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# Darden Restaurants, Inc. (DRI)

Q4 2023 Earnings Call

# CORPORATE PARTICIPANTS

### **Kevin Kalicak**

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### Ricardo Cardenas

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# OTHER PARTICIPANTS

### Jon Tower

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#### Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

### **Eric Gonzalez**

Analyst, KeyBanc Capital Markets, Inc.

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning. Welcome to the Darden Fiscal Year 2023 Fourth Quarter Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] As a reminder, the conference is being recorded. If you have any objections, please disconnect at this time.

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

### **Kevin Kalicak**

Senior Vice President-Finance & 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 first quarter earnings on Thursday, September 21, before the market opens, followed by a conference call. During today's call, any reference to pre-COVID, when discussing fourth quarter performance as a comparison to the fourth quarter of fiscal 2019 and any reference to annual pre-COVID performance, is a comparison to the trailing 12 months ending February of fiscal 2020. Additionally, all references to industry results today refer to Black Box Intelligence's casual dining benchmark, excluding Darden, specifically Olive Garden, LongHorn Steakhouse and Cheddar's Scratch Kitchen.

During our fourth fiscal quarter, industry same-restaurant sales decreased 0.7%, and industry same-restaurant guest counts decreased 7%. And during our full fiscal year 2023, industry same-restaurant sales increased 2.7% and industry same-restaurant guest counts decreased 5.5%.

This morning, Rick will share some brief remarks recapping the fiscal year. Raj will provide details on our fourth quarter and full year financial results, and share our fiscal 2020 financial outlook. And then Rick will close with some final comments.

Now I'll turn the call over to Rick.

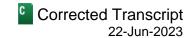
### Ricardo Cardenas

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

Thank you, Kevin, and good morning, everyone. We had a solid quarter to conclude what was a very strong year. Despite a tough environment, we significantly outperformed the industry benchmarks for same-restaurant sales and traffic and met or exceeded the financial outlook we provided at the outset of the year.



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For the full fiscal year, we grew sales by 8.9% to \$10.5 billion, delivered diluted net earnings per share of \$8 and opened 57 new restaurants. We also opened nine new international franchise restaurants in six different countries, which is the most we have ever opened in a fiscal year.

The market responded positively to our performance, leading to a total shareholder return of 32.6% for the fiscal year. We have consistently delivered strong long-term shareholder returns. In fact, since Darden was spun off from General Mills 28 years ago, a period which spans multiple business cycles, the company has achieved an annualized TSR of 10% or greater over any 10 fiscal year period.

Our restaurant teams continue to execute at a high level by remaining focused on our Back-to-Basics Operating Philosophy anchored in food, service and atmosphere. Our brand's ongoing efforts to drive execution through simplification enable our restaurant teams to create great guest experiences as evidenced by a record-level performance we saw from many of our brands on key holidays throughout the year.

Nowhere is it more apparent than at Olive Garden, which achieved the highest sales day and sales week in their history during the week of Mother's Day. This focus on being brilliant with the basics leads to strong guest satisfaction scores, and our internal guest satisfaction metrics remain at or near all-time highs across our brands.

At LongHorn Steakhouse, one of their most important metrics is their steaks grilled correctly score, which is at an all-time high. To continue to drive these results, LongHorn recently completed their sixth Steak Master Series, which is their annual grilling competition and training program.

Over the course of two months, thousands of culinary team members competed in this highly engaging training program for the right to be crowned champion and received a \$15,000 grand prize. Congratulations to this year's Steak Masters Champion, Kylie Hall from the LongHorn Steakhouse in Farragut, Tennessee.

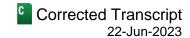
I am particularly proud of everything the teams in our restaurants and at the support center accomplished in fiscal 2023. For example, Olive Garden successfully introduced Never Ending Pasta Bowl, which leveraged their iconic brand equity, was much simpler to execute and significantly improved margin, while still providing tremendous value for their guests.

Throughout the year, several of our brands ranked number one among major casual dining brands in key measurement categories within Technomic's industry tracking tool, including LongHorn for food quality and Cheddar's Scratch Kitchen for value. And several of our brands were recognized as industry leaders in employment practices by Black Box Intelligence. Olive Garden, The Capital Grille and Seasons 52 were honored with the Employer of Choice Award, and LongHorn and Eddie V's received the Best Practices Award.

Throughout fiscal 2023, our strategy served us well. In addition to our Back-to-Basics Operating Philosophy driving strong execution in our restaurants, Darden's Four Competitive Advantages of Significant Scale, Extensive Data & Insights, Rigorous Strategic Planning and Results-Oriented Culture, enabled our brands to compete more effectively and provide even greater value to their guests.

Our significant scale allowed our teams to successfully manage through the highly unpredictable inflationary environment, while continuing to underprice inflation over the long term. All four of our advantages are unmatched within the restaurant full-service industry. These advantages are leveraged by our portfolio of iconic brands, all generating high average unit volumes with extensive geographic footprint.

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Our strategy is the right one for our company and our advantages were further strengthened last week with the completion of the acquisition of Ruth's Chris Steak House. Ruth's Chris enhances our scale advantage, fits our culture and complements our portfolio of iconic brands.

We are so thrilled to add such an outstanding brand and high-caliber talent, and our experienced team is working hard to integrate Ruth's Chris into Darden with as little disruption as possible. I'm proud of the results we achieved in fiscal 2023, and we will continue to execute our strategy to drive growth and long-term shareholder value.

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 fourth quarter were \$2.8 billion, 6.4% higher than last year, driven by same-restaurant sales growth of 4% and the addition of 47 net new restaurants. Our same-restaurant sales for the quarter outpaced the industry by 470 basis points, and same-restaurant guest counts exceeded the industry by 540 basis points.

Diluted net earnings per share from continuing operations increased 15.2% from last year to \$2.58. We generated \$472 million in EBITDA and returned \$183 million to shareholders.

Total inflation slowed meaningfully this quarter to 4.4%, 270 basis points less than the third quarter, while the rate of pricing decreased from last quarter to 5.9%.

Turning to the fourth quarter P&L compared to last year, food and beverage expenses were 30 basis points better, driven by pricing above commodities inflation of roughly 3%. Chicken and seafood experienced deflation this quarter, helping offset high-single digit beef and beat inflation.

Restaurant labor was 40 basis points better, driven by productivity improvements. Restaurant expenses were 30 basis points better than last year, driven by sales leverage. Marketing expense was 1% of sales, consistent with our expectations and 30 basis points higher than last year. This all resulted in restaurant-level EBITDA improving 80 basis points to 20.7%.

