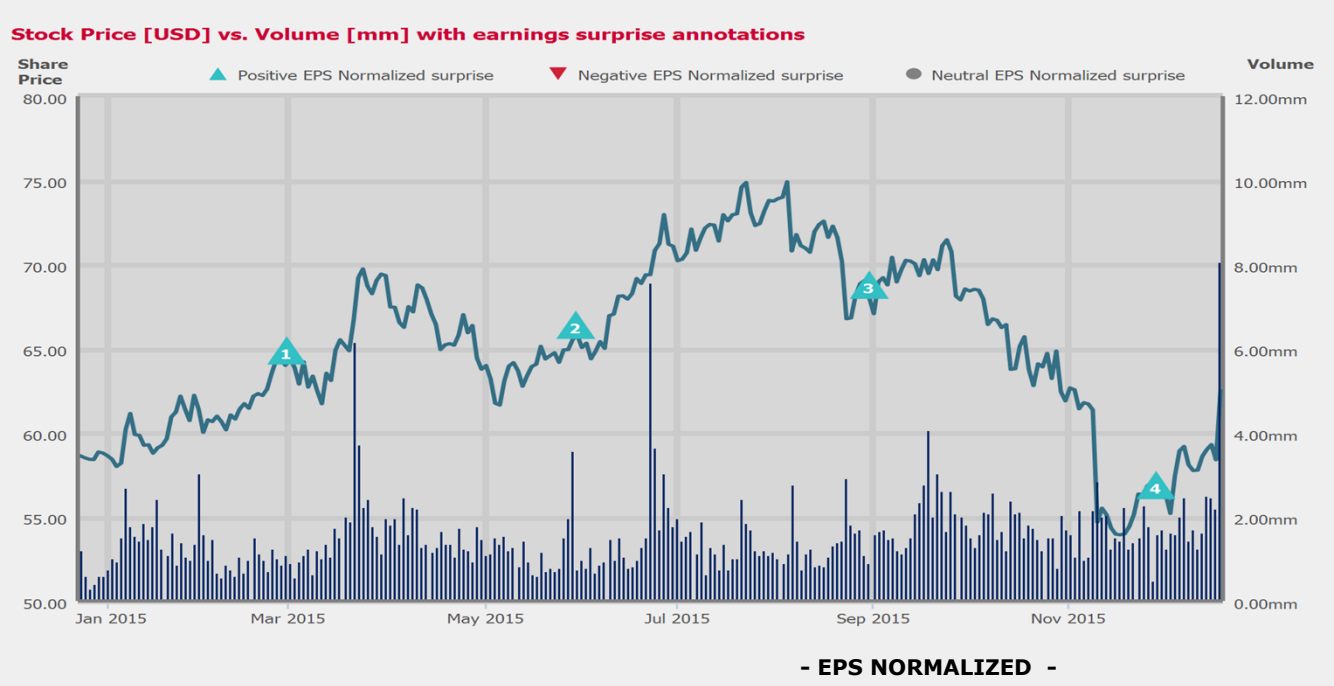
FQ3 2016 Earnings Call Transcripts

Tuesday, April 05, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.20	1.21	0.83	1.09	3.48	3.94
Revenue (mm)	1845.88	1847.50	0.09	1829.78	6963.07	7248.46

Currency: USD
Consensus as of Apr-05-2016 11:51 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.84	0.99	1 17.86 %
FQ4 2015	0.93	1.08	2 16.13 %
FQ1 2016	0.58	0.68	3 17.24 %
FQ2 2016	0.42	0.54	4 28.57 %

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Presentation

Operator

Welcome to the Darden Fiscal 2016 Second (sic) [Third] Quarter Earnings Call. [Operator Instructions] This conference is being recorded. If you have any objections, please disconnect at this time.

I will now turn the call over to Mr. Kevin Kalicak. Thank you. You may begin.

Kevin Kalicak

Thank you, Hans. Good morning, and welcome, everyone. With me today is Gene Lee, Darden's CEO; and Rick Cardenas, CFO.

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 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. We are simultaneously broadcasting a presentation during this call, which is posted in the Investor Relations section of our website at www.darden.com.

Today's discussion and presentation include certain non-GAAP measurements, and a reconciliation of these measurements is included in the presentation. We plan to release fiscal 2016 fourth quarter and year-end earnings on Thursday, June 30, before the market opens, followed by a conference call.

This morning, Gene will share some brief remarks about our quarterly performance and brand highlights. Rick will then provide more detail in our financial results from the third quarter, as well as an update on our expectations for fiscal 2016, and then we'll open the call for your questions.

Now, I'll turn the call over to Gene.

Eugene I. Lee
Chief Executive Officer, President and Director

Thank you, Kevin, and good morning, everyone. Let me start by saying how excited I am to have Rick with me this morning as our new Chief Financial Officer. Rick's extensive experience and proven track record of results leading finance, operations, IT and strategy during a 25-plus year career at Darden, in addition to his consulting experience with Bain & Company and The Parthenon Group, make him uniquely qualified for this role.

Also, I want to point out that, just as we did last quarter, we reported same-restaurant sales on both a fiscal and a comparable calendar basis. This morning, I'll refer to the comparable calendar comps during my remarks.

We had another solid quarter, with great same-restaurant sales and significant operating margin improvements. Our operations-focused philosophy continues to drive strong performance across our brands and regaining significant shares as a result.

Total sales from continuing operations were $1.85 billion, a 6.7% increase from the third quarter last year. Each of our brands delivered strong same-restaurant sales growth during the quarter, and we added 7 net new restaurants. Olive Garden's positive sales and earnings momentum continued during the quarter. same-restaurant sales grew 4.9%, outperforming the industry, excluding Darden, by more than 600 basis points. This was our sixth consecutive quarter of same-restaurant sales growth at Olive Garden. In addition, same-restaurant traffic was up 3% for the quarter.

Key drivers of this performance include: an improved guest experience delivered through proper staffing and the simplification of processes and procedures; culinary innovation that builds on the brand equities and flavor profiles that our loyal guests enjoy most, as seen with our successful FlavorFilled Pastas and Create Your Own Tour of Italy promotions; and continuing to meet our guests' needs for convenience,

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with the national launch of large party catering delivery. This is an enhancement of our successful OG To Go platform, which has experienced a 2-year growth rate of over 40%. Year-to-date, OG To Go sales represent 10.5% of our total sales.

