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# Darden Restaurants, Inc. (DRI)

Q1 2024 Earnings Call

### CORPORATE PARTICIPANTS

### **Kevin Kalicak**

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

### Ricardo Cardenas

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

### Rajesh Vennam

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

### OTHER PARTICIPANTS

Andrew M. Charles

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**Brian Bittner** 

Analyst, Oppenheimer & Co., Inc.

**Eric Gonzalez** 

Analyst, KeyBanc Capital Markets, Inc.

**Brian Harbour** 

Analyst, Morgan Stanley & Co. LLC

David E. Tarantino

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Analyst, BMO Capital Markets Corp.

### MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Darden Fiscal Year 2024 First 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 would 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, Daryl. 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 the presentation.

Looking ahead, we plan to release fiscal 2024 second quarter earnings on Friday, December 15, before the market opens, followed by a conference call. During today's call, any reference to pre-COVID when discussing first quarter performance is a comparison to the first 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 increased 0.9%, and industry same-restaurant guest counts decreased 4.2%.

This morning, Rick will share some brief remarks on the quarter, and Raj will provide details on our financial results.

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

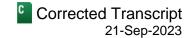
### Ricardo Cardenas

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

Good morning, everyone. Thanks, Kevin. We had a strong quarter, as we continued to outperform the industry benchmarks for same-restaurant sales and traffic. For the quarter, total sales were \$2.7 billion, an increase of 11.6% and adjusted diluted net earnings per share were \$1.78. We also opened 10 new restaurants in nine different states during the quarter.



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Our ability to drive profitable sales growth is a testament to the strength of our business model and adherence to our strategy. We continue to strengthen and leverage our Four Competitive Advantages of Significant Scale, Extensive Data & Insights, Rigorous Strategic Planning and Results-Oriented Culture, while our restaurant teams remain intensely focused on executing our Back-to-Basics Operating Philosophy anchored in food, service and atmosphere.

This focus on being growing with the basics continues to drive strong guest satisfaction. In fact, our internal guest satisfaction metrics remain at or near all-time highs across all our brands. Additionally, several of our brands continue to rank number one among major casual dining brands in key measurement categories within Technomic's industry tracking tool, including LongHorn Steakhouse for food quality and taste and Cheddar's Scratch Kitchen for value.

Our team members bring our brands to life each day, and we know engaged team members are vital to creating great guest experiences. That's why our brands are focused on leveraging their unique cultures to strengthen team member engagement. For example, LongHorn Steakhouse created the Grill Master Legends program that honors grill masters who have grilled more than 1 million stakes throughout their career, which typically takes more than 20 years for a team member to accomplish. Five Grill Master Legends were honored during the quarter, bringing the total to 25 team members who have received this recognition.

Also during the quarter, Yard House completed its first Best On Tap competition. Known for having more than 130 beers on tap, Yard House tested its bar tenders from every restaurant, giving them the opportunity to showcase their beverage knowledge, bartending expertise and service skills. Congratulations to this year's winner, Alyssa Hurley from the Yard House in Willow Grove, Pennsylvania, who was named Best On Tap. Programs like these give us an opportunity to celebrate team members who play a critical role in the guest experience and who serve as torchbearers for their brand's culture.

One of the most significant ways our brands drive culture is through their annual leadership conferences, which provide the opportunity to get in front of every general manager and managing partner across all our restaurants to discuss the plans for the year and generate excitement among our operators. I was pleased to see the high levels of engagement and strong alignment on what our restaurant teams must do to continue creating exceptional guest experiences across each of our iconic brands.

To further strengthen our brands, we are focused on highlighting what makes each one unique. That's why when it comes to marketing, any activity our brands undertake is evaluated through three filters. First, it needs to elevate brand equity by bringing the brand's competitive advantages to life. Second, it should be simple to execute. We will not jeopardize all the work we have done to simplify operations which allows our teams to consistently deliver memorable guest experiences. And finally, it will not be at a deep discount. We are focused on providing great value to our guests, but doing so in a way that drives profitable sales growth.

A great example of this activity was The Capital Grille's Generous Pour event that took place during the quarter. This specially curated wine experience allows guests to sample award-winning wines that pair with items on The Capital Grille menu. And in the second quarter, Olive Garden is bringing back Never Ending Pasta Bowl, which brings to life its competitive advantage of never-ending, abundant, craveable Italian food. Olive Garden's eClub members received a special invitation to begin enjoying NEPB this week. This guest favorite returns for everybody on Monday and will be offered at the same price point as last year.

Turning to Ruth's Chris, since the day we announced the completion of the acquisition, we have been guided by three key objectives. First, we want to preserve the team member experience and the brand's unique culture.

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Ruth's Chris has many long-tenured team members, and we are committed to ensuring this is a people-focused process. The team is engaged, and we have strong buy-in across the executive and operations leadership levels, all of which helps ensure a smooth transition.

Next, we want to maintain and even strengthen the guest experience. Ruth's Chris is an incredibly strong brand, and it ranks as one of the top brands across multiple metrics within Technomic's industry tracking tool. We now expect to realize more synergies than we originally anticipated, and we plan to reinvest some of them in the guest and team member experience. Raj will provide more details during his remarks.

And last, we want to successfully migrate Ruth's Chris under the Darden platform. The team leading the integration is wrapping up the planning stage, and we're about to embark on the hardest part, the actual conversion to new systems and processes. We know that it's not easy, which is why we plan to complete it in phases over the next nine months to limit disruptions as much as possible.

Looking across our entire portfolio, I am pleased with the quarter. Our strategy is working, we continue to grow share, strengthen margins and make meaningful investments in our business while returning capital to shareholders. And while I'm proud of our continued success, there is a larger purpose to what we do, and that is to nourish and delight everyone we serve, not just within the four walls of our restaurants, but in the communities that our guest and team members call home.

September is Hunger Action Month, and we are uniquely positioned to help fight hunger. This marks the 20th anniversary of our Harvest program. Since 2003, our restaurants have collected excess nutritious food that was not served to guests and prepared it for weekly donation to local non-profit partners. Over the life of the program, we have donated the equivalent of more than 113 million meals. And for the past 13 years, we have partnered with Feeding America to help fight hunger. Over that time, the Darden Foundation has donated more than \$16 million to support their network of more than 200 food banks.

Last week, together with our partners, Penske Truck Leasing and Lineage Logistics, we added 10 more refrigerated trucks for mobile food pantry programs at 10 local food banks. To date, we have added a total of 35 trucks across Feeding America food banks in 18 states. Our ability to make a difference in the fight against hunger would not be possible without the efforts of our 190,000 team members and their passion to nourish and delight everyone we serve. I'm grateful for everything you do to help make our company successful.

Now, I will turn it over to Raj.

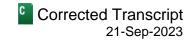
### Rajesh Vennam

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

Thank you, Rick, and good morning, everyone. Total sales for the first quarter were \$2.7 billion, 11.6% higher than last year, driven by the addition of 77 company-owned Ruth's Chris Steak House restaurants, same-restaurant sales growth of 5% and 46 legacy Darden net new restaurants. Our same-restaurant sales for the quarter outpaced the industry by 410 basis points, and same-restaurant guest counts exceeded the industry by 430 basis points.

First quarter adjusted diluted net earnings per share from continuing operations were \$1.78, an increase of 14.1% from last year's reported net earnings per share. We generated \$388 million of adjusted EBITDA and returned approximately \$300 million of capital to our shareholders with \$159 million in dividends and \$143 million of share repurchases.