Our general and administrative expenses was 40 basis points higher than last year, driven by the timing of our incentive compensation accrual as well as unfavorable year-over-year mark-to-market expense on our deferred compensation. Due to the way we had this expense, this unfavorability is largely offset on the tax line. Our effective tax rate for the quarter was 10.4%, and we generated \$316 million in earnings from continuing operations, which was 11.4% of sales.

Looking at our segments, Olive Garden, LongHorn and our Other segment increased same-restaurant sales by 4.4%, 7.1%, and 2.2% respectively. Each significantly outperformed the industry benchmark. This strong same-restaurant sales performance drove segment profit margin at each of these segments higher than last year, especially at LongHorn, where segment profit margin of 18.6% was 70 basis points higher than last year.

Same-restaurant sales at our Fine Dining segment decreased by 1.9%, still outperforming the Black Box fine dining benchmark, excluding Darden, by more than 200 basis points. This resulted in segment profit margin below last year at the Fine Dining segment. This year-over-year sales decline was more the result of a wrapping on resurgence of demand in the fourth quarter of last year, which drove traffic retention to 108% of pre-COVID levels.

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Looking at traffic retention trends over the past three quarters, Fine Dining has been consistently between 101% to 102% of pre-COVID level. We expect continued year-over-year traffic softness in our Fine Dining segment as we wrap on the first-quarter traffic in fiscal 2023 that was at 107% of pre-COVID traffic levels. We expect traffic to stabilize on a year-over-year basis after the first quarter.

As we look at our annual results for fiscal 2023, we had strong same-restaurant sales of 6.8%, which outperformed the industry by 410 basis points, and our same-restaurant traffic was 510 basis points above industry. This strong top-line performance drove \$1.6 billion in EBITDA from continuing operations. We returned \$1.1 billion to shareholders and ended the year with \$368 million of cash.

Looking at our fiscal 2023 full-year results compared to pre-COVID, operating income margins have grown 140 basis points. Food and beverage as a percent of sales increased 380 basis points driven by investments in food quality and pricing well below commodities inflation. Offsetting this unfavorability were improvements in labor productivity, reduced restaurant and marketing expenses, and G&A efficiencies.

Our strong operating margin generated significant and durable cash flows. Since 2018, we have delivered approximately 8% annualized EBITDA growth. At the end of fiscal 2023, our balance sheet was well positioned at just 1.8 times adjusted debt to EBITDAR, well below our targeted range of 2 to 2.5 times.

And when we look at our performance compared to our long-term framework over the last five years, we've been able to achieve annualized total shareholder returns of 14.2% as measured by EPS growth plus dividend yield. This is near the high end of our target and was driven by annualized earnings after-tax growth of 10.2% above the high end of our framework. Cash returns were 4%, which is at the middle of our framework. As we look to the future, we still believe that, over time, our 10% to 15% target for total shareholder returns is appropriate. However, we're increasing the share repurchase range to better reflect the impact of our share price appreciation since we last updated the framework five years ago. The updated share repurchase range is \$300 million to \$500 million.

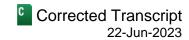
Before we get into our outlook for fiscal 2024, I want to provide an update on the acquisition of Ruth's Chris, which we completed last week. This was financed through a \$600 million term loan and cash on our balance sheet, bringing our adjusted debt to EBITDAR to approximately 2 times. As we move forward into 2024, sales and profits from Ruth's Chris company-owned and operated locations will be included in our Fine Dining segment, while revenues and profits from the franchise locations will reside in our Other segment, consistent with the treatment of our existing franchise locations. However, Fine Dining same-restaurant sales results will not include Ruth's Chris until they have been owned and operated by us for a period of 16 months.

As we mentioned in our conference call in early May, we expect to achieve run-rate synergies of approximately \$20 million by the end of fiscal 2025, primarily through supply chain and G&A savings. We also expect Ruth's Chris will be accretive to our earnings per share by approximately \$0.10 to \$0.12 in fiscal 2024 and \$0.20 to \$0.25 in fiscal 2025. We anticipate total acquisition- and integration-related expense of approximately \$55 million pretax.

Now, turning to our financial outlook for fiscal 2024, which includes Ruth's Chris operating results but excludes the aforementioned acquisition- and integration-related expense, we expect total sales of \$11.5 billion to \$11.6 billion, driven by the addition of Ruth's Chris to our portfolio; same- restaurant sales growth of 2.5% to 3.5%; and approximately 50 gross new restaurant openings, including four relocations.

Capital spending of \$550 million to \$600 million. Total inflation of approximately 3% to 4%, which includes commodities inflation of approximately 2.5%, driven primarily by beef and produce, while most other categories

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are flat to deflationary. And hourly labor inflation in the mid-single digits. And annual tax – effective tax rate of approximately 12% to 12.5% and approximately 121.5 million diluted average shares outstanding for the year, all resulting in diluted net earnings per share between \$8.55 and \$8.85.

And finally, our board reported an 8% increase to our regular quarterly dividend to \$1.31 per share, implying an annual dividend of \$5.24.

And with that, I'll turn it back to Rick.

### Ricardo Cardenas

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

Thanks, Raj. All of us at Darden continue to work together in pursuit of our higher purpose to nourish and delight everyone we serve. During the year, we served more than 410 million guests. We also promoted nearly 1,300 hourly team members into our manager and training program, and promoted 320 managers to general manager or managing partner positions. And we continue to invest in our team members' development with new programs like Fast Fluency, which allows them to learn English for free, and our Next Course Scholarship program that awarded post-secondary education scholarships worth \$3,000 each to nearly 100 children or dependents of Darden team members.

We also remain committed to nourishing and delighting the communities we serve through our ongoing efforts to fight hunger. As part of our Darden Harvest food donation program, our restaurants donated 4.4 million meals to local food banks in fiscal 2023. We also continued our successful partnership with Feeding America with another \$2 million donation from the Darden Foundation that helped provide mobile food trucks to 10 different Feeding America food banks, bringing the total to 25 food banks across the country.

The addition of Ruth's Chris gives us the opportunity to nourish and delight even more guests, more team members, and more communities. As I said earlier, they are an excellent addition to our portfolio. And I want to welcome Cheryl Henry and the nearly 5,000 team members from Ruth's Chris. We are excited that you are now officially part of the Darden family.

I also want to thank our team members in our restaurants and our support center for their outstanding efforts throughout the year. We are fortunate to have the best people in the industry, and I am proud of their commitment to caring for our guests and each other.

