

25-Mar-2021

Darden Restaurants, Inc. (DRI)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden Fiscal Year 2021 Third Quarter Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [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

Senior Vice President-Finance and Investor Relations, Darden Restaurants, Inc.

Thank you, Jack. Good morning, everyone, and thank you for participating on today's call. Joining me on the call today are Gene Lee, Darden's Chairman and CEO; Rick Cardenas, COO; and Raj Vennam, 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 this morning 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 darden.com.

Today's discussion and presentation include certain non-GAAP measurements, and reconciliations of these measurements are included in the presentation. We plan to release fiscal 2021 fourth quarter earnings on June 24 before the market opens followed by a conference call.

This morning, Gene will share some brief remarks, Rick will give an update on our four operating priorities, and Raj will provide more detail on our financial results and share our outlook for the fourth quarter and a partial outlook for fiscal 2022.

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

Eugene I. Lee, Jr.

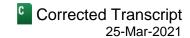
Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Thanks, Kevin, and good morning, everyone. It's hard to believe it's been a year since the pandemic began to significantly impact our business. When I reflect back on everything that's transpired, it is clear to me the strategy we developed six years ago provide a strong foundation to help us navigate this period of unprecedented change and uncertainty.

Our portfolio of iconic brands has been focused on executing our Back-to-Basics operating philosophy, while leveraging our four competitive advantages of significant scale, extensive data and insights, rigorous strategic planning, and our results-oriented culture. And while our four competitive advantages were critical to our business and operational success this past year, our significant scale and results-oriented culture have played an outsized role in our ability to emerge stronger.

A significant scale enabled us to quickly react to the turbulent operating environment. The depth and breadth of our supply chain relationships ensured that we could adjust our product supply as needed without experiencing

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any significant interruptions. We have our own dedicated distribution network, and the assurance of an uninterrupted supply chain provide a consistency and a high level of certainty for our operators.

Our scale also enabled us to significantly accelerate the development of online ordering and several other digital initiatives and cascade them across our brands quickly and effectively. The robust expansion of our digital platform over the past year has provided us a richer set of first-party data on new and existing guests.

Finally, our scale provided us with multiple levers to pull to ensure we had the liquidity we needed during the early days of COVID-19. As soon as our liquidity needs were solved for, our brands were able to focus on strengthening their value propositions and transforming their business models.

As our founder Bill Darden said, the greatest competitive advantage our company has is the quality of our employees, evidenced by the excellent job they do every day. Throughout this past year, Darden and our brands have emerged stronger, and our success is a direct result of our team members and their relentless commitment to delivering safe and exceptional guest experiences.

That is why we've continued to invest in our team members throughout the past year. Since March of 2020, we've invested more than \$200 million in our people through programs such as paid sick leave, COVID-19 emergency pay and covering insurance payments and benefit deductions for team members who were furloughed.

These investments also include our recent decision to provide all hourly restaurant team members up to four hours of paid time off for the purpose of receiving the COVID-19 vaccine. In addition, these investments include the one-time bonus we announced today totaling approximately \$17 million, which will impact nearly 90,000 hourly team members.

As we continue to grow our business and welcome guests back into our restaurants, continuing to attract and retain the best talent in the industry will be critical to our success. While we're proud that, on average, our hourly restaurant team members earn more than \$17 per hour today, which includes our servers and bartenders who earn more than \$20 an hour, I'm excited about the investments we made this morning.

Beginning Monday, every hourly team member tipped and non-tipped will earn at least \$10 per hour, inclusive of tip income. Additionally, we are committed to raising that amount to \$11 per hour in January 2022 and to \$12 per hour in January 2023. These investments further strengthen our industry leading employment proposition.

Lastly, I continue to be impressed and inspired by our team members who have shown extraordinary resilience and passion during the past year. Once again, I thank you for your commitment to delivering exceptional guest experiences in our dining room and through curbside-to-go. You are the heart and soul of our company, and on behalf of the management team, we're extremely grateful to you.

Now, I'll turn it over to Rick.

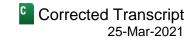
Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Thank you, Gene, and good morning, everyone. As Gene said, it's hard to believe we've been operating in this environment for a year. In addition to executing our Back-to-Basics operating philosophy, our restaurant teams have continued to successfully manage through this situation by remaining focused on the four key priorities we established at the onset of the pandemic. One, ensuring the health and safety of our team members and guests;



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two, simplifying operations and strengthening execution; three, deploying technology to improve the guest experience; and four, transforming our business model.

The health and safety of our team members and guests remains our top priority. Throughout the past year, our team members have done a fantastic job of upholding our safety protocols, while taking great care of our guests. Today, even as restrictions are easing in some parts of the country, we continue to follow our enhanced safety measures. This includes daily team member health monitoring, requiring masks for every team member, enhanced cleaning procedures, and social distancing protocols.

Our second priority has been to continue finding ways to simplify our operations and drive in-restaurant execution at each of our brands. This environment gave us a once-in-a-lifetime opportunity to evaluate every aspect of how we operate and make decisions we would not have been able to do in a normal operating environment.

A good example of this work all of our brands have done to streamline menus and remove low preference or low satisfaction items. This focus makes it easier for our restaurant teams to consistently execute our highest preference items, which means we are serving our most popular dishes to more guests.

In fact, a year ago, the top 10 entrées at Olive Garden accounted for about 48% of guest preference. And today, they account for approximately 55%. Reducing the bottom selling items eliminates distractions and allows us to execute at a high level. We have dramatically reduced low volume items, which reduces the need to prepare them, saving time and reducing food waste. For example, at LongHorn Steakhouse, the number of total items with less than 1% preference is down to 8 from more than 25 pre-COVID.

Third, we continue to deploy technology to improve the guest experience and build on the progress we have made over the last 12 months. When the pandemic began and our dining rooms were closed, we were able to quickly roll out online ordering at our brands that had yet to deploy it. We also streamlined the curbside-to-go pickup process by rolling out the Curbside I'm Here text message notification feature, so guests can easily alert us when they arrive.

These technology enhancements and other process improvements helped Olive Garden achieve new all-time high guest satisfaction ratings for delivering on-time and accurate off-premise experiences during a quarter that included three busy off-premise days; Christmas Eve, New Year's Eve and Valentine's Day. In fact, Valentine's Day was our highest sales day since the start of the pandemic.

Also during the quarter, several brands, including Olive Garden and LongHorn, implemented enhancements to their websites to streamline the online checkout process. This resulted in a meaningful reduction in order abandonment rates. Our continuous digital transformation is resonating with our guests. In fact, during the quarter, nearly 19% of total sales were digital transactions. Further, 50% of all guest checks were settled digitally, either online or on our tabletop tablets or via mobile pay. We have made great strides in our digital journey over the past year, and we will continue to strengthen our digital platform and provide our brands with the tools to compete more effectively.