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As we look at pricing and inflation during the quarter, we had total pricing of approximately 6%, which was 300 basis points above total inflation of roughly 3%.

Now, looking at our margin analysis compared to last year, food and beverage expenses were 130 basis points lower, driven by pricing leverage. While beef inflation continues to track in line with our expectations, most other categories are seeing slight favorability. As a result, total commodities inflation of approximately 1% was better than our expectations.

Restaurant labor was 40 basis points better than last year, driven by productivity improvements. We expected these productivity improvements to start materializing in the second quarter, but we began realizing them sooner. Pricing and labor inflation were roughly equal at 6%.

Restaurant expenses were 10 basis points favorable, as leverage from higher sales more than offset elevated repairs and maintenance expense. Marketing expenses were 20 basis points higher than last year, consistent with our plan, and including impacts from Ruth's Chris. All of this resulted in restaurant level EBITDA of 19%, 170 basis points higher than last year.

G&A expenses were 110 basis points above last year, driven by three primary factors: First, higher incentive compensation due to significant growth in sales and EPS for the quarter and wrapping a very low incentive accrual in the first quarter of last year. Second, approximately \$9 million of stock-based compensation expenses related to the immediate expensing of equity awards for retirement-eligible employees. And third, the addition of Ruth's Chris.

Impairments were 30 basis points unfavorable to last year. We're wrapping on a \$5 million gain from last year, and we incurred \$3 million of impairments related to a handful of closings anticipated for this year.

Interest expense increased 30 basis points versus last year due to the financing expenses related to the Ruth's Chris acquisition. And for the quarter, adjusted earnings after tax was 7.9% of sales, flat to last year.

Now turning to our segments, sales increased at Olive Garden and LongHorn, driven by same-restaurant sales and traffic growth. This sales growth, along with labor productivity and higher overall pricing relative to inflation, drove segment profit margin increases of 230 basis points at both Olive Garden and LongHorn.

Fine Dining segment total sales increased with the addition of Ruth's Chris company-owned restaurants, but same-restaurant sales were negative at both Capital Grille and Eddie V's, consistent with what we indicated on our earnings call last quarter. This resulted in lower segment profit margin for Fine Dining than last year.

As we anticipated, the year-over-year same-restaurant sales decline in our Fine Dining segment was the result of wrapping on a resurgence of demand in the first quarter last year that drove traffic retention to 107% of pre-COVID levels. Fine Dining traffic retention in the first quarter of this year was 100% of pre-COVID levels, more in line with the retention levels for the prior three quarters.

The Other Business segment increased sales, driven by positive same-restaurant sales and the addition of Ruth's Chris franchised and managed locations royalty revenue, resulting in 140 basis points of segment profit margin growth. As a reminder, all of our franchise operating results are included in the Other Business segment.

Now, I'd like to provide an update on Ruth's synergies. As Rick mentioned, we've identified more synergies than we had initially expected and are choosing to reinvest some of them in the guest and team member experience at

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Ruth's Chris. Previously, we anticipated \$20 million in annualized run rate synergies. We now expect approximately \$35 million of gross run rate synergies and other cost savings, and we anticipate investing approximately \$10 million into the business, resulting in annualized net run rate synergies of approximately \$25 million. And for fiscal 2024, we now expect approximately \$12 million of net synergies.

Finally, as shared in the press release distributed this morning, we are reiterating our full year financial outlook for fiscal 2024. Our outlook still anticipates adjusted diluted net earnings per share from continuing operations of \$8.55 to \$8.85, including Ruth's Chris operating results, but excludes approximately \$55 million of pre-tax transaction and integration-related costs.

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 questions come from the line of Andrew Charles with TD Cowen. Please proceed with your questions.

#### Andrew M. Charles

Analyst, TD Cowen

Great. Thank you. Your Olive Garden and LongHorn showed impressive performance in 1Q, while Fine Dining saw headwinds as you previously warned. And I guess I'm curious, what led the decision to keep full year same-store sales guidance despite 1Q strong result. And are you perhaps seeing something in September that gives you pause on the outlook for the balance of the year? I know restaurant investors have been keen that industry data seems to be taking a breather. Thanks.

#### Rajesh Vennam

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

Hey, Andrew, thanks for the question. So, let's start with the guidance, right? So, as you think about our first quarter performance, that was actually from a top line perspective, it was pretty consistent with our plan. We were within 10 basis points of our same-restaurants plan we had. So, the year from a top line is playing out the way we expected.

So, as far as – and so, that's really the crux behind how – why we're not changing the guidance for the year and now, look, we're one quarter in, there's a lot of uncertainty out there, there's three quarters to go, and we had a range to begin with. And while we outperformed our expectations on the bottom line, we feel like it gives us a little bit of a head start, but it still puts – the point estimate is still within the range we provided at the beginning of the year.

#### Andrew M. Charles

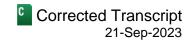
Analyst, TD Cowen

Thank you.

**Operator**: Thank you. Our next questions come from the line of Brian Bittner with Oppenheimer & Co. Please proceed with your questions.



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#### **Brian Bittner**

Analyst, Oppenheimer & Co., Inc.

Thanks and congrats on the strong results. I just want to follow up with Andrew's question a little bit. There is a lot of anxiety, I think, out there regarding how the evolving macro could impact industry sales trends moving forward, specifically for casual dining as the benefits of pricing normalize. Just based on all your insights, do you believe that the current health of the consumer remains strongly intact? And can you help us understand what weapons you do have to keep traffic within your full year guidance range of flat to down 1.5% if the macro does deteriorate

Ricardo Cardenas

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

relative to your original expectations?

Hey, Brian. This is Rick. Overall, we think the consumers continues to be resilient, but they're – seems to be a little bit more selective, and we are seeing a little softness versus last year with household incomes above \$125,000 and that primarily affects our Fine Dining brands, but it does affect all of our brands. Now, this could be because the increase in luxury travel, particularly international travel, which you've heard a lot of people talked about. But as I've said before many times, [ph] there is a tension before (00:19:27) what people want to pay and what they can afford, and they're going to continue to seek value, not always about low price. They're making trade-offs and food away from home is one of the most difficult things they can give up.

So, again, what does that mean for our brands? We believe that operators who deliver on their brand promise and value will continue to [ph] be with (00:19:49) consumers. And so, we're going to keep doing that. We're going to deliver our promise, we're going to execute our brands, and we're going to keep doing that and deliver value to our guests. And I'm confident we're well-positioned for whatever we have to deal with, thanks to the breadth of our portfolio and the outstanding team members in our restaurants who are committed to exceptional guest experiences.

Our marketing programs, we told you what we're going to do with marketing in the prepared remarks. It's – again, whatever we do is going to elevate brand equity. It's not going to be deep discount, and it's going to be simple to operate. And if it means that our traffic is at the lower end of our guide, then it is at the lower end of our guide. We're not going to do things that are going to impact us in the long term just for short term.

**Brian Bittner** 

Analyst, Oppenheimer & Co., Inc.

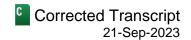
Thanks for that, Rick. And, Raj, just my follow-up is on the commodity costs, they were up 1% in the first quarter, which is obviously below your full year guidance of up 2.5%. And you did suggest that some non-beef items have been a bit more favorable. What's driving the reiteration of the 2.5% commodity guide? Is it just conservatism after one quarter? Is there anything offsetting the recent favorability as we move throughout the rest of the year?

Rajesh Vennam

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

Yeah, Brian. So, if you think about our inflation expectation for the first quarter, we were about a point better than we thought, mostly driven by, as I mentioned in my prepared remarks, other categories. The beef is still – a lot of uncertainty around beef and you saw from our coverage that we don't have a lot of coverage beyond – especially as we get into the holidays and past. So, there is some uncertainty around it.