Now 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 Jon Tower with Citigroup. Please proceed with your question.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Great. Thanks. I guess to start off, I'm curious to – you had mentioned in your release the idea that the environment had gotten a little bit choppier in the fourth quarter. So, I'm curious to see what you would – if you could articulate what exactly you saw in the backdrop with respect to consumer behavior, specifically at your own brands and perhaps industry-wide. And then I got a follow-up on that, please.

Ricardo Cardenas

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

Hi, Jon. This is Rick. I mean, as we talked about the choppiness of Q4, it was really Fine Dining going up against last year's very strong bounce-back from Omicron. And so, this quarter, as we alluded to at the end of – in the third quarter was this quarter was going to be a little bit tougher for Fine Dining because of how they bounce back. And actually, Raj already alluded to that Q1 will probably be the same kind of toughness because of the bounce-back last year. But that said, the consumer seems pretty strong overall. And within the restaurant industry and based on our internal and external data sources, there appears to be only minimal switching between lower-priced [indiscernible] (00:19:41) at this point, not a whole lot of switching but some. And, overall, we're not seeing anything concerning.

What I will say, as you think about mix, we've talked about this before, we're not seeing material changes in our check trends across our core casual brands. There's no negative mix at Cheddar's. And we are watching add-ons and trying to understand if there's some cracks there, but we don't see any real cracks there. And — but one area we're seeing a little bit of check management is with alcohol sales primarily at our higher-end brands, and we think part of this is because of function of last year. Similar to the guest count trends we saw last year, there was probably a little bit of euphoria in check last year. So, that's kind of where we think about the consumer, and we didn't really think the guarter was choppy. We expected that to happen, and that's what happened.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

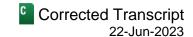
Got it. Thanks for the clarification. I appreciate it. Just curious on the unit growth outlook as well. It looks like you're expecting slower unit growth openings versus what you had previously thought. Is that just a function of integrating Ruth's? And, at the same time, CapEx went a little bit here, so could you explain what's going on there as well?

Ricardo Cardenas

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

Yeah. I think it's not necessarily integration of Ruth's. You think about what we're seeing on openings, CapEx was higher, and we want to be prudent. As Raj said in the last call, we want to be prudent and making sure that we're earning a return that we really want to earn in our restaurants. And we've had some contractors starting to come back in and bid for sites that they stopped bidding for during the pandemic and even after the pandemic, which should make bidding more competitive. We're starting to see that. And so, we wanted to be prudent and make

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sure that we have the right returns. And we still have great returns in all of our restaurants. And that's kind of where it is. It's not really because of Ruth's.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Got it. Thanks. Appreciate the question.

**Operator**: Thank you. Our next questions come from the line of Chris O'Cull with Stifel. Please proceed with your questions.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Hi. Great. Good morning, guys. Raj, I had a question about the guidance. I'm just thinking if you exclude the \$0.10 to \$0.12 earnings accretion expected from Ruth's in the guidance, it looks – it would seem to imply EPS growth below your longer-term outlook, particularly at the low end. Are you seeing any indications today that the underlying business could be softening, I guess, or are you expecting it to soften over the course of this year? I'm just curious if you can give some color as to why the underlying business seems to be growing at a slower rate.

Rajesh Vennam

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

Yeah, Chris, I think, look, we're taking into consideration all the information we have, right? We think – we build a plan based on all the information we have today. And if you look at what the consensus economic forecast is for the next year, it's flattish GDP. And that in a year – if you look at last year where GDP was growing, the industry, we still had negative traffic, right? So – and while we outperformed quite a bit, and we expect to continue to outperform, we're taking that into consideration as we build a plan. But if you look at the midpoint of our guide, you do get to a decent base business growth. And that's kind of how we build a plan, and then the guidance range is to incorporate some variability around that. And that's how we really think about it.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

So, you're seeing any softening today. You're just kind of keeping a more conservative outlook based on what the predictions are for the economy over the next 12 months?

Rajesh Vennam

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

Yeah. Well, I would say that it's not softening today. I mean, if you look at the last few weeks, I think our gap to the industry is fairly similar. But as we talked about Q1, we do expect some softness in Fine Dining. That's just a function of wrap. But outside of that, no, we're not seeing any trends that would – any recent trends that would indicate that there's a major change in the underlying environment for us.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Great. Thanks.

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

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#### **Eric Gonzalez**

Analyst, KeyBanc Capital Markets, Inc.

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Hey, sure. Thanks. And, Raj, just regarding the comp guidance, the 2.5% to 3.5%, can you maybe talk about what level of pricing you're embedding within that outlook and how that compares to the – to where you visited fiscal 2023, which I think was around 6%? And then also do you have an underlying assumption for the industry's growth rate for the year? Thanks.

### Rajesh Vennam

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



Yeah, Eric. So, the way I would think about it is our comp guidance of 2.5% to 3.5%, we expect to have pricing in the 3.5% to 4%, which would imply a traffic of flat to negative 1.5% for the year for us. That range would imply that. You can extrapolate from that what the implied industry can be. We're not expecting our gap to be significantly different going into the year, but we focus a lot more on things we can control. And we look at all the factors we have year-over-year and taking into consideration the macro environment and then just build a plan that way.

As far as exiting the pricing, yeah, we exited the quarter with closer to 6%, as we said, and – but we expect that to tick down throughout the year. So, start with that, call it, 6%. But by the end of the year, by Q4, we get closer to the 2%. Now, lot of the pricing actions we took last year already impact next year's by about 3%. So, the carryover from prior year is probably close to 3%. And so, that's really where we are.

**Eric Gonzalez** 

Analyst, KeyBanc Capital Markets, Inc.



Got it. And then just maybe as a follow-up to that. As you think about industry's traffic remain challenging, and you mentioned GDP being flattish potentially this year, have you noticed any significant uptick in promotional activity thus far? And as the year progresses, how you think your promotional strategy might evolve? And what levers could you pull if that's needed?

Ricardo Cardenas



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

Hey, Eric, this is Rick. We look at what the competitor is doing, and you're seeing some promotional activity in competitors. We've got one major competitor that launched a little bit more TV or jumped back on to TV. But that said, our strategy remains the same on the marketing side. We're going to continue to be – to have advertising in Olive Garden because it's a big competitive advantage for Olive Garden, but we're going to continue to use our filters, first, elevating brand equity by bringing the brand's competitive advantages to life. It's simple to execute, and it's [ph] not to do (00:26:17) deep discount.

So, as we talked about in the last call, we're going to stick to our strategy of core guest count growth. We'll react accordingly if something really changes, but when we increase our marketing spend, if we do, we expect it to earn a return. So, we don't necessarily expect us to go back into the deep discount craze. And that's our strategy, and we're going to try to stick to it.