We're confident that our overarching strategy continues to be effective. Our focus on food, service and atmosphere has improved the perceived value of the Olive Garden dining experience. We've anchored our lunch and dinner menus with compelling price points: $6.99 at lunch and $9.99 at dinner, which provides everyday affordability. This enables us to deliver promotional value with a wide range of price points. Olive Garden's relentless focus on delivering great guest experiences will allow us to further enhance our perceived value. This will continue to be a key -- to be the key to our ongoing strategy as we build on the momentum we're experiencing.

LongHorn Steakhouse's sales momentum continued throughout the quarter. Same-restaurant sales grew 2.7%, the 12th consecutive quarter of growth, outperforming the industry, excluding Darden, by over 400 basis points. Same-restaurant traffic was slightly negative. However, our performance is well above the industry average. We pulled back on our price-pointed activity and optimized our media spend to be more effective, which contributed to LongHorn's 29% increase in segment profit and helped to offset the incremental expenses associated with the recently completed real estate transactions.

Additionally, we will continue to invest in menu enhancements and reallocating labor as we further simplify operations and optimize our media spending. Finally, LongHorn continues to deliver communication that resonates with our guests through its You Can't Fake Steak advertising campaign, which was recognized in December when Ace Metrix named LongHorn the Brand of the Year for Casual Dining for the second year in a row.

Turning to our specialty restaurants. We saw positive same-restaurant sales growth across all 5 brands, led by Bahama Breeze at 6.3% and Seasons 52 at 5.3%. Bahama Breeze continues to significantly outperform the casual dining industry as consumers are reacting favorably to operational improvements and culinary innovation. I'm impressed with the progress the leadership team continues to make.

Additionally, Seasons 52 had another strong quarter, making meaningful improvements to the business as we've temporarily slowed new restaurant growth, enabling us to improve our operational execution and evolve our menu. We are encouraged by the positive reaction our guests are showing in the changes we're making. We're excited about the momentum we've gained and we've started to rebuild our pipeline for new restaurants.

Yard House, the Capital Grille and Eddie V's also had strong quarters, although Eddie V's same-restaurant sales were impacted by a significant slowdown in fine dining within Texas.

Overall, I'm pleased with our performance this quarter. Our strategy is working and we continue to grow market share, improve margins and return capital to shareholders.

And with that, I will turn it over to Rick.

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Thank you, Gene, and good morning, everyone. It's great to discuss our business results with you today.

Darden's third quarter adjusted diluted net earnings per share from continuing operations were $1.21, an increase of $0.22 or 22% higher than last year. Year-to-date, adjusted EPS growth is over 50%. While Gene referred to the comparable calendar same-restaurant sales to better highlight our quarterly sales trends, it was our strong fiscal same-restaurant sales of 6.2% and the continued improvement in core operating performance that drove our earnings growth and more than offset the incremental ongoing real estate expenses this quarter.

The strong cash generation inherent in our business model enabled significant return of capital to our shareholders. We paid $64 million in dividends this quarter. We also repurchased approximately $140

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million of Darden stock. This leaves $360 million remaining under the share repurchase authorization that we announced in December.

Third quarter reported earnings per share were adjusted by $0.34 of costs associated with the early retirement of debt this quarter and $0.03 of implementation costs associated with our strategic real estate plan. Separately, the ongoing impacts of the real estate transactions are now reflected in the financial results for the entire quarter, reducing pretax earnings by $6 million and earnings per share by $0.03.

Looking at the specific impacts, we incurred incremental rent and other tax expenses of approximately $32 million.

Depreciation and amortization was lower by $15 million and interest expense was 1 -- $11 million lower due to debt reduction of over $1 billion. As a result of this debt reduction, we now have $450 million of outstanding funded debt, with maturities due in 2035 and 2037.

The company's adjusted EBIT margins increased by 200 basis points this quarter as a result of leveraging positive same-restaurant sales, continued progress on our cost reduction initiatives and seafood, beef and natural gas deflation. All of which helped to more than offset the ongoing incremental real estate expenses I detailed a moment ago, most of which is included in restaurant expenses.

Before discussing our performance by segment, I want to remind you that the fiscal 2016 segment profit now includes the incremental rent and other tax expense associated with the real estate transactions, whereas fiscal 2015 did not include these costs. Additionally, the benefits of lower depreciation and interest savings are not recognized in segment profit.

Olive Garden segment profit of $220.1 million was $18.7 million higher than last year and continued their strong segment profit margins of 21.6%. In addition to Olive Garden, all of our segments significantly improved quarterly profit, led by LongHorn Steakhouse's segment profit growth of $19.1 million versus last year, which, as Gene mentioned, is 29% higher than last year, and segment profit margin increased almost 400 basis points to 20%.

Turning to our outlook for fiscal 2016. We are increasing our range for same-restaurant sales to 2 -- to 3% to 3.5%. We are also increasing our range for adjusted diluted net earnings per share from continuing operations to $3.48 to $3.52. Given the strong performance this year, our annual effective tax rate is expected to be at the high end of our previously communicated range of between 23% and 25%.

Looking ahead to fiscal 2017, we have begun to ramp up the development pipeline for future sites and we anticipate 24 to 28 new restaurant openings. We expect to complete at least 60 Olive Garden remodels with an investment of between $250,000 and $450,000 each. And we'll continue our bar refresh program, completing up to 150 next year. The bar refresh investment of approximately $20,000 per restaurant, significantly improves the utilization of our older Olive Garden Cafe and bar areas, and is a component of our larger remodel package. We've seen a solid return on the remodel and bar refresh investments to date.

Additionally, to ensure all of our restaurants are well-maintained, we invest roughly $60,000 per year per restaurant in annual capital spending. Total capital spending for 2017, fiscal, is estimated between $310 million and $350 million, of which $110 million to $130 million is related to new unit openings, and the remainder related to remodels, the bar refresh program, maintenance, technology and other spending.

Additional guidance for our 2017 performance will be shared in next quarter's release and conference call in June. However, I would like to take this time to remind you of the long-term framework we have for value creation. Over time, we believe our business can deliver total annual shareholder returns of 10% to 15%, which is composed of earnings after-tax growth of 7% to 10%, driven by same-restaurant sales growth of 1% to 3%; new restaurant growth of 2% to 3%; and EBIT margin expansion of 10 to 40 basis points, by leveraging sales growth and our significant scale.