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Now, that favorability in the first quarter helps us a little bit. So what that might mean is that we might be a little bit lower in that guidance range we provided of approximately 2.5%. So, maybe it's a little bit south of that. But there's three more quarters to go, and beef is really – I mean, there's a lot of risk with beef, so-.

**Brian Bittner** 

Analyst, Oppenheimer & Co., Inc.

Okay. Okay. Hey, thanks, guys.

**Operator**: Thank you. Our next questions come from the line of Eric Gonzalez with KeyBanc Capital Markets. Please proceed with your questions.

**Eric Gonzalez** 

Analyst, KeyBanc Capital Markets, Inc.

Hey, thanks and good morning. My question is about the guidance as it relates to Olive Garden and specifically, I'm curious how you're thinking about the second quarter, which is typically a seasonally low volume period for the industry. Historically, there's been a bit of a step down in revenue in Olive Garden from 1Q to 2Q, but last year was a little bit different with the return of the Pasta Bowl. So, perhaps you can help us think about how to model that second quarter relative to your guidance and your own expectations, whether you see that fiscal second quarter revenue increasing or decreasing sequentially. Thanks.

Rajesh Vennam

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

Look, I think – I think it's a – I don't – we don't expect a huge quarter-to-quarter sequential change. Obviously, we are relaunching Never Ending Pasta Bowl that does help – and that's part of the reason why we do it in the second quarter is with the back-to-school and there's a little bit of a lull and a slowdown in the casual dining, and that's really the timeframe. And basically, that's within our range. I mean, I think as we look at last year to this year, there's going to be some nuances with respect to pricing being a little bit lower this – as we get into the second quarter than first quarter, but I don't want to contemplate exactly what it's going to look quarter-to-quarter.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

Fair enough. Thanks.

**Operator**: Thank you. Our next questions come from the line of Brian Harbour with Morgan Stanley. Please proceed with your questions.

**Brian Harbour** 

Analyst, Morgan Stanley & Co. LLC

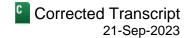
Yeah, thank you. Maybe just on the Ruth's synergies, what were some of the additional things that you found? And then when you talk about reinvesting, would that primarily kind of be in staffing, or are you also referring to kind of food and menu? Where would we kind of see that impact?

Rajesh Vennam

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

Yeah. So, Ruth's synergies, generally, where we're getting them is between both the entire supply chain as well as in the G&A, right? So, we initially started with an estimate as we go through the year, we're finding that – you

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know we – as we are now in the process, we've been able to identify more, and it's in both places. So, from a investment perspective, we have a long history of investing in the guest and team member experience across our brands. And so, we're investing some of these additional synergies and cost savings in a similar manner with investments that the Ruth's guest and team members will notice and appreciate.

#### **Brian Harbour**

Analyst, Morgan Stanley & Co. LLC

Okay. Thank you. Raj, also just with your – your prior comments about kind of G&A for the year and kind of the quarterly progression, is that still kind of valid? It sounds like maybe that piece – some piece of stock-based comp was one-time in the first quarter. But could you just comment on kind of the G&A outlook?

### Rajesh Vennam

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

Yeah, sure. Yeah, we've mentioned a couple of things, right? G&A was higher than we expected for the first quarter. Part of that was driven by our outperformance on the bottom line. I mentioned earlier that while sales were more in line, we did outperform on the bottom line that help – that cost a little bit more incentive comp. And then stock-based comp, that is truly a one-time. I mean, that's more of a timing, but it's pulling forward some from future years, right? But as we look at the full year, G&A is likely to be a little bit higher than what we talked about last quarter. So, I think last quarter, we talked about closer to \$430 million. I would say, at this point, it's probably closer to \$440 million on the year.

#### **Brian Harbour**

Analyst, Morgan Stanley & Co. LLC

Okay. Thank you.

**Operator**: Thank you. Our next questions come from the line of David Tarantino with Baird. Please proceed with your questions.

#### David E. Tarantino

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

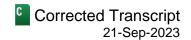
Hi, good morning. I was wondering, Rick, if you could talk about how you're thinking about unit growth for the next several years. And I know at one point, you were trying to push unit growth towards the high end of your annual targets. And I'm wondering if that's still your desire and perhaps, Raj, if you could give us an update on what you're seeing on returns and build costs, that would be helpful. Thanks.

### Ricardo Cardenas

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

Hey, David. Yeah, thanks. In regards to development in unit growth, we do want to get to the top end of our long-term framework of 3% unit – sales growth from new restaurants. As we've said in the past, there's still some permitting delays. We're seeing a little less on the utility connection and those kind of things, but we're still – it's still taking a little longer to get permits. We also are being a little selective, especially where inflation and costs have made the economics of the deals a little less attractive, and we generally like to have good margin of error with our projects. And so, we've turned down a few projects that just because costs are a little higher than we wanted them to be. And we've done that in the past, and we've been able to get back to those same projects at the costs that are more reasonable for us. So, we're willing to wait a little bit to get the cost back more in line.

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That said, we believe inflation has peaked, and we are starting to receive more bids that are in line with our project budgets and some even actually below our project budgets. So, that gives us some good feelings for the future. We still believe we have the opportunity to grow close to the high end of our framework, and we are actively building that pipeline.

### Rajesh Vennam

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

And, David, on the returns, we are – our returns are still pretty strong. We are – any project we approve has to be net present value accretive to us. And as Rick mentioned, we generally like to have a little bit of headroom within our margin of error as we approve projects. Maybe that buffer is not as high as it used to be. But when we look at actual performance on average, we exceed our internal hurdles by quite a bit.

Ricardo Cardenas

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

And, David, I'm going to add one more thing. If you think about us saying that we'd like to see a little bit of a buffer in our net present value over our cost of capital, that's because we have all the capital we need, and so we're going to be selective in projects. The thing that's going to keep us from growing way faster than our long-term framework unit growth is having people ready to run those restaurants, and that's what we focus on as well. We're focusing on developing people, and we think we've got a great pipeline of people as well.

David E. Tarantino

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

Great. Thank you.

**Operator**: Thank you. Our next questions come from the line of David Palmer with Evercore. Please proceed with your questions.

**David Palmer** 

Analyst, Evercore ISI

Thanks. Just to follow up, this was asked before, but I'm not sure I quite got the answer. Given where food costs and Ruth's synergies are coming in, we were surprised that you're not also increasing the low-end of your EPS guidance for the year, fiscal year. What are the potential offsets to what we're seeing in terms of what looks like upside to your plan on the EPS and the EBITDA line?

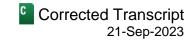
Rajesh Vennam

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

Yeah, David, I think it's a fair question, but we're just one quarter in, right? So, there's nine months to go. There's been mixed data on the consumer. We're trying to understand what's going to happen. And so we felt like it was too early to really come off of the range we provided. As I said earlier, our point estimate from the beginning of the year to now has moved up a little bit. I mean, that's because of our performance in the first quarter, but that doesn't mean we're outside the range. So, we didn't feel like we're at a place where we needed to change the guidance range.

And there's – so to your question around uncertainty, there are a few things. Primary, biggest risk is obviously on the consumer, what happens with the consumer. Second is on the commodities. We're trying to understand what's going to happen, especially with beef, 22% of our basket is beef, so there's some risk there. Now, the

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pricing in beef has remained pretty high because of the supply being down in the mid-single digits. We're starting to see some additional imports that might help on the beef front, but it's too early. So, I guess all things considered at this point, we felt like it was prudent to stay with the guidance we provided.