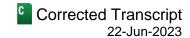
Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.



Great. Thanks.

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

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Thanks. Good morning. I'd like to just go back to the 2024 EPS guidance and kind of as a follow-up because, as Chris suggested, yes, when you strip out Ruth's, you do have this lower implied core business earnings growth relative to your long-term framework. But the same-store sales guidance is slightly above the framework. So, I just want to dig in there a little bit more. Is it being driven by underpricing inflation? I know you said kind of pricing at 3.5% to 4%, but inflation, 3% to 4%. So, it doesn't seem like you're planning on underpricing inflation that much. Just, again, trying to understand those dynamics a little better, given the comp guidance is above your long-term framework.

Rajesh Vennam

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

Yeah, Brian, I think the way we look at it is, if you look at our framework or actually even excluding Ruth's of – the middle of the guidance for Ruth's is that \$0.11 accretion. If you take that out, we're still in that TSR that's north of 10% at the middle of the guidance range. Now, one of the things I want to point out is we haven't been able to buy back shares for almost three months now because of trading blackout. And so, that has an impact on EPS for next year. But even with that, like as we said, we still get to that double-digit TSR when you incorporate the dividend yield and the EPS growth.

**Brian Bittner** 

Analyst, Oppenheimer & Co., Inc.

Okay. And a follow-up just as it relates to the total cost inflation outlook, 3% to 4%, obviously, realized commodities are up 2.5% within that total framework of 3% to 4%. Can you just touch on some of the other assumptions that's pressuring the inflation to be above the commodity outlook?

Rajesh Vennam

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

Yeah, Brian, it's really labor. I expect the hourly wage inflation to be in that, call it, mid-single digits, and then the salary to be also closer to that. And some of that is a function of how we choose to pay our people. We are – our merit increases have been above industry, and we think that's prudent. We want to continue to do that. And that's the type of investment we make to help us sustain the types of performance that we've been able to deliver. You look at a 400-, 500-basis-point gap to the industry, that doesn't happen magically. There are a lot of things that go into that, and we are very thoughtful about how we make decisions.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

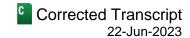
Thanks, Raj.

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

**David Palmer** 

Analyst, Evercore Group LLC

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Thanks. I wanted to ask you about your assumptions on same-store sales through the year, and in particular, if you have any thoughts about where - often a concern about multiyear trends slowing over this next fiscal year and how you're thinking about that potential in your guidance.

Rajesh Vennam

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

Yeah. The way we are thinking about – in terms of how we build the plan is that we expect retentions levels to be fairly similar to moderate a little bit relative to pre-COVID from where we were this fiscal year. So, not a significant drop-off, but a little bit. But then I think from a same-restaurant sales perspective, it's going to be driven by the pricing differences. The fact that we're going to start off with a higher price, and then the price moderates down to - the rate of pricing goes down to 2% by - closer to 2% by Q4, that will have an impact on same-restaurant sales. As we think about guest counts, as I mentioned, the retention, we expect it to be fairly consistent quarter to quarter relative to last year.

David Palmer

Analyst, Evercore Group LLC

And with regard to advertising, what sort of assumptions are embedded into your earnings guidance for advertising spend?

We basically are assuming somewhere in the 10 to 20 basis points more than what we spent last year in total

Raiesh Vennam

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

marketing. So, that's kind of not that different from what we did in fiscal 2023.

**David Palmer** 

Analyst, Evercore Group LLC

Got it. Thank you.

Operator: Thank you. Our next 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. Given the slow macro forecast for 2024, I'm curious how that impacts your thinking around Never Ending Pasta at Olive Garden, the one value-oriented promotion that fits your promotional framework. I guess the question is: are you open to changing the time of the promotion or perhaps running at two different times during the year to keep pace in the potentially slowing macro backdrop?

Ricardo Cardenas

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

Hey, Andrew, for competitive reasons, we're definitely not going to talk about plan details. We do believe the Never Ending Pasta Bowls are really strong promotion for us, especially with the changes we made last year. And so, we'll look at NEPB and if there's things that we can do with it, but definitely not going to talk about if we're going to do it twice.

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Corrected Transcript 22-Jun-2023

### Andrew M. Charles

Analyst, TD Cowen

Okay. And then, Raj, can you just help us what's embedded within 2024 guidance for G&A?

Rajesh Vennam

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

Yeah, I think – so especially with Ruth's coming in, you should – we ended the fiscal year with closer to \$390 million. I'd say at this point, our best estimate is probably still maintaining closer to that 3.7% of total sales, which would get you closer to the, call it, \$430 million for the year, obviously, plus or minus \$10 million there, but just that would be the number we would – that is embedded in our guidance, yeah.

Andrew M. Charles

Analyst, TD Cowen

Helpful. Thank you.

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

Hey, by the way, as we talk about G&A, just – I just want to clarify one other thing. We do expect the cadence to be a little different. So, Q1 is probably going to be the highest level, call it, closer to \$115 million. And then kind of take down \$5 million a quarter throughout the – for the next few quarters is how we think about it just from a cadence standpoint. So, there are some things that – sudden specific variables that are influencing Q1 to be higher.

**Operator:** Thank you. Our next questions come from the line of Chris Carril with RBC Capital Markets. Please proceed with your questions.

**Christopher Carril** 

Analyst, RBC Capital Markets LLC

Hi. Good morning. So, just returning to the same-restaurant sales growth guidance for 2024, can you provide any more detail on how you're thinking about your largest brands, Olive Garden and LongHorn, and how they fit into this? You've been pretty clear so far on Fine Dining and how you expect comparisons to impact that segment in the very near term. But just curious if you could provide any additional thoughts on your largest brands and how they factor into the comp guide.

Rajesh Vennam

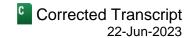
Senior Vice President & Chief Financial Officer, Darden Restaurants, Inc.

Yeah. I would say the way we're thinking about it is our core casual brands are probably closer to the – I guess let's just go through the big brands, right? Olive Garden is probably – would be in that middle of the range is our expectation going in. And then LongHorn would be outside of the range; to the upside primarily because of steak inflation on the pricing, there is probably a little bit higher. Would need to be. And then Fine Dining to be a little bit south of that. And that's really how we're thinking about it.

**Christopher Carril** 

Analyst, RBC Capital Markets LLC

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Okay. Great. That's really helpful. And then you mentioned productivity improvements helped to drive the improvement in labor in the 4Q. So, how are you thinking about productivity improvements from here maybe in the context of Ruth's and then ex-Ruth's? And just how much of a tailwind that could be in 2024? Thanks.