And finally, the investments we've made to simplify our business through menu and process simplification have resulted in significant transformation of our business model. For example, across Darden, our hourly labor productivity has improved by over 20%, with some brands improving by well over 30% such as Cheddar's.

We thought it would be helpful to provide a bit more insight into what the business model transformation has done to Cheddar's P&L. Year-to-date through the third quarter, Cheddar's has grown their restaurant-level margins by

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over 300 basis points on a year-to-date sales retention of 75%. When Cheddar's reaches 100% of the pre-COVID sales, we expect our restaurant-level margins to be well in the high-teens. While we don't intend to continue to provide this level of detail in the future, this illustration helps to highlight the business model improvements our brands are making.

As we have mentioned previously, the simplifications across all of our businesses are expected to result in a 150 basis point of margin improvement with 90% of pre-COVID sales. Our business model transformation also strengthens our belief in our ability to open value-creating new restaurants across all of our brands. Due to this transformation, the sales required to exceed our return expectations are much lower today. In fact, we opened six new restaurants during the quarter, and each is exceeding our expectations.

Before I hand it over to Raj, I want to conclude by saying thank you to our team members. As Gene said, our success is a direct result of their hard work. Being of service is at the heart of our business, and our team members demonstrate that every day through their commitment to our guests and each other. Raj?

Rajesh Vennam

Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

Thank you, Rick, and good morning, everyone. For the third quarter, total sales were \$1.73 billion, a decrease of 26.1%. Same-restaurant sales decreased 26.7%. EBITDA was \$236 million, and diluted net earnings per share from continuing operations were \$0.98.

Turning to this quarter's P&L, food and beverage expenses were 80 basis points higher than last year, primarily driven by investments in food quality and mix. Restaurant labor was 20 basis points higher. As Gene mentioned, we invested approximately \$17 million in team member bonuses this quarter.

Excluding the team member bonuses, restaurant labor would have been 80 basis points favorable to last year. The favorability to last year was driven by hourly labor improvement of 280 basis points due to efficiencies gained from operational simplifications Rick discussed. The hourly labor improvement was partially offset by deleverage in management labor due to sales declines. Restaurant expense per operating week was 16% lower than last year, driven by lower workers' compensation, utilities, repairs and maintenance expense.

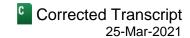
Restaurant expense as a percent of sales was 250 basis points higher than last year due to sales deleverage. Marketing spend was \$52 million lower than last year, with total marketing 200 basis points favorable to last year. This all resulted in restaurant-level EBITDA margin of 18.4%, only 150 basis points below last year.

Excluding the one-time hourly team member bonus, restaurant-level EBITDA margin would have been even stronger at 19.4%. We impaired one Yard House restaurant this quarter, resulting in a non-cash impairment charge of \$3 million. This location was in Portland, Oregon and had been temporarily closed since April.

Turning to G&A, we finalized a legal recovery during the quarter, resulting in favorability of \$16 million. This favorability was partially offset by \$8.8 million of mark-to-market expense on our deferred compensation. Excluding these two items, G&A would have been \$86 million this quarter. As a reminder, the mark-to-market expense is related to significant appreciation in both the Darden share price and equity market this quarter. And due to the way we hedge this expense, it is mostly offset on an after-tax basis.

Page 13 of this quarter's presentation illustrates the \$8.8 million reduction of operating income and corresponding operating income margin reduction of 50 basis points from mark-to-market expense. Our hedge reduced income tax expense by \$7.2 million, resulting in a net reduction to earnings after tax this quarter of \$1.6 million.

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Our effective tax rate of 2.3% this quarter was unusually low due to two factors. First, the tax benefit from the deferred compensation hedge I just mentioned reduced the tax rate by 5 percentage points. Second, the stock option exercises this quarter drove approximately \$7 million of excess tax benefit, reducing the tax rate by 4.8 percentage points. After adjusting for these factors, our normalized effective tax rate for the third quarter would have been 12.1%.

Looking at our segment performance this quarter, Olive Garden saw segment profit margin increase versus last year, despite sales declines. Our continued focus on simplified operations, which significantly reduced direct labor, combined with lower marketing expenses, drove this margin improvement.

Segment profit margin declined for LongHorn, as higher-than-average beef inflation and other investments drove higher food and beverage expense. In addition, both labor and restaurant expenses were higher as a percent of sales due to sales deleverage.

Segment profit margin declined for Fine Dining and Other segments due to deleverage across the P&L from the significant sales decline year-over-year. We generated over \$240 million of free cash flow this quarter, ending the third quarter with over \$990 million in cash. Our recent performance has given us better visibility into the durability of our cash flows. Therefore, we will return to our 50% to 60% dividend payout target applied to future earnings to determine our dividend.

To that end, the board declared a quarterly cash dividend of \$0.88 per share, matching our pre-COVID dividend level. The ability to resume pre-COVID dividend levels 12 months after suspending it is a testament to the strength of our business model and the durability of our cash flows. And finally, today, we announced a new share repurchase authorization of \$500 million, which replaces all previous authorizations.

Turning to the fourth quarter, as of today, we have 99% of our dining rooms open with some capacity. This morning, we provided sales trends for the first three weeks of the quarter in which we saw week-to-week sales improvements, as the vaccine rollout progressed, dining room capacity increased and consumers began receiving stimulus checks. Taking that all into consideration, we currently expect for the fourth quarter total sales of approximately \$2.1 billion, EBITDA between \$345 million and \$360 million, and diluted net earnings per share from continuing operations between \$1.60 and \$1.70 on a diluted share base of 132 million shares.

We've also updated our full year outlook for capital expenditures to be between \$285 million and \$295 million, and we anticipate opening 33 net new restaurants for the year. We continue to believe we can achieve pre-COVID EBITDA dollars on 90% of pre-COVID sales, resulting in 150 basis points of EBITDA margin growth, and our Q4 outlook falls within this framework.

As we move beyond the fourth quarter, there are additional costs such as training, travel, growth costs, incremental marketing and other investments that we expect will need to come back into the P&L. And while it's too early to provide insights into fiscal 2022 sales and earnings, we did want to provide some preliminary guidance for a few items. We expect total capital spending between \$350 million and \$400 million and open approximately 35 new restaurants in fiscal 2022. We also anticipate an effective tax rate in the range of 12% to 13% for fiscal 2022.

And with that, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] David Palmer with Evercore ISI, your line is open.

David Palmer

Analyst, Evercore ISI

Thanks. Just a clarification first, that rubric or thinking about 150 basis points of margin expansion permanently, did that contemplate these labor investments that you're making? That clarification would be helpful. But my question is really about the seating currently and your thinking about the meaningfulness of recent weeks.