**David Palmer** 

Analyst, Evercore ISI

Thank you for that. I know we're not going to give the game plan for the company in terms of marketing in ways that you might pivot, but I'm wondering, just generally speaking, if we're seeing the industry trend worse than the flattish type trend that would be consistent with your guidance given your current [ph] GAV to NAV (00:30:34), if your traffic is down more than just modestly or you see it going that way, how would you adjust? I mean, what are the ways – and Rick said you're not going to go deep discount route, but what ways do you think you would adjust with your major brands? Thank you.

Ricardo Cardenas

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

Yeah, David, you're right, we're not going to give you too much information on what we would do. But just understand that we believe that the best long-term health of our business is to keep our strategy of overall pricing below inflation, running better restaurants, and not getting into huge deep discounting to buy guests. We think that brings in the guests that just come in that are a little bit less core to our business. And we're going to continue to operate our restaurants to drive one more visit from our core guests. And if that means that others start doing some heavy discounting, we're going to stick to our strategy and even if it means that it's a short term – it impacts us a little bit in the short term because we think we'll be better off in the long term if we stay with where we're going.

**David Palmer** 

Analyst, Evercore ISI

Okay. Thank you.

**Operator**: Thank you. Our next questions come from the line of Jeffrey Bernstein with Barclays. Please proceed with your questions.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

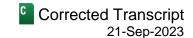
Great. Thank you, very much. Two questions. One, just on the competition. Rick, I know you were pretty clear that you're not keen to start being more aggressive with discounting, doesn't benefit you long term. But are you seeing any changes in the broader competitive behavior? I think there are some that are concerned of an uptick in promos and discounting to drive traffic, especially with the commodity inflation easing. So, contrary to your strategy, just wondering what you're seeing across the broader landscape. And then I had one follow-up.

Ricardo Cardenas

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

Yeah, Jeff. One thing, yeah, commodities might be easing, but labor is still pretty high. It's getting a little bit better. But even if commodities are deflationary, there's still net inflation, at least in our business, and I'm guessing in other businesses too. That said, we have seen a slight increase in promotional activity, but particularly with one bar and grill competitor and in the family dining segment. We're really not seeing a whole lot of competitive —

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increase in competitive activity in kind of the Olive Garden range and above, other than, as I said, that one bar and grill competitor that seems to be ramping up a little bit.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

[ph] Understood (00:33:08).

Ricardo Cardenas

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

... [indiscernible] (00:33:09) said, Olive Garden is usually one of the top brands in share of voice. So, no matter what this competitive activity is and television activity, Olive Garden is usually one of the top few brands in share of voice, but our message is about more and more and more, come into Olive Garden for more, more food, more value, more refills. And that's what we're talking about. And as I said, we'll stick to our strategy.

And I'd tell you, that's reinforced Never Ending Pasta Bowl. So, Never Ending Pasta Bowl is about never-ending, craveable, abundant Italian food at a great value, and it's right on our plan. We're doing exactly what we planned for at the beginning of this fiscal year with Never Ending Pasta Bowl, nothing new.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Got you. And then just the follow-up. I know earlier you mentioned something about seasonality. I know you're referring specifically to Fine Dining relative to last year. But as you think about broader casual dining historically, I get the feeling, right, sales slow in September post maybe a stronger summer and battling now back to school. But I feel like the past couple of years, there was a lot of pent-up demand post COVID and therefore, maybe there was no seasonality, people [ph] were (00:34:12) willing to go out even during this timeframe, and therefore, less seasonality. I'm just wondering, should we now expect a return to seasonality that maybe could explain if you were to see a slowdown in coming weeks. I'm just wondering how you kind of think about that if seasonality were to return, how you decipher whether it's traditional seasonality or slowing consumer. Any thoughts there around that would be great. Thanks.

Ricardo Cardenas

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

Yeah, Jeff. We actually do think seasonality is getting back to historic trends. And the data we talked about for Fine Dining with getting back to kind of 100% of pre-COVID levels, we're seeing the same thing. I'm not saying at the 100%, but the same kind of trends back towards similar trends of pre-COVID levels now, where last year, we do think there was a little bit of pent-up demand. And so, we're going to watch it. We're going to see what happens for the rest of this month and the rest of next month. But it appears like now we're getting much closer to what the seasonal patterns were.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Thank you.

Ricardo Cardenas

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

Yeah, thank you.

**Operator**: Thank you. Our next questions come from the line of Joshua Long with Stephens. Please proceed with your questions.

Joshua C. Long

Analyst, Stephens, Inc.

Great. Thank you for taking my question. When we think about the trends you reported here in the first quarter, I understand that the strength was largely in line with what you were expecting. Curious if you could dive into any sort of comments around pacing, geographic performance, daypart, day of week, anything there or perhaps sales channel kind of in the to-go business for Olive Garden.

Rajesh Vennam

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

Yeah, Joshua, I think from a geography perspective, we're seeing more strength in New England, Northeast, we're seeing some softness or at least below company average in California, Texas and Florida when we look at the entire portfolio. Now, brand by brand, there's a little bit of variability, but when you look at across our portfolio, that's the areas where we're seeing in terms of regional differences. Most others are kind of in between, and so kind of closer to the company average, if you will. But definitely seeing strength in the Northeast, and especially, New England area overall.

From a daypart perspective, we are seeing some lunch getting better at casual brands. And so, that's really it. Outside of that, I don't know that there's any additional color we can provide on the sales detail.

Joshua C. Long

Analyst, Stephens, Inc.

That's helpful. And then one point of clarification, Raj, there. When we think about maybe California, Texas, Florida being a little bit softer on a relative basis, do we think about that just from a kind of base of comparison? It feels like they were probably stronger over the last couple of years, so maybe it's just a kind of point of comparison.

And then maybe, Rick, when you think about just that opportunity to drive the marketing and messaging, I would totally agree about the opportunity for the balance of operational execution and value to be a big key component in the second half of the year, it doesn't sound like you need to lean in or change the messaging. Is that correct? I mean, you feel good with how you're communicating that and it's about going out and executing it?

Rajesh Vennam

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

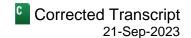
Okay. So, let me – yeah, you're right on the year-over. It's really driven by a function of last year on the softness I'm talking about in those markets or the strength because last year, they were in a different place. So, that's a one year – truly a one-year thing, and then I'll let Rick comment on the marketing.

Ricardo Cardenas

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

Yeah, Josh. I think if – now that we're seeing that we think we're getting back to more seasonal patterns, we look at our traffic trends versus pre-COVID, they're fairly consistent across the last four quarters across most of our brand – actually, most of our segments. And so, we believe what we're doing is getting us to exactly where we

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were before without a bunch of marketing with maybe slightly lower traffic levels because of that marketing. And so, we're going to stick to what we're doing and see if the patterns dramatically change. And if they do, we have levers to pull that aren't necessarily deep discounts. And one of them that we just pulled with Never Ending Pasta Bowl was to give our eClub members a preview of Never Ending Pasta Bowl, which again was always in our plan, it was in our plan at the beginning of this fiscal year, it's not something we're doing differently, we're doing it to learn.

If we give our eClub members a little bit more reason to be in the club without giving them a discount to be in the club, then maybe that's going to drive more. So, we're still learning, and we're looking at digital marketing and other things that we've done and we've learned throughout COVID. And if we do anything, we could use those levers, but not necessarily deep discounts.

Joshua C. Long

Analyst, Stephens, Inc.