#### Ricardo Cardenas

President, Chief Executive Officer & Director, Darden Restaurants, Inc. Yeah, Chris, as we've said before, over the last years, our brands have done a great job improving productivity.

We would expect to continue to have some productivity improvements over time, but not to the extent that we had during COVID. As we continue to look at improving training, having turnover come down, that should help productivity a little bit. We're not going to actually discuss Ruth's right now. We've only owned them for eight days. So, we'll have to just get through the – getting through integration is going to actually probably be a productivity downer for them for a little bit. So, let us get Ruth's under our belt for a little bit longer than eight days before we talk about the details there. But as I said, labor productivity, we should expect it to tick better as the year progresses as we continue to improve on our turnover and as we continue to improve our training.

### **Christopher Carril**

Analyst, RBC Capital Markets LLC

Great. Thanks so much.

Operator: Thank you. Our next questions come from the line of David Tarantino with Baird. Please proceed with your [audio gap] (00:35:50).

#### David E. Tarantino

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

Hi. Good morning. Rick, I wanted to ask your thoughts on the current macro environment. And I guess your comments that the consumer seems pretty strong right now don't actually line up with what the industry is seeing in terms of traffic. I mean, traffic down 7%. We haven't seen those types of numbers since maybe 2008 and 2009. So, I'm just kind of wondering what's your thoughts on traffic, and I know Darden's been outperforming, but I think even your traffic was slightly negative in the quarter. So, I guess what's your thoughts on what's weighing on the traffic and the overall environment?

### Ricardo Cardenas

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

Yeah, David, thanks for the question. I did say earlier that we have not seen an impact in the consumer as much as maybe our competitors have. And I think there's a couple of reasons for that. There's a tension between what people want and what they can afford. And even in a slowing economy, consumers really continue to seek value. And it's not always about low prices. It's about execution. It's about what the experience they get in the restaurants or wherever they are. They're making spending trade-offs.

And as I said before, food away from home is really difficult to give up, if you're executing and – so what we think about is what it means to our brands, what it means to what we do every day. And we believe that operators that can deliver on their brand promise and the value that appeals to guests despite economic challenges is what's going to get you to win. And that's what we've been doing. So, whatever has been happening to the consumer and the economy and the restaurant space, we're going to control what we can control. And what we can control is the experience that our consumers get in the restaurants every day and the value we provide. And we continue to hope that we're going to buck the trend of guest counts that the industry has. And we would expect to have a gap to the industry.

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#### David E. Tarantino

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

Great. Maybe just one follow-up on that. I mean, do you think pricing for the industry has become one of the issues as it relates traffic? I know you've priced a little less than the industry, but I think – do you think that consumers are becoming more price-sensitive in today's economy?

#### Ricardo Cardenas

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

I think there might be some price sensitivity in consumers overall, whether it's in the restaurants or what have you. But you think about GDP trends. So, for the last four quarters, GDP has continued to tick down. And that would mean that traffic would tick down everywhere, whether it's in a restaurant or it's in a retail establishment, wherever it is, as GDP continues to tick down, you would expect traffic to tick down. Yes, the industry saw a little bit more of a hit to that. And I do believe part of that was because of the bounce-back from Omicron last year in Q4. I don't think we were the only ones that benefited from that. I think others did. And so, let's see how this all plays out. We've given you our guidance for the year, which does assume negative traffic and actually assumes less negative traffic than industry. So, that should tell you we think there is a little bit of softness there. But we're going to continue to perform and do the things that we do every day to bring guests in our restaurant.

**David E. Tarantino** 

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

Great. Thank you.

Ricardo Cardenas

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

Thanks.

**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. The first one just on cash usage. The share repurchase as part of your long-term algorithm is, I guess, the midpoint going up by like \$200 million, and you bumped the dividend by close to 10%, and the CapEx is going up a little bit more than perhaps what you previously thought. Just wondering, what's going in the other direction? And I think of that in the context of M&A. I mean, I know you returned to the market with the Ruth's acquisition. I'm wondering whether you're seeing potential for more. Maybe the valuation challenges that you previously noted have been easing. Any thoughts there would be great. And then I had one follow-up.

### Rajesh Vennam

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

Yeah, let me talk about the cash, and then I'll turn it over to Rick for the M&A commentary. So, as far as cash usage, if you look at our business, we generate somewhere around \$1.7 billion to \$1.8 billion [ph] EBITDA (00:40:14) our guidance would imply in terms of cash – operating cash flow. So, between the dividend and the CapEx and with the share repurchase, we still would be building cash, maybe at – if you take all the midpoints of all of those ranges, we would still build a cash balance of, call it, maybe close to \$100 million. So, we're really not tapping into any borrowings or debt to meet these commitments we have embedded in here.

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As far as the long-term framework share repurchase range, that is really to reflect the change in our share price from five years ago because we haven't updated the framework for five years. So, all that change, as much as it feels like it's double, that's basically reflecting that our share price has doubled during that timeframe. And so, now with that, I'll just turn it to Rick.

### Ricardo Cardenas

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

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And I'll just add something to that. If you look at – think about the cash flow or EBITDA, pre-COVID, our EBITDA was about \$1.2 billion. And today, based on what Raj is saying, it's \$1.7 billion, \$1.8 billion. So, that gives us a lot more cash to do those things and increase our share buyback and M&A. And so, if you think about we've talked about M&A often. M&A adds to our scale, which is our biggest advantage. And we continue to talk to our board. Management continues to talk to our board about our best uses of capital, and M&A is one of those. And so – but we just got done with the Ruth's deal. So, let us do a little bit there. It doesn't mean that we wouldn't be back in the market down the road. But we've got plenty of cash. We've got plenty of debt capacity. Raj said we're at basically 2 times adjusted debt to adjusted EBITDAR, and that's at the low end of our range. So, we have plenty of capacity to do more things.

### Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.



Got it. And then just a clarification. The – I'm just wondering if you're going to provide pro forma restated maybe Darden results for the quarters of fiscal 2023 as if you own Ruth's the entire year. I know it's tough for us to model with a different quarter and year-end and with Ruth's operating a 50/50 company franchise model, just trying to get some color as to whether or not you'll provide any help from a modeling perspective or any pro forma type results to give us better insight into the growth rate going forward? Thank you.

### Rajesh Vennam

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



Really, the fiscal calendars, when you look at the quarters, we're only a month off. We don't plan on restating the history. I think – and I also want to think about how material it is to the overall Darden P&L.