Additionally, given the strong cash generation of our business, and the earnings growth expectations, we anticipate a return of cash to our shareholders in the 3% to 5% range annually, consisting of a dividend

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payout ratio of 50% to 60% and share repurchases of $100 million to $200 million. We believe the 10% to 15% total shareholder return represents a healthy and attractive investment.

Finally, I'm excited to be speaking with you this morning. Darden has been a huge part of my life for over 25 years and I'm humbled by the opportunity to serve as the CFO of this dynamic organization. I also want to share with you how I'm approaching this role. First and foremost, my diverse experiences working within the brands, including my time in operations, gives me a deep understanding of our restaurants and the ability to partner with the leaders in the business. Also, my experiences away from Darden as a management consultant help me maintain a strategic and external focus to ensure that we are not overly insular.

In this role, I'll be focused on ensuring we leverage our significant scale, extensive data and insights, rigorous strategic planning and a disciplined capital allocation approach, ensuring that every dollar we spend will be a dollar worth spending, to deliver on the long-term value creation framework I just reviewed with you. This role comes with the pleasure of developing strong relationships with our analysts and investors, and I look forward to strengthening that relationship.

And with that, I will turn it over to Gene.

Eugene I. Lee
Chief Executive Officer, President and Director

Thank you, Rick. As you saw this morning, Jeff Smith informed the Board of Directors last night that he was stepping down as Chairman and resigning as an Independent Director. I want to take this moment to thank Jeff on behalf of the board and the Darden management team for his leadership and partnership.

From the moment he walked into the boardroom, Jeff has been focused on helping Darden regain its leadership position in full-service dining, and we're all grateful for his perspective he has brought to our business. We've accomplished a number of extraordinary feats under his leadership including improved operational excellence, disciplined strategic planning and the spinoff of Four Corners Property Trust.

On a personal note, I've appreciated and valued Jeff's vision, constructive attitude and counsel during the past 18 months. He has been a wonderful partner for me and I wish him well in all his personal and professional endeavors.

We also announced that Darden Board of Directors unanimously elected Chuck Sonsteby as Chairman. Chuck is a proven leader with extensive industry experience, and I'm looking forward to working with him in his new capacity as Chair.

Darden has regained momentum and I'm excited by the opportunities ahead for our brands and for our team members as we continue to focus on delivering exceptional guest experiences. We have an engaged board, a strong leadership team and great team members across our company focused on the right priorities, providing strong value propositions for our guests, leading to increased frequency and enhanced loyalty.
And with that, we'll open it up for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question is from Brett Levy from Deutsche Bank.

Brett Saul Levy
Deutsche Bank AG, Research Division

If you could do me a favor and talk a little bit about the competitive landscape, what you're seeing by the brands, where you're seeing the biggest impact, either economically or from a competitive standpoint. And then just a quick question on what do you think the possible peak margins are for Olive Garden and Longhorn, and how do you get there?

Eugene I. Lee
Chief Executive Officer, President and Director

Good morning, Brett. There's a lot in that question. Let me start off by just talking about the overall environment. I think that's what you really would like to hear us talk about this morning. The environment does remain competitive. We believe that the consumer is behaving very well in our restaurants. They continue to use the whole menu. We continue to see people buying -- purchasing add-ons, both the -- as appetizers, alcoholic beverages and desserts. We see people buying a little bit less on deal than they have in the past. However, we have done a good job, as I mentioned in the prepared comments, about anchoring our lunch and dinner menus with very attractive price points. The overall environment does feel a little bit promotional at this point in time, and we're watching what everyone's doing. However, we think we're positioned well to continue to take market share. I just think that -- the biggest move that we made in Olive Garden was putting that everyday value back on the menu. And we went a long time without a $9.99 price point at dinner. And I believe that -- anchoring that menu with that price point has allowed us to use a lot of our promotional activity to deliver value in a different way. And value can be delivered with the higher price points and the consumer has been very accepting of that. And I believe, in Olive Garden, the overall experience has improved dramatically. As far as overall peak margins, I really don't want to talk about a number that we want to put out there as what our peak margins are going to be. I mean, I think there are so many variables that are input into that, what's the commodity environment, what's the pricing environment. We're going to continue to invest into the guest experience and do the things that we need to do to maintain and grow our market share. And we'll continue to focus on removing nonconsumer-facing costs from our business. And that's something we've been focused on for the last 18 months and we'll continue to be focused on.

Operator

And our next question is from David Tarantino of Robert W. Baird.

David E. Tarantino
Robert W. Baird & Co. Incorporated, Research Division

Gene, my question's really on the outlook or the implied outlook for the fourth quarter. If I look at the comps guidance for the year, it does imply, at least to the midpoint, that your Q4 comps would be slightly below what you've been running in the past several quarters. And my question is, is that just conservatism on your part or is it related to comparisons? Or are you starting to see some signs of softness, I guess, in the overall environment?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. Good morning, David. Based -- our guidance is based on what we know to date and what we believe the environment will provide us in the back half of the year. We believe it's the appropriate guidance with what we know today. The environment, I would say, continues to remain choppy. Week to week, as you look at KNAPP-TRACK and Black Box, continues to move around, trying to focus more on longer-term

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trends than I am on what's happening week to week. We've got a shift in the Easter holiday that is, I think, going to make some of the week-to-week comparisons in the fourth quarter a little bit difficult to read. And I think -- when I think about our guidance, I think if we finish the year in a 3% to 3.5% range, I think that's a great year for Darden, and I think that's something we should be incredibly proud of.

David E. Tarantino
Robert W. Baird & Co. Incorporated, Research Division

Agreed. And then, one second question here. Gene, could you maybe talk a little bit about what the initial reception to the catering effort has been and what you're seeing so far there, and what you think the opportunity is if you look out over the next year or 2?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. We believe catering is a big opportunity. The reception's been fantastic. Again, it's been designed around this whole need space [ph] of convenience. We're able to bring this experience to you. We benefit significantly in Olive Garden because the food travels so well, especially when we put it in these bulk containers. We are measuring closely intent to reorder and overall satisfaction. And the scores are really, really strong. The consumer is very, very happy with the product. It's unique and we believe that this is a huge opportunity over time as we continue to build awareness. As we think about this, our consumer today has very, very low awareness of us doing this catering delivery. We have run some limited television advertising in some small markets to see what -- how consumers react to that. And the reaction has been very positive. And so we'll continue -- our goal is to continue to find ways to build awareness of what we're doing.

Operator

And we also have a question coming from the line of Brian Bittner of Oppenheimer.