Thank you.

**Operator**: Thank you. Our next questions come from the line of Dennis Geiger with UBS. Please proceed with your questions.

**Dennis Geiger** 

Analyst, UBS Securities LLC

Great. Thanks, guys. Wondering if you could speak a bit more or a bit to the dining room traffic levels broadly across the portfolio or even at Olive Garden specifically and sort of how you think about where those dine-in traffic levels are currently, where they can go relative to the to-go business. Have we normalized, or is there still an opportunity to see more dine-in recovery gains on the traffic side at this point?

Rajesh Vennam

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

Yeah, Dennis, our off-premise has gone quite a bit from where we were before COVID. So, from a traffic perspective, yeah, we're probably in that 80s range in terms of traffic related to pre-COVID at our largest brand in Olive Garden. But from a sales perspective, we're probably closer to where we were before COVID. Now, with that said, the – but part of that is, as we talked about, we made a conscious decision to pull back a lot on promotional activity, couponing and marketing dollars that we spend at Olive Garden. So, we're a healthier business and so we like where we are.

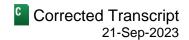
From the – but also – it also gives us opportunity, right? There is capacity in the dining room, which provides us more opportunity, but we're going to go at it in a way that's durable, that is actually not a one-time get people in the door, but we want to build it over time. That's why we're so focused on core menu, everyday value and executing at the highest levels we can so that we can slowly build back.

Dennis Geiger

Analyst, UBS Securities LLC

It's helpful, Raj. And then just one quick one, just on the quarter itself, anything notable to call out either traffic or on the mix side of things at Olive Garden or LongHorn?

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### Rajesh Vennam

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

Well, I would say our traffic was actually a little bit better than we thought going into the quarter, but our mix was a little bit worse. So, what we're seeing is from a check perspective at Olive Garden and LongHorn, a little bit of pullback in alcohol sales and some entrée mix – negative entrée mix. But that's really what I can share at this point.

**Dennis Geiger** 

Analyst, UBS Securities LLC

Great. Appreciate it, Raj. Thank you.

**Operator**: Thank you. Our next questions come from the line of Danilo Gargiulo with Bernstein. Please proceed with your questions.

**Danilo Gargiulo** 

Analyst, AB Bernstein

Good morning. Can you comment on the level of absolute pricing you're facing versus your local peers? And why is it a prudent strategy for Darden to be increasing prices above inflation? I know that you spoke several times about how you [ph] might deviate (00:41:24) from pricing below inflation in specific periods, but why now is it a prudent strategy?

Rajesh Vennam

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

So, Danilo, let me start with saying where we are from a pricing standpoint. Our overall pricing in the quarter was about 6%, as we said. We expect the full year to be closer to mid-3s or maybe closer to 3% to 4% - 3.5% to 4%. That said, when you look at where we are relative to pre-COVID, our pricing over that timeframe is in that 17% to 18%, including this quarter that we just talked about is 18%. Where the peers are, on average, are about 600 basis points to 700 basis points higher than us over that timeframe, which means that we have created a gap.

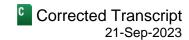
Now, most of our pricing this quarter is a wrap from pricing actions we took last year. In fact, I think the impact from this year – the actions this year make up less than 10% of our total pricing. So, we – the carryover from last year represents 3%. So, overall, from a pricing strategy perspective, we feel like we're in a great place. We feel like we have created that gap to our competitors, and that gap is not going to get any narrower. We don't expect that when we end the year that – maybe quarter-to-quarter, there may be 10s of basis points of delta to our peers, but when we look at overall, we feel like we're going to be still ahead of competition. Part of that is because our inflation that we experience is better than most of our peers and we try to target our own inflation in terms of how we price. But our inflation, because of our scale, ends up being generally much less than especially some of the local peers you're talking about.

Danilo Gargiulo

Analyst, AB Bernstein

Extremely clear. Thank you, Raj. And one more question, if you don't mind. So, can you comment on the pace of integration efforts, especially in the light of the new synergies that you have found, do you think there is a potential to accelerate the full integration? And if so, is there any timing upside to the EPS accretion in fiscal 2024 and 2025?

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#### Ricardo Cardenas

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

Hey, Danilo. As we mentioned earlier, we are – finished the planning process, and we're about to embark on the hardest part, but it's only going to take us nine months. So, think about integrating 80 owned and operated Ruth's Chris restaurants, think about the franchise systems, getting all of our operated restaurants on our point-of-sale system, on our payroll system, on all of the other systems. We don't want to go too much faster than nine months just because that's a lot of disruption in the restaurants. So, we're going to pace it at the right level. We've already – as we've said, we've brought our synergy estimate up for this year from \$5 million to \$10 million, I believe, to \$12 million this year about, and that includes reinvesting some of the synergies that we found.

So, that would tell you that we got a little bit faster. But we wanted to make investments just like we do in our other brands. So, if we get even faster on some of the synergies or we see that the synergies are even higher than we've just analyzed, then we may make more investments. And so, we'll do what is right for the long-term health of the business, but we're not going to try to integrate too fast, and we're going to stay at our pace.

Dani	lo Ga	rgiulo
Duilli		

Analyst, AB Bernstein

Great. Thank you very much.

**Operator**: Thank you. Our next questions come from the line of Jeff Farmer with Gordon Haskett. Please proceed with your questions.

#### Jeffrey D. Farmer

Analyst, Gordon Haskett Research Advisors

Great. Thank you. Some big picture casual dining questions. So, some of the [ph] NAP (00:45:12) data, some of the other traffic source data show that casual dining traffic growth slowed in August, has slowed into early September. You guys are obviously taking a lot of market share. But again, bigger picture, from your perspective, what sort of consumer or macro factors are contributing most to that softening traffic trend for that casual dining consumer?

#### Ricardo Cardenas

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

Yeah, Jeff, I'm going to start with seasonality as we've talked a couple of times. This is — September is typically the lowest seasonal pattern. Last year, it wasn't. The same thing with August. And so, I would start by saying seasonal patterns are getting more back to normal. When you compare all of our segments to pre-COVID levels, over the last four quarters, we've been pretty consistent.

And so the other thing, as we've already mentioned, is there is — the consumer is starting to have a little bit less confidence and they're a little bit more selective. And so, we're going to continue to work on what we've worked on. But I think that pricing in the industry may have caused a little bit of this, but we've been pricing well below the industry, and we feel good about where our pricing position is compared to everybody else, and we're just going to execute.

#### Jeffrey D. Farmer

Analyst, Gordon Haskett Research Advisors

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All right. That's very helpful. And then just a follow-up on pricing. So, pricing 6% in 1Q, you guys are guiding to that 3.5% to 4% for the full year 2024. But what is that – how should we be thinking about pricing moving forward, just sort of the cadence? So, it's one – or 6% in 1Q. What theoretically would Darden blended pricing look like in 2Q, 3Q, et cetera?

### Rajesh Vennam

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

Yeah, I'd say we're looking at probably closer to 5% in the second quarter, 3-ish by the time we get to third quarter and probably closer to 2% or below 2% by the time we get to fourth quarter.

### Jeffrey D. Farmer

Analyst, Gordon Haskett Research Advisors

All right. Appreciate it. Thank you.

**Operator**: Thank you. Our next questions come from the line of Jon Tower with Citi. Please proceed with your questions.

#### Jon Tower

Analyst, Citigroup Global Markets, Inc.