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

#### Sara H. Senatore

Analyst, BofA Securities, Inc.



Great. Thank you. First, a clarification, which is – you talked about the cadence of pricing over the course of the year. Is it fair to assume that you're thinking the cadence of input inflation will follow suit in the sense of kind of rolling off over the course of the year? Or is there a reason to believe that maybe the gap between pricing and inflation might look different. And, therefore, the implications for margins might be different over the course of the year. So, that's the first question, and then I'll have another one about Ruth's, please.

### Rajesh Vennam

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



Hey, Sara. Great question. As we think about inflation, we don't expect the cadence to be significantly different. I think we have a little bit more in the first quarter, but not a huge difference. We're talking about 50 to 60 basis

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points maybe difference from quarter to quarter. So, that 3% to 4% range is what we provided for the overall. You can expect first quarter to be closer to 4%, and then the other quarters might be a little bit less than that. But then there's really not a meaningful difference between quarters. So, that would imply that year over year, there is a little bit of delta in pricing versus inflation because we are starting with a higher price as we get out of Q4 – where we exited the Q4 levels. So, I know you also said you had a second question, so I'll wait for that.

#### Sara H. Senatore

Analyst, BofA Securities, Inc.

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Yeah. Thank you. And then, actually, just to clarify on that one, and then I'll ask the question, which is – so is the implication that, by the fourth quarter, you'll be needing to find more productivity gains or something else, if you have less price, but sort of level-loaded inflation over the course of the year?

### Rajesh Vennam

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

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Yeah. I think we do expect the gap to reverse by the time we get to the back half. In fact, the way we look at — when we look at our quarterly earnings in our — that are embedded in our guidance, the cadence, it's — while it's more balanced than last year, we do see Q2 providing the highest growth while Q4 providing the lowest from an earnings standpoint. And Q1, Q3 more in line with the annual growth that we provided.

#### Sara H. Senatore

Analyst, BofA Securities, Inc.



Okay. Thank you very much. And then just a question – I know, Rick, you said you've only had Ruth's for eight days, but presumably, there's a lot of diligence that went in ahead of that. So, I know you mentioned \$20 million roughly by the end of fiscal 2025, primarily coming through supply chain and G&A. If I look at the restaurant-level margins for Ruth's versus like your Fine Dining, is that – is supply chain or cost of goods, is that the primary difference as I think about the potential to bridge that gap?

#### Ricardo Cardenas

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



Well, we've said in the past that most of our synergies come from G&A and supply chain. So, when we in the past said it's about half and half, whenever we've done acquisitions before, so, yes, Ruth's should get long-term benefits from cost of sales. Now that said, we may reinvest some of those cost of sales. And our other brands will get some of the benefits, too. So it won't offload to Ruth's.

I will say that there aren't many brands in the industry that we could acquire that actually improve our EBITDA margin at the restaurant level, and Ruth's does. So, across Darden. Now they might not be as high, depending on how you look at it, as Capital Grille. They might be higher or a little bit lower, depending on your definition of restaurant margin, but they're pretty close. And because Capital Grille is higher than Darden's average margin, Ruth's helps Darden's margin. So that's a pretty good deal for us.

#### Sara H. Senatore

Analyst, BofA Securities, Inc.



I see. Thank you both so much. Very helpful.

### Ricardo Cardenas

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

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22-Jun-2023

Sure.

**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

Thank you. Just following up on modeling post-Ruth's acquisition. You shared some information on G&A, but anything you can share as it relates to how we should be thinking about both interest expense and D&A moving forward?

### Rajesh Vennam

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

Yeah. Jeff, I'd say interest expense is likely going to be – I think for year-over-year, we're probably looking at a total of \$50 million, of which \$40 million is related to Ruth's acquisition. And then the other is just the lease interest and other short-term interest rate exposure we have. So that's the thing on interest.

And the D&A, I would just really take into consideration the Darden's D&A and then layer on Ruth's from what you have. There will be some purchase accounting that we're working through. So we'll have some updates on that. But that will be more of a geography more so than a huge impact.

We've embedded some incremental step-up in our valuation and in our P&L, and that's incorporated in our guidance, but we're not ready to share those details yet.

#### Jeffrey D. Farmer

Analyst, Gordon Haskett Research Advisors

Okay. And just one more. One of your named competitive advantages over the last several years has been this extensive data and insights. But can you share maybe one or two examples of how you were able to leverage that data in Q3 and potentially some untapped opportunities as you move forward in terms of harnessing and really analyzing that data moving forward?

#### Ricardo Cardenas

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

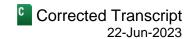
Yeah. Jeff, this is Rick. When you think about what we're starting to do with data, where you're starting to use a lot of AI and machine learning to help guest count forecast and help our restaurants forecast their business better, and that would move all the way down through the company, right?

So if you forecast your traffic better, you order better, you receive better, you schedule better. That's one of the big things that we've looked at is using machine learning and Al. But you got to remember, one of the things that we do every year is we use data to help look at what our guest patterns are, what we think about guests and how do we market to our guests. We also improved operations execution with the data that we have.

But I would say, if you're asking for one big thing and is analytics through pricing, too. So, we've got a great analytics team here that does help with our pricing. They look at restaurants. They look at categories. They look at items. They look at elasticity, and we can do all that in-house because of our scale.



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### Jeffrey D. Farmer

Analyst, Gordon Haskett Research Advisors

All right. Thank you.

Ricardo Cardenas

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

Sure.

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

Danilo Gargiulo

Analyst, Sanford C. Bernstein & Co. LLC

Good morning. I'm wondering what is the integration time line that you are embedding in your EPS acquisition expectations? And how is the previous acquisition of Cheddar's impacting the time line that you're expecting and what will it take for this integration to accelerate? And I'm talking even beyond the 2024 time line that you said today.

Rajesh Vennam

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

Hey, Danilo. We're still working through the steps, but our expectation is a lot of the stuff happens over the next 12 to 15 months. And so that's why some of those synergies come later because we're trying to be prudent. We're going to be thoughtful. We got to design this right, make – do this right because we want to set it up for success long term. And we want to make sure we minimize the disruption to operators.

And so everything we're doing, we have a great team working on it. That's actually being very thoughtfully phasing in these parts of integration and how we integrate different parts of the business.

And we've learned a lot from our Cheddar's acquisition. Obviously, Cheddar's was more complicated with essentially three different businesses being brought under one roof. With Ruth's, it's not. It shouldn't be as complicated. But a lot of the learnings we have from our prior acquisitions are incorporated into – are actually taken into consideration as we plan for this.