Brian J. Bittner
Oppenheimer & Co. Inc., Research Division

A question about the Olive Garden momentum that we saw in the quarter. We saw a pretty meaningful acceleration in the third quarter despite the industry remaining stuck in the same gear. The To Go momentum's obviously very strong, but mathematically I don't think it could've driven that large of an acceleration. So what's really going on in the third quarter to drive that large of an acceleration in the business? I know you guys put tablets in the assets before the quarter begin, does that have an impact? Or any other color you can provide.

Eugene I. Lee
Chief Executive Officer, President and Director

Brian, I want to start at the level that -- we're just running better restaurants today. And I don't want to -- I don't think we should discount the importance of ensuring that we're properly staffed. Our teams are properly motivated. Dave and his team have done an exceptional job of simplifying the operation, reducing the size of the menu and the processes and procedures. I think the overall experience inside Olive Garden today is significantly better than it was 12 to 24 months ago. I think we're getting a lot of momentum from that. The tablets obviously are helping. As I said, in the last quarter, we're getting -- we're closing out checks 7 minutes quicker than we have in the past. And so we're excited about some of the basic operations. And one of the things that we're focused on now is trying to keep things simple. And we talked a lot about simple is hard and doing simple things every single day is really, really hard. But that's what's giving us the biggest lift in Olive Garden. Our teams are doing a great job creating great dining experiences and we're not having to rely on promotional activity to drive the business. We're winning every single day at the 9 square feet. And I believe that's why we gained some momentum throughout the third quarter.

Brian J. Bittner
Oppenheimer & Co. Inc., Research Division

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And just a follow-up question on -- so far in the fourth quarter, I think it's no secret that the industry is pretty soft in March. What do you think is going on? What do you really attribute that to, based on the seat that you sit in, what's going on with the consumer?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. I contribute them -- the month -- the week-to-week noise in March, really, as I look at the industry, has more to do with Easter coming forward a couple of weeks than anything else.

Operator

And the next question is from Matthew DiFrisco of Guggenheim Securities.

Matthew James DiFrisco
Guggenheim Securities, LLC, Research Division

I have a question, but I have a follow-up on the previous question, too, ago about the catering. I guess if you could talk about and look about some of the stores that do the best in either catering or OG To Go, so I guess the ones that indexed higher than that 10.5% or so. How do they do on the other business, the in-store business? Have they been out-comping? I'm curious if there's a halo effect as far as someone uses you On The Go. And does that strengthen the brand equity, are you seeing any incremental sales or is it cannibalistic to that existing business that was done in the store traditionally?

Eugene I. Lee
Chief Executive Officer, President and Director

Matt, one of the things that we're looking at is, I think as I said in the past, we're tokenizing credit cards. And so we are able to see if this consumer that's using us for takeout is using us for in-restaurant, too. And we're seeing a lot of crossover. And so we're seeing people use both to go and in-restaurant, which is exciting for us. We're also seeing consumers that just uses for a to-go standpoint. When a restaurant has momentum, it's having -- it's usually demonstrating momentum in all categories, so both takeout and in-restaurant. And so I think the root of your question is, there is a halo. And one of the things that we think, and we're trying to bear out in some research, is takeout and OG To Go is exposing Olive Garden to maybe some lapsed consumers. We're using it and then to say, "Hey, that was pretty good. I'm going to come back in and try the restaurant." And so I think -- basically, I think what you're trying to get across in your question is true, that we are getting some halo for the whole restaurant because of the To Go experience.

Matthew James DiFrisco
Guggenheim Securities, LLC, Research Division

Great. And then I just want to clarify your detail of Texas. I think you called it out for how it's affected Eddie V's. I'm curious, that was the higher end, but have you seen any other distinguishing trends in Texas or weaker trends in Texas below sort of the Eddie V's price point in the Fine Dining category? Is it impaired or have you seen it -- the economy down there way over something like a LongHorn or an Olive Garden?

Eugene I. Lee
Chief Executive Officer, President and Director

No. We've seen nothing in casual dining that's -- it's still -- Texas is still performing fairly well and Houston's performing fairly well. I called it out on Eddie V's because when you look at that footprint, I think Texas is about 40% of the total footprint. And so it's a little bit -- it's really easy to see there. Especially Houston, we have 2 restaurants in Houston that have been significantly impacted.

Matthew James DiFrisco
Guggenheim Securities, LLC, Research Division

So that's -- just to read then I guess on the higher end as far as related to the energy businesses getting curtailed, right down the [indiscernible].

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Eugene I. Lee
Chief Executive Officer, President and Director

Yes. I think that it's just the large -- it's the large party it's the celebratory. We need to work hard in luxury dining to make sure that we find other people or other businesses that are doing well and make sure that we invite them in and use our facilities.

Operator

And we also have a question coming from the line of Billy Sherrill from Stephens Incorporated.

William Joseph Sherrill
Stephens Inc., Research Division

So last quarter you guys touched on the tightening labor market conditions. You were saying -- and I was hoping to get a little more visibility on how you guys are navigating the environment. I guess particularly with respect to the management turnover. And whether or not you're having to, I guess, plan to take any additional steps to retain some of that talent.

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, the wage environment is definitely continuing to evolve. I would say that turnover in the industry is up. Our gap to the industry continues to improve, but our turnover is up. And I talked about that as -- I think the restaurant employee is a little bit more mobile today. I think that there's people who were working in our industry because there -- other alternatives weren't available to them. I think those other alternatives today are starting to become available. It's going to put a little bit of pressure on wage rate as we -- as the industry competes for the best talent to run their businesses. I think at Darden, we have a compelling employment proposition. And I think that we're -- when I think about it, we're at an advantage here. The other thing to point out is when you look at Darden's footprint, we have a great footprint and operate a lot of restaurants in markets where we still have federal minimum wage in those states. And that's -- that really offset some of the other mandated wage increases that are happening in some other -- some of the other states. And I'll conclude by just stating that, at Darden, we have industry-leading retention. We have some of the best retention and low turnover rates in all of full-service dining. So again, we're positioned well to deal with this. I'd like to say that, historically, operating in an environment where you have a little bit of wage inflation at -- with your staff has been good for sales long term. And I'd much rather operate in this environment than in an environment where the industry was maybe struggling a little bit more from a top line standpoint and we had plenty of help.

