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Darden Restaurants, Inc. (DRI)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Darden Fiscal Year 2024 Second 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'll now turn the call over to Mr. Kevin Kalicak. Thank you, you may begin.

Kevin Kalicak

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

Thank you, Kevin. Good morning, everyone, and thank you for participating on today's call. Joining me today are Rick Cardenas, Darden's President and CEO; 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 that presentation. Looking ahead, we plan to release fiscal 2024 third quarter earnings on Thursday, March 21st, before the market opens, followed by a conference call.

During today's call, any reference to pre-COVID when discussing second quarter performance is a comparison to the second quarter of fiscal 2020. Additionally, all references to industry results during today's call refer to Black Box Intelligence's Casual Dining benchmark, excluding Darden, specifically Olive Garden, LongHorn Steakhouse, and Cheddar's Scratch Kitchen.

During our first fiscal quarter, industry same-restaurant sales decreased 1.3% and industry same-restaurant guest counts decreased 4.8%. This morning, Rick will share some brief remarks on the quarter and Raj will provide details on our financial results and an update to our fiscal 2024 financial outlook.

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

Ricardo Cardenas

President, Chief Executive Officer & Director, Darden Restaurants, Inc.

Thank you, Kevin and good morning everyone. I'm pleased with our results this quarter, which outperformed the industry benchmark for same-restaurant sales and traffic.

Total sales were $2.7 billion, an increase of 9.7% and adjusted diluted net earnings per share were $1.84. We opened 17 restaurants during the quarter. Fiscal year-to-date, we have opened 27 restaurants in 16 states, four of which were re-openings.

We continue to stick to our strategy, driven by our four competitive advantages of significant scale, extensive data and insights, rigorous strategic planning, and a results-oriented culture. And our brands are relentlessly focused on executing our back-to-basics operating philosophy anchored in food, service, and atmosphere.

This focus on being brilliant with the basics enables our brands to consistently perform at a high level. Our internal guest satisfaction metrics remain strong across all of our brands.

In fact, Olive Garden, LongHorn Steakhouse, Yard House, Cheddar's Scratch Kitchen, Seasons 52, and Bahama Breeze reached all-time highs for overall guest satisfaction during the quarter.

LongHorn also ranked number one among major casual dining brands in six of the seven key measurement categories within Technomics industry tracking tool, including food, service, atmosphere, and value. LongHorn's continued adherence to their strategy is driving strong execution, which can also be seen in the fact that they established an all-time high [indiscernible] (00:04:02) score.

During the quarter, Olive Garden ran Never Ending Pasta Bowl. It was offered at the same price point as last year, making it an even stronger value. Guest demand was higher this year, and our restaurant teams did a great job delivering outstanding guest experiences, achieving the highest refill rate ever. This performance was driven by our focus on ensuring every guest is offered a refill, whether it's a limited time offer like Never Ending Pasta Bowl or our never ending first course, which is offered every day.

This iconic promotion also satisfies all three of our marketing activity filters. It elevates brand equity, it's simple to execute, and it's not at a deep discount. Also, I'm excited to share that during the second quarter and for the first time in their history, Olive Garden surpassed $5 billion in sales on a trailing 52-week basis.

The holidays are the busiest time of the year for all of our restaurant teams, and they embrace the opportunity to perform at their best. On Thanksgiving Day, our teams at Ruth's Chris, The Capital Grille, ADVs and Seasons 52 did just that with each setting a new daily sales record. And while we experienced some softness at our Fine Dining brands during the quarter, we are encouraged by the strong holiday bookings we are seeing.

Now, let me provide a brief update on Ruth's Chris. Even in the midst of the integration, I'm really proud of how the entire team has remained focused on the guest experience. During the quarter, Ruth's Chris achieved the top box top overall rating score among all full-service signing brands within Technomics industry tracking tool. From an integration perspective, things are progressing well and we are on track to complete the major systems changes by the end of the fiscal year.

During the quarter, we closed their former corporate office and the Ruth's Chris support team moved into our restaurant support center, we are excited to have them here. In October, we successfully transitioned 21 restaurants to one of our distribution centers, and we plan to transition the remaining company-operated restaurants to our distribution system between January and March. This phased approach allows us to gather learning's and improve the transition for the other restaurants, while capturing supply chain synergies.

We are deliberate with the timing of any changes to ensure that we minimize the operational impact as much as possible. We are on track to deploy our people management systems by the end of the calendar year, and beginning – begin rolling our proprietary point-of-sale system after Valentine's Day with the goal of completing all systems integration by the end of the fiscal year.

As part of the investments we announced on our last call, we have made some strategic decisions at company-owned restaurants that will impact total sales in the third quarter. First, we stopped third-party delivery. Second, we eliminated lunch wherever possible and we will be closing most restaurants on Christmas Day. I can't say enough about the tremendous partnership between the Ruth's Chris team and our integration team.

Integration is never easy, but it has been a collaborative process and I am happy with the progress we are making. We have reached the halfway point in our fiscal year, and I'm pleased with our performance thus far. All of our brands remain focused on managing the business for the long term and the power of Darden positions us well for the future. We also continue to work in pursuit of our shared purpose, to nourish and delight everyone we serve. One of the ways we do this for our team members and their families is through our next core scholarship program. Applications opened last month for the program, which awards post-secondary education scholarships worth $3,000 each to children or dependents of Darden team members.

Last year, we awarded nearly 100 scholarships to children of team members at both our restaurants and our support center. The next core scholarship creates a lasting impact on the lives of our team members' families, and I'm excited that we are offering the program for a second year.

Finally, as I said earlier, the holidays are the busiest time of the year for our restaurant teams. I'm so proud of the focus and commitment that all our teams continue to have every day. On behalf of our senior leadership team and Board of Directors, I want to thank our more than 190,000 team members for everything you do to delight our guests and help create special holiday memories. I wish you and your families a wonderful happy holiday season.

Now, I will turn it over to Raj.

Rajesh Vennam

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

Thank you, Rick, and good morning, everyone. Our teams did a great job managing their businesses again this quarter, resulting in meaningful restaurant level and total margin growth. This margin growth was driven by positive same-restaurant sales growth, strong labor management and lower than anticipated restaurant and commodities expenses.

We generated $2.7 billion of total sales for the second quarter, 9.7% higher than last year driven by the addition of 78 company-owned Ruth's Chris Steak House restaurants, 45 legacy Darden new restaurants and same-restaurant sales growth of 2.8%. Our same-restaurant sales for the quarter outpaced the industry by 410 basis points, and same-restaurant guest counts exceeded the industry by 370 basis points.