**Danilo Gargiulo** 

Analyst, Sanford C. Bernstein & Co. LLC

Thank you. And what set of factors would prompt you to drive higher unit growth versus the [ph] data of 50 (00:51:00)? I know you mentioned more competitive bidding is actually starting to happen. But have there been any internal discussions on potentially international expansion given your recent quarter and also the recent acquisition of Ruth's?

Ricardo Cardenas

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

Hi, Danilo. If you think about our pipeline for this year, most of the pipeline, you have to have already started construction by the time the year – almost by the time the year started to get them open because it takes a little longer to open a restaurant or build a restaurant today than it did before COVID.

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So, if it's not started by the end of Q1, it probably doesn't open this year. Maybe even if it doesn't start until – by July, it's hard to open this year. So that's why we've got our kind of guide of about 50 gross openings.

When we talk about international, that doesn't incorporate – that's not incorporated in our unit count because we are committed to staying a company-owned model only in the US. Not that we wouldn't have franchise in the US, but will be only franchise outside the US and Canada.

So, all of our restaurants outside the US, the ones that we opened last year were all franchised. And anything that we open going forward is likely to be franchised as well.

**Danilo Gargiulo** 

Analyst, Sanford C. Bernstein & Co. LLC

Perfect. Thank you.

Ricardo Cardenas

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

Sure.

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

**Brian Harbour** 

Analyst, Morgan Stanley & Co. LLC

Yeah. Thank you. Good morning. I had a question just about Fine Dining sales. Is that really just kind of about the lapping dynamic? Or could you provide any comments on kind of some of the different customer sets, whether it's business type of customers versus like a more aspirational customer, if you're seeing anything different there?

Raiesh Vennam

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

Yeah. Brian, I'd say, first of all, as we said in the prepared remarks, we actually saw a fairly consistent retention related to pre-COVID for the last three quarters at Fine Dining. What we're seeing is we are seeing a little bit of pullback on the alcohol sales, and we still think that's also a function of wrapping on a significant increase a year ago.

Now as we just – generally speaking, what we're seeing with the demographics is consumers below 35 are above pre-COVID, but they're below last year and then – whereas 55-plus is still below pre-COVID, but they're similar to last year.

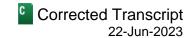
So there's a different dynamic year-over-year where you're seeing the younger demographic pull back a little bit year-over-year. And similarly on the income side, we're seeing that lower income is above pre-COVID, but below last year, whereas higher income is flattish to last year or similar to last year, but they are still below pre-COVID. So those are some of the insights I can share on Fine Dining.

**Brian Harbour** 

Analyst, Morgan Stanley & Co. LLC



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Okay. Thank you. And then maybe just on kind of the labor line. Did you comment on what labor inflation was in the most recent quarter? It sounds like it was like mid-single digit range. And is there any kind of like slowing in that pace assumed through the course of this year or is it going to be pretty steady? Or how do you kind of expect that to play out?

### Rajesh Vennam

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

Yeah. Our labor did – overall labor inflation ticked down about 100 basis points from Q3 to Q4. We were at 6% in Q4. That included wage inflation close to 7%. So that's also a tick-down from prior quarter, a meaningful stepdown and that actually was a little bit better than we thought going into the quarter.

Now as we look to the future, as we said – so we ended the year with 6.9% total labor inflation and we said we expect that to step down by about 100 basis points as we go to next year. That's why we talked about that mid-single digit inflation.

#### **Brian Harbour**

Analyst, Morgan Stanley & Co. LLC

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

Thank you. Raj, I'm just curious if there's any update to share on how you're thinking about continued margin gains longer term. I know you've spoken a bit more to the long-term total shareholder return algorithm of late. But just curious if anything new on long-term margin considerations and of 10 to 30 bps annually is kind of the right way to think about it still?

### Rajesh Vennam

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

Yes, Dennis. We do think that 10 to 30 bps is the way to think about from where we are starting this fiscal year. So that's why we restated our framework. And the only change we made is to the share repurchase because we still believe that 10 to 30 bps is a good target for us to have for the foreseeable future.

### **Dennis Geiger**

Analyst, UBS Securities LLC

Thank you. And then just on the To Go sales across the portfolio to some extent. Just curious sort of where you sit now and any kind of latest thoughts on what that could look like, either growth there, sales mix opportunities as we look to 2024? Thank you very much.

### Rajesh Vennam

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

So our To Go sales are actually pretty consistent with where we were in Q3. So I think we're still running in Olive Garden close to 25%, LongHorn around 14% and Cheddar's at 12%, which is not that dissimilar to what we had a quarter ago. And we're doing that without third-party delivery.

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And we continue to see that. We're able to kind of still get overall sales growth and outperformance versus the industry, while not tapping into these other channels. And actually, we're managing the experience better. And we feel like we have opportunity to continue to execute on that.

As we've said before, this is higher than we would have expected a couple years ago, but we're very happy with it. And our teams are focused on executing at the highest level possible to make sure that we can sustain and grow from here.

**Dennis Geiger** 

Analyst, UBS Securities LLC

Great. Thank you, Raj.

**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 you have actually famously done a lot of brand-level customer segmentation work. You used to talk about that in Analyst Days many years ago. So, I guess using that data or using your current thinking, can you explain how you think about the upcoming repayment of student loans?

That's not something that you've been asked about today. It's coming, I think, in September. Obviously, the press itself has kind of gotten smart that that's something that's coming and actually might be fairly significant change for at least some cohort of the population. Can you think of – is there any impact to Darden specifically? Have you thought through that? And what might potential responses be?

Ricardo Cardenas

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

Hey, John. Yeah, we think through that all the time. And we do – still do those consumer segmentation studies and we still do market structure studies. We don't necessarily talk about them externally because we don't want everybody else to see them.

But thinking about the student loan impact, yes, they'll start being repaid in, I guess, September around there, but it shouldn't be a material headwind. It will be a headwind. Any time you take money out of consumers' pockets, it's a headwind, but it shouldn't be material because student loan payments are a very small component of GDP and it's probably already baked into the economics forecast for GDP growth that we use for our plan.

John Ivankoe

Analyst, JPMorgan Securities LLC

And just in terms of like that specific cohort, I mean, whether it's 25 to 44, what have you. I mean I know Olive Garden historically is kind of skewed older, but is there anything that you can kind of help us with just saying, hey, you have some big percentage of the customer base that's just not going to be affected by it at all. Is there a little bit more information you can kind of give us...



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

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John Ivankoe
Analyst, JPMorgan Securities LLC

...as you triangulate it? Thank you.