William Joseph Sherrill
Stephens Inc., Research Division

Great. That's helpful. And just one quick follow-up if I could. I believe you also said that last quarter you would -- thought that you might have trouble pushing more price in the near term given the current environment. So I was wondering, assuming that there's not any more additional pricing implied for the back -- for the last quarter of the year, but do you have an idea when you will be able to push more price at -- particularly at Olive Garden?

Eugene I. Lee
Chief Executive Officer, President and Director

Well, I think we're -- we'll continue to look at what pricing is available to us. In Olive Garden, we're trying to hold back our pricing to improve the value proposition for the consumer. And so we are looking for other ways to improve margins other than through pricing. So that we can continue to create a compelling value. This is where I think it's important, that we focus on using our scale to our advantage. If we can use our scale to our advantage, price less than our competitive set, our value, perceived value with the consumer should go up. And that's what our strategic plan is right now. Use our scale, don't rely on pricing to create value and let's win market share.

Operator

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And we have a question coming from the line of Joseph Buckley of Bank of America.

Joseph T. Buckley
BofA Merrill Lynch, Research Division

First, just another question on sales. Can you say what the To Go catering influence was on the third quarter same-store sales? And then is there a difference in pricing between what you realized in the third quarter and the price effect you're assuming in the fourth quarter in your full year guidance?

Eugene I. Lee
Chief Executive Officer, President and Director

As far as takeout, takeout was 35% of the overall comp. And of that, delivery was 25% of that growth. So takeout's playing a big part, but in this quarter, it wasn't the whole thing. So very, very good growth in restaurant takeout and then we should look for catering and delivery to continue to ramp up over time as we build awareness. As we think about the fourth quarter, we don't have any additional pricing schedule to go in. We're going to continue to try to create value by not pricing, pricing a lot less than we historically would have.

Joseph T. Buckley
BofA Merrill Lynch, Research Division

Can I ask where on the expansion also? Rick, you gave us the range of potential openings for 2017. Could you update us what you're thinking the full year numbers will look for '16? And for the '17 numbers, what brands will get the lion's share of that? And is that a gross number also?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Joe. Yes, for '16, we still expect to open around 18 to 22 new units. That is not a net number. That's a gross number. And for '17, the numbers I talked to you about, 24 to 28, is also gross, and we'll give you more insight on to what brands are going to have some of that growth next year in our June call.

Operator

And our next question is from Jeff Farmer of Wells Fargo.

Jeffrey D. Farmer
Wells Fargo Securities, LLC, Research Division

Just wanted to follow up on the table turn topic. I think a 7 minute or 10% reduction in average table turn time in Olive Garden, that's a pretty big number. So if the concept is capacity constrained for 15%, even 20% of transactions, that 10% reduction in table turn time would be a pretty sizable traffic driver. So is it a fair way to think about it like that?

Eugene I. Lee
Chief Executive Officer, President and Director

Jeff, I think it's -- I think your logic is correct. However, what we -- what we're measuring is the time the check opens and the time the check closes. That doesn't mean the consumer leaves, just because they had the ability to close that check out quicker. Internally, we are -- we're making the same -- we're making the assumption that the guest, after they closed out their check with a credit card and doing it in the historical way, on average, was hanging around the same amount of time after they pay the check as the consumer who's closing out on Ziosk just hanging around. And so if we make those 2 assumptions, then that 7 minutes is meaningful. But if -- we have no way of knowing if the guest is closing out the check with the Ziosk and then staying around a few extra minutes, then we're not really getting that full 7 minutes, so.

Jeffrey D. Farmer
Wells Fargo Securities, LLC, Research Division

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Okay. Then let me ask the question just a little different way. I think your Olive Garden's year-to-date traffic, up about 1.5%, big number, especially relative to the peers, what would some of the key drivers of that be?

Eugene I. Lee
Chief Executive Officer, President and Director

Key drivers is -- I'm going to go back to we're running better restaurants today. We're better staffed. Our process and procedures are simpler. Our restaurant managers are more focused and feel an ownership of having the responsibility to drive sales. Their compensation aligns with the -- with them driving same-restaurant sales. And so I think those are key drivers. I do think there's other things that we've done along the way. Ziosk is one of them that's helped out, and so on and so forth. So I got -- I want to keep going back to we're running better restaurants today. We're winning at the 9 square feet, and we're creating loyalty. These people, we're exceeding the guests expectation. We're focused and we're executing, and we still have room to improve.

Operator

And we have a question coming from the line of David Palmer of RBC Capital Markets.

David Palmer
RBC Capital Markets, LLC, Research Division

Gene, I think investors are wrestling with the fact that Darden puts a stake in casual dining in that -- the segment over the long term, and I guess it's gotten worse lately. It's showing same-store sales are -- in particular, same-store traffic declines. Are industry participants out there not executing like Darden, perhaps they're not reinvesting in food and labor like you and perhaps they're not even representing the segment versus fast food, which is doing much better than casual dining lately? Will you see some other segment-relevant issues? And perhaps tying into that, you get customer satisfaction, survey data that we don't see. Perhaps that gives you a signal to what's going on in terms of the competitive differentiation.

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, David. I don't want to get -- comment on what our competitors are doing. I will say that we are -- there are others in casual dining that are winning, that continue to outperform the industry and significantly outperform the industry with strong value equations and relevant brands. We continue to believe that if we invest in the guest and we provide an experience and provide value to the guests on multiple dimensions, we'll continue to grow our market share. We do have access to research. We like the trends that we're seeing with our brands, and it tells us the consumer is seeing what we're doing. But it does start with the basics of having a great host or hostess at the front door, inviting guests in. It starts with having service staff that's appropriately -- has the appropriate size section. They have the right smallwares and tools to do their jobs. And we have a simplified process in the kitchen, where our chefs and cooks can prepare the food properly. And I believe all the little details that we're doing is allowing us to create -- to steal market share at this point in time.

David Palmer
RBC Capital Markets, LLC, Research Division

So the food, the labor scores, I mean, what are the major -- if you had to pinpoint the scores that people are really are -- if they're getting the joke about your brands. And it's not just Olive Garden. You're outperforming with others, too. Is it mostly the food, mostly the labor? What is it?