Our focus on managing the business and controlling costs resulted in adjusted diluted net earnings per share from continuing operations of $1.84 in the second quarter, an increase of 21% from last year's reported earnings per share. We generated $403 million of adjusted EBITDA and returned approximately $340 million of capital to our shareholders through $158 million in dividends and $181 million of share repurchases.

Now looking at our adjusted margin analysis compared to last year, food and beverage expenses were 190 basis points better, driven by pricing leverage. Total commodities inflation was flat to prior year for the quarter and slightly better than our expectations. While beef inflation continues to track in line with our expectations, most other categories are seeing some favorability.

Restaurant labor was 20 basis points better than last year, driven by productivity improvements at our brands as pricing and inflation were roughly equal at 5%. Restaurant expenses were 30 basis points favorable primarily due to lower workers' compensation expense and deflation in utilities. Marketing expenses were 10 basis points higher than last year, consistent with our expectations. All of these factors resulted in restaurant-level EBITDA of 18.8%, 230 basis points higher than last year.

G&A expenses were $109 million, which was consistent with what we previously communicated. G&A as a percent of sales was unfavorable 40 basis points to last year. This unfavorability is primarily driven by higher incentive compensation expense due to the strong growth in sales and EPS for the quarter and wrapping a low incentive accrual in the second quarter of last year.

Impairments were 40 basis points unfavorable to last year as we are wrapping on a $9 million gain from the sale of restaurant assets. Interest expense increased 50 basis points versus last year due to the financing expense – expenses related to Ruth's Chris acquisition and the increase in short-term debt as the second quarter is typically our peak funding need period for the year. And for the quarter, adjusted earnings from continuing operations were 8.1% of sales, 60 basis points better than last year.

Looking at our segments. Olive Garden increased total sales by 6.3% driven by same-restaurant sales growth of 4.1%, outperforming the industry benchmark by 540 basis points. The strength of never-ending possible contributed to flat same-restaurant guest counts for the quarter, 480 basis points above the industry. This sales growth, along with improved labor productivity and higher pricing related to the inflation drove segment profit margin increase of 240 basis points at Olive Garden.

At LongHorn, total sales increased 7.1%, driven by same-restaurant sales growth of 4.9%, outperforming the industry by 620 basis points. Segment profit margin of 17.4% was 310 basis points above last year. Pricing leverage, favorable menu mix and improved labor productivity drove LongHorn's strong margin growth this quarter.

Total sales at Fine Dining segment increased with the addition of Ruth's Chris company-owned restaurants. Same-restaurant sales at both Capital Grille and Eddie V's were negative, as the Fine Dining category as a whole continues to be challenged year-over-year. This resulted in lower segment profit margin than last year.

The Other business segment sales increased slightly with the additional Ruth's Chris franchised and managed location revenue. This was mostly offset by combined negative same-restaurant sales of 1.1% for the brands in the Other segment. However, this was still 20 basis points above the industry benchmark. Segment profit margin of 12.9% was 130 basis points better than last year, driven by the additional royalty revenues and pricing related to inflation.

Now turning to our financial outlook for fiscal 2024. We've updated our guidance to reflect our year-to-date results and expectations for the back half of the year. We now expect total sales of approximately $11.5 billion, same-restaurant sales growth of 2.5% to 3%, 50 to 55 new restaurants, capital spending of approximately $600 million; total inflation of 3% to 3.5%, including commodities inflation of approximately 2%; an annual effective tax rate of 12% to 12.5% and approximately 121 million diluted average shares outstanding for the year. This results in an increase to our adjusted diluted net earnings per share outlook of $8.75 to $8.90. It excludes approximately $55 million of pre-tax transaction and integration-related costs.

Looking at the third and fourth quarters, we expect the EPS growth rate to be consistent with what we previously shared, we expect third quarter growth rate to be similar to the first quarter and the fourth quarter to have the lowest EPS growth rate for the year. This is primarily a function of the pricing cadence we communicated at the beginning of the year.

We anticipate pricing and inflation to be relatively equal in the third quarter, and we expect to price significantly below inflation in the fourth quarter. So to wrap-up, we continue to be very pleased with how our teams are managing their businesses and delivering strong results. We remain disciplined in adhering to our strategy, and we're confident in the strength of our business model.

And with that, we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Jon Tower from Citi. Your line is now live.

Jon Tower
Analyst, Citigroup Global Markets, Inc. Q

Great. Thanks. I appreciate you taking the question. I guess maybe starting off, curious to get your thoughts. It seems as if, obviously, the consumer backdrop has weakened a little bit as we've moved here through your fiscal second quarter. And perhaps into this fiscal third quarter. And I know, obviously, Never Ending Pasta Bowl seem to work exceptionally well, driving traffic on a relative basis throughout the quarter. So I'm curious how you're thinking about promotions for the balance of the year and I know the Never Ending Pasta Bowl has traditionally been once a year type of timing. But given the weakness we're starting to see broadly across the category, does that alter your thinking either with promotions at Olive Garden or any of the other brands for the balance of fiscal 2024?

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc. A

Hey, Jon, thanks for the question. Nothing that we have seen is altering our plans for the balance of the year. We're really pleased with the performance of our brands. We're right along where we expected to be. And so we don't anticipate doing anything different.

Operator: Thank you. Next question is coming from Chris Carril from RBC Capital Markets. Your line is now live.

Christopher Carril
Analyst, RBC Capital Markets LLC Q

Hi, good morning and thanks for the question. So just on the sales outlook, can you maybe comment a little bit more on what drove the change in the comp and revenue outlooks for the year? I know it just changed a little bit, maybe a little narrower toward the lower end of the range. But – and it's early in the 3Q, but is there anything you're seeing thus far that warrants perhaps a more conservative outlook here?

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

All right, Chris. Let's start with the guidance at a high level. From a sales guide perspective, if you just go back to the time we provided our original guidance, we mentioned that there's – obviously, the consumer background was a little tough, but not terribly bad for us, and we thought if things slow down a little bit, we should expect inflation environment to improve a little bit.

And halfway through our fiscal year, that's really the dynamic we're seeing. We've seen some check softness that's being offset by lower inflation which is why we went to the lower end of our sales range while increasing our earnings outlook. In fact, if you're looking at our underlying traffic assumption, it still implies flat to slightly negative traffic for the full year. It's really that check is coming down by about 50 basis points. And so in the grand scheme of things, we're talking about the midpoint moving by 25 basis points from where we started the year.