Great. Thanks for taking the question. I guess going a little bit off the reservation here, but I'm curious to get your thoughts. California is changing or potentially changing the way that it pays its employees in the fast food side. I would argue it's going to have some implications for the broader industry in California and perhaps beyond that. So, I'm curious to get your thoughts, one, on how will you handle an environment where aggregate labor inflation starts taking off pretty dramatically in one state, perhaps spilling elsewhere? And then two, I'd be curious to get your thinking around how the industry evolves either in that market or more broadly? And do you see this as an opportunity to accelerate share in that market even though costs might be moving a little bit higher? I would think that some independents in that market, in particular, might have to shut down given the cost to operate will be a little bit beyond reasonable levels.

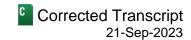
### Ricardo Cardenas

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

Yeah, John, let me start by saying the FAST Act you're talking about in California, I know it impacts fast food first, and that could lead to higher wages across other segments of the dining experience. Our employment proposition is great. We've got a great employment proposition. As we talk about – and I think we've mentioned before, our average wages, including tips, are over \$22 now across the country. But when you look at in California, it's higher than that. And so, I think as labor cost continue to grow, we've had that in other markets where we've seen minimum wages grow or we've seen a reduction in the tip credit, and we've been able to execute and continue to gain share there.

So, if this does impact restaurants, it's probably going to impact the ones that have a little less capital and a little less the ability to withstand that. Just like we've seen in other markets where wages have grown really fast, we've been able to pick up share because we're still there. So, we're going to focus on what we can control, which is providing a great guest experience and trying to continue to price below inflation. And if inflation is higher, others are going to have to price more and we'll be able to gain share by taking a little less price. We're going to stick to our strategy.

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### Jon Tower

Analyst, Citigroup Global Markets, Inc.

Got it. So, the idea of taking potentially more price in that market later this year is not off the table given the inflationary pressure.

#### Ricardo Cardenas

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

Nothing is ever off the table if things change dramatically on inflation. What we talked about with the pricing actions that we've already taken, most of our pricing is already built in. But that 2% that Raj said in Q4 could be higher if things change. And it's highly unlikely it could be lower, but it could be higher if things change.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Got it. Thanks for taking the questions.

Ricardo Cardenas

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

Yeah.

**Operator**: Thank you. Our next questions come from the line of Sara Senatore with Bank of America. Please proceed with your questions.

#### Sara H. Senatore

Analyst, BofA Securities, Inc.

Yeah. Thank you. A question on margins and then a quick one on marketing. The restaurant level margin's better than we had expected. But I guess given pricing and the gap between pricing and commodities, even with labor inflation in, I think, the mid high-single digit, maybe then in that context, the margin expansion wasn't quite as high. I guess given that pricing is going to roll off and inflation is — I think could shift higher, are there any kind of dynamics that I should be thinking about with respect to that margin performance? I think you had said in the past that we should expect it to moderate, but a pretty wide gap between commodity inflation and price this quarter and offset, I think, by mix and some other factors. Is anything — any different dynamics that we might expect to see through the quarter, the quarters to come? And could you talk about whether the Fine Dining — whether there was an impact from Ruth's in terms of just sort of negative mix versus, yeah, the — just the negative comps that might have de-levered?

### Rajesh Vennam

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

Yeah, Sara. So, let me try to make sure I answer all the aspects of that question. So, let's start with the margins. So, from a margin perspective, yes, you're right, if you just look absolute pricing and commodities inflation or overall inflation and you could say, well, you didn't get the full delta between the pricing and inflation. The things we have to think about are a few things. One, there is a negative mix. First of all, let's start with the brand mix. When you have negative comps at our – some of our high-margin brands, that has a negative impact on our overall blended margin. And you saw that LongHorn and Olive Garden had 230 basis points each of segment profit margin, which is really what – where you're seeing the most strength.

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The decline in Fine Dining, part of that is driven by incremental costs they have year-over-year. Their pricing is starting to catch up. But also, there was some negative mix. On a one-year basis, there was a lot of negative mix on alcohol. When we look at what's happening at Fine Dining, there is trading down to lower-priced wines and other alcohols on a one-year basis. However, when we look at it versus where we were pre-COVID, we don't see a big falloff. So, this feels like there was – clearly goes back to that exuberance that existed a year ago that we're wrapping on and so part of that margin impact is from that.

And then, the last piece I'd say is, some of the restaurant expenses still have high inflation, whether it's repairs and maintenance, we're running mid-single digit inflation on those lines. And so that's part of that. Last piece is utilities. We had a record summer – record heat. So, that caused tremendous usage, much – we've ever seen historically in terms of electric usage and that translated into some incremental cost too.

Sara H. Senatore

Analyst, BofA Securities, Inc.

That's very helpful. You hit all the parts, so thank you. And then just on the marketing, you said your top line was pretty much as expected, maybe traffic a little bit better. I know you took up marketing as a percentage of revenues by 20 basis points, 30 basis points. Could you just talk about kind of the returns you're seeing on that in that context of in line and maybe a bit better traffic, how you're feeling about that ratio versus going back to the lower one or edging it higher?

Ricardo Cardenas

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

Yeah, Sara. Our marketing versus prior year was up 20 basis points. About half of that was just Ruth's mix. So, bringing Ruth's into the mix, our marketing was a little bit higher. And the other tenth was already in our plan. So, the planned performance included the tenth in marketing. So, we believe we're getting an ROI on that. And we've learned over – during the COVID times how to – we've been able to analyze marketing better because when you completely eliminate it and you start adding back, you can really see the impact of it versus when you have a lot of it and you add a little bit, it's harder to see. So, we're able to read the marketing much better and the ROIs in marketing, and we believe there is one.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Thank you.

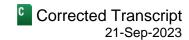
**Operator**: Thank you. Our next questions come from the line of Peter Saleh with BTIG. Please proceed with your questions.

Peter Saleh

Analyst, BTIG LLC

Great. Thanks. I just wanted to come back to the conversation around menu mix. I think you mentioned some declines in alcohol mix from the Fine Dining brands, but you also mentioned something similar at the core brands some alcohol mix and entrée mix that was a little bit less than you expected. Can you elaborate a little bit more on that, on what you're seeing? And is this the first time you've seen this pullback in this – or change in consumer behavior since pre-COVID?

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### Rajesh Vennam

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

Yeah, Peter, I would say on the casual brands, we're only seeing it at Olive Garden and LongHorn, and it's not alarming. What we're talking about is 10s of basis points of negative mix. So, it's not at a point where we're like, hey, we're missing check by quite a bit, but it's about – in an environment where you have a pricing in that 6% range in the – take example the last quarter, to have maybe 50 basis points of negative mix, it doesn't feel like it's a huge impact, but it was a little bit worse than we expected. But we're not reading too much into that, primarily because when we look at what's happening at Cheddar's, we're not seeing a negative mix there. So – and the other part of it is we have introduced some menu items that are more – at LongHorn, for example, we have some items that are better margin, pricing difference [ph] yield (00:56:21) there might be causing people to trade down, but it's not hurting our margins. So, we're actually okay with that some negative entrée mix we're seeing. So, it's too early to draw too much into the – or to kind of read too much into this negative mix that we're seeing on the check at the casual brands.

From Fine Dining, yeah, we truly believe it is a function of exuberance last year. We were seeing a huge positive mix last year and that's going away. I mean, we've actually had that for four or five quarters until – I think until we got through to the second quarter of last year. And so, now we're starting to – things normalize, and this is – that's why when we wanted to look at it versus pre-COVID and when we looked at it through that lens, we did not see any big drop-off at the Fine Dining.