The seating capacity, you mentioned you have partial dining rooms in 99% of the restaurants or locations, but how much of the seating is available currently? And how much do you think that that is holding back comps? And, Gene, my follow-up, which I'll just say right now, it looks like these off-premise numbers are very strong. The mix is very high, even as people get more comfortable. Are you rethinking the stickiness of that off-premise business? And I'll pass it on. Thanks.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Good morning, David. Yes, the labor investments we made is embedded in the 150 basis points improvement we think we can make at 90% of sales, so that is inclusive there. Let's talk about the dining room capacity. Basically the way our dining rooms are laid out, LongHorn has an advantage over Olive Garden in its utilization because of the number of booths. But the way to think about it is, we're somewhere between 50% and 60% capacity inside the dining room, depending on the particular floor plan.

And so, there's still limitations of availability inside our restaurants. Now, as long as we're following the CDC guidelines, it doesn't matter what the local municipalities are doing. And we believe right now it's in our best interest, our team members' best interest with the priority of their health and safety for our team members and our guests to continue to follow the CDC guidelines. And so, think about our dining rooms somewhere between 50% and 60%, 65% depending on the individual floor plan.

Off-premise stickiness, let me start off by saying I am incredibly impressive what our team has done to improve our capabilities in the off-promise experience. The digital experience is getting better every single day. It's being adopted. I thought – in Rick's prepared remarks, he talked about 19% of our total sales now being digital. I think that's really impressive.

I do believe that as we get to offer more capacity and we see this in individual restaurants that the off-premise will start to fall off, I think why the capacity is limited, and there's still a lot of people out there that aren't fully vaccinated, there's still good demand for the off-premise. I believe that because of our capabilities that we've developed during the pandemic and our vision for how those capabilities will continue to improve in the future that our off-promise business will still be robust when it's all said and done. I can't tell you today what that percentage is going to be.

David Palmer

Analyst, Evercore ISI

Thank you.



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Operator: Dennis Geiger with UBS, your line is open.

Dennis Geiger

Analyst, UBS Securities LLC

Great. Thanks for the question. Gene, wanted to ask a bit more about any kind of regional differences that you might be seeing. I think you gave some interesting color there on CDC guidelines being the capacity constraint in most cases for your restaurants. But curious, by region, by state, if you're seeing a notable difference in performance based on those state restrictions. And then just kind of following up on that, as it relates to off-premise, where you do have greater capacity in select restaurants or states, if that off-premise looks a whole lot different than it does across the system, on average. Thank you.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Well, obviously, we're only at 25% capacity in California, which is – that's pretty restrictive there. So, our takeout percentage is higher in California. So, I would say, there's still pressure on the coasts, both coasts. Especially in the Northeast part of the country, you're still seeing mobility not as great as it is and what I would call from Arizona all the way over to the Carolinas, where I think mobility is much greater and the consumer is much more willing to get out and move around.

So, there is difference in sales there. But every day, I mean, this is very dynamic, folks. This is changing daily as more and more people get vaccinated, more and more people become confident in their ability to be mobile. And it's getting to the point where I think we're cautiously optimistic and excited about what's going to transpire here over the next few months, maybe few years.

Dennis Geiger

Analyst, UBS Securities LLC

Great. Thank you.

Operator: Jeff Farmer with Gordon Haskett, your line is open.

Jeffery Daniel Farmer

Analyst, Gordon Haskett Research Advisors

I'm sorry. Just looking for a little bit of a follow-up call here. And just in terms of looking at the To Go sales, I'm curious what you've learned in terms of the nature of these customers. Are they new customers or are they existing customers driving increased frequency? I'm just curious what you guys are seeing in terms of who's actually driving these very strong To Go sales levels.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Hi, Jeff. It's Rick. Thanks for the question. In regards to the To Go sales and who's driving it, at the start of the pandemic, we saw a lot of new customers, a lot of new ones coming and then hadn't been to our restaurants before. And the frequency with which they reordered was pretty high. We're still seeing those new customers, but everybody is ordering To Go, right? If you came into the dining room and the dining room is full, you may just walk over to the To Go station and order. But the frequency of our newer customers was higher and is higher than the frequency of our existing customers.

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We are really happy with what we've done, as Gene mentioned, with the technology that we put in the To Go business. It is helping to get some younger people in our restaurants or to order To Go. What we've done with car-side To Go and Curbside I'm Here has made it so much easier for people to come pick up. And so, we feel really good about the customers we're getting and the information we're gleaning from them.

Jeffery Daniel Farmer

Analyst, Gordon Haskett Research Advisors

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Thank you.

Operator: Jake Bartlett with Truist Securities, your line is open.

Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

Great. Thanks for taking the question. Gene, my first one is just the comment about the 50% to 60% capacity in terms of following the CDC guidelines. As we look at restrictions easing across the country, do they really matter? Or should we just really kind of think about just the overall guidance from the CDC as we think about your capacity increasing?

Eugene I. Lee, Jr.



Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, I mean, I think it's a very interesting question. I think we're hoping that CDC comes along with the consumer and the consumer behavior. We feel right now it's still prudent to follow that guidance. There may be a point where we determine that guidance is out of date, and out of date with the consumer in a certain marketplace. But it's too early to tell. Right now, we believe that the best course of action is to continue to follow the CDC guidelines.

And just back on the 50% to 60% capacity, one of the things you'd really lose in like a – on a LongHorn box is that those two or three deep standing at the bar waiting for tables, that's not there. So, that's kind of included in that lack of capacity that we have right now. We're still asking guests to wait outside and not congregate in our lobbies. So, there's revenue that we're losing there, too. So, I think here in the near term, I think it's – let's follow the CDC guidelines and let's see if some other leading indicators around COVID cases and the death rate continue to decline, and then we'll continue to reevaluate as we move forward.

Jake Rowland Bartlett



Analyst, Truist Securities, Inc.

Got it. Thank you. And then I had a question about the fourth quarter guidance. And maybe in the context of the weekly same-store sales that you gave, and the last week was obviously very strong and positive. I believe the guidance is implying still lower, I think, about 8% or 9% lower average weekly sales in the fourth quarter versus 2019. So, I think you're expecting a deceleration from current levels. Maybe if you can just talk about that and then if there was anything abnormal about this last week in relation to 2019.

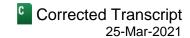
Eugene I. Lee, Jr.



Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Well, yeah, the government sent a bunch of checks to a lot of people. I mean, there's a lot of stimulus in the marketplace as – there's multiple variables that are transpiring, right? So, we've got stimulus being sent out, we've

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got vaccinations increasing, we've got the virus declining. What we can't do is really tease out which one of those variables is driving this.