Now as we look – to the question around quarter-to-date in December, we're really only two full weeks into the quarter. And so holidays are still in front of us. And as I think Rick mentioned in his prepared remarks, we're encouraged by the strong holiday bookings we're seeing at our reservation brands. And so our guidance contemplates everything we know.

Christopher Carril
Analyst, RBC Capital Markets LLC
Q

Got it. Thank you. And then I guess on pricing, Raj, you did mention some detail in your prepared remarks around pricing. But is there anything else you could add there? Maybe perhaps at a brand level? Any incremental insight about how you're thinking about pricing here going forward? Thanks.

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

Sure, Chris. I'll say let's start with our pricing. I think we mentioned at the beginning of the year, the pricing carryover from actions last year is about 3% on the full year. And our guidance talks about 3.5% to 4%. So you can imagine, there's not a lot of actions this fiscal year. I can tell you that, for example, at Olive Garden, we haven't taken any pricing this fiscal year, and we don't – at least at this point, don't expect to take more – or any additional action in the near term. And so as you look at that check growth. Check growth is likely going to moderate into mid twos into the third quarter and closer to 2% in the fourth quarter. That's kind of the assumption we have in here.

Christopher Carril
Analyst, RBC Capital Markets LLC
Q

Great. Thanks so much.

Operator: Thank you. Your next question is coming from Brian Bittner from Oppenheimer. Your line is now live.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.
Q

Thanks. Good morning. Rick, I wanted to ask about your updated thoughts on delivery. Recently, a QSR competitor of yours that's long been against third-party systems has decided to jump on and you seem to be bearing further in the opposite direction, given you said this morning that you're taking third-party delivery away from Ruth. And it seems like at this point, you could price third-party delivery in a way that would represent a very incremental profitable transaction, the incremental customer, particularly at Olive Garden. So can you just refresh us on why this seems to still be off the table as an opportunity and profit opportunity?

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Hey, Brian, yes, it's still off the table for us. As we mentioned, we eliminated it at Ruth's Chris. And it's not all about the price and the profit. And it is profitable sales growth we're looking for but it is also the execution of the restaurant, what it does to our teams and how we can execute our existing to-go business and we've made investments over the last few years to make that experience even better for our consumer, and we continue to do that.

We've had third-party delivery in a few restaurants for quite a while. And the performance in those restaurants isn't significantly different than the ones that don't have it. So we still feel really confident about our decision to stay out of the third-party delivery. Even if we had to price more to cover that, our consumer would see that as our price, not necessarily the price for delivery. So as of now, we're still steadfast in our resolve to stay out of third-party delivery.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.
Q

Thanks for that. And Raj, as my follow-up, you said in your prepared remarks that you anticipate to price significantly below inflation in 4Q, that word significantly perked my ears a little bit. I'm just curious if you could give any color on what you do think price versus costs will be in 4Q?

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

Yes, Brian, I'd say we're looking at somewhere in the 150 to 200 basis point range in the fourth quarter because we do expect pretty low price in the fourth quarter, and we expect inflation to be a little bit higher. Just a function of wrap, I think really on the inflation, the first half of the year benefited from chicken deflation. Chicken is about 8% of our sales, and we don't have that tailwind going into the back half.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.
Q

Okay. Thank you.

Operator: Thank you. Your next question today is coming from Eric Gonzalez from KeyBanc Capital Markets. Your line is now live.

Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.
Q

Hey. Good morning and thanks for taking the question. My question is on the Other business segment. Same-store sales growth in the segment was negative for the first time in a few years. So I'm wondering if you can give us a sense about what's happening within that division, which I know includes Cheddar's. So, I'm wondering if there's something about the low-income consumer, if there's anything else worth calling out with regards to that division?

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

Yeah. Let me start with the Other segment, and maybe I'll turn it over to Rick to talk about the consumer in general. So, let's start – when we look at our Other segment, we're actually pretty happy with the performance overall when you look at the business as a total topline and bottom-line because as much as they had negative same restaurant sales, they were still above the industry by 20 basis points as a segment.

Now, there is – I don't want to get into exactly the details, but there are some things on a year-over-year dynamics, especially at one of our Southeast brands, that's primarily weather-borne and patio-related, all that stuff. We don't want to get into those. But by the way, when we look at traffic for the quarter, at the Other segment, it was actually very strong at north of 100 basis point gap to the industry positive gap. So, we feel really good about that.

And then Other segment was also more profitable this quarter. Even when you exclude the franchise income from Ruth's, their segment profit was higher than last year. So, I'd say all-in-all, that's a pretty good outcome. And then I'll have Rick talk about consumer.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Yes, Eric. And I just want to reiterate, we're really pleased with the performance of our Other segment and all of our segments. Profitable sales growth is what we shoot for, and they all had profitable sales growth. Some might have been negative comp, but we still grew.

But on the consumer overall, the consumer still continues to appear both resilient, but a little bit more selective as we've talked about in our check, and we've seen that for a couple of quarters.

Our data shows we're gradually moving back to our pre-COVID demographic mix, which – with a bigger change in Q2 and moving back to pre-COVID demographics gets us to feel like we're getting closer to what normal is.

I will say we had across all of our segments, household incomes above $200,000, or higher mix than last year, but still below pre-COVID levels and incomes below $75,000 or under last year, but still above at pre-COVID levels. And the biggest drop was those under $50,000. And this shift was most pronounced interestingly in our Fine Dining segment.

And last thing, those under 65 years old, over – I'm sorry, over 65 years old, their frequency has grown from prior quarters and their dining is shifting a little bit more to lunch. So, that gives you a little bit of a check mix there, too.

So – but again, what does that mean for us? What does that mean for the brands that we have? We believe that our operators can deliver on their brand promise, which we've said before, and value will continue to appeal to consumers. I'm confident we're well-positioned and prepared for what we have to deal with. Thanks to the breadth of our portfolio and our outstanding team members and what they do every day to create exceptional experiences for our guests.

Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.
Q

That's really helpful. And as a follow-up, while we're on the topic of the smaller divisions. Can you maybe comment on Fine Dining and talk about whether – are we out of the woods when it – as it relates to the abnormal seasonality and the post-COVID lapse, should we start to see positive comps in the back half in that part of the business?

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

Yes. So, from a Fine Dining perspective, if you recall, we talked about seasonality trends normalizing. And we talked about last year, there was some exuberance in the summer months that kind of continued into the fall a little bit.