### **Peter Saleh**

Analyst, BTIG LLC

Thanks for that. And then, Rick, I think you mentioned that labor, obviously, is still inflationary, but has improved. Can you give us a little bit more color on what you're seeing on the labor side? Is it just more availability of labor, are starting wages flattening out or coming down? Any more detail on that front would be helpful. Thanks.

#### Ricardo Cardenas

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

Yeah. We're seeing it much easier to hire than we have in the last few years. We've gotten much more applicants for every job than we've had before. If you think about the employment proposition we've mentioned, it includes a minimum wage of \$12 an hour, including gratuities. And as we're seeing – yes, wage inflation is up, but our starting wage inflation is lower than our overall inflation. So, it seems like it's getting a little bit easier to hire people, and we don't have to hire at such a high rate just to get people in the door. We're fully staffed. Our turnover is getting – coming down. And so our starting wage inflation is much lower – or our entry-level wage inflation, when people come to work for us, is lower than our overall inflation, which is a good [ph] thing (00:58:23).

### Peter Saleh

Analyst, BTIG LLC

Thank you.

**Operator**: Thank you. Our next questions come from the line of Gregory Francfort with Guggenheim Securities. Please proceed with your questions.

#### **Gregory Francfort**

Analyst, Guggenheim Securities LLC



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Hey, thanks. Rick, I think you made a comment earlier on the call about maybe the – if you're seeing a little bit of softness, it's more in the over \$125,000 income consumer. And I guess that's just surprising because I think a lot of the concern is more on the lower income side of things. And I'm curious what you think might be driving that.

Ricardo Cardenas

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

Yeah, Greg, I think a couple of things. One, if you look over the last few years, wage growth has been higher at the lower income level and at the higher income level and inflation, while it impacts the lower income more, their wages had grown faster than inflation over time. And I'd kind of mentioned it. I think a little bit of it now is the exuberance from last year and actually this summer, there was a lot of international travel. You saw that when airlines talked about adding routes internationally, and that could have been part of the reason maybe our Florida and California markets weren't as strong because maybe people weren't traveling here, they were traveling outside the US, because they hadn't been able to do that for a few years. I know anecdotally, I've talked to quite a few folks that have had international travel plans in their sights for two or three years, but they were just not doing it because of COVID, and they did it this summer.

Gregory Francfort

Analyst, Guggenheim Securities LLC

[indiscernible] (00:59:53)...

Ricardo Cardenas

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

So, it could be because we've had a lot of that.

Gregory Francfort

Analyst, Guggenheim Securities LLC

Okay.

Ricardo Cardenas

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

But we're not reading too much into it. That said, we're going to watch and monitor and see and see if something dramatically changes, but we're not too concerned right now. We just wanted to make sure that you understood that the \$125,000 and up is something that we're seeing a little softness in or at least we did in the first quarter.

Gregory Francfort
Analyst, Guggenheim Securities LLC

Got it. And maybe just one other. As you look at the mix of Ruth's franchise versus company-owned, do you think that will go higher or lower over time [indiscernible] (01:00:26) that increasing or decreasing or kind of things more stable?

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

Yeah, Greg, I want to start by saying we're really – where our focus is integrating our current restaurants. We've got 81 company-operated restaurants into Darden. Our Ruth's Chris franchise, these are valued partners to us. If they have growth opportunities and they want to continue to grow and it makes sense, then we'll let them grow with us. But we expect to grow our own Ruth's restaurants as well. So, I would anticipate that over time, the mix of

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Ruth's company-owned or company operated compared to franchise will go down. It doesn't necessarily mean that franchise – number of franchises will go down, it's because we're going to open more restaurants at Ruth's. And so, that's how we're going to stick to it.

**Gregory Francfort** 

Analyst, Guggenheim Securities LLC

Thank you.

**Operator**: Thank you. Our next questions come from the line of John Ivankoe with JPMorgan. Please proceed with your questions.

John Ivankoe

Analyst, JPMorgan Securities LLC

Hi. Thank you. I know in the past we've talked about some different traffic performance from the under-35 consumer and the over-55 consumer. And it is interesting, especially for some of your older consumers who may be on fixed incomes actually could be benefiting from the increase in interest rates, but conversely, the sub-35 consumer, based on where their incomes are, the student loan repayments might actually affect them the most. Maybe it's a little bit of a real term question, but I wonder if you're beginning to see behavior differences not just from an income cohort, but from an age cohort and how you see that influencing your business.

Rajesh Vennam

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

Yeah, John. Actually, what we're – we are continuing to see actually the consumers below 35 be actually continuing to grow as a mix. In fact, when we look at versus last year, versus last quarter and as well as versus pre-COVID, consumers below 35 are still trending better. In fact – and then 55 plus, especially 65-plus, is still below pre-COVID and actually was a slight decline from last quarter to this quarter. So, we – so it feels like from a mix perspective, we're seeing more younger consumer. And we're kind of seeing something along the lines of what Rick mentioned on the income spectrum, too, where lower income makes up a bigger percentage of our guest base today than it did before COVID. But we're not seeing any cracks in that, those trends because we've been tracking that for a few quarters now, and it seems to be holding up pretty well. Now, if something going to change in the future, we can – and at this point, we don't have any insight to say whether that's going to change or not.

John Ivankoe

Analyst, JPMorgan Securities LLC

And in terms of re-attracting that 55 or 65-year old, I mean, because that – I mean, if I would have told you that four years ago, we would have said, gosh, that's a big change for your business, especially at Olive Garden. Is there a way to kind of re-attract that consumer? I assume that it wouldn't be specific to your brands than it would be broadly, but is that an opportunity to maybe re-add that subset of customers?

Ricardo Cardenas

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

Hey, John. I think about re-attracting any consumer. We're trying to add one more visit from our loyal guests, and we had a lot of loyal guests above 65. I do believe that they were a little bit more spooked on the COVID side and they should have been if COVID impacted them a little bit more and we're going to continue to focus our efforts, and if we can do some targeted marketing to them – we've got a big eClub, we can use our eClub to talk to them

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and say, hey, come back to Olive Garden. But I don't think we're going to do some dramatic things because we've actually seen a pretty big increase in our younger consumer. And I think if people would have asked us five years ago to say, hey, we don't have enough younger consumers, they would have thought, wow, I can't believe how many consumers you've had on the younger side. So, we actually like that consumer. We think that consumer is going to be a strong consumer for us, but we value all of our customers, including those over 65, and we'd love to see them come back more frequently.

John Ivankoe

Analyst, JPMorgan Securities LLC

Understood, and thank you...

Ricardo Cardenas

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

Yeah, sure. And I want to clarify something that I said to Greg. I said that our operated restaurants will be lower in mix for Ruth's and not – it's actually higher. So, it should be higher in the future. Sorry about that.

**Operator**: Thank you. Our next questions come from the line of Brian Vaccaro with Raymond James. Please proceed with your questions.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Hi. Thanks, and good morning. Just two quick data items, if you could. Could you share what off-premise mix was for Olive Garden and LongHorn in the quarter? And I know it'll be in the 10-Q, but maybe also what was traffic for each of those brands in the quarter?

Rajesh Vennam

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

Hey, Brian. So, Olive Garden was about 22%, a little over 22%, so that's about a couple points lower than where we were a year ago. This is not one of the high quarters. And then from a LongHorn perspective, they were about 13% off-premise. From a traffic perspective, I'd say Olive Garden was low-single digit – or slightly positive, might have been [ph] 0.3%, 0.4% (01:05:45). LongHorn was in the 1.5% range for traffic.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

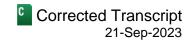
Okay. Thank you. And then just following up quickly on the Ruth's acquisition, if you've had a chance to dig further in the customer segmentation, could you just elaborate on the differences you see in Ruth's customer base versus other fine dining brands? And I'm curious on the reinvestments you're making there, what are some of the key areas you see an opportunity to improve the guest experience. Thank you.