Eugene I. Lee
Chief Executive Officer, President and Director

It's -- David, it's all, it's all. It's -- when we talk about food service and atmosphere as our key operating philosophy here, we're winning on food, we're winning on service, we're winning on atmosphere. And that all equals value. And value, I think value today in our industry is much more than just the price point. And so when we talk with management teams and the presidents here about what they're doing, we're trying

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to deliver value on multiple dimensions. Now you have to have value on with a price point for certain guests. But other guests on that dimension are looking for value that we deliver in different ways. I think we're doing a really good job of doing that. But we can't rest. We have to continue to evolve and continue to look for different ways to deliver value, because everything we can do in this industry can be replicated, except for the operational part. The operational part is really hard. And I'll go back to something I said earlier in a response to a question is, we're focused on doing simple things and simple things -- doing simple things is really hard.

Operator

The next question is from Jason West of Credit Suisse.

Jason West
Crédit Suisse AG, Research Division

Just a couple of questions. One, Gene, if you could talk about sort of your broader philosophy here around advertising. I know we've tried to dial back some of the monthly promotions that the brand used to rely on, but also just the broader kind of TV spending. Darden and Olive Garden have always been very heavy in that category. Do you see that type of spin winding down -- or not winding down, but sort of moderating over time as you run better restaurants and you need to rely less on that type of spending? And then I had a follow-up on CapEx.

Eugene I. Lee
Chief Executive Officer, President and Director

All right, Jason. TV, for Olive Garden, is still the best medium for us to spend our money. We can see sales move week-to-week based on how many TRPs we're spending, and so we are transitioning some dollars from TV over to digital and other -- and social and some other things. But TV is always going to play a big part of the Olive Garden story until something dramatic changes with the consumer. Our target audience is still fairly easy to reach through television. And one of the things that we've done a lot better in the last 24 months is really hone in on that target and spend against that target appropriately, and so Dave and the team have done a great job of ensuring every dollar we invest is moving forward. Where we are making meaningful progress on advertising spending is in LongHorn, where, I believe, we became very inefficient over time and trying to act like a bigger brand than we really were. And so we've been able to save significant dollars in that budget as we move to spot television and supporting our restaurants that aren't media efficient with other means of support. And that's been very effective for us, and we'll continue to do that.

Jason West
Crédit Suisse AG, Research Division

And on the CapEx. Rick, can you talk a bit about the plan at Olive Garden? I think you're talking about 60 remodels there for fiscal '17. I think you guys had done some tests around 30 units this year. Is that sort of the type of run rate that you're looking at for the next few years? Or do you expect that number to ramp more aggressively over time? And how many of the Olive Garden units do you think need a full remodel? Is it still that sort of half the base sort of number that we're thinking about?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Yes, Jason. In regards to remodels for next year, the 60 number is what we expect to be doing next year. We're getting great returns on those remodels. We also anticipate continuing to invest in our restaurants, including remodels the year -- in future years. But as I've mentioned in my prepared remarks, we also invest over 60 -- around $60,000 a year per restaurant to make sure that our restaurants continue to look fresh. The 35 that we have done have -- as I said, have done great for us. We expect to continue that result, and we'll continue to remodel as we find the right restaurants to remodel. But one thing I'll say is in the past, remodels were one size fits all, and we believe that we need to look at every restaurant individually to ensure that we spend the right amount of money in each restaurant and think of the

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remodel as more of an evolution versus a revolution. So we don't think we have to do all 200 to 300 of them at one time.

Operator

And our next question is from Jeffrey Bernstein of Barclays.

Jeffrey Andrew Bernstein
Barclays PLC, Research Division

Just looking back over the past 18 months, obviously, there have been an impressive turn of the fundamentals. I think we agree on both the comp and the cost-savings side. As we now think of kind of the next 18 months, just getting a lot of questions on the sustainability of that performance. Obviously, it's hard for you to forecast the comp side. Maybe you can offer some more color on the cost side, which I know you have been saying kind of the long-term run rate was now in the $150 million-plus range and whether you now start to consider some of the other big suggestions that came out 18 months ago, whether there's any thought of separating or monetizing some of the Specialty Restaurant Group and/or more potential around any kind of franchising or whatnot. Just your thoughts on those potential opportunities, and then I had one follow-up.

Eugene I. Lee
Chief Executive Officer, President and Director

Jeff, we are proud of the work we've done over the past 18 months. We've really made some great improvement. We've done that through focusing on some basics, as I've talked about. The management and the board will continue to evaluate all the alternatives for the business over time. We've laid out our long-term strategic framework. We believe the portfolio we have today is a great portfolio to achieve that. We've also laid out our strategic initiatives, which revolve a lot around scale, and we've laid out -- and we laid it out in a presentation, in our investor presentation, how that scale's really benefiting us from a G&A standpoint. And so as we look at what we're doing with the portfolio right now and our strategy, we believe moving forward with what we're doing and the path that we're on is the right path. As far as sustainability of the path that we're on -- and I go back to a couple of things. I go back to continuing to use scale. We're in the infancy of really taking advantage of our data and insights. I think that we are -- we're doing a lot with that today. I can't talk too much about it because it is a competitive advantage for us. And I also think that we're doing some really great things from a strategic's planning standpoint that are giving us an advantage in the marketplace. We'll continue to stay focused on running great restaurants. I believe that's the key differentiator at the end of the day. This is getting to be $100 billion category. Although we'd like to see it grow faster than it's grown, there's still a lot of market share available to be taken if we continue to outperform and out-execute the competitive set, and that's what we're focused on. And we -- again, as far as momentum, we've kind of laid out with the long-term strategic framework, what we think this business is capable of, and we believe providing our shareholders of 10% to 15% total shareholder return is a compelling investment in today's environment.

Jeffrey Andrew Bernstein
Barclays PLC, Research Division

Agreed. And then just to your point you mentioned earlier about the categories heading towards $100 billion. Obviously, you'd like it to be a little healthier. But I'm just wondering, when you get asked why maybe you're not seeing stronger trends across all of casual dining if the consumer confidence and employment are positive, gas prices are favorable. I'm just -- when you size up what you think the greatest industry headwinds are, the greatest concerns, is it capacity? Or is it, like you said, just lost value or maybe fast casual intrusion? Just what's holding back the category from what would've -- we would've expected to be further improvement in trend based on the historical correlations in some of those key metrics?

Eugene I. Lee
Chief Executive Officer, President and Director

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Yes. I think there's 2 thing I'll say. I think there is capacity. There's a lot of capacity out there, too. I think there's a lack of really good, innovative, new ideas that get consumers excited about what we're doing. I think that's the biggest headwind.

Operator

And we have a question coming from the line of Keith Siegner of UBS.