And so as we look at where we are this quarter, we actually ended the quarter with positive same-restaurant sales in November. And with – as Rick mentioned in his prepared remarks about record Thanksgiving sales. All of our Fine Dining brands and reservation brands had record Thanksgiving sales. So November was an improvement.

If you look at Fine Dining segment, in general, is also where we're seeing the most negative check mix year-over-year and it's really driven by alcohol.

Now I'll tell you that we are – the preference for alcohol today exactly consistent with where it was pre-COVID, just that last year was a lot higher. And so year-over-year, that's a pretty big drag. In fact, I think our Fine Dining mix is almost negative 200 basis points. And that's really one of the things we've noticed.

Now as we get into the holidays and past, some of that should abate, because we started to see this dynamic in our fiscal Q4 last year. And then last point I'll make is, as Rick mentioned, we are encouraged to see strong bookings in both Reservations and Private Events going into the holidays.

Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks.

Operator: Thank you. Next question today is coming from Andrew Charles from TD Cowen. Your line is now live.

Andrew M. Charles
Analyst, TD Cowen

Q

Great. Thank you. Rick, does the early access to Never Ending Pasta Bowl for eClub members this quarter leave you encouraged to lean more into the $15 million or so Olive Garden eClub member database in the back half of the year, recognizing this won't be an avenue for discounting, obviously, as you're focused on profitable growth? Or is it – it was an immaterial impact just for that extra week of early access in the quarter?

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Yeah. Andrew, it wasn't a huge impact for early access, but it was something that delighted our eClub users, right? So they got something that no one else can get.

And so we'll continue to find ways to talk to them, to give them benefits of being part of the eClub without necessarily having to discount. And so that's what we continue to look at. And that was one of the first tries at it. We're encouraged by the results there, but we'll continue to look for other ways to use that eClub.

Andrew M. Charles
Analyst, TD Cowen

Q

Great. And then Raj, just curious with the inflation guidance, how does that break down between COGS and labor, as we think about the back half of the year?

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

A

Yeah. I'd say on the COGS front, as we said, we're basically looking at 2% for the full year approximately, which means back half is closer to 3%, 2.5% to 3%. Q1, being a little bit lower, Q4 being the highest in terms of food inflation.

Again, it's a function of wrap on contracts and all that stuff, not necessarily seeing the absolute prices are going up. It's just the fact that what we're wrapping on year-over-year.

From a labor perspective, our annual is around 5%, as you saw from first quarter to second quarter we saw a slight moderation of about 50 basis points in total labor inflation.

We are not projecting significant further moderation, but it's – to the extent there is some, that would be – we'd welcome that. But at this point, we're assuming its closer to that 5% for the back half for labor.

Andrew M. Charles
Analyst, TD Cowen

Q

Great. Thank you very much.

Operator: Thank you. Next question today is coming from Brian Harbour from Morgan Stanley. Your line is now live.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Thank you. Good morning guys. Raj, just on your comment about maybe a little bit lower check versus what you previously expected, is that specific to any brand, is it more than not Olive Garden brands? Or is it something you're seeing in Olive Garden as well?

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

A

Yeah. Look, I think we've talked about it's kind of a continuation of what we saw a little bit in the first quarter where we talked about. At our casual brands, we're seeing about 50 basis points of negative mix in general and mostly driven by alcohol.

So when you think about check growth in the mid-single digit, 50 basis points, is not as big as it used to be, it would be in a normal environment when you're talking about a 2% check growth, we would say, "Oh, 50 is a big deal." But when you're talking about closer to mid-single-digit check growth, 50 basis points is not as big, so from that perspective. But also, as I've said earlier, the bigger drag is from Fine Dining, which as we get into Q4, should abate, but right now, that's another factor that we didn't necessarily anticipate the level of check mix going into the fiscal year. But traffic is – again, as I said, we focus more on what's happening with traffic. And to the extent we can say six months into the year that our traffic is similar to the levels we thought at the beginning of the year. That's a great place to be.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Yeah, it makes sense. And just a question on the food cost side as well. Were there any specific items that kind of come in more favorable than you expected? Or is there also maybe just kind of some scale benefits that you've been able to lead to recently?

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

A

Yeah, I think as I said in my remarks, pretty much all categories except beef came in a little bit better than we thought. We are – we did further up just negotiate a contract for chicken that – for that now we're locked in for the rest of the year, basically at 90% and that's going to be low single-digit inflation for the back half, which is something we can deal with. And from other items, seafood continues to be deflationary. And then produce was a little bit better than we thought. Going into the year, we thought there was going to be some challenges with produce based on just some of the contracts we had, but our team was able to go back to our partners and negotiate given the environment in the market, and that was a favorable to us from what we thought six months ago or three months ago.

Operator: Thank you. Next question is coming from Jeffrey Bernstein from Barclays. Your line is now live.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Rick, I think you mentioned to an earlier question that there was no change in your second half promotional plans, things seem to be going as expected. I'm just wondering if you could talk about the broader competitive behavior across casual dining. I think there are some that are incrementally concerned of an uptick in promotions and discounting to drive traffic kind of in conjunction with the industry may be seeing some softening sales trends, especially if commodities continue to ease. So can you just talk about, again, beyond just your plans, what you're seeing across broader casual dining in terms of that outlook? And then I had one follow-up.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Jeff, we're seeing what you see, an increase in television advertising sometimes at a discount. But we're, as I said, focused on profitable sales growth. Even with the increase in competitive activity we saw in Q2, we exceeded the industry by 410 basis points, and that was – which was the same as second quarter. We exceeded by 410 in the second quarter – I'm sorry, last quarter as well. This is on top of the 370 basis point gap we had last year. So we feel like what we're doing is working, even with competitive – a little bit of an increase in competitive intensity, by the way, we also improved our segment profit margin by 230 basis points from last year. And so we're going to stick to our strategy, providing everyday value to our guests and continue to use our filters, which we've talked about many times to evaluate any marketing activity.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Understood. And then, Raj, the fiscal 2024 guidance, the openings halfway through the year were actually tweaked higher, which is somewhat unusual, I feel like the past few years, if there was going to be a change in opening plans, it was to tweak lower. So I'm wondering if you could talk maybe about what the driver of that is. I think some have heard of improvement and maybe speed of permitting and construction or maybe you're just seeing lower build costs, you're kind of accelerating your plans or better real estate availability, anything to talk about in terms of that uptick in the unit openings as it pertains to the broader industry? I assume that's the reason for the CapEx uptick as well. But I think any color you can provide on that would be great. Thank you.