We believe that stimulus is a really big part of maybe the back end of 2014, a weakening 2014 and a weakening through 2021. And so, we don't have that stimulus in our outlook for the rest of the quarter. We know from history that fades. And this was a big stimulus package. So, we'll see how long it lasts. But right now, we're thinking that it tails here pretty quickly.

Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

Thanks a lot. Appreciate it.

Operator: Eric Gonzalez with KeyBanc, your line is open.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

Hey. Thanks for the question. Just maybe a margin question, I think your guidance is implying one of the highest EBITDA margins we've seen possibly in some time. So, can you maybe talk about what's one-time, what's sustainable in terms of that guidance? Clearly, there's some marketing savings and, obviously, the 150 basis points that we talked about in the G&A savings. But maybe you can go through that, and what's part of the upside to recent margin trends are sustainable going forward. Thanks.

Rajesh Vennam

Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

Yeah. Hi, Eric. This is Raj. Thanks for the question. So, when you think about the margin, I think it depends on really where the sales levels are. And as I mentioned in the prepared remarks, there are some costs that have to come back into the P&L. And that will come back, but it's not like we're going to ramp up those costs as fast as the sales are coming back here, right?

So, as you look at Q4, one, I want to point out, Q4 generally is our highest or one of – is higher an EBITDA margin than the annual average. Combine that with the fact that we have this decent acceleration in sales from Q3 to Q4, and some of these costs we're talking about will come back over time as we go beyond Q4.

And when you think about at the 90-plus percent sales levels, if you – I'm not saying that is the discrete cutoff, but if you'll think about at that level, it's really marketing and labor are two big contributors positively as a percent of sales, and then the – partially offset by food costs going up. That's where we have made some investments, we've all along made investments into the value proposition for the guests. We'll continue to do that, too.

So, we feel like at those levels, marketing and labor will help, food will take away from it. Restaurant expenses are probably going to be relatively flat, maybe slightly off by 10 basis points. And then G&A, we should be flat at 90% given the reduction we have done on the G&A. As we grow from there, we do think some of those costs will come back in. And I think we're still not saying the margins are going to go down any further, but we do want to maintain the 150 basis points and see what we can do. But some of these things are going to play out based on the environment and the economic backdrop.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.



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Corrected Transcript
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Thanks.

Operator: Jeffrey Bernstein with Barclays, your line is open.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

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Great. Thank you very much. The primary question is just on the wage rates, obviously, encouraging to see you seemingly setting a floor for the hourly team members. I'm just wondering how large of an investment is this in dollars to assure all people make at least \$10 an hour.

And maybe more broadly, Gene, what are your thoughts on the likelihood of more of a national hourly and tipped employee wage increase? Maybe you can just share what your approach has been in terms of pricing or profitability in the states that are already at these elevated levels. And then I had one follow-up.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.



Hey, good morning, Jeff. We're not going to – we'll always say about the cost of this is – it's just covered in our guidance, and we're not going to get into the specific cost of implementing this program. As far as wage rates nationally, I mean there's a lot of momentum here. I think that there's momentum for a bipartisan group to get to a solution that, I think, everybody can live with. I think that our focus is more on protecting the tip wage. We think that is extremely important for the overall restaurant business. We think it's extremely important for both constituents.

The server doesn't want that relationship to change with the consumer, and the consumer doesn't want that relationship to change with the server. And so, our focus and working with the powers to be is explaining how this relationship works and the importance of this relationship.

And I would point to the fact that our average server earn – our average tipped employee earns greater than \$20 per hour. And you think that's an – and that's an average. So, you think about, as these servers develop their skill set in their capabilities and become very competent, they have the opportunity to earn well above \$20 per hour once they become proficient at what they're doing. And I think that's important to note.

I also think it's very important to note that, if the tip wage was to be eliminated, the current compensation model for servers would have to change. The industry would change that, the way people are compensated, and it's my belief over time that those people will be compensated less, not more. On wage, I would just end with that, I believe that we're really well positioned to manage through any changes here.

We've been managing structural wage changes for years. And we do that through improved productivity. We do that through pricing. But we've been able to manage that effectively, and I believe that we're well positioned to manage whatever changes come out of Washington, or out of the individual states, as we move forward.

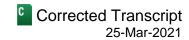
Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.



Understood. And then just a follow-up. Just as you mentioned marketing as one of the big helps in terms of the margin opportunity, I'm just wondering, I think you said it was down \$50-plus million in the third quarter, a couple hundred basis points. Just wondering how you're thinking about that recovery, whether it's the fiscal fourth quarter or just qualitatively, how you think about fiscal 2022? Maybe your thoughts on various marketing channels for

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investment or whether there are some permanent savings opportunities as maybe you shift away from some of the more expensive channels. Thank you.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

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Yeah, Jeff. I think right now, the way we're thinking about it is, we don't have any definitive plans as we move forward. We really need to understand what the competitive environment is, and then we have to really evaluate all the different channels and which is the most effective channel for each of the businesses, which I believe are very different. And then we'll have to – if we need to layer it back in, we'll have to make the decision on what's the highest ROI investment that we can make for each of the businesses.

And so, we have some contingency plans already developed. We know what levers we would pull in different environments. But right now, we think we're spending at the appropriate level. We're still spending some good money in Olive Garden. We bought in the up fronts. We're still running some very good television. I really like the creative. I think the team's done a very good job on the creative. And so, I think we're getting across great messaging. So, it's not like we've cut all advertising. We're still in some digital channels. We're still spending money on search. We think we're spending at the appropriate levels right now and we'll continue to evaluate as we move forward.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Thanks for the color.

Operator: Chris Carril with RBC Capital Markets, your line is open.

Christopher Carril

Analyst, RBC Capital Markets LLC

Hi, good morning. So, clearly, you've used the opportunity over the last year to find efficiencies in the business and lean further into digital. How are you thinking about the composition of your brand portfolio now longer term in the context of all the improvements that you've discussed recently and again this morning? And how at an enterprise level you're positioned to potentially add brands and further leverage the scale advantages you've built?

Eugene I. Lee, Jr.

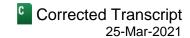
Chairman & Chief Executive Officer, Darden Restaurants, Inc.

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Yeah. We love our brands today. I think that some of our brands that were — maybe I wouldn't say they're underperforming, they may be underperforming our expectations because against a broader competitive set, they were at the midpoint or even better than that. But the moves that were made and the structural changes to these business has us really excited and we think more about growth for some of our brands that probably didn't earn the right to have a lot of new capital invested in them because the returns weren't as competitive inside our portfolio and we had better alternatives.