Ricardo Cardenas

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

Yeah, Brian, on the Ruth's customer base, a lot of our customer research is based on data that we get through our POS, and we haven't done the integration of POS. So, I'm just using some data that we have from the past. It's a slightly different consumer than we see at Capital Grille and at Eddie V's, and as we've mentioned before, we have very little overlap in the consumer for Ruth's Chris and the consumer for Capital Grille and Eddie V's. So, that's a good thing. We're reaching a consumer for a different need state than they've had before. Ruth's is a little

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bit more suburban than the other brands that we've mentioned. And so, we're going to continue to learn more about that consumer.

In regards to the investments that we've made or that we're going to be making, as Raj said, we have a history of making investments in our team and in our food. And those are the kind of investments we're going to be making with these additional synergies, more on the food side, but still some investments on the team side. I don't want to get into the exact investments that we're making though.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Fair enough. Thank you.

Ricardo Cardenas

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

Sure.

**Operator**: Thank you. Our next questions come from the line of Jake Bartlett with Truist. Please proceed with your questions.

### **Jake Rowland Bartlett**

Analyst, Truist Securities, Inc.

Great. Thanks for taking the questions. I'm hoping you can give us a little perspective on your expectations for the resumption of student loan payments. I imagine you've done some work on it. What do you think the impact could be on your brands and maybe even just the casual dining space in general?

### Ricardo Cardenas

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

Yeah, Jake. As we've said before, the restaurant industry is impacted really more by discretionary spending. We don't expect consumer repayment of student loans is going to be a material impact to Darden over time. And recall that a lot of these have already started being made. So, I think in the month of August or – month of August, it was about \$1 billion a week. And that could be because some people are just deciding to pay off their entire student loan before the interest rate starts back up. And so the expectation was it's going to be about \$80 billion or so a year in student loan repayment and we're almost at that run rate now.

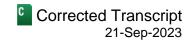
So – and I also know – I've read and seen, and I think you've all read that a lot of these student loan payments are the folks that are above \$125,000. So, maybe that's part of it as well, maybe they've started to pay off their student loans. So, we want to see how this progresses over time. But as we've said, we don't think it's going to be a meaningful impact to our business. On the margins, it could be an impact, but it's not going to be a meaningful impact to our business. Discretionary spending is a bigger impact.

### **Jake Rowland Bartlett**

Analyst, Truist Securities, Inc.

Okay. Great. And I'm going to go with kind of an odd question, but I think it's – I think it's something that investors are focusing more and more on and I'm not sure how valid it is or not. But I'm wondering your perspective on GLP-1 drugs and the impact on restaurant demand, maybe Darden's restaurant demand. I'm not going to ask your average BMI for your customers, but...

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

I won't...

Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

...any perspective there – any perspective. I know it's something that's on investors' minds, so I figured I'd ask.

Ricardo Cardenas

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

Yeah. I didn't mean to laugh, but when you talked about my BMI, I'm not going to get into that.

**Jake Rowland Bartlett** 

Analyst, Truist Securities, Inc.

I know yours - yours as well.

Ricardo Cardenas

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

I don't know about that. Let me start by saying, full-service dining occasions are driven by desire to connect with family and friends. If you think about the frequency of our full-service dining guests, it's a couple of times – two, three times a year for a good guest. So, over the years, we have spent a lot of time designing our menus to ensure guests have a wide range of choices that suit their individual needs. And we're going to react to whatever happens, but we don't think it's going to be a meaningful impact to us because of the celebratory nature with – why people come out to eat. And if it suppresses the appetite a little bit, they're still going to eat. So, we're going to be there for them when they do.

**Jake Rowland Bartlett** 

Analyst, Truist Securities, Inc.

Great. I appreciate it.

**Operator**: Thank you. Our next questions come from the line of John Parke with Wells Fargo. Please proceed with your questions.

John Parke

Analyst, Wells Fargo Securities LLC

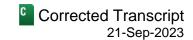
Hey, good morning. I guess, can you guys just talk about the margin recovery at LongHorn kind of in face of deep inflation? And I guess, should we expect that to tail a little bit worse as we kind of move through the year?

Rajesh Vennam

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

Hey, John, I think, we – what we talked about, if you recall, a year ago was there was opportunity to get some margin back at LongHorn. Part of that was we had made – LongHorn's team had made some strategic choices along the way to make investments in food quality and invest well below – at pricing well below inflation as they were growing traffic. And LongHorn, by the way, does have significant – actually positive traffic in the dining room relative to pre-COVID. And so, we're at a place where we now can pivot a little bit back to getting some of that

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margin that we wanted to get and so LongHorn team has done a great job getting some of that margin growth. And we feel like we're at a much better place from a overall business model perspective, especially given the top line momentum they have to be able to see the margins where they are, it's just a – it provides strong returns within our portfolio.

John Parke

Analyst, Wells Fargo Securities LLC

Great. Best of luck, guys.

**Operator**: Thank you. Our next questions come from the line of Andrew Strelzik with BMO. Please proceed with your questions.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Hi, good morning. Thanks for taking the questions. I just had two quick ones for me. The first is on your commodity baskets. It looks like you have less [ph] lock (01:12:12) than you did with the last update. Now, I'm just wondering if that's typical, is it intentional or things getting a little bit more difficult there with those conversations with suppliers. That will be the first question.

The second one, on the off-premise numbers that you gave in terms of the mix, it sounds like you think that's seasonality or due to the kind of lower volume nature of the quarter. I mean – we know that delivery also is softening up a little bit across the industry. Do you think that there's more shifting to food at home or any other dynamics that might be at play there? Thanks.

Rajesh Vennam

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

Okay. Let me first start with the coverage. So, yeah, you pointed out, we have about 55% coverage for the next six months, which is actually same as what we had a year ago, but a bit lower than what we would have had before COVID. In terms of the ability to get coverage, I would say, at this point, it's still difficult to secure long-term coverage at the prices we like for beef. And that's really the primary driver. If you look at our coverage, we don't have as much coverage in beef as we would have liked to at this point in time.

And then the other point, as – poultry, you see that we have about 65% covered, but normally, we're much more covered in that. Part of that is because we renewed – we started a contract last year in December that actually just expires this December. So, we're in the midst of trying to renegotiate that. And so that's another reason why we're a little bit lower. But yeah, you're right. I mean, we would like to have a little bit more coverage. But as I mentioned, beef is still not where it is we would like it to be. Especially going past the holidays, it's hard to lock – or getting into the holiday, December and past, it's hard to lock in at prices we like.

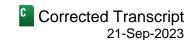
So, from a dining room perspective, both LongHorn and Olive Garden had traffic growth in the quarter, right? So that means that some of the guests – this off-premise question you asked, it's shifting to the dining room. So we're not concerned because, yeah, off-premise was down a couple of points at Olive Garden year-over-year, but that means the dining room grew by more than 2 points. And that's – we're happy with that. We actually prefer to have quests in the dining room.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.



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Great. Thank you very much.

**Operator**: Thank you. We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Mr. Kevin Kalicak for any closing comments.

#### Kevin Kalicak

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

Thank you. That concludes our call. And I'd like to remind you that we plan to release second quarter results on Friday, December 15 before the market opens with the conference call to follow. Thank you all for participating in today's call.

**Operator**: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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