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

Sure, Jeff. Let me start with the comment around the uptick in the openings for the year. We were able to open some restaurants that we thought would be after the holidays, before the holidays. And frankly, I think our team was a little – we got burned in the last two years in terms of having some rosy projections and so we probably were a little bit more conservative in terms of how we've thought about the timeline. That was built based on the actuals last two years. And so that timeline is getting a little bit better. So that's helping us deliver a little bit more, and that's really what's showing up.

Look, our focus is continuing to want to grow, but cost effectively. We are going to focus on balancing the two. And so – and our teams understand that, and we're working towards that. And to your point about CapEx, yes, that CapEx is driven by the uptick in the NROs.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.
Q

Thank you.

Operator: Thank you. Next question today is coming from Joshua Long from Stephens. Your line is now live.

Joshua C. Long
Analyst, Stephens, Inc.
Q

Great. Thanks so much. Just curious if you could dig into the segment profitability trends. Impressive to see the consistency there and particularly on the LongHorn side, but at Olive Garden as well, just given a lot of the pushes and pulls. When you think about the second half of this year, are there particular areas I know the back to basics approach really touches on kind of a holistic approach to the business. But any particular areas that you've been impressed with and/or are driving the majority of kind of the strengthened segment profit margin trends that you've been putting up?

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

Yes. I'd say look, the biggest growth in the segment profit this year is really coming from COGS which was a big unfavorability in the last two years. So we're starting to kind of as commodities moderate, that's really helping drive food costs get better on a year-over-year basis. So that's one of the drivers of segment profit growth.

We also talked about the difference in pricing versus inflation. We do have a little bit more pricing versus inflation in the first half. That also helped. But I think if you look at overall segment profits, as we got to fourth quarter of last year, it was very strong. I think at the Darden level, we were over 20%.

And so we are – we had some – we felt like there was probably more opportunity to get a little bit more in the first half than the back half. But in general, all of our segments, all of our teams are focused on the right things. One of the things we talked about at the beginning of the year with our team is focusing on controlling what we can control and our teams rally around that and focused on managing our costs better, and that's showing throughout the P&L.

And so there's no one specific thing I would pick on. In general, we're very happy with the progress our teams have made, and we'll continue to be disciplined.

Joshua C. Long
Analyst, Stephens, Inc.

Q

Thank you.

Operator: Thank you. Next question today is coming from Peter Saleh from BTIG. Your line is now live.

Peter Saleh
Analyst, BTIG LLC

Q

Great. Thanks for taking the question. I did just want to come back to the conversation around development and construction costs. Could you just give us an update on where the individual construction costs are coming in? Are they coming in lower than you guys are expected in line? How is that trajectory? And then just more broadly, what are you seeing from independents? Are you seeing more of a willingness to build more units? Are you seeing more restaurant formation out there? Or is it kind of more of the same that you've been seeing over the past several quarters? Thank you.

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

A

Yeah, let me start with the costs. Costs in general on the development are in line with where we thought on average. We obviously have some unique deals, one-offs here and there where the costs are coming in more than we thought. But going into this year, we had embedded some higher costs into the openings based on the experience we have had over the last couple of years. And so, what I would say at this point is we believe that the inflation has peaked, and we are – we may have said this last call, too, we're starting to receive more bids that are kind of in line with our projected – our project budgets. And so that's a good thing.

From an independent standpoint, I think it's hard for us the data that we're seeing to say that there's actually a lot of excitement from independents on building new restaurants, given where the interest rate environment is. So the financing costs have gone up. And in fact, to some extent, that's also impacting some developers from what we hear.

So the macro – you guys know the macro better than I do. But I would say, overall, we're still happy with our overall development, the number of restaurants we're opening and how we're thinking about it. And as I mentioned in my prior comments earlier today, about we're going to cost effectively build our – build these restaurants. That's the focus. We want to get growth, but we're going to do it cost-effectively.

Peter Saleh
Analyst, BTIG LLC

Q

Thank you.

Operator: Thank you. Next question is coming from David Palmer from Evercore ISI. Your line is now live.

David Palmer
Analyst, Evercore ISI

Q

Thanks. A question on labor productivity. You guys done a great job there. It looks like labor cost per unit was up maybe 2%, a little bit over that in the quarter versus up a little over 5% in the first quarters. I think you said wage increase was roughly 5% in both quarters. So if I'm hearing that right, is labor hours down a few percent in fiscal 2Q and if so, could you clarify maybe what are some of the drivers of that productivity?

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Hey David. Yeah, we've had a history of discipline and improvement in productivity enhancements. This year is no different. We're getting more of it because we've had lower turnover than we've had over the last few years. We're still investing in training to get those team members up to speed quicker. We also are spending training dollars on getting our existing team members even more productive. So our productivity enhancements were the difference between our wage inflation and our labor inflation.

I would also say our teams continue to get better with forecasting our business. We've added some AI tools to their tool belt to be able to forecast their restaurant business by 15-minute increments, even better than it did before. And we're seeing added benefit, as I said, from lower turnover.

David Palmer
Analyst, Evercore ISI
Q

That's great. Are you thinking that, that sort of labor productivity should continue in the second half? And I guess related to that, I wonder what you're thinking about California and with the minimum wages coming in April. Is that – how does that affect the wage or the total labor outlook for you? Thank you.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Yeah, David. Our total labor outlook isn't necessarily that different than where it's been in the first half of the year. I think we're still having wage inflations at around the mid-single-digits, which is pretty much back to pre-COVID levels.

We do anticipate that as turnover continues to tick down, which we expect it should to get us closer to pre-COVID levels, that we'll continue to have some productivity enhancements. In regards to the FAST Act in California, we're monitoring that. Everything that we have contemplated is contemplated in our guidance. I will say, we have an amazing employment proposition in across all of our states and all of our brands, but in California, an even better employment proposition. Our turnover is lower in California than it is in most places and our wages are higher. So we feel pretty confident that we're okay in California. But if something changes, we'll react to it.

David Palmer
Analyst, Evercore ISI
Q

Thank you.

Operator: Thank you. Next question today is coming from Sara Senatore from Bank of America. Your line is now live.

Sara H. Senatore
Analyst, BofA Securities, Inc.
Q

Great. Thank you. One question and then a follow-up, please. So just on the price versus inflation, I guess, historically, you priced below inflation and you've seen traffic gains as a result. Is your expectation that as the gap between your pricing and your – and the inflation kind of reverses over the course of the second half, so inflation ahead of pricing that you might see an acceleration in traffic. I know, that you're already gapping out positively versus the industry, but I think historically, there's been – either coincidentally or not, kind of 500 basis point gap in traffic and also in your pricing. So I guess – that's the first question around as you're thinking about that trade-off kind of margin traffic? And then I have a quick follow-up.