That's going to change a little bit. So, we're more excited about the potential growth of these brands. As far as M&A goes, I'm going to give you the standard answer that we continue to have conversations with our board and look at opportunities. And I really can't say much more than that on that subject at this point.

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Christopher Carril

Analyst, RBC Capital Markets LLC

Thank you.

Operator: James Rutherford with Stephens, your line is open.

James Rutherford

Analyst, Stephens, Inc.

Thanks. Gene, as guests have started to come back into your restaurants, have you noticed any differences in their behavior? Or are they lingering longer, ordering more drinks and appetizers, more or less expensive entrées, et cetera? I'm just kind of wondering if there's any noteworthy changes to guest behavior that you're seeing as a pattern.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

No, I don't think there's any noteworthy behavior. I mean, I think in certain markets, it's amazing people get their vaccination, the first thing they do is they go to a restaurant, even though they probably should wait a few days for the vaccination to be. But I mean, there's just – I mean there are a lot of people that this is – we're noticing especially near vaccination sites that this is their first time out in a year.

And they're just so excited to be back. And they're just – you can tell because you're seeing some larger groups of senior citizens that are just happy to be back out, having a dining experience. So, no major changes other than people are happy. I mean people are happy to be out and it's definitely noticeable. There's good vibes in our restaurants right now.

James Rutherford

Analyst, Stephens, Inc.

Well, that's great to hear. And as a follow-up on curbside, can you give an update on how much of your system is offering curbside today and the initiatives around, I think, geofencing, dedicated doors to the kitchen or any other things you're doing to make this hyper-convenient channel kind of even better than it is today?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah, James. This is Rick. On the curbside experience, all of our brands are offering curbside. Now there might be a few restaurants here and there that might be within – in malls, et cetera that it's hard to do. But all of our restaurants offer curbside today. They all have the Curbside I'm Here feature, where you can text – they'll get a text 10 minutes before their pickup time to tell the restaurant that they're here. So, they all have that. Once we implement a technology that works, we blow it out in all the restaurants.

As regards to kind of the building design and change, we are looking at some changes to prototypes as we build new restaurants to make it a little bit more convenient for our team, to bring the food out to the cars. But there's still a high percentage of people that are picking up in the restaurant, that may be order in the restaurant and pick up or they just want to walk in and maybe sit at the bar for a minute to watch TV while their To Go is being prepared. So, we have to keep an in-restaurant type of experience for them as well. So, we're looking at that.

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In regards to making a bunch of modifications to our existing restaurants, we're thinking about that. As we see our restaurants start to build back up in the dining room, we're just trying to figure out the most efficient way to make changes, whether it's in the kitchen to give them more room for packaging, but maybe not having a side door because we do believe that the guests may still want to come in. So, we're working through that. We don't expect to make huge, huge investments in our restaurants, existing restaurants for To Go. We do have some investments to make, but they're not that great.

James Rutherford

Analyst, Stephens, Inc.

Excellent. Thank you very much.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

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Sure.

Operator: David Tarantino with Baird, your line is open.

David E. Tarantino



Analyst, Robert W. Baird & Co., Inc.

Hi, good morning, everyone. My question is for Raj. I wanted to come back to your comments about costs coming back into the business after the current quarter and I wanted to understand the implications of that. And are you saying that the math you've laid out with margins 150 basis points higher at 90% of your prior sales volumes, will that still hold as these costs come back into the business? Or are you going to need higher volumes after Q4 to hit that 150 basis point bogey?

Rajesh Vennam



Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

No, David, I think we are actually expecting to maintain that margin. So, we don't need higher volume to maintain that – so to get to that. And then as volume grows, we're saying we're committed to maintaining that as costs come back in. But we don't think we're going to be diluting margin. That 150 basis points is sticky.

David E. Tarantino



Analyst, Robert W. Baird & Co., Inc.

Okay. Thanks for that clarification. And then I guess my real question then is, how do you see that developing if sales end up going back to 100% or more of what you had previously? I know you're committed to maintaining the 150 basis points, but is there a line of sight or a path to exceeding that as more sales flow through the model? And I guess, how do you balance that with the investments that you might want to make to sustain the health of the brands longer term?

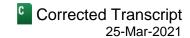
Rajesh Vennam



Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

Yeah, I think that's a great question, David. I think the way we're thinking about it is as sales grow, we'll find opportunities to make more investments into guest experience, into food quality, things that we want to do. And we also have talked about trying to continuing to price below inflation and below competition. That's one of our bigger investments that we'd make.

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Could you see for a time period where our margins exceed and build off of that? Absolutely. But I think longer term, I think the way we're thinking about it is we don't want to grow it too much. We want to just kind of find ways to set us up for longer-term market share gains, but still have a pretty robust business model.

David E. Tarantino Analyst, Robert W. Baird & Co., Inc.	C
Great. All makes sense. Thank you.	
Operator: John Glass with Morgan Stanley, your line is ope	en.
John Glass Analyst, Morgan Stanley & Co. LLC	C

Hey. Thanks very much. I had a question about unit development in your 2022 outlook. Given what you said about your success of margin improvement at Cheddar's, what you've seen at Olive Garden, why wouldn't development be faster? I guess, specifically, if you look at 2022 as sort of a stepping stone [ph] to hit (00:43:28) faster in 2023, is there external constraints on development or is this just internal, this is as fast as you want to grow?

And since you brought up Cheddar's specifically, right, the thesis when buying it was this is a really big growth vehicle for the company, how do you think about development now that Cheddar's margins are better? How many of those 35 are Cheddar's? And where do you think that brand can – what the pace of that brand growth can be thereafter?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

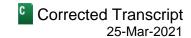
Well, there's a couple factors, John, driving our ability to only get 35 restaurants next year. Number one, as we entered into COVID, we dismantled our whole development team. And so, we spent the last 90 to 120 days rebuilding that. But that's really not the driving and limiting factor as we move forward next year.

The limiting factor is that after we get past the letter of intent, every step along the way in that development process has pretty much slowed down significantly. And it has a lot to do with people working remotely and we're not able to negotiate at least as quickly as we once were. But the biggest hang-up right now is permitting and getting your plans through permit and getting the approvals that you need, getting people out to do your inspections, so that you can move along.

So, I think the way I would answer is there's external factors that are limiting us being able to open more restaurants. We have the letters of intent signed. We'll just struggle past that point. And we hope that when you get to 2023, we can get to the higher end of our 2% to 3%. We believe our pipeline is in good enough shape to get there. There's enough availability out there, and we're happy with the construct of the deals. But once we get past letter of intent, this thing really slows down significantly and really out of our control.

Now, I'll just add that over the last couple of weeks, things are starting to pick up a little bit in the local municipalities and we're starting to get some things done. But we're sitting on a restaurant today that we can't get open because we're waiting on that last inspection. And there's no sense of urgency in that local community to get out there and make that last inspection.