### Ricardo Cardenas

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

Sure. I think Raj talked about our consumer demographics a little bit ago. We're still above pre-COVID on our consumers in the 35 age range or below 35, which is probably the ones that are in their student loan repayment period, and the 55-plus or below pre-COVID last year. So, there's probably still some room for some of those 55-plus to come back and I'm doubting that they're paying student loans back, unless they're paying it for their kids.

And if you think about our population, we still have a high percentage of our consumers that are above \$100,000. So, hopefully, a student loan repayment wouldn't impact them too much.

#### John Ivankoe

Analyst, JPMorgan Securities LLC

Okay. That's helpful. Thank you.

### Ricardo Cardenas

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

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Sure.

**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.

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Hey. Good morning. Thanks for taking my questions. Two for me. The first one is on the commodity side. I'm curious if you feel like your visibility into the food cost outlook is improving or the duration to which you have visibility is improving just as the rate of inflation is moderating here?

And then the second question is on unit growth side. You talked about the bidding side and some favorability potentially there. I'm just curious in terms of permitting supply chain equipment. Are there green shoots on that side or how are you seeing that evolve? Thanks.

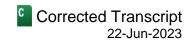
### Rajesh Vennam

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



Hey. Andrew, this is Raj. So on the commodity side, we do have better visibility today than we did a year ago. We actually have for the first time, I think, in four years, probably have coverage that is actually pretty similar to the way we used to before COVID. I think we have – as we talked about for the first half, we have a total coverage of

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65% of our basket covered and call it closer to that 25% to 30% in the back half covered, which is again pretty much back to the levels we used to have pre-COVID.

So we definitely feel like we have a lot more visibility today than we did before. And then, as far as the development side, we are starting to see some signs of improvement. Rick talked earlier about some of the bids coming in better or multiple bids coming in.

There's still some delays in permitting and utility connections with local agencies and stuff like that. But all that said, we do see some green shoots. We believe that the inflation on the construction side has peaked. Now, it's still elevated, but it's not continuing to go up. And in fact, I think we – the last few bids we've had, last few construction starts we've had, they were in line with our budget or better. So just make – starting to see some positive signs there.

#### Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Great. Thank you very much.

**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. I just wanted to circle back on the strength at LongHorn. It seems like the brand took another step-up at least through the lens of average weekly sales volumes, which I think are now up in the mid-30s versus pre-COVID levels. I know the brand has gained a lot of share through the pandemic, but anything incremental worth highlighting that you think is driving this incremental uptick.

### Ricardo Cardenas

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

Yeah. Brian, LongHorn has been executing well for the last few years. And I want to commend Todd and his team. They've been on this journey in quality, simplicity and culture. That's what Todd talks about every day. Investing in quality and portions that continue to pay off.

They had almost 7.1% same-restaurant sales growth in the quarter. That was driven by some pricing. They've had more inflation, but they also had record weekly sales at Mother's Day week. And yes, they're 34% above pre-COVID levels in sales versus Q4.

And traffic is positive over pre-COVID. So, I can't tell you it's any silver bullet, and we've talked about that in the past that there aren't silver bullets here. It's about having great execution, investing in your team, investing in your product to drive profitable same-restaurant sales growth. And that's what they've been doing.

### Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

All right. And then I also just wanted to circle back on the Ruth's acquisition and your customer segmentation work. And could you elaborate a little bit on the overlap or maybe more interestingly, the key differences between Ruth's customer base versus your other Fine Dining brands or any other differences you think are worth highlighting regarding the brand?

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#### Ricardo Cardenas

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

Yeah. Brian, let me talk about differences and why we believe that there's not a lot of overlap between the Ruth's customer and a Capital Grille customer. But I will preface this by saying we've only owned them for eight days. And before we closed the deal, we were not allowed to see their consumer data, right? We were still competitors and we couldn't see their consumer data, other than looking at third-party data that we would have. So, we want to start looking at their data to understand it a little bit better.

But one of the primary reasons is geography. If you look at – they have 150-ish restaurants, including the franchise system, and they have restaurants in markets that Capital Grille doesn't have restaurants in. And even in markets that Capital Grille has restaurants in, they're not necessarily close to each other in a lot of those markets. So, there isn't as much overlap as you would expect. And that's a good thing for us and that's a good thing for Ruth's Chris, and it's a good thing for Capital Grille.

But then, I would add that if you think about Eddie V's and Capital Grille, we've had this kind of scenario for many years where Eddie V's guests may go to Capital Grille, but they go for different occasion. And we want to learn a little bit about that at Ruth's on the occasion differences.

And then finally, I think Capital Grille is a little bit more – going back to geography, a little bit more mix in urban than Ruth's is, an urban core versus Ruth's Chris where Ruth's Chris – for example, if you have a restaurant in Birmingham, we don't have – or in Destin, Florida, there's the Ruth's Chris. We don't have a Capital Grille there. So there's reasons that there isn't as much overlap as you would have thought.

### Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

All right. That's great. I will pass it along. Thank you.

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

#### Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

Great. Thanks for taking the question. Mine was on labor productivity. You mentioned that you expect some labor productivity improvements in 2024, but not a whole lot. And I guess my question is around turnover. I would have thought that just the improving labor environment, staffing is kind of, I think, back to pre-COVID levels, but turnover is going down, so productivity should be going way up.

In terms of – at your brands, have you already benefited? I mean, I guess maybe was your turnover not so bad before that's why you're not going to get much of an incremental benefit. If you could just talk about how the labor dynamics and what that could or couldn't do to labor productivity.

#### Ricardo Cardenas

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

Yeah, Jake. Yes, you would expect that as turnover goes down, productivity gets better and we've started to see that already this year. So our turnover is improving and our productivity is getting better.



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So it's not like we're going from the highest turnover we've ever had to the lower turnover next year. We've actually started gradually moving to it. And one of the places that gets you the biggest productivity loss is the turnover in the first 90 days, and that's had a very big improvement for us. So, you have less productivity loss if you have less 90-day turnover.

And so we've seen an improvement in turnover. We're still above pre-COVID levels, but we're a lot closer to our pre-COVID levels than we were just last month and a month before that, a month before that. And we'll continue to improve. I don't know if we'll ever get back to pre-COVID level turnovers. But if we do, then that should give us even more productivity enhancements.

### **Jake Rowland Bartlett**

Analyst, Truist Securities, Inc.

Great. And then I have follow-up on unit growth and you gave guidance for 2024. A couple years ago, you had mentioned your expectations kind of moved towards the higher end of the range, so closer to 