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

Hey, Sara. So let me start with just grounding us on where we are with respect to pricing over the last four years. If you think about our price for the last four years, our pricing has basically been around – at the Darden level, has been closer to 17%, cumulatively, just under 17%. For the same timeframe, if you look at where full-service restaurant CPI is, that's 24%. So we have basically created a gap of 700 basis points to full-service restaurant CPI over that time in the four years, cumulatively.

In fact, if you look at limited service, they're at 29%. So that's a 1,200 basis point gap to them. So over the last four years, we've been very prudent, and we've talked about it multiple times about how we're going to price very thoughtfully and deliberately and wanted to make sure we're creating this gap and by the way, that overall pricing we have is below the overall CPI over that timeframe by 300 basis points. So from all aspects, we've actually stuck to our strategy of pricing below inflation which is one of the drivers of our traffic outperformance.

But I would say the other big driver is the execution, consistently executing and providing the greatest experience we can to our guests. And that's what our teams are focused on. That, combined with the strategy of pricing under inflation is what we believe helps us separate ourselves from the industry, and we'll continue to do that.

Sara H. Senatore
Analyst, BofA Securities, Inc.
Q

Understood. I guess to your point, just thinking about sort of cumulatively, it'll look a little different in the fourth quarter, I think, than in the first quarter, but it sounds like you're not expecting a big swing in sort of that traffic even as sequentially, the relative value versus inflation might change a little bit. And then I have a question on just trying to piece together everything you said about like the different income cohorts. So you're not quite back up in terms of the high income as a percentage of your customer base to where you're in COVID, pre-COVID but you're there, you're getting closer, but at the same time, you're seeing check management. So I guess, can you just put maybe a finer point on it. So is the check management coming from lower income cohorts or the higher income cohort? And it sounds like some of this is just lower income cohorts may have splurged more in the past, and now you're kind of getting back to normal patterns. But I'm trying to piece everything together. Thank you.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Yes, Sara. The check management in Fine Dining is coming more from the lower income cohorts than it is from the higher income cohorts. I think they were splurging, as we've talked about before, a little bit of euphoria in the last few years. And we're getting back to a more normal level. And in regards to pricing, your point on the follow-up. Recall, Raj said, we don't really have a whole lot of pricing in the back half. Most of what we have is wrap. So, when you think about how much pricing we have versus inflation, most of our pricing is already embedded. And so that's really where the delta is. So the consumer isn't going to see a whole lot more price than they are seeing today. They might see a little bit in a couple of brands. So we still feel really good about where we are, and we don't think it's going to really make a big change in our traffic pattern.

Sara H. Senatore
Analyst, BofA Securities, Inc.
Q

Right.

Operator: Thank you. Next question is coming from Chris O'Cull from Stifel. Your line is now live.

Q

Thank. Good morning guys. This is [ph] Patrick (00:48:34) on for Chris. Raj, I was curious on the traffic at LongHorn. If you could just dig into that a little bit more, whether relative to last quarter or relative to the industry and then also just check management, specifically at LongHorn. And are you guys seeing any different trends there than maybe what you mentioned in some of the Other segments?

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

A

Yes, [ph] Patrick. (00:48:56) When I look at LongHorn, they had a very strong performance for the quarter, right? We talked about significantly outperformed the industry on same-restaurant sales. The traffic for the quarter was around negative 1%. That's – but when you look at the retention to pre-COVID, they have held up pretty well. They are up both in dining room and off-premise by – combined by double digits in the dining room. So to have the volumes who are running at LongHorn today, we would have said four years ago, it would take 10 years to get there and we got there in four years. So we're really happy with where LongHorn is in terms of their momentum, and we hope to see that continue.

Q

Great. Thanks. That's helpful. And then, Rick, I was just curious, as you step back from the business and you think about strategically, how you continue to exploit the scale advantages that you have? I mean, what are the biggest opportunities over the next 12 months when you think about potentially competing in a softer environment, what you can leverage? Is it supply chain? Is it technology or – just curious to get your overall thoughts on where some of those opportunities might lie to increase the gap between you and your competitors?

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Yes, [ph] Patrick. (00:50:09) I will say, over the next 12 months, pretty kind of – a little bit of short term versus the strategic things that we've been doing over the last few years. But we believe that we continue to invest in technology to make it easier for our teams to execute. As I said, we've got better AI tools for scheduling. And if we schedule better, we execute better. That drives performance. Our supply chain scale advantage is pretty strong. And so, we're able to get better pricing for our food, which we can pass on to our consumers with through lower overall check growth versus the industry.

And so, there's no one nugget, what I would say is it's our back-to-basics operating philosophy that's going to continue to get us to grow. And that's excellent food, excellent service and an inviting atmosphere, executing better than the restaurant next door. That's not necessarily strategic. That's not a silver bullet. That's hard to do, and we do it really well. And that's what's really, as Raj mentioned earlier, execution is what's driving a lot of our performance, and we'll continue to execute by using our scale to help our brands get better.

Q

Understood. Thanks, guys.

Operator: Thank you. Our next question today is coming from Dennis Geiger from UBS. Your line is now live.

Dennis Geiger
Analyst, UBS Securities LLC
Q

Great. Thanks, guys. Just wondering if you could talk a little bit more on off-premise, what it was in the quarter? And any thoughts on the go-forward there?

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

Yes, Dennis, off-premise for the quarter at long – at Olive Garden was 23%, so pretty similar to the levels we had before – and net LongHorn is at 14%. And now we'll – as we get into the holidays, we should see a little bit more at Olive Garden. Typically, we see that, but we'll see how that goes going forward. But on a year-over-year basis, it's slightly below. I think across our system, we're probably 100 basis points lower or something like that but it's pretty – it's stabilized in these ranges.

Dennis Geiger
Analyst, UBS Securities LLC
Q

That's great. Thanks, Raj. Just one quick one then just on any regional, I know you talked a little bit earlier for some of the segments about some regional things to be thinking about. Anything broadly across brands, across portfolio regionally that you've seen?

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

Nothing of note to talk about. It's fairly consistent with what we mentioned last quarter, where there's a little bit of softness in Texas and South, but nothing crazy. California a little bit stronger, but nothing meaningful.