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As far as Cheddar's go, I think the limiter on – we're thrilled with the business model. The limiter on Cheddar's will still be the human resources. We've got to build the bench strength, so that we can get that system up and running. There's a tremendous amount of backfill opportunity. We're seeing the benefits of the backfill opportunity as we're opening some of these new restaurants that we've opened here recently.

And so, hopefully, we can get Cheddar's somewhere between 7% and 10% unit growth once we get everything to where we want it to be. And I think the benefit of our platform is that we don't have to overtax on one of our businesses to get growth. And I always say speed kills and we want to be able to grow this thing responsibly and open great restaurants with great operations, high-volume concept that we've simplified, but still difficult to run.

But just one last comment on the growth is that with the transformation of the business model, we think the big upside now is that there's more Olive Gardens than what we may have originally thought. We can handle the cannibalization a lot better today than we could before. And therefore, we want to push a little bit harder on Olive Garden. And the returns are just fantastic in that business. So, that's the best place to put our capital.

John Glass

Analyst, Morgan Stanley & Co. LLC

Great. Thank you so much.

Operator: Lauren Silberman with Credit Suisse, your line is open.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

Thanks for the question. I also wanted to ask about the labor investments that you announced. Specific to the hourly wage increase, at least \$10, what percentage of your hourly employee base will be impacted by this initiative? So, I guess, what percentage is currently below \$10? And does this affect only non-tipped employees? And then are you increasing wages at a commensurate rate across the board?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

No, we don't plan to — I think I'll start backwards on this. We don't think this is going to be a big compression issue. The amount of people this impacts is small. We're not going to give the exact number. And again, as I talked about earlier, it's included in our guidance for the quarter, and we include it for next year. And we'll disclose what our wage inflation we've projected to be when we give you 2022 guidance. And it's for all employees. It's basically, if you're a tipped employee and your tips and your wage doesn't get you to \$10, we'll bring you to \$10 an hour.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

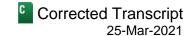
Okay. Yeah, I figured that this was primarily going to impact non-tipped because tipped, I think, generally makes [ph] more, so wanted to (00:48:27) kind of confirm that. But my follow-up question to that is, I mean, how does your hourly staffing level today compared to pre-COVID levels? So, I guess, what percentage of your hourly employees you have in the restaurants right now?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

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I haven't seen the number for last week, but the week before, we were at about 115,000 versus 165,000 active pre-COVID. And that number is increasing every week. And I think our greatest challenge right now is staffing. It's staffing, trying to attract people to come to work. That's why we're strengthening our employment proposition, which is already strong.

We got to staff it. We've got to train people. We'll train people now in a very high-volume environment. And so, as I really think about, what we're focused on is really Back-to-Basics restaurant operations. And part of that, one of those things that we focus on there is hiring great people and having great certified trainers that are able to train those people to bring our brands to life. And so, that's really our number one priority right now.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

Great. Thank you so much.

Operator: Brett Levy with MKM Partners, your line is open.

Brett Levy

Analyst, MKM Partners LLC

Great. Thanks for taking the call. If we could follow up on James' question earlier. What are you seeing from a demographic standpoint, given that you guys go up and down the average check continuum? Obviously, we've seen what the LongHorn and the Olive Garden numbers look like. But if you could give us just a little bit more clarity and color into what you're seeing across different demographics. And I have a follow-up also.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

I'll just comment on fine dining. Obviously, that's coming back a little bit slower. I would say that fine dining in suburbia is performing much better than fine dining in the central business districts. We are incredibly impressed with the weekend business in fine dining, even in the central business districts. So, this business is coming back. It's coming – we're going to be extremely profitable in this business. But it's going to definitely come back slower than casual. And so, there's – I will just add that we've been pretty impressed the last couple weeks how this business has rebounded.

Brett Levy

Analyst, MKM Partners LLC

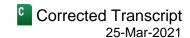
And then just other for Rick or for Raj. When you think about the structural margin, pre-crisis obviously you were one of the industry stalwarts, and you've found efficiencies within the model. When you think two, three, five years out, what do you think is the potential for where you can get to versus where you were pre? And thank you.

Rajesh Vennam

Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

Yeah. I think it would be tough for me to sit here and project out five years from now what we think the number could be. But all I'll say is, we are definitely committed to getting to this 150 basis points. And then beyond that, we still go back to our long-term framework. Once we get back to the sales levels we had before, it's about that 10 to 30 basis points margin improvement every year, and we think we can still do that.

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Brett Levy

Analyst, MKM Partners LLC

Thank you.

Operator: Andrew Strelzik with BMO, your line is open.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Great. Thank you, and good morning. On the CapEx guidance, if I have this right, the number of new stores came down a little bit, but the CapEx is going to be towards the high end of the range. Are you finding incremental projects to spend behind this year? I'm just looking for a little bit of color there.

And then somewhat related, a question on technology; given all the success that you've had on the digital side and the ability to kind of look at the business holistically through this last year, are you identifying or exploring different ways to leverage technology kind of going forward? I'm just curious how we should expect technology to be implemented either from a guest-facing or kind of internal perspective over time. Thanks.

Rajesh Vennam

Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

All right. Just let me answer the CapEx one, and I'll hand it over to Rick on the technology stuff. So, from a CapEx perspective, when you think about our annual CapEx, we're already spending money for next year's new units, right? So, that's why you don't really see CapEx move much, because we're still working on our pipeline. We're still working on next year.

The other thing I want to remind you is, this year spend is relatively low, because some of these units were already built earlier. We had spent a lot of CapEx last year, and then we were sitting on these restaurants because of when the pandemic hit. So, that's the color on CapEx. And then, Rick?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Thanks, Raj. On the technology front, we are in the process of doing another three-year road map for technology. We're going to continue to invest in technology to reduce friction in the guest experience and reduce friction on the team member experience.

We've given you some examples of what we've already done this year, with shifting everything to curbside, going to Curbside I'm Here. We're actually going to make that process even easier as we keep going forward. We're going to make the process of checking into your – to the restaurant easier. We're doing a lot of things going forward.

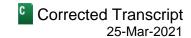
Without getting into too much detail, we expect to spend more money in technology than we have this year, and we'll continue to invest in technology. We think it's an advantage for us. It gives us better access to data. And because of our scale, we can do it.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Great. Thank you very much.

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Operator: Nicole Miller with Piper Sandler, your line is open.

Nicole Miller Regan

Analyst, Piper Sandler & Co.

Thank you. Good morning. Two quick questions. The first, on being data rich, typically guest satisfaction scores are a leading indicator of comp. But if we back that up, I guess, I can imagine it's a satisfied employee serving that guest. So, maybe, you could compare and contrast the metrics that you look at that are, I guess, external for guest satisfaction versus internal for employee satisfaction. And perhaps that was tied to a grounded hourly wage changes that you discussed today. Thanks.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Hey, Nicole. This is Rick. I'll start with the guest satisfaction metrics. All our brands are improving their guest satisfaction year-over-year, from pre-COVID, even with all – especially because of all of the things that we've done to simplify our business to make it easier for our restaurants, to get the product to what the – get the product to the consumer in the way they want it. We're shifting more of our sales to our top 10 items, which are high satisfaction items. We've improved significantly the To Go experience which, at the beginning, was a pretty low satisfying experience. It's getting better every week.

So, on the guest side, all the satisfaction measures look great. And as I mentioned in my prepared remarks on To Go, Olive Garden was at an all-time high for on-time and accurate off-premise experience for the third quarter, even though it was a really high off-premise quarter for them with three big holidays. In the employee metrics, the metric that we look at the most is turnover. And our turnover has been great over the last year.

And as Gene mentioned, we just introduced another thing to help the employee experience and their process of coming to work for us. We're going to simplify the hiring process as we go forward. But we have just a great employment proposition, which leads to our turnover. Those are the two metrics we look at the most. The last thing I'll say is there's some external metrics that we're really proud of for LongHorn. They're now number one in food quality and food taste with all of the investments they've made over the last few years. And that's a pretty high bar for us. And we feel really good about the investments they have made, and that's what's driving our performance.

Nicole Miller Regan

Analyst, Piper Sandler & Co.

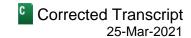
Thank you for that color. And then I think you had mentioned six openings, if I wrote that down. I think the question still stands. You talked about exceeding expectations. And I want to understand how much of that is the strategic operational control and excellence that you have. And how much was that influenced by the external competitive landscape? I mean when you first looked at those stores, perhaps there's competitors that just didn't make it across the finish line and didn't open. So, how would you compare and contrast that? Thank you.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah, Nicole, thanks for that. If we look at the six restaurants that we opened in the quarter and actually the restaurants we've opened this year, their sales levels have been higher than we thought, considering we opened some of these restaurants at really hard 50% capacity limitations. Now that could be because other restaurants

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didn't open. But we've been performing really well, if you look at our guest satisfaction measures in those restaurants. We've done a really good job in training our people and getting open.

And then the other thing, though, I think a bigger part of our performance is actually at the bottom line of the P&L. And these restaurants are performing much better on their P&L than the restaurants that we opened a year or two before. And that's because of the simplifications we have made. Whenever you simplify, [ph] you really need to (00:57:50) make it easy for new restaurants, right? When they open – if they open with a full menu and a pretty big dining room, it's hard for them.

When they open with a menu that we have today with a dining room that's a little bit constrained, it makes it easier. But we have also changed some of our training programs, especially in the Fine Dining brands to make it almost like you're coming into a restaurant that's always been there. And so, we've done a really good job in improving the process to open new restaurants. So, I would give that much more of the benefit than another restaurant or two that didn't open during that time.

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Analyst, Piper Sandler & Co.

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Excellent. Thank you.

Operator: Jared Garber with Goldman Sachs, your line is open.

Jared Garber

Analyst, Goldman Sachs & Co. LLC

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Good morning. Thanks for taking the question. I wanted to circle back on maybe some comments from last quarter and as we're thinking about market share opportunities going forward. Gene, are you still thinking that 5% to 15% closure rate on the independent side makes sense? And just wanted to get your thoughts on – three months later on how that environment continues to kind of play out?

And relatedly, you made some comments on Olive Garden and maybe some more opportunities there. Several years ago, you guys put out some data on a longer-term TAM of – I think, it was \$900 million to \$950 million and some TAM on LongHorn as well. How should we be thinking about those opportunities going forward over the long term?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

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Yeah. First of all, on capacity, I think the last printed thing I saw from Technomics (sic) [Technomic] (00:59:25) was still 5% to 15%, tilted toward the higher end. It's my belief that the restaurants in central business districts will get recapitalized a lot and be able to come back a lot quicker than what we'll see in suburbia. And so, I think that there's – population is still growing. And just the fact that a lot of new restaurants aren't going to be added are also a benefit as we go forward. So, I think as far as the capacity part of it, it's still a real – a good tailwind for the industry.

As far as - what was the...

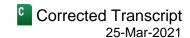
Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

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The number of Olive Gardens.

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Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

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Oh, number of Olive Gardens, yeah...

Jared Garber

Analyst, Goldman Sachs & Co. LLC

Yeah. The TAM opportunity. Yeah.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.



I think I would – as you think about that, we're not ready to put a number out there right now. And the way we think about development is, we find the best piece of property that we can find and then we try to put what do we think is the best – which restaurant in our brand in our portfolio will maximize the opportunity of that piece of land. And so, I think numbers will ebb and flow, but we believe in the next few out-years, we're going to get closer to that 3% of our framework and that's where we want to be.

Operator: John Ivankoe with JPMorgan, your line is open.

John Ivankoe



Analyst, JPMorgan Securities LLC

Hi, thank you. Obviously, you guys accomplished so much in 2020 around digital efficient marketing, restaurant operations reorganization, G&A efficiency, so much maybe that would have taken you three to five years [ph] of you've been able (01:01:07) to get to some of the metrics that you got. So, Gene, maybe this is a question for you and the board. How are your strategic priorities changing, if at all? I mean as you accomplish so much that you hope to accomplish over the next three to five years, and some of these initiatives are, if not fully behind you, at least partially behind you, what might be like the next big ideas that Darden is working on?

Eugene I. Lee, Jr.



Chairman & Chief Executive Officer, Darden Restaurants, Inc.

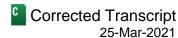
Well, I'm not sure what the next big idea is. I think the big thing that we're really cognizant of is how do we fight the gravity to pulling us back towards what it worked extremely well for us and keeping our eye on the prize of all the gains that we made over the last few years.

So, I think right now, more importantly than ever, the way I'm thinking about it is back to basics. We've got to run great restaurants. We've got to be able to execute our food, our service and great atmospheres. And if we can do that, I think – I always say this simple term, how do we do less better? And I think right now, we put our businesses through significant change. And I'm in this do less better framework. I want to make sure that we're running great, great restaurants.

Strategically, I think the way we continue to think about it is, how do we ensure we get – take this opportunity to get our top line growth to 3%, which is a number we haven't really achieved yet. And 3% doesn't sound like a lot, but that's a lot of new restaurants in our system, absolute numbers, right?

When you start adding 50 to 70 restaurants a year, that puts a lot of strain on your organization and puts a lot of strain on human resources. So, I like this whole notion of getting narrower, not a lot of strategic change, but let's

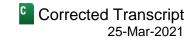
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get into execute, execute, execute. I believe our brands are differentiated enough right now to compete effectively and there's not a lot of work to be done there. John Ivankoe Analyst, JPMorgan Securities LLC Great answer. Thanks, Gene. **Operator**: Andy Barish with Jefferies, your line is open. Andrew Barish Analyst, Jefferies LLC Hey, guys. Sorry if I missed it, but I know you've kind of taken a look at the fluid competitive situation and it doesn't appear as if it's changing your philosophy on kind of using price as an investment or pricing below the industry. Can you give us what you're maybe looking at going forward for 2022 or so for the two big brands, at least in terms of menu pricing? Eugene I. Lee, Jr. Chairman & Chief Executive Officer, Darden Restaurants, Inc. Andy, I think it's a little premature to signal what we think that is. I think I would – based on what [indiscernible] (01:04:03) now, I would look at what our norms have been. But one of the things that we'll have to consider in this dynamic environment is what do we think inflation is going to be. And it's too early for us to really understand what we think inflation is going to be in our fiscal 2022. So, I would just look – if you're looking for guidance on that, I would look more towards our historical norms at this point. **Andrew Barish** Analyst, Jefferies LLC Okay. And then a quick follow-up to Raj. Just on the underlying kind of G&A number, the last couple quarters, it's been that \$85 million to \$90 million. Is that a decent run rate going forward at this point? Or are we missing some reinvestment back into the business that may come into that line? Rajesh Vennam Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc. I would say at this point, think of somewhere around \$90 million as a good run rate to start with. And then if that changes, we'll let you know in June. But I think at that point, somewhere around \$90 million is a good number. **Andrew Barish** Analyst, Jefferies LLC Okay. Thanks, folks. **Operator:** Howard Penney with Hedgeye, your line is open. Howard W. Penney Analyst, Hedgeye Risk Management LLC (Research)

Hey. Thank you so much for the question. Next quarter, this consensus estimate is for somewhere around 65% comp, which implies sort of a two-year 10% stack. Managing the business in a normal year to see 10% growth

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would be incredible. I would love to hear about how you're managing that kind of acceleration in – I'm not asking about the comp and whether it's good. Just sort of from a middle of the P&L, how do you hire for that, how do you purchase for that? Like, how do you manage a business that goes from sort of zero to 60%, if you will, in comps? Thank you.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. Good morning, Howard. I think that's why I'm trying to narrow the focus of the organization and getting them really focusing on the Back-to-Basics and trying to eliminate any distraction at all. And I believe that the priorities right now, especially over the next six to nine months is staffing. How do you ensure your supply chain is growing with the demand and all those other basic things that go on every day?

And part of why we're making this investment today in our people is to say thank you and also to be – to recruit. We know the people, best – the teams with the best people will win in this environment. And we need to attract great people, offer them great opportunities, provide careers for them. But you've identified what our operating priorities are.

Rick and then the presidents really need to focus on this. We're monitoring the number of employees in each restaurant every single week. We're monitoring today the number of servers in each restaurant every day. So, we understand what our staffing levels are and what we need to do to support that.

Doug Milanes, our Head of Supply Chain, has done an incredible job keeping the supply chain full and keeping that continuity. We also have a lot of sensitive products that we serve. They have to be aged appropriately, which they've done a great job on. And so, we're focused on – you highlighted our biggest challenge. It's not strategic today. It's operational.

Howard W. Penney

Analyst, Hedgeye Risk Management LLC (Research)

And you didn't mention training. Is there any incremental training associated with that? Or are you going to bring back people that you're familiar with the organization? Thank you.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Well, I think we're going to do both. We're going to try to bring back anybody that's familiar with the organization. But right now, I think most of who we're bringing back with maybe the exception of California is new people. And so, what we do in that circumstance is we really – we have a certified trainer program that we were able to really energize and connect with these people that are actually doing the training of the new employees and every one of our brands.

And they're the key. We got to give them the tools and the time and the compensation in order to be able to train these new people effectively. [ph] And you're precedent (01:08:21) on some of the biggest operational challenges as we ramp this back up. And I think it's right to highlight that. And I think our teams are going to be up for the task.

Operator: Brian Vaccaro with Raymond James, your line is open.

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Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Thanks. Just two quick ones for me. On advertising, I'm curious if there's been any change in your thinking as to when it makes sense to begin increasing your spend again. It's not many, but it seems like a few chains have either – either have or soon will be ramping their spend. So, just wondering if that – is at all impacting your thinking. And sorry, if I missed it, Raj, but can you ballpark the level of spend that's embedded in your fiscal 4Q quide?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

As far as – I mean – and I talked a little bit about this earlier, Brian, is we just have no definitive plans right now on when we're going to put back in and how we're going to put back in, and which channel we're going to put back in advertising. We've got to look at the competitive environment. We've got to see where we're at. I think each brand will come back differently and use different channels that are more effective for them.

We're still spending a good amount of money in Olive Garden on advertising today. We bought a lot of television in the up front. We think that's an effective medium for us. And so, we'll continue to spend and I'm very happy with the creative. And so, this is what I would call a game time decision. When it's right to call that play, we'll call that play. But right now, we have no definitive plans to do that.

Rajesh Vennam

Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

And, Brian, just for Q4 ballpark, I would expect similar levels as Q3, somewhere around \$25 million.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Okay, great. And then I also just wanted to touch base on the commodity outlook. What are your expectations over the next few quarters from an inflation perspective? And can you touch on some of the more significant puts and takes within your basket?

Rajesh Vennam

Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

Yeah. We're not ready to get into fiscal 2022 yet, but I'll tell you in – for Q4, we do expect our commodity inflation to be a little bit higher, around 2% for the entire basket, with – I think there's a little bit more in chicken, and there's a little bit more in – actually, oil is one where we think it's going to be pretty high. There are multitude of factors that are impacting oil, as you might already be aware, but those are the ones I'd call out.

Brian M. Vaccaro

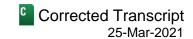
Analyst, Raymond James & Associates, Inc.

Very helpful. Thank you.

Operator: There are no further questions at this time. I'd now like to turn the call back over to Kevin Kalicak for final remarks.

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Kevin Kalicak

Senior Vice President-Finance and Investor Relations, Darden Restaurants, Inc.

Great. Thanks, Jack. That concludes our call. I'd like to remind everyone, we plan to release fourth quarter results on Thursday, June 24 before the market opens with a conference call to follow. Thanks again for participating today.

Operator: This concludes the Darden fiscal year 2021 third quarter earnings call. We thank you for your participation. You may now disconnect.

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