

17-Dec-2021

Darden Restaurants, Inc. (DRI)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Kevin Kalicak

Senior Vice President, Finance & Investor Relations, Darden Restaurants, Inc.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Rajesh Vennam

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

OTHER PARTICIPANTS

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Andrew Charles

Analyst, Cowen & Co. LLC

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

John Glass

Analyst, Morgan Stanley & Co. LLC

Peter Saleh

Analyst, BTIGLLC

Christopher Carril

Analyst, RBC Capital Markets LLC

Brett Levy

Analyst, MKM Partners LLC

David Palmer

Analyst, Evercore ISI

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

Dennis Geiger

Analyst, UBS Securities LLC

Andy Barish

Analyst, Jefferies LLC

James Rutherford

Analyst, Stephens, Inc.

Brian H. Mullan

Analyst, Deutsche Bank Securities, Inc.

David E. Tarantino

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

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Jared Garber

Analyst, Goldman Sachs & Co. LLC

John Ivankoe

Analyst, JPMorgan Securities LLC

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Joshua C. Long

Analyst, Piper Sandler & Co. (Broker)

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden Fiscal Year 2022 Second Quarter Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] The conference is being recorded. If you have any objections, please disconnect at this time.

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

Kevin Kalicak

Senior Vice President, Finance & Investor Relations, Darden Restaurants, Inc.

Thank you, Jess. 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, President and COO; and Raj Vennam, CFO. As a reminder, comments made during this call will include forward-looking statements as defined in the Private 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 includes certain non-GAAP measurements and reconciliations of those measurements are included in the presentation.

Any reference to pre-COVID when discussing second quarter performance is a comparison to the second quarter of fiscal 2020. This is because last year's results are not meaningful due to the pandemic's impact on the business and limited capacity environment that we operated in during the second quarter of fiscal 2021. We plan to release fiscal 2022 third quarter earnings on Thursday, March 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 operating performance and Raj will provide more detail on our financial results and an update to our fiscal 2022 financial outlook. Now I'll turn the call over to Gene.

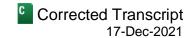
Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Thank you, Kevin and good morning, everyone. As you saw from our release this morning, we had a fantastic quarter. Sales trends remained strong throughout the quarter as all our brands stayed laser-focused on creating memorable guest experiences. Despite the toughest inflationary environment, we've seen in years, we achieved strong profitable sales growth.

Our ongoing success navigating the pandemic is a testament to the power of our strategy driven by our back-to-basics operating philosophy and the strength of our 4 competitive advantages. Our disciplined commitment to our strategy has allowed us to manage this environment well, while returning significant cash to our shareholders. People and product will continue to be our focus and Rick will share more details about that in a minute. Additionally, our teams have done a great job managing inflation effectively, and Raj will provide more color on that during his remarks.

Q2 2022 Earnings Call



The holidays are the busiest time of the year for our restaurant teams as they delight our guests and help create lasting holiday memories. This time of year is also a great reminder that being of service is at the heart of our business, which is why we're committed to serving our guests, our team members and our communities. One of the ways we serve our communities is by helping fight hunger. This fiscal year through our foundation, Darden provided \$2.5 million to help our partners at Feeding America add refrigerated trucks for 15 food banks to support mobile pantry programs, and distribution and communities facing high rates of food and security.

We are uniquely positioned to help, and by leveraging our scale and relationships with partners like Penske Truck Leasing and Lineage Logistics, we'll probably do our part to help get food into the hands of people who need it.

On behalf of our management team and the Board of Directors, I want to thank our team members for everything you do to serve our guests, and our communities. And I wish you all a wonderful holiday season.

Finally, earlier today, we announced that effective May 30, Rick will succeed me as Chief Executive Officer and will join Darden's Board of Directors. This is the right time for this transition, and I look forward to continuing to serve as Darden's Chairman. Our company is in a clear position of strength, and this is also the right time for me and my family.

I'm excited for Rick, who's been a tremendous partner over the last seven years and is one of the best strategic thinkers I've worked alongside. Our brands have tremendous opportunity ahead of them, and Rick is the perfect person to lead Darden into the next chapter. On behalf of the Board, Darden's management team and our 170,000 team members, I want to congratulate Rick, and wish him all the best. Rick?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Thank you, Gene. Good morning, everyone. It is an honor to be appointed Darden's next Chief Executive Officer, and I'm grateful to Gene and the Board for their confidence in me. It is humbling to lead 170,000 outstanding team members who nourish and delight everyone we serve.

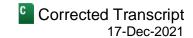
I was incredibly fortunate to work with each of Darden's CEOs, so I have a strong appreciation for the legacy of leadership I am inheriting. By upholding our commitment to operational excellence, and maximizing the power of the Darden platform, we will continue to execute our strategy to drive growth and shareholder value.

Turning to the quarter. Our restaurants continue to execute at a high level. Our focus on simplifying operations to drive execution remains our top priority, which is why we once again paused any new initiatives during the quarter in order to eliminate distractions and allow our operators to focus on running great shifts. This pause also ensures they can zero in on people and product, as we navigate through the current staffing and supply chain challenges.

From a people perspective, we feel good about the progress we've made on the staffing front. Across our brands, manager staffing levels are above historical norms, and team member staffing levels continue to improve. Our new hiring system has made it easier to source talent, giving our management teams more time to focus on successfully onboarding and training new team members.

We also continue to invest in our team members, further strengthening our industry-leading employment proposition. Earlier this year, we committed to increasing the minimum hourly earnings for our restaurant team members to \$12, which includes income earned through gratuities by January 2023.

Q2 2022 Earnings Call



However, given the strength of our performance, we are accelerating that timing to January 2022. This primarily impacts entry-level roles such as hosts, bussers and dishwashers. And with this change, we expect our restaurant team members will earn, on average, approximately \$20 per hour.

Our people are the key to our performance. We work hard to be the employer of choice in our industry, and we're proud that our retention rates for managers and team members are both in the top quartile, and we will continue to invest in them to retain and attract the best talent in the industry.

On the product side, our supply chain team continues to do a great job, making sure our restaurants have the products they need to serve our guests. Our inventory levels are strong, and the team's ability to meet the needs of the business can be seen in the fact that we shipped more cases in the last two quarters than at any time during Darden's history.

The ability to maintain supply continuity for our restaurants minimizes distractions and allows our operators to focus on executing at the highest level, whether our guests are in our dining rooms or enjoying the convenience of To Go.

During the quarter, To Go sales continued to benefit from the strength of our digital platform. This platform not only makes it easier for our teams to execute, it makes it more convenient for our guests to visit, order, pay and pick up. Off-premise sales accounted for 28% of total sales at Olive Garden and 15% of total sales at LongHorn Steakhouse. Digital transactions accounted for 60% of all off-premise sales during this quarter and 11% of Darden's total sales.

Finally, we successfully opened 12 new restaurants during the quarter, including a flagship Yard House in Times Square, with minimal staffing challenges. The time to build a new restaurant is longer today than it has been historically, and we are also beginning to see longer lead times for kitchen equipment and technology hardware. Regardless, we remain on track to open approximately 35 to 40 new restaurants this fiscal year.