Dennis Geiger
Analyst, UBS Securities LLC
Q

Great. Thanks, guys. Thanks, Raj.

Operator: Thank you. Next question today is coming from Lauren Silberman from Deutsche Bank. Your line is now live.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. Congrats. I think you've talked about before you generally see changes in check before traffic in a more challenging environment. Do you see this check management as a precursor to traffic step down or more of a return to normal behavior? And how are you monitoring that? Thank you.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Yes, Lauren, this is Rick. We see the check management a little bit more of a function of year-over-year euphoria difference, not necessarily the consumers feeling a lot more pinched. Now we – as we said, we're getting closer –

the higher income households mix is going up. The below 50% is going down, and that's both on the traffic side and a little bit on the check side. So we're not hugely concerned or we're not really that concerned about the check management now because it was really more driven by last year versus kind of a long-term trend.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. And then just a quick one for marketing. The $35 million to $40 million range that you're currently running, is that the right run rate? Or should we expect to pick up? Thank you.

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

A

Yes, Lauren, I think we've basically said we're going to be between 10 basis points to 20 basis points as a percent of sales versus last year. So any quarter you should be – if you look at last year, and we should be within 10 bps to 20 bps of that.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

Operator: Thank you. Next question is coming from Andy Barish from Jefferies. Your line is now live.

Andy Barish
Analyst, Jefferies LLC

Q

Hey, guys. Good morning. Just one clarification. On the unit side, you used the term reopens. Were those relocated units and then I've got one other follow-up question, please.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Yes, Andy, in the – I think it was 4%. We had a couple of relocations. We had a couple of restaurants that we reopened after being temporarily closed due to fire. So that's really the bulk of those four.

Andy Barish
Analyst, Jefferies LLC

Q

Okay. And just a quick update last quarter. You talked about more synergy realization potential at Ruth's Chris, but some of that is going to be reinvested. Has that reinvestment started in earnest? Or is it more going to come kind of in the back half of the year as supply chain gets integrated and things like that?

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Yes, Andy, some of that reinvestment is already starting. And some of it happens as the supply chain converts. One of the investments we made was an improvement in their fillet. I don't think that's in every restaurant yet.

Another one of the investments that we talked about, we will be doing in December, and that is for their team closing on Christmas Day. So there are still some things that are coming in. But we're consistent. We're on track with our timeline, and we still expect accretion to be consistent with what we've shared previously, even with those investments we're making for our team members and our guests.

Andy Barish
Analyst, Jefferies LLC

Q

Thank you.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Sure.

Operator: Thank you. Next question today is coming from Gregory Francfort from Guggenheim. Your line is now live.

Gregory Francfort
Analyst, Guggenheim Securities LLC

Q

Thanks for the question. Rick, just one more on marketing. Can you remind us how the composition of that has changed versus pre-COVID, either maybe traditional or digital or other categories? And how you think about the returns across those channels versus a few years ago? Thanks.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Hey, Greg, yeah, versus pre-COVID, we're a bit more digital, partly because LongHorn really came off of television when we were on – before COVID LongHorn was on TV. So we are a bit more digital in overall mix.

Olive Garden's mix isn't substantially different than before. They did come off a little bit of television, but they also came off a little bit on the digital side. We have pretty good analytics to tell us the returns on each of those things. And the good news is during COVID, we tested some more digital, and we were able to – because we didn't have much media on at one time when we started turning it on, we were actually able to see what those returns are. And that was one of the benefits of the COVID we were able to test a little bit more. And we're testing other things on the digital front now to see if there are some things that we'll add in the future.

Gregory Francfort
Analyst, Guggenheim Securities LLC

Q

Thanks for the perspective.

Operator: Thank you. Next question today is coming from Andrew Strelzik from BMO. Your line is now live.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Hey, good morning. Thanks for taking the questions. My first one, just wanted to follow-up on some of the value perception, I guess, commentary that you made, certainly relative to other restaurants and certainly relative to inflation, makes a lot of sense. But I guess when you brought in the view on that and look at food and home or grocery, and you see some of the larger grocery chains talking about food deflation and more promotions and things like that. Does that factor into your calculus at all? Or how do you think about the value perception relative to that, if you have any work on that or anything, any thoughts would be great.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

A couple of things. As we've mentioned before, dining out is really more than just about the sustenance. It's about getting together with your family and friends to enjoy a meal. And as Raj mentioned earlier, we still have a very big gap in the pricing that we have taken over the last four years versus what's happening in retail. I mean I would say, if retail starts to do discounts or other deals, it's probably because they're not moving product. And so that helps us on the cost side.

So we don't really look very, very much at the difference between food at home and food away from home, partly because, as I said, people think about, I want to go out to eat, and then they determine where they want to go out to eat. And so we haven't really seen correlations in the difference in food at home, food away from home over the long, long-term.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. That's helpful. And then just one other question. On the Ruth integration, any surprises or learnings as that's progressed? And I guess, the balance sheet still is in very, very good shape. So would that integration either preclude you from making another acquisition? Or how are you thinking about the balance sheet from here? Thanks.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Let me start by saying we're really pleased with the integration and the transition that we've had. We're six months from the close of the transaction. We still have a few changes we have to make the restaurants and they have to observe move over the next six months. But that doesn't preclude us from other things. We'll continue to talk to our board and determine what the right use of our capital is. As you mentioned, we do have a strong balance sheet, but we're going to continue to work on this until something else comes along.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you very much.

Operator: Thank you. Next question today is coming from John Ivankoe from JPMorgan. Your line is now live.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you so much. First, I was hoping maybe you could help a little bit with industry comparisons in January and February. Obviously, COVID laps from the previous year helped that also an unusually warm or really lack of winter. I mean, I guess if you were to kind of normalize those months. I mean how much do you think you may have actually kind of been helped by kind of a bounce back in the early months of 2023 that we should at least consider on a lapping perspective?

I know it's very [ph] topical (01:00:29) and it's not my style, but I would love to know your perspective on that. And then secondly, my experience is that casual dining operating companies don't love presidential election years, cost of media breaking through, disruption of consumers, what have you? I mean, do you share that perspective?

And is there anything that we should be just kind of considering as we kind of go into calendar 2024 is what is obviously going to be another difficult election cycle? Thank you so much.

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

All right, John, let me try to answer in a way that I make sense because, obviously, when you look at the seasonal situation, third quarter last year, was wrapping on Omicron from the year before. It was just a whole different in terms of dynamic. But as you pointed out, the weather – winter weather in that quarter for our third quarter, which is December, January, February, in aggregate was favorable to the historical averages. And so we do expect winter weather in the third quarter to be essentially a headwind in the third quarter just based on historical averages.