Dennis Geiger
UBS Investment Bank, Research Division

This is Dennis Geiger on for Keith. So just to build a little bit more on the competitive environment theme. Anything that you'd call out as it relates to where you're seeing the most impact from competition, whether it's the dinner or the lunch day part? And then for Olive Garden, are the $6.99 and $9.99 lunch and dinner price point offerings, in your view, the key drivers that's been helping you to win on value? Or is it much more a combination of things? And if the former, can we see the continued evolution of similar value offerings going forward?

Eugene I. Lee
Chief Executive Officer, President and Director

Let me start with the second question first. I do think anchoring your menus with everyday value is important so the consumer knows that they can come to your restaurant and not have to rely on being told what they have to eat from a promotional standpoint to get that value or use a coupon to get that value. And Olive Garden has always been the value leader, and so I think that's really important for them. What was the -- can you just tell me what the first question was again?

Dennis Geiger
UBS Investment Bank, Research Division

Sure. Just as it relates to value. If you could call out where you're seeing it -- I'm sorry, competition, where you're seeing it more, whether it's the lunch or the dinner day parts? Yes, any kind of commentary there.

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. I mean, all day parts, we're seeing incredible competitive pressure. I will say that I think the lunch day part for casual dining has a lot more competition because I think fast casual is a much more bigger option at lunch. I also think good -- great -- quick-serve restaurants provide competitive competition at lunch. And so when quick-serve gets stronger and gets -- and the value becomes much better, that puts a little bit more pressure on lunch.

Operator

And our next question is from John Glass of Morgan Stanley.

John S. Glass
Morgan Stanley, Research Division

On LongHorn, you talked a little bit about pulling back on price promotion and maybe that was the reason why traffic was sought for them in prior quarters. Is this part of the evolution that you're doing in the brand similar to Olive Garden, where you're going to focus more on this anchor price points? Are you doing that at risk or at parallel, since the commodity is down, your competitors are going to be more price promotional on steak? Maybe you could talk about if you've actually seen that and if that's a real risk there.

Eugene I. Lee
Chief Executive Officer, President and Director

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Now John, we -- when we think about the positioning for LongHorn, we see that the target consumer there is a lot different than the target consumer at Olive Garden. And I think in the last couple of years, we drifted the target in LongHorn down to a consumer that is more -- trying to be more like an Olive Garden consumer, and I think that we've done a lot of price points at 2 for $29, $12 steaks. I believe LongHorn's a bit of -- more of a premium offer, and we need to focus on that. So right now, we're out there doing our 18-ounce bone and ribeye, and we're out there promoting a 10-ounce filet, which is the first time in 6, 7 years we've been out there with a 10-ounce filet. And consumer satisfaction is improving dramatically. At the end of the day, what we're doing in LongHorn today is we're removing some consumers, some guests from the guest base that we're confident that we won't make any money on. And they were consumer that was spending -- buying a low-end steak, coming in with a $5 coupon, and that was all happening while we had a 45-minute wait outside the restaurant, waiting -- people waiting to get in to pay full price for a -- more of a higher-end experience in casual dining steak. And so we believe that we're transitioning the positioning slightly, and we believe this is the right place to be. It's a place that -- I'm personally a lot more comfortable for -- with LongHorn and where LongHorn should be. We're going to invest in quality, we're going to invest in staffing, and most importantly, we're going to invest -- and we're going to continue to simplify the LongHorn operation, has become too complex over time.

John S. Glass
Morgan Stanley, Research Division

Great. And Rick, if I could just follow up on your 2 -- your comments on '17. First, just with respect to CapEx, is this kind of a steady-state? It's been going up, I don't know, 30%, 40% next year. But is this kind of the new steady-state in terms of unit openings you'd expect for the next couple of years? I think you commented about remodels. But is this a good way to think about the capital spend in the business in aggregate? And then is 2017 also an opportunity to look at the balance sheet? How active a conversation is looking at the balance sheet now that you've got real estate behind you and the business is in much stronger footing? Is that potentially a 2000 event -- a releverage event?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Thanks, John. The 2017 CapEx that we mentioned in the new units, I would refer you to a long-term framework that we have for new units of 2% to 3%. The amounts that we gave you there are slightly below the long-term framework on new units, but we expect to be at the long-term framework over time. And can you give me the -- remind me the second part of the question? Sorry.

John S. Glass
Morgan Stanley, Research Division

Your balance sheet.[indiscernible]

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

The balance sheet. We continually work with our board to regularly evaluate the alternatives that we have with the cash on hand to achieve our financial goals, and the -- but our first priority is to maintain the investment grade profile.

Operator

And we have a question coming from the line of Karen Holthouse of Goldman Sachs.

Karen Holthouse
Goldman Sachs Group Inc., Research Division

Yes, another question on catering. I'm curious if you have any idea of the breakdown for how much of that is B2B versus going towards a consumer? And then within, I think, a pretty fragmented sort of large order catering market, do you have a sense of who you might be taking share from?

Eugene I. Lee

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Chief Executive Officer, President and Director

Yes. Karen, it's primarily B2B at this point in time. However, we are seeing some growth in residential. We have done weddings. We're heading into graduation season. And so again, I get back to the point I made earlier, this is about building awareness. Because every time we do an event, we are -- the intent to reorder is extremely high and the satisfaction is extremely high. Right now is a natural for B2B, but we do believe we can grow it into a -- into more of a residential large whole meal replacement opportunity.

Karen Holthouse
Goldman Sachs Group Inc., Research Division

Great. And then one quick housekeeping, if I can squeeze it in. Last year, the fourth quarter ended a week after Memorial Day, and this year, it looks like it ends on Memorial Day weekend. Is there any sort of -- would you expect that sort of that first week of summer index to a higher -- lower sales week that we should be thinking about?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Yes. I would say, Karen, for the fourth quarter, you'd probably expect the first week to be a little lower because of the Memorial Day weekend. The last week -- I'm sorry, the last week.

Operator

And we have a question coming from the line of Andy Barish of Jefferies.

Andrew M. Barish
Jefferies LLC, Research Division

The LongHorn margin stepped up significantly in the quarter to 20%. I know you talked about some of the promotional changes. Are we at a sort of a new level here? I mean, it was pretty rapid step up. Or maybe how much of it was beef versus some timing or marketing shifts? Just trying to gauge what went on with the margins at LongHorn?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. Part of -- first of all, third quarter in LongHorn is, by far, the best quarter, and so that model really starts to work when you get into $67,000, $68,000 a week for average weekly sales. Beef was very little of it. We haven't started to see that really flow through. Some of it was -- as I've talked about, was the marketing. We -- we're -- we've got -- every single line item continued to improve, and it was a lot of individual 10 basis points here, 20 basis points there that added up to a 400 basis points with the big savings coming in, in labor. And so again, it gets to that whole idea of we get LongHorn to $67,000, $68,000 a week, this model really works.

Operator

And we have a question from David Carlson of KeyBanc Capital Markets.

David Carlson
KeyBanc Capital Markets Inc., Research Division

Gene, has the increased To Go volume created any operational issues for the restaurants? And do you believe the restaurants are well positioned to handle greater volume following the receivable [ph] of advertising support? And I have a follow-up.

Eugene I. Lee
Chief Executive Officer, President and Director

Yes, David. One of the things that the Olive Garden team did was before we really started to push take out is they went back and they looked at every process and procedure and ensured that they were able to handle the increase in volume. And therefore, this is -- this has been really, really well-thought

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out. The beauty of the catering delivery is it's -- we ask for 24-hour advance notice, and we're actually able to increase our productivity because we're able to plan ahead and we're able to use some of our downside -- downtime in our cycles to help prepare for the catering delivery. So that's really been a real enhancement from a productivity standpoint. We believe that we can continue to handle the increase in volume, especially if it comes in catering delivery because that usually goes out our door before lunch or before dinner, which is ideal. So growth in that business really, really increases our overall productivity.

David Carlson
KeyBanc Capital Markets Inc., Research Division

Well, that makes sense. And then my follow-up was now that you guys have the digital ordering for To Go, have you noticed much of a -- a much larger ticket from the online orders versus the old phone-based ordering system?

Eugene I. Lee
Chief Executive Officer, President and Director

Yes. The online ordering's still -- the ticket's still 20% higher than calling on the phone. We're incentivizing people to switch over to online ordering. Just the overall process, when you think about it, when you're on the phone, we're trying to do the best job we can at the restaurant, but sometimes that person taking the order behind the counter or behind the bar has got a guest in front of them and so they're -- one of the things they're trying to do is get the order as fast as they can and get them off the phone, where if you're online, we can push you through a process and do a much better job selling to you. And we find that consumer online is much more apt to buy up. And so we're trying to incentivize as much business to switch over to online to -- ordering. And we also just put out -- the Olive Garden just put out its new app this week. So hopefully, that will continue to help. That will help migrate people over to online ordering.

Operator

And we have a question from Steve Anderson of Maxim Group.

Stephen Anderson
Maxim Group LLC, Research Division

So I have a couple of questions on the -- on your cost-reduction goals as well as on food cost. First, on the cost-reduction side. I know you gave guidance back in December on the food -- rather on the -- your cost-reduction goals. So I just want to see, maybe I missed this as you provide an update on that -- on this call. As well as any update on your food cost, outlook on food costs? Has that changed?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Sure, Steve. We still expect our total cumulative savings to be between $145 million to $165 million over fiscal '15 through fiscal '17. Now I just want to remind you that we're leveraging our scale and simplifying our business in ways that don't impact the consumer. We expect $80 million to $90 million of those cost savings to come in this year. In result -- in answer to your question about inflation and commodities, we expect -- and what we have in our Web presentation in the appendix is we expect low single-digit deflation in commodities in the fourth quarter. But overall, inflation for the year is still -- is expected to be 1% to 1.5%. That's slightly favorable to the amounts that we gave you in the second quarter. So again, overall inflation, 1% to 1.5%, but low single-digit deflation in food and beverage in the fourth quarter.

Operator

And we have Andrew Strelzik for the question and answer from BMO Capital Markets.

Andrew Strelzik
BMO Capital Markets Equity Research

Two things. First, clearly, the comps momentum is strong, but if you look at it on a 2-year basis, in February, the traffic just fell a little bit. Is there anything maybe onetime in nature that might have

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impacted that? Or do you not look at it that way? And secondarily, just looking at capital allocation for 2017, obviously, the step-up in CapEx. I'm wondering if the long-term $100 million to $200 million share repo is in play for 2017. Or should we expect something maybe lower than that with the step-up in the CapEx?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

Yes. Let me answer first the CapEx question, and then I'll go back to the same-restaurant sales. The $100 million and -- to $200 million that we have in our long-term framework is that it's our long-term framework. We'll tell you a little bit more about '17 in '17, but I would expect it to be somewhere in there. But it won't be -- it shouldn't be impacted by the increase in CapEx. I can tell you that. On the same-restaurant sales, our 2-year same-restaurant sales in February, trying to get to that number for you real quick, is about 5.7%, so still a strong 2-year stack. It wasn't as big as January, I believe. But still, 5.7% over 2 years is strong performance, and we feel good about that.

Andrew Strelzik
BMO Capital Markets Equity Research

So certainly, the overall comp, I wouldn't disagree with your comment. I was looking more at the traffic. But maybe we'll take the question off-line.

Operator

And we have a question from John Ivankoe of JPMorgan.

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

A short one for me. When you guys look at where the beef spot markets are and where the beef futures markets are in terms of live and feeder cattle and maybe the price of corn, I mean, how does that give you a feeling about in terms of what you think your commodity basket could potentially be for '17? In other words, relative to what you paid in '16, how good of an environment could we potentially be in?

Ricardo Cardenas
Chief Financial Officer and Senior Vice President

John, we'll comment on the full commodities basket on -- in the call in June for '17. But let me just -- I'll just give you my thoughts on the beef market as I'm pretty close to it. I -- the futures market looks very positive as we move forward. We, at Darden, have been short through these last cycle, and we expect it to be a tailwind as we move into next year. I will say, and I think it's important that -- for everybody to know this, is that the middle meats continue to be strong. And we've seen a lot of relief in ground beef, but we have not seen a lot of relief in the middle meats, your tenderloins, your short loins and your ribs. And so I believe that beef in '17 will be less than it was in '16, but I also believe beef is still going to be historically expensive.

Operator

And at this time, we don't have any question on queue.

Kevin Kalicak

All right. Thank you, Hans. That concludes our call. I want to remind you all that we expect to release our fiscal 2016 fourth quarter and full year results on Thursday, June 30, before the market opens with a conference call to follow.

Thank you all for your participation in today's call, and have a great day.

Operator
And that concludes today's conference. Thank you for participating. You may now disconnect.

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