To wrap up, I also want to recognize our team members in our restaurant and our support center, for your tireless efforts in creating exceptional experiences for our guests. I wish you all a safe and happy holiday season.

Now I'll turn it over to Raj.

Rajesh Vennam

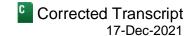
Chief Financial Officer, Treasurer & Senior Vice President, Darden Restaurants, Inc.

Thank you, Rick, and good morning, everyone. Total sales for the second quarter were \$2.3 billion, 37% higher than last year, driven by 34.4% same-restaurant sales growth and the addition of 34 net new restaurants. Average weekly sales grew by more than 7% compared to pre-COVID. Diluted net earnings per share from continuing operations were \$1.48.

Total EBITDA was \$335 million, resulting in EBITDA margin of 14.7%. The significant business model improvements we made over the past year and half, combined with strong sales, resulted in margin growth of 270 basis points compared to pre-COVID. We expect this to be the highest quarterly EBITDA margin growth this fiscal year as this quarter has the most opportunity given its low seasonality.

We continue to return significant cash to shareholders, paying \$143 million in dividends and repurchasing \$266 million in shares, totaling over \$400 million of cash returned to investors in the quarter. And while we're happy

Q2 2022 Earnings Call



with our performance, cost pressures continue to exceed our expectations on both commodities and labor with total inflation of 6% this quarter.

Our teams continue to demonstrate agility in managing through this environment. This quarter, we implemented several mitigating actions to preserve the strength of our business model while balancing the impact to our guests and team members. One of these actions was taking additional pricing. For the second quarter, total pricing was 2%, and we expect back half pricing to approach 4%, resulting in total pricing of just under 3% for the full fiscal year.

We continue to execute our strategy of pricing significantly below our overall inflation to strengthen our value leadership position by leveraging our scale. This level of pricing covers most of what we consider to be the structural and long-lasting impacts of the current inflationary environment and absorbing what we consider to be more short-term fluctuations, while providing future flexibility should there be a need. For the rest of the fiscal year, we expect commodity and labor inflation to peak in our third quarter and then start to slow down as we enter the fourth quarter, and lap commodities inflation of 4.3% in the fourth quarter of last year.

Now turning to our P&L and segment performance for the second quarter. We're comparing against pre-COVID results in the second quarter of 2020, which we believe are more comparable to normal business operations, and it's how we've been framing our margin expansion opportunity.

For the second quarter, food and beverage expenses were 220 basis points higher, driven by elevated commodity inflation of 9% as well as investments in food quality, portion size and pricing significantly below inflation. Restaurant labor was 90 basis points favorable, driven by sales leverage and efficiencies gained from operational simplifications, and was partially offset by elevated wage pressures.

Hourly wage inflation during the quarter was almost 9%. Restaurant expenses were 130 basis points lower due to sales leverage, which more than offset higher utilities cost. Marketing spend was \$44 million lower, resulting in 230 basis points of favorability. As a result, restaurant-level EBITDA margin for Darden was 18.8%, 230 basis points better than pre-COVID levels. G&A expense was 40 basis points lower, driven by savings from the corporate restructuring in fiscal 2021, a decrease in mark-to-market expense and sales leverage.

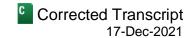
Turning to our segment performance. Second quarter sales at Olive Garden increased 5% versus pre-COVID, strong performance, especially as we were wrapping against nine weeks of Never Ending Pasta Bowl. This sales growth, combined with the business model improvements at Olive Garden, helped drive a segment profit margin increase of 320 basis points, even while offsetting elevated inflation.

LongHorn continued its strong sales growth with an increase of 22% versus pre-COVID. However, inflationary pressures, including double-digits for commodities, were at their highest level in the second quarter, resulting in reduction of segment profit margin by 80 basis points.

Sales at our Fine Dining segment increased 22% versus pre-COVID, as this segment continues to see a strong rebound in performance. Segment profit margin grew by 140 basis points, driven by strong sales leverage and operational efficiencies, which more than offset double-digit commodities inflation.

Our Other segment grew sales by 7% versus pre-COVID and segment profit margin by 250 basis points. This segment continues to perform well, and we're pleased to see the business model transformation persist.

Q2 2022 Earnings Call



Finally, turning to our financial outlook for fiscal 2022. We updated our outlook for the full-year to reflect our performance year-to-date and our expected performance for the remainder of the year. We now expect total sales of \$9.55 billion to \$9.7 billion, representing growth of 9% to 11% from pre-COVID levels. Same-restaurant sales growth of 29% to 31%, and 35% to 40% new restaurants.

Capital spending of approximately \$425 million. Total inflation of approximately 5.5%, with commodities inflation between 7% and 8%. Total restaurant labor inflation between 6% and 6.5%, which includes hourly wage inflation approaching 9%. EBITDA of \$1.55 billion to \$1.6 billion, and the annual effective tax rate of approximately 14%, and approximately 130 million diluted average shares outstanding for the year, all resulting in diluted net earnings per share between \$7.35 and \$7.60. This outlook implies EBITDA margin growth versus pre-COVID, similar to our previous outlook of 200 to 250 basis points with flow-through from pricing and higher sales, helping offset elevated inflation.

Now we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Brian Bittner at Oppenheimer.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Q

Thank you so much for the question and good morning. And first and foremost, congratulations to both Gene and Rick on the big announcement today. Gene, I know this is not goodbye yet, but I just want to say, it's truly been a pleasure as an analyst to witness what you've done to reshape and better position the Darden enterprise over the last seven years.

My question is related to pricing and cost. And it's not surprising that you moved your total cost inflation guidance up a bit given the turbulent environment, but your EBITDA margin guidance at its midpoint is unchanged versus your prior inflation guidance. So, you're obviously taking a bit more price, which you talked about in your prepared remarks.

Should we interpret these actions as a firm commitment to the EBITDA margin goals that you've been talking about? And are you confident that you have the pricing levers if it's something you need to continue to use in the future to hold the line on these margins? Or is this about as far as you want to go on pricing for the foreseeable future? Thanks.

Rajesh Vennam

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



Yeah. Hi, Brian, this is Raj. I think as you alluded to, we have – we committed to the 200 to 250 at the beginning of the year, and we've shown through the two quarters now that we're adjusting our business model, adjusting our thinking on pricing based on where our business model is coming out.

So, as we look at our P&L, we continue to look at opportunities to manage costs better. And we're focused on doing some of that before we take pricing. But with that said, we preserved a lot of flexibility, and we have — and we are tapping into some of that. But we do believe we have more dry powder if needed.

Q2 2022 Earnings Call



And I think the way we're thinking about it is really some of these excess sales are going to help offset some of this elevated inflation. The other piece I mentioned in my prepared remarks was that we're really focused on pricing to cover for the structural parts of it, and then trying to kind of weather through the short-term fluctuations. And – but we are committed to the margin growth.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Thank you.

Operator: We'll take our next question from Andrew Charles at Cowen.

Andrew Charles

Analyst, Cowen & Co. LLC

First and foremost, to echo Brian. Gene, congrats on a story career, not just at Darden, but Rare as well. And Rick, congrats to you as well for a very deserved promotion. I had two questions. The first one is Olive Garden saw steady improvement on a two-year basis in 2Q without really changing the advertising and promotional strategy much. And as you guys mentioned, really focusing on operations.

And as we're – at the start here of calendar 2022, how do you think about the competitive environment changes that are likely to occur this year? And how this will impact your marketing promotion plans that thus far have really not changed that much over the last few months?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Andrew, this is Rick. First of all, I just want to say how proud I am of the work that Dan and his team has done, keeping with our strategy. We did have trends improved in Q2, and we exceeded industry two-year comp growth. So, thanks for noticing that.

I think one of the things that we've been thinking about through marketing spend is we're going to continue to look for equilibrium and react accordingly to whatever happens in the marketplace. Advertising will always be a part of Darden's mix because of the scale advantage they have. And if and when we increase our marketing spend, we'd expect it to earn a return compared to where we were if we didn't have any marketing spend. So, we're going to continue to see what happens. We don't – we know that there's some advertisers out there with some heavy TRPs. We had \$44 million less in media this quarter than we did two years ago. And we feel good about where we were.

Andrew Charles

Analyst, Cowen & Co. LLC

Then Rick, just a follow-up question. The Olive Garden off-premise to 28% was pretty steady from 1Q to 2Q. This had been decelerating in quarters before that as the dine-in business picked up.

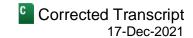
And I know historically, you'd said longer term Olive Garden off-premise sales would likely settle at 20%, at least. But as the recent experience led you to believe that off-premise mix can perhaps be 25% plus longer term?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.



Q2 2022 Earnings Call



Andrew, yes, you mentioned our To Go sales at Olive Garden were a little bit higher than they were in Q1. We had a – this is a typically lower volume quarter for us and the To Go sales stayed up there. So that helped our total percentage.

To answer your question about what we expect it to be, we do expect it to be higher than our 20% that we said. It is a little bit stickier than we thought. You guys were all right about that, a little stickier than we thought. We're not going to necessarily say, we should expect to be at 25%, but probably above 20%.

Operator: We'll move to our next question from Eric Gonzalez at KeyBanc Markets.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

Hey, thanks for the question. I'd also like to give my congratulations to Gene and to Rick. My question is, it looks like November was a relatively strong month for the industry as the attack accelerates to a little over 6%.

And can you talk about the sustainability of that trend line? How much of a pull forward of demand, is that given the earlier holiday shopping? And maybe which of your brands might have benefited more from that phenomenon?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah, Eric. Yeah, we saw the same increase in November that the industry did. And as I said, Olive Garden was ahead of the industry, and so was LongHorn. What I would say is it's too early to tell if it was a pull forward from shopping. We do know that retail sales were a little bit more online this year than a normal kind of after Thanksgiving, and some of the retailers were closed on Thanksgiving Day.

But it's too early to tell about that. We do have a shift, as we've said before, that Thanksgiving shifted back into our second quarter from our third quarter two years ago, and we're seeing that kind of impact this quarter.

So, still too early to tell, but the holidays do lineup pretty well for us. I will caveat all that by saying weather is the biggest fluctuation in this quarter, and we'll see what happens. If weather hits during a holiday period, then that could be a little bit of a challenge on the comp.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

That makes sense. And then just on the seasonality of the business. I think Raj was talking about how EBITDA growth was highest in the second quarter. I'm guessing there's a lot of staffing that needs to happen during the holiday period, just given that the overall number of crew members is higher.

So, can you talk about what the margin implications are for the third quarter? And how staffing in this environment might impact the margins?

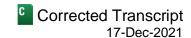
Rajesh Vennam

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

Yeah. Eric, I think when you think about Q3, it's historically has been a strong seasonal quarter, right? From – the volumes are higher. Our margins are really high.

FACTSET: callstreet
1-877-FACTSET www.callstreet.com

Q2 2022 Earnings Call



I mean if you go back to pre-COVID, I think we were in the 15-plus range for the third guarter when our annual was around 14%. So, the point I think we're trying to make here is that, once you start approaching that 17-plus percent, it starts to get harder-and-harder.

So that's really what we're trying to talk about is that there was a lot more opportunity in Q2, because you're able to leverage that low volume period some of the fixed costs better, and it just gets harder-and-harder when you're at the high volume.

The staffing is higher. We do staff – we want to staff – over staff, especially during peak periods, during the holidays, so that's part of that. But overall, 17-plus is – starts to get harder.

Eric Gonzalez Analyst, KeyBanc Capital Markets, Inc.	Q
All right. Thanks.	
Operator: We'll go next to Chris O'Cull with Stifel.	
Chris O'Cull Analyst, Stifel, Nicolaus & Co., Inc.	Q
Sorry about that. I was on mute.	
Operator: Chris, your line is open. Please go ahead.	
Chris O'Cull Analyst, Stifel, Nicolaus & Co., Inc.	Q
Thanks for taking the question. I'd also like to congratulate Ger the success you've had over the past 20 years, covering Rare	·

So, Rick, given the promotional level remains low at Olive Garden, was the acceleration in the comps you think due more to an improvement in staffing and capacity utilization quarter-to-quarter? Or have you seen customers really start to respond to some of the ongoing quality improvements the company has made there? Hello?

Operator: Standby. Just one moment, Chris. [ph] And you, Rick join. (00:25:09)

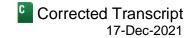
Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Sorry about that, guys. Sorry. Chris, thanks a lot for the question. This is Rick. As a reminder, the second quarter is our lowest seasonal quarter. We did run NAPB two years ago. So, we're really proud of the fact that we comped over two years ago without Never Ending Pasta Bowl running.

And this was really aided by the point you made up in staffing, aided by productivity enhancements we made during the quarter, and the fact that our two new team members were moving up the learning curve more quickly and becoming more productive. And there could be something about vaccination rates being above Q1 levels, so maybe people are more comfortable dining out.

Q2 2022 Earnings Call



And the fact that we have, as you mentioned, made these investments in our core items. They are – we've made great investments in the items that people really want. The value ratings are great, and we're just executing at a high level.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

That's helpful. And then just one other question related to commodity inflation. I don't know if this is for Rick or Raj, but I'm wondering if you have any insights into how processors, packers, distributors are going to pass through the inflation that they're experiencing. And what I'm trying to understand is how much commodity inflation could be permanent versus temporary? And whether you believe restaurants can get back to that kind of pre-COVID cost of sales if commodity prices were at comparable levels to that period?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Hey, Chris. It's Gene. Let me just jump in here. And I think about this, the commodity infrastructure pre-COVID was able to feed the world without a lot of inflation. And that's what the world getting richer. And so, I believe that the commodity infrastructure will get back to an equilibrium where we'll be able to produce the food needed to feed everyone. And I don't think there'll be a lot of inflation in that.

I think where the inflation is going to come in, in commodities is going to be whatever labor impact there is to grow and deliver that food. And so, I think we still have 12 to 18 months to – for that to all work its way out. But there was something happening over the last decade where we weren't seeing a tremendous amount of inflation in food. And I think it had to do with technology and other aspects. And I think that all that global capabilities are still there.

And so, I'll just end by saying what we don't know is – what – how much labor is involved in each product to grow and deliver and harvest, and so on and so forth. And what are the impacts the labor is going to have on the commodities. And so, I think we're in a wait-and-see, I don't know – I mean I think the end of your question was, we're going to get COGS back to historical levels. Yes, I think over time, it will take time, but I think these models will all drift back to the same what I would call prime cost model, we have labor and COGS.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

That's helpful. Thank you.

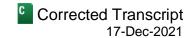
Operator: We'll take our next question from John Glass with Morgan Stanley.

John Glass

Analyst, Morgan Stanley & Co. LLC

Well, good morning and hats-off, Gene, and congrats, Rick as well. Gene or Rick, first, just on – can you talk about the wage increases. I guess broadly, when I see a number like \$12 an hour, when you compare it to other retailers or even some others and other segments in retail of restaurants, it still seems low, I know you're a top quartile payer in your industry. Do you think the casual dining industry in general though, is maybe underpaying relative to others in retail, and there's the need just to continue to advance that? And maybe if you could just unpack the \$12 – the hybrid number it includes gratuities. So maybe what is the back of the house starting wages, for example, just so we can maybe better benchmark without including the gratuities which we don't really have exactly a handle on.

Q2 2022 Earnings Call



Eugene I. Lee, Jr.

environment.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. John, I think where I'd start was, we basically said, we expect our average to be approximately \$20 after this goes into effect. Now very few people in our company make minimum wage. This is what I would call an entry-level wage in more rural America. And so – in the major cities, you're not hiring anybody for \$12 an hour today. This is an increase and a guarantee to our workforce, will probably have more impact on Cheddar's than any of our other brands. And so starting wages or wage rates vary very, very much depending on geography and overall demand. We have people that – in our environment that make \$25 to \$28 an hour in the back of the house. And in some parts of the country, you're doing that same job for \$18 an hour depending on the

And so, I don't believe – and your macro question around is casual dining paying too little, I don't think that's true. I think casual dining is paying the appropriate rates in the marketplace based on supply and demand. And I think that – I think our teams are doing a very, very good job of looking at the overall situation and ensuring that we're paying probably a little bit more of the competitive wage in each market to ensure that our restaurants are fully staffed. And we're encouraged by Rick's comments that our restaurants today are better staffed than they were last quarter, and they're better staffed in the quarter before. And we still have strong, strong retention rates. And I think that the way we think about it – I'll leave you with this, the way we think about it is that there may not be enough service workers to staff every restaurant in America, but there's enough service workers out there to staff Darden's restaurants, and that's what we're focused on.

Ic	hn	G	lass

Analyst, Morgan Stanley & Co. LLC

That's great to hear. One follow-up, Rick, I think you mentioned putting on pause some initiatives to focus on operations right now. What are some examples of those initiatives that you've put on pause? Are they salesdriving initiatives that we could think about coming back over time? Are they more marginally ahead – I don't know what they are, but what maybe is some examples of those? And when do you think they come back?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

I think about a couple of things that are not directly related to training and staffing. So those initiatives, we're still working on making sure that we've got our restaurants staffed and we've got our people trained. But things like new product development, that for years, we've done a lot of new development, but we're focusing on just developing one or two products a year that are really great. And so, we thought it was right for us to not go ahead and do that during this time when we can keep managers focused entirely on staffing their restaurant, making sure they train their people. So that's an example. We're still doing a lot of things here in the support center that are getting ready to gear up, a lot on the technology front, but that was one example.

John Glass

Analyst, Morgan Stanley & Co. LLC

Perfect. Thank you.

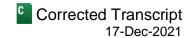
Operator: We'll take our next question from Peter Saleh at BTIG.

Peter Saleh

Analyst, BTIG LLC



Q2 2022 Earnings Call



Great. Thank you and good morning and congrats to both Gene and Rick. A couple of questions on my end. I think you guys mentioned longer lead times to open units, really getting some of the equipment in there. Can you give us a little bit more color on that? Are we talking weeks or months? And do you see any end to that? Is that something that you think persists for a while? Or is that kind of more short-term in nature?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

restaurant is ready to open. So not very long.

Yeah, this is Rick. We're talking weeks, not months, a couple of weeks here or there. We may have a restaurant or two that might go a little bit longer than that, but on average, we're a few weeks. And we are starting to order a lot of these long lead time items a lot sooner, and actually holding them in inventory, which not driving our inventory costs up, but making sure that we have the kitchen equipment to open the restaurant when the

Peter Saleh

Analyst, BTIG LLC

Great. And then just lastly on my end. Is there any other technology or any other processes that you guys are implementing or looking at maybe kitchen equipment or other that could help reduce some of the labor hours necessarily in the restaurant?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah, Peter. We've always focused on our technology in three places, and I'll talk about the two big ones, guest-facing and restaurant technology. So, if you think about what we're doing on the restaurant side. We are doing a lot of things to help improve productivity, simplifying processes for managers so that they don't have to hunt and pack and do other things so that they can spend their time training their people. But we don't foresee bringing in technology that will reduce the number of people that we need to do the job.

We're a full-service restaurant company, and we're going to maintain that to provide the service that our guests expect. We will bring technology into help that, but not to necessarily replace.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Peter, one of the things that I think that's most interesting is machine learning for forecasting, forecasting our business is – forecasting our restaurant business is one of the most important things that we do every single day. And we think there's some real upside in the machine learning around that, and our team has developed some pretty slick stuff. And I'm fairly excited about that potential. That turns into productivity. If you can predict your business correctly, then you can really increase your productivity at the store level.

Peter Saleh

Analyst, BTIG LLC

Very helpful. Thank you very much.

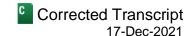
Operator: We'll take our next question from Chris Carril at RBC Capital Markets.

Christopher Carril

Analyst, RBC Capital Markets LLC



Q2 2022 Earnings Call



Thanks, and good morning. And I also want to echo my congratulations to both Gene and Rick on the announcement today. So just following up on pricing. Clearly, a still challenging cost environment, but curious to hear how you're thinking, how you expect today's pricing levels to be received by guests. And how does that pricing flow through the different brands? Are you expecting to take relatively more pricing at your higher-end brands, while keeping pricing closer to historical levels for the others?

Rajesh Vennam

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



Yes. Hey, Chris, yes, let me start with the latter question, first. Yes, we do. So, when you look at our overall pricing, I'd say you almost you can assume that Olive Garden and Cheddar's are going to be below the Darden level of pricing and all other brands are going to be higher. Obviously, the spectrum being the Fine Dining will probably have the highest pricing. As far as the guest reactions, obviously, we track this over time.

One of the things we noticed – one of the key factors is how much do you price relative to CPI. And I think as we look at how we've been pricing we've been pricing a lot below that. That helps – that gives us a lot more comfort in the fact that the elasticity – we're not hitting the portion of that curve that's actually more elastic. So, at this point, the level of pricing we have is significantly below CPI, which means it's fairly inelastic impact.

Christopher Carril

Analyst, RBC Capital Markets LLC



Okay. Great. And just as a follow-up, at the risk of asking this question too early, but can you provide us with any sense on whether you're seeing any shift in guest behavior in recent weeks in response to just latest COVID concerns perhaps any observations on a regional basis that would suggest there is or is not any change in demand levels today? That would be helpful. Thank you.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.



Yeah. I would – that's a pretty simple answer, no. We haven't seen any change in behaviors, any of the regional. It's real early in this – what seems to be this next wave. I mean I think if you study the New York Times map, you could see this surge heading towards New England for a few weeks now. And so that's been a part of the country that's been most sensitive into, maybe what I would call, overreacting.

So, but we'll see. I mean we – as of today, we haven't seen any big change I would just say that there's significant COVID fatigue out there, and it's going to take a lot to modify a certain percentage of the population's behavior. There's a certain percentage of the population that is going to react to this, but there's a certain set of it that's just going to continue on. And all you got to do is look at stadiums and concert halls to see who those people are.

Christopher Carril

Analyst, RBC Capital Markets LLC



Okay. Great. Thanks for all the details there.

.....

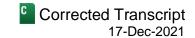
Operator: We'll go next to Brett Levy at MKM.

Brett Levy

Analyst, MKM Partners LLC



Q2 2022 Earnings Call



Great. Thank you. And best of luck to everyone in their next endeavors. So, thanks, Rick. Thanks, Gene. When you think about the guidance items that you provided, and obviously, you've unpacked a lot with the commodity and the inflationary talk on labor. Where do you still see the greatest opportunities beyond the sales line to improve your fundamentals at the unit level? And when you think about your CapEx, you obviously raised it to the high end. Can you walk us through how you're thinking about where that comes from, and just your capital thoughts for the year? Thanks.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yes. Brett, it's Gene. I'll start with the fundamentals. I think the fundamentals for us right now is how do we bring along the most – the population of new employees – the percentage of the population of new employees, how do we bring them along. And as Rick said earlier, make them as productive as we possible can and bring our brands to life the way we wanted to do so.

And as we head into the busiest part of the year, we are just laser focused on trying to keep things simple and ensure that we can execute at a high level. We know that our competitors are having similar – the same problems that we have, and our goal is to out-execute them and win guest loyalty through this very difficult period of time. And so, I think that's really where our advantage is right now. We're better staffed. We've got – we're doing great training, and we're really confident that we're executing at a high level, and that's what our – that's what our research is telling us. Raj, you want to take the CapEx.

Rajesh Vennam

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

Yeah. Look, clearly, in this environment with inflation, there are construction costs on the CapEx that are going up a little bit. But overall, CapEx levels given – while they are higher related – what we said was the high end of the guidance we had provided earlier, the efficiency of this capital spend is still very high. We're actually still – especially with the improvements we made at the unit level, the returns are really strong. So even with the elevated CapEx, we're getting stronger returns than we did before COVID.

Brett Levy

Analyst, MKM Partners LLC

If I could just follow-up on labor with one quick question. Where do you see yourselves right now in terms of where you want to be at staffing levels? And how that compares to pre-COVID staffing level? Thank you.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah. Brett, this is Rick. I'll start with the second part. We're at about 95% of pre-COVID staffing levels, where in the end of the first quarter, we were at 90%. So, we continue to increase that percentage. But I will say that we don't – because of the productivity enhancements that we've made over the years in these brands, it means we don't need as many people as before. So, a majority of our restaurants are well staffed. The exclusions that we've seen are still the most complicating factor. As exclusions for COVID, they still – the most complicating factors, especially on the weekends when we're busy. So, we feel good about our staffing levels. We just want to keep trying to make sure that we get people that can work and not be excluded and continue to hire people every week and train them.

Brett Levy

Analyst, MKM Partners LLC



Q2 2022 Earnings Call

C	Corrected	Transcript
	1	7-000-2021

Thank you very much.

Operator: We'll go next to David Palmer at Evercore ISI.

David Palmer
Analyst, Evercore ISI

Thanks. Congratulations, Gene and Rick. The on-premise traffic in the US full service segment, it's down in the high 20s versus pre-COVID levels. And that's a pretty striking number. Perhaps you can comment on why you think that is? What are the biggest reasons for this at this point? Is it [ph] covered (00:41:49) comfort levels, diminished capacity out there or something else? And then focusing on Darden, how much is on-premise traffic down across your major brands versus pre-COVID levels? And I'm curious, are you really not assuming an on-premise traffic recovery in the second half of your fiscal 2023 guidance? Thank you.

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

Hey, David, let me just answer the first – the part about the on-premise traffic, and then I'll let Rick or Gene jump in on the other aspects of it. We are not seeing the level of decline you're talking about. We're not 20% down on on-premise. We are – when you look at on-premise overall across the system, we're probably in the single digits of decline. So that's – so I think that's different from what you're referring to the industry is, but we are – yeah, and LongHorn, actually on-premise is higher than pre-COVID. And so – and the overall Darden in the single-digits decline, but not double digits like you're alluding to.

Ricardo Cardenas President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah. And I'll take the – I'll take the other part of that. As we've been making investments in our off-premise experience, making it easier for our guests to order, pick up, and pay, we still see people coming back more often and more often on the off-premise side. That's why we think the off-premise is going to stay at a little bit more elevated level, which could become very convenient, so maybe people won't come in as often. But we believe that in the long run, we'll get back to our pre-COVID levels of on-premise experiences as we continue to invest in our food, as we continue to increase our staffing levels, as people become more confident and comfortable going out to eat. We believe that in the long run, we will get back to our in-restaurant experience.

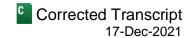
David Palmer Analyst, Evercore ISI Thank you.

Operator: We'll take our next question from Jeffrey Bernstein of Barclays.

Jeffrey A. Bernstein Analyst, Barclays Capital, Inc.

Great. Thank you very much and congratulations, Gene and Rick. Rick, you have some big shoes to fill. I had one follow-up on the last question, and then another. The follow-up is just related to what you just mentioned about expectation to get in-restaurant dining back to full strength at a certain point. I just want to then couple that with Olive Garden and LongHorn's performance in the earlier stores that have returned to full in-store dining.

Q2 2022 Earnings Call



Just wondering what the range of averages of that To Go business is, I know you mentioned it's 28% and 15%. Just trying to get a sense of the range around that because it would seem like a fantastic win if you could get the on-premise back to 100% and still hold on to what you suggested might be north of 20% at Olive Garden in terms of To Go. So, any color you could add in terms of how much of that you think is incremental would be great.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

A

Yeah. Jeff, it's Gene. As Rick alluded to earlier and stated that we believe that this off-premise is stickier than what we originally thought. And Rick gave you guys credit, you guys were right. We were wrong on that. We don't get to say that often.

But it seems as though that the technology that we've created and the friction we've taken out of that experience and our ability to deliver a quality experience has made this a lot stickier. And we don't know – we [ph] can't keep wanting to (00:45:09) going back to equilibrium. We haven't got to equilibrium. We're not close to equilibrium yet. So, we don't know what the long-term run rate is going to be off-prem and on-prem.

I mean, I would say that when we look at on-prem, there's still some regional differences based on how people think about COVID. I think when I look at on-prem, I think staffing continues to be an issue. It's getting better and better. I also think that throughput – when we look at our sales, during the week, we're a lot stronger on a comparable basis, Monday through Thursday than we are on the weekend. And we think some of that has to do with one staffing to the productivity of the people working in the restaurants, and that we believe that as they become more proficient and develop more repetitions over time that we'll actually have some more throughput through – on the weekend, where we know we have excess demand right now.

We have a lot of restaurants in our system that are doing more guests in the restaurant today on-prem than they were pre-COVID. We still have pockets where we're struggling a little bit. And so, I think that that's the real opportunity. As I look at the opportunity as we move forward, we've got — in full service dining, we've got 11 — our overall dining we got 11% less restaurants to service what we believe is going to be aggregate demand that's going to end up being as strong or greater than pre-COVID. And if we do what we've been doing all the way through this, investing in our product, investing in our people, we're going to capture our market share.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Understood. And then my follow-up just related to the comments you made about labor. It does seem like the industry is improving of late. Just wondering your thoughts on to what we should attribute that. And you had mentioned that staffing is still a big challenge for you. It seems like it's pretty much back I think you said you're now back to 95% of staffing and you don't need to get back to 100%. So, I'm just wondering where is it that you have the greatest challenge from a staffing perspective, if you're that close to that full 100%, you really don't need to get back to that full 100%. Thank you.

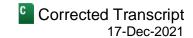
Eugene I. Lee, Jr.

А

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yes, Jeff, I think we – obviously, we probably struggle most in our lower-end brands where your check average isn't as high, and your business models don't afford you some of the luxuries that our other business models afford from a pay structure standpoint, and you got the – basically the lower check average yield you a lower tip in aggregate. So those businesses struggle a little bit more. They also tend to be high-volume businesses, so you're running through a lot more guests through those businesses.

Q2 2022 Earnings Call



And so, I think that – I think there's been a couple of things contributing to improved labor in the restaurant industry, obviously, getting away from the subsidies and unemployment I think people getting more confidence that they can enter back into the workforce. I think that childcare is probably still the biggest barrier today for people getting back into the workforce. But I think things are better than they were 90 days ago, and they were a lot better than they were 180 days ago.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you.

Operator: We'll go next to Lauren Silberman at Credit Suisse.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

Thanks, and congrats, [indiscernible] (00:48:43) I also wanted to ask about the wage investments. As you look across the portfolio, are you seeing greater challenges in your ability to recruit or retain employees and any differences geographically? And then how do you assess the risk that you'll need to make another big wage commitment next year?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Hey, Lauren, this is Rick. We aren't really seeing a whole lot of differences across the country on staffing, not any more challenging in Texas as it is in New York. We're staffing our restaurants, and we're seeing the pickup. We've actually implemented a new system. As we mentioned, it's increasing our speed of hire. The one thing we've got an incredible employment proposition. When we make an offer, people accept it, and that's a great thing. And so, I think that to me, is the biggest nature.

Our employment proposition is so strong that people want to come to work for us. As it relates to future need to increase our minimum kind of guaranteed wage. Right now, we're looking at – the number that we have right now at \$12 is the right thing for us. As we said, and Gene mentioned, we average over \$20 – around \$20 an hour after this change, and we'll continue to monitor that and see where we need to increase wages on a market-by-market basis.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

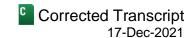
Great. And just a follow-up on price covering most of what you view as structural and absorbing the short-term fluctuation. Can you expand on what you view as transitory? Is it primarily just the commodity piece or anything related to labor? Thanks.

Rajesh Vennam

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

No. We view labor as actually more sticky. So, it really focuses on the commodities, is where we see some of the transitory, especially on the proteins front where you already see some of that coming back, right? You saw beef prices pick up, especially middle states, and they're coming – you're starting to come – you see them come down.

Q2 2022 Earnings Call



Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

Great. Thanks.

Operator: Our next question comes from Dennis Geiger, UBS.

Dennis Geiger

Analyst, UBS Securities LLC

Thank you. Gene and Rick, a big congratulations to you both. Just first question, I wanted to ask another on labor. Curious if you could speak to where labor efficiency or the productivity was in the quarter? And then just regarding the pull forward of the minimum wage increase announcement, how much of that of the wage inflation target for the year that you noted is related to that pull forward?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah. Let me start with the second part of the question on the \$12 wage. That really isn't costing us very much in the grand scheme of things. It's a very small portion of the wage inflation that we're seeing in the back half of the year. And so, I'll leave it at that.

On the productivity side, we're more productive than we were – when we were two years ago. We're about as productive as we were in the first quarter versus two years ago. But I will say, remember, our second quarter is the lowest sales quarter. So, productivity is a little bit more difficult to do than in Q1 and in Q3.

Dennis Geiger

Analyst, UBS Securities LLC

Appreciate that, Rick. And then just one more question, just on the consumer and recognizing some of the pandemic impacts here could make this question difficult. But sort of, what are you seeing right now across consumer demand behaviors overall consumer health, and then how you think about the consumer going into 2022. Is there anything on the lower income consumer yet that's starting to concern you? Just broader thoughts and perspective there would be great. Thank you.

Eugene I. Lee, Jr.

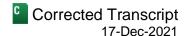
Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. The consumer's never been healthier, right? I mean, you look at all the statistics out there, when you look at the personal balance sheets and where the consumer is at, I think they're learning. I think they're learning how to manage through the inflation. And I would expect – and as we transition to calendar 2022, I would expect the consumer behavior to continue to be strong.

It's just that, there's a lot of talk about inflation. And inflation has been a horrible thing to the lower-end consumer. But when you really think about – if you look at the share of wallet when you think about gasoline, it's still historically low, even at current prices. And so, I think people are making choices.

I do believe that we're still transitioning this experiential economy, and I think people want experiences after 18 months of not having experiences. And I think going out to eat is an experience that people want to have more regularly than they've had over the past two years. And so, I feel really good about where the consumer is.

Q2 2022 Earnings Call



Dennis Geiger Analyst, UBS Securities LLC	C
Great. Appreciate that color.	
Operator: Our next question comes from Andy Barish with Jefferies.	
Andy Barish Analyst, Jefferies LLC	C

Hey, guys, happy holidays. Gene, I'm just happy, it's snowing in Colorado, finally. Quick question on — can you give us a little bit of a of Cheddar's, kind of, review in terms of the progress that's made here during the pandemic. And from a people side of things, which I think has been the biggest challenge, are you building bench strength to start to see a noticeable ramp in the unit growth in fiscal 2023 for that brand?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Hey, Andy, this is Rick. We're really proud of the work Cheddar has done on the people front. Let me give you a couple of statistics without getting into too much detail on our P&L.

They've added – they're that close to where LongHorn and Olive Garden is on the percent of their general managers that have been general managers for a year or more, where they were way far away from that a couple of years ago. Their management turnover continues to improve.

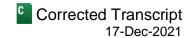
I believe the last 45 restaurant general managers are managing partners that they added were all promotion within. You couldn't say that a couple of years ago. We've got a strong, strong pipeline that we're building of managers. And we do expect to have more openings in fiscal 2023 at Cheddar's than we did in – I'm sorry, in – yeah, in fiscal 2023 at Cheddar's than we had in fiscal 2022.

So, we're really excited where they are, partly because of the business model improvements they've made, which we don't highlight because they're in the other segment, but they've had a significant improvement in their business model, which gives us even more confidence that they can grow with this pipeline that they're building in people.

Andy Barish Analyst, Jefferies LLC	Q
Thank you very much.	
Operator: Our next question comes from James Rutherfo	rd at Stephens.
James Rutherford	Ω

Hey, thanks for the questions. Rick, marketing is still one of the biggest sources of margin expansion within your business. What main factors will you consider as you work to determine when it's time to start adding some marketing dollars back into the business incrementally?

Q2 2022 Earnings Call



Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah, James, thanks for the question. As we mentioned in an earlier question, Olive Garden will always be a marketer because of their scale. The advantage that they have in their size, gives them the ability to spend money in marketing. And we'll continue to look at the time when equilibrium comes. We still have a lot of demand to come into our restaurants today. We have reduced our marketing spend overall. And as I said, as we increase — whenever we make that decision, I don't want to tell you when we would do that based on strategic implications. But whenever we would make that decision, we would ensure that that marketing is profitable, whether it's — when we compare to what we would do if we didn't have that marketing.

So, we have had a couple of hundred basis points of improvement in marketing spend. I would tell you that even if we increase our marketing dollars, we will still have some margin improvement or margin maintained with marketing. So don't assume that when we bring marketing back, it's going to basically reduce our margins by the amount that we bring it back.

James Rutherford

Analyst, Stephens, Inc.

Very helpful. My second question is on LongHorn, which has clearly benefited from strong execution, as well as general robust consumer appetite for steak as a category, what do you think it will take to retain these high sales levels if and when the consumer potentially begins to shift back to more of a value-focused mindset?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah. Thanks for asking about LongHorn. Todd and his team have been on a journey for years. And that journey has been to invest in food quality. As we've mentioned before, we've improved all of our steaks. We've increased the size of our steak. We've increased our portion sizes of our sides, and we've improved our execution of all of that food.

And so yes, the steak category has been helped by consumer demand, but we believe that we will continue to execute at this level and continue to grow LongHorn. I can't tell you what our comp will be in the future, but we're proud of what they've done over the years to continue to invest and make sure that they have the best product. They're number one in quality and casual dining, and they continue to do those things.

James Rutherford

Analyst, Stephens, Inc.

Thanks very much.

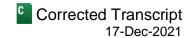
Operator: Our next question comes from Brian Mullan at Deutsche Bank.

Brian H. Mullan

Analyst, Deutsche Bank Securities, Inc.

Hey, thank you. I'd just like to echo all the congrats to both Gene and Rick. Just a question on Fine Dining, specifically related to development. I know it's a smaller piece of the puzzle. But Gene or Rick, can you just talk about how you see development in this segment over the next, say, three to five years? Is there a lot more room across the country for your brands? And if you could discuss any structural changes in that segment, where

Q2 2022 Earnings Call



learning throughout pandemic might have that change your answer from what you would have said two years ago, if at all?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. Two parts to that answer. Number one, we think that we can push Capital Grille in suburban areas a little bit further than what maybe we have thought in the past. We've had some recent openings that give us confidence that there are additional trade areas, in which we can compete with that brand and get a great return on our investment.

And then secondarily, the real opportunity is, can we take Eddie V's and get it to mirror Capital Grille and get to the same size company. We are thrilled with our - what we refer to as our COVID babies. For the Eddie V's that we've opened during COVID. They've all gone to the market very well and accepted very well. Our business model is really strong and getting stronger. And there's no reason why we can't get that from the high 20s into the low 60s and do that very profitably.

Now again, that's a three- to 40-year. You've got to wait for the right sites, but we're just – we're thrilled. And for those who – anybody that travels through Nashville, please go visit our new Nashville Eddie V's. It's just a spectacular, spectacular venue and doing extremely well.

So, we're confident that Fine Dining will still continue to be a big contributor to what we're doing. And the margin structure - we just have a lot more flexibility in that business to deal with some of this inflation that we don't have in our casual brands.

Brian H. Mullan

Analyst, Deutsche Bank Securities, Inc.

Thank you.

Operator: We'll take our next question from David Tarantino with Baird.

David E. Tarantino

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

Hi, good morning, everyone and wow Gene, what a terrific career, congrats on your decision to retire. And Rick, my congrats on your promotion. Rick, I had a question about sort of a big picture view of the long-term strategy at Darden. And I just wanted to ask with the upcoming transition to you as CEO, certainly, not much needs to change, but just wondering your thoughts on what maybe some new strategic priorities or new priorities for you are as you take over the CEO role. Thanks.

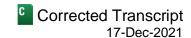
Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Hey, David. Thanks for the question. I just want to first say that I've been with Gene for his seven years as the CEO, partnering on developing our strategy. And I really think the strategy that we have is the right strategy. We've got our four competitive advantages. We're going to continue to invest in those advantages to make them stronger.

We're a platform company that helps our brand succeed and driving back to basic operating philosophy. We are going to continue to improve our operations execution and continue to invest in our competitive advantages. I

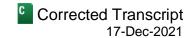
Q2 2022 Earnings Call



don't see a big change in our strategic priorities, partly because that was a big part of writing them. So, it would be a little weird if I did change those. But we'll look and see as we go through our five-year plan process, which we just did last year. So, there's not a whole lot for us to talk about right now.

David E. Tarantino Analyst, Robert W. Baird & Co., Inc.	C
Makes sense. Thank you for that.	
Operator: Our next question comes from Andrew Strelzik of BMO Capital.	
Andrew Strelzik Analyst, BMO Capital Markets Corp.	C
Hey, good morning. Thanks for taking the questions. I wanted to first just clarify on the think you said that inflation would peak in 3Q when you called out the inflation comparago as part of the reason why that would ease this year. So – but you also mentioned commodity prices have eased as well. So, does the outlook reflect that underlying kind timing dynamic where that's not included in that? And then my question is really on un point, the visibility to hitting the high-end of the framework that you've talked about in about some construction cost increases and delays, which doesn't sound like that big see about the visibility and anything that you can comment on the brand mix would be much.	ison in 4Q from the year that some of the underlying dof easing? Or is there a it growth, and just at this 2023. I know you talked of a deal, but just wanted to
Rajesh Vennam Chief Financial Officer, Treasurer & Senior Vice President, Darden Restaurants, Inc.	A
Hi, Andrew, this is Raj. So, on the commodities front, yes, we did see – the way we this at what we have covered. And then based on our best estimate of where the costs are you look at the cadence of some of this, Q2 was around 9% commodity inflation. We expect the control of 10%.	going to be, right? When
And then I think by the time we get to Q4, because we're wrapping on elevated number ago, that it's not going to be at size. So, the way we are looking at it is really on a two-look like? And I think if you're looking at it on a two-year basis, we're hovering around where we expect Q4 to be — to land as well. And so that's why there's a big difference	year basis, what does it 10% to 11%, and that's
I mean, I guess at this point, on the unit growth front, we feel pretty – we still feel confishot at getting to the high end. There may be a few slips here and there, but we still the good number to think of. Obviously, a few – four or five could get pushed out. But at the	ink that 55% to 60% is a
that higher end.	
that higher end. Andrew Strelzik Analyst, BMO Capital Markets Corp.	Q

Q2 2022 Earnings Call



Jared Garber

Analyst, Goldman Sachs & Co. LLC

Hi, thanks. And certainly, I would like to also echo my congratulations to Gene and Rick. Exciting to watch you both progressing your careers. I had two questions. One on the top-line in Olive Garden and one on cost. You noted that you're lapping over the Never Ending Pasta Bowl from two years ago. Can you help frame maybe what some of the headwinds were in that business? Obviously, the Olive Garden trends seem like they're pretty strong.

But just any color on maybe what you were lapping and the headwinds that you saw related to that, that would have essentially pushed that two-year comp a little bit higher? And then on costs, Raj, I appreciate all the color on the commodity front. If I look at your deck, it looks like on beef, you're very, very low contracting at this point, about 25% versus the normal 80%, 80%-plus. I just wanted to get a sense of exactly how you're thinking about beef purchases and maybe some of the risks that beef prices move higher. Thanks.

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Hi, Jared, it's Rick. I'll comment on the other headwinds at Olive Garden, with Never Ending Pasta Bowl, providing not much of a comment. We don't want to talk about the impact that Never Ending Pasta Bowl had. We know it was a negative impact over the years, but the profitability wasn't as high as the guests that we're doing today. And so, we decided to reduce the dependency on Never Ending Pasta Bowl this year because we didn't need to drive volume into our restaurants.

As we think about why we had a better performance, even lapping Never Ending Pasta Bowl, as I said, it was productivity. We just got better at serving the guests when they came in the restaurant. Our To Go business stayed strong, which is a very productive business for us. But as we look forward, we don't know if we'll bring and when we'll bring Never Ending Pasta Bowl back because we have a never-ending abundance every day with our never ending first course.

Raiesh Vennam

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

Yes. Hi, Jared, on the coverage on beef, I think, really, the way we're thinking about it is, at this point, the forward premium is too much. And there's really – this is really purposeful. We feel like there's opportunity to be more short and not be long given where the levels are. To the extent there is risk, I mean, I think what we've shown – I think we've demonstrated over the last two quarters that if inflation ends up being higher, we'll be – our teams that are agile will react, we'll adjust accordingly. But we have – we have a pretty good line of sight into what we think the costs are going to be, and that's where we're sitting here, but could this change. Yeah. But we'll adjust, and we'll still get to the commitments we made.

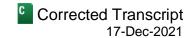
Operator: Our next question comes from John Ivankoe at JPMorgan.

John Ivankoe

Analyst, JPMorgan Securities LLC

Hi. Thank you very much. Since the transformative Rare acquisition, that's obviously brought in Gene, the business has made a number of acquisitions with Cheddar's, Yard House, Eddie V's. And I did want to get a sense of maybe this is where there could be a little bit of a difference in the CEO change.

Q2 2022 Earnings Call



In terms of appetite or potentially even need for future acquisitions, and I ask this, obviously, in the context, the organization's ability, which I'm sure you have about the organization's desire, especially as there's probably a number of businesses that are out there that you could acquire with probably not adding much G&A, if at all, based on what your scale is.

But I just want to get your sense in terms of what you see in the current market, and as we kind of think about the Darden business over the next 24 months or so, if we could potentially see something else?

Ricardo Cardenas

President & Chief Operating Officer, Darden Restaurants, Inc.

Yeah. John, this is Rick. I'll just start by saying, I've been involved with some of these acquisitions, but our management team and Board regularly evaluates all of our alternatives. How do we allocate capital, how do we manage our business to achieve our long-term goals? And M&A is part of that. And we'll continue to act the same way we have over the last 10 years or 15 years since we bought Rare.

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. And John, I'll just jump in and just say that we are thrilled with our current portfolio today with the business model enhancements that we've made to these businesses. We do not need to do something to achieve our long-term framework.

And we believe that, we'll – I believe, I won't – probably I won't be driving it, but I believe that we'll continue to be opportunistic if the timing is right. But at the end of the day, we love our portfolio of brands today, and we think they're extremely well positioned to take a lot of market share as we move forward.

John Ivankoe

Analyst, JPMorgan Securities LLC

Thank you guys. Congratulations.

Operator: Our next question comes from Brian Vaccaro of Raymond James.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Thanks, and good morning. Just two quick ones, I had two quick clarifications as most might have been asked. But on menu pricing, are you currently at around 4% today? Or are you working towards that level? And where do you expect pricing to be as we move through Q3 into Q4 for your fiscal year?

Rajesh Vennam

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

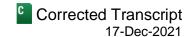
Yeah. Hi. Brian, we are not at that level. The level we're – I would say, we exited the quarter around 3-ish. And for the Q3, we expect to be in the mid-threes, and Q4 would be a little bit, north of – in the low-fours.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

All right. That's helpful. And then, the Thanksgiving shift, I just wanted to confirm that, that was about 100 bps headwind to the comps versus 2019, and that should reverse in the fiscal third quarter. Is that right?

Q2 2022 Earnings Call



R	ai	es	h١	/ei	nn	an	n
١,	uj	US				u	

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

Yes. But I would caution that Q3, again, is a high-volume quarter, so just be careful how you read into that. But yeah, it was a headwind in Q2. And it should help in Q3.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Understood. Thanks very much.

Operator: We'll take our next question from Joshua Long at Piper Sandler.

Joshua C. Long

Analyst, Piper Sandler & Co. (Broker)

Great. Thank you for taking the questions, squeezing me in and, again, echoing congratulations to everyone on their next chapters. Gene, following on some of the comments you made about the kind of COVID fatigue and the experiential nature that we're seeing in terms of consumer dining choices.

Curious if you might be able to provide some context around your high-end brands, especially as we head into year-end, around some sort of return to a more normalized celebratory occasion.

I imagine that's more on the social high-end dining and some of your high-end brands. But curious if you're seeing any sort of business customer return or kind of what your thoughts there or what the teams thought on kind of the equilibrium there over time would be on the high end?

Eugene I. Lee, Jr.

Chairman & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. I think we're still experiencing the business travel at the level of pre-COVID. But we are – as you've seen from our results, we're experiencing some fairly really strong sales, I would just say – I would tell you that our holiday bookings are very strong.

The demand for private dining is very strong. I would say it's smaller groups than larger groups. But overall, the demand for Fine Dining experiences, holiday celebrations is strong. And I would expect it to be strong throughout.

And so, I think that business is going to be a very interesting business. As business travel returns, I think that a lot of people have really enjoyed the experiential part of Fine Dining, and it's something they're not going to give up easily as we move forward. So, I love the business. I think we've really positioned those well, and I think they'll continue to do well.

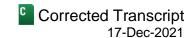
Joshua C. Long

Analyst, Piper Sandler & Co. (Broker)

Okay. Thank you.

Operator: With no other questions holding, Mr. Kalicak, I'll turn the conference back to you for any additional or closing comments.

Q2 2022 Earnings Call



Kevin Kalicak

Senior Vice President, Finance & Investor Relations, Darden Restaurants, Inc.

Thank you. That concludes today's call. I'd like to remind you that we plan to release third quarter results on Thursday, March 24, before the market opens, with the conference call to follow. Thank you for participating in today's call, and happy holidays.

Operator: That will conclude today's call. Thank you for your participation. You may disconnect at this time.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet Calistreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.