If the weather this year, is there anything like what it would have been historically, that it is a headwind for us, I would expect it's the same for the industry, but I can't – I don't want to speak confidently about the industry, but I can tell you that's how we're looking at it.

In fact, we – that's part of the reason we didn't get into this earlier, but that's part of the reason our internal estimates have comps – same restaurant sales for the third quarter being the lowest for the fiscal – within this year, primarily because of that weather headwind. And now I'll have – maybe Rick can talk about the presidential years and how we think about it.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Yes, John. Yes, this is an election year. It's probably going to be a pretty contentious election with a lot of television advertising. The good news is we're not as reliant on TV as we were in the past. And I think casual dining was much more reliant on television in the past and chain restaurants were much more reliant on television. But now there's other media out there, more digital, more online video and so we aren't as concerned about an election year as maybe in the past. That said, it depends on how contentious this gets and how much media is out there. We feel confident that if we continue to focus on our strategies and execute when people go out, they're going to come out to our restaurants.

John Ivankoe
Analyst, JPMorgan Securities LLC
Q

Thank you.

Operator: Thank you. Our next question is coming from Brian Vaccaro from Raymond James. Your line is now live.

Brian M. Vaccaro
Analyst, Raymond James & Associates, Inc.
Q

Hi. Just a quick one for me. Thank you. Following up on your private dining bookings comments, could you help frame the degree to which you're up year-on-year? Or any perspective on how that might compare looking back to pre-COVID levels? Thank you.

Ricardo Cardenas
President, Chief Executive Officer & Director, Darden Restaurants, Inc.
A

Yes, Brian, we're not going to talk about how much we're up in this current quarter on private dining year-over-year. So, we'll let you know how that happens after the quarter ends.

Brian M. Vaccaro
Analyst, Raymond James & Associates, Inc.

Q

Fair enough. Thank you.

Operator: Thank you. Next question is coming from Nick Setyan from Wedbush Securities. Your line is now live.

Nick Setyan
Analyst, Wedbush Securities, Inc.

Q

Thank you. I just wanted to follow-up on the pricing below inflation in Q4. Historically, you've always priced below inflation. I guess, is there really a big change in terms of the magnitude of the pricing below inflation and then beyond Q4, is – are there enough operating initiatives to kind of maintain four-wall margins? Or are you willing to give up some margin in the medium term?

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

A

Hey Nick, I think part of this is really the cadence of when we took pricing actions. So, if you recall at the beginning of the year, we were very clear that we're going to have a – on a year-over-year basis, we're going to see more pricing come through in the first half than the back half just because that's a function of actions we took last year.

There's not like a lot of new pricing actions we're taking this year. There are a few, and that's why instead of the 3% of the 3.5% to 4% that we have in total pricing is carryover from last year. So there are a few actions this year.

Typically, we try to – our team – we typically take pricing with our fiscal year. So, now things can change. But the way we look at it is we take a longer term view and we've been very clear on the year that we are getting some margin growth.

Our guidance implies margin growth, and I'll then refer you back to our long-term framework, which kind of talks about over time we expect to grow margins. Any given quarter, do we give up margins? Yes, maybe if that's the right thing for the year. I mean, at the end of the day, we look at over longer periods of time.

Nick Setyan
Analyst, Wedbush Securities, Inc.

Q

Thank you.

Operator: Thank you. Next question today is coming from Danilo Gargiulo from Bernstein. Your line is now live.

Danilo Gargiulo
Analyst, AB Bernstein

Q

Thank you. Raj, I want to – on the last time that you made on the margin expansion over time. So, if you think about kind of the long run and given the solid results that you already had in the restaurant level margins, can you help us understand the task for the incremental margin expansion, meaning where do you see the biggest upside over the long run as you continue to scale?

Ricardo Cardenas

President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Hey Danilo, this is Rick. You think about our margin, we've been fairly consistent over the years that we're searching for profitable sales growth. And we had just updated our long-term framework or put that back out where we'd be at 10 to 30 basis points a year in margin expansion in any one year, it could be above that or below that.

And we're going to get that through executing our strategy, leveraging our scale to be able to take costs out of the system and still over in the long-term price below inflation to provide a better dining experience using our back-to-basics operating philosophy and our great operators out in the field that execute better than the restaurant next door. If we do those things and we have done those things, we will continue to drive profitable sales growth.

There may be years that our margins are a little bit less than that because we're gaining even more market share, and we're willing to do that. There may be years on the opposite side, where we still gain share, but we have margin expansion opportunities.

As Raj mentioned, we don't look at it quarter-to-quarter. We think about it over the long run.

Danilo Gargiulo

Analyst, AB Bernstein

Q

Thank you. And then can you comment on the technology road map and what excites you the most about – you recently mentioned about some of the AI implementation to improve the level of stocking in the store. What do you think is going to be unfolding in the next few years? Thank you.

Ricardo Cardenas

President, Chief Executive Officer & Director, Darden Restaurants, Inc.

A

Yes, Danilo, over the last few years, we focused a lot of energy and technology on improving the guest experience, primarily in the off-premise segment, making it easier to order pick up and pay. We're working on our tech plans for the next few years. But I would think that AI would be a little bit more part of that, especially on the back of the house things, maybe not necessarily as consumer-facing. Our goal with technology is to eliminate friction. And we've eliminated a lot of friction for the guest on the to-go experience on being able to put their name on waitlists.

Now we want to eliminate friction in our team. Eliminate our management friction to make it easier for them. So they don't have to spend as much time doing what we think are nonvalue-added tasks ordering, receiving, scheduling, which is value added. But if we can make it easier for them to schedule, they can spend less time doing that and spend a lot more time with their team and with their guests. And so the technology investments we're making – we may be making in the future, you might not see a whole lot of impact on that from the consumer. You'll see it from the consumer because our teams are going to be better trained. And so that's what we're focusing on.

Danilo Gargiulo

Analyst, AB Bernstein

Q

Thank you and happy holidays.

Operator: Thank you. We've reached end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Kevin Kalicak

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

Thank you. That concludes our call. I'd like to remind you that we plan to release third quarter results on Thursday, March 21, before the market opens with a conference call to follow. Thanks again for your participation and have a happy holiday.

Operator: Thank you. That does conclude today's teleconference and webcast. You disconnect your line at this time, and have a wonderful day. We thank you for your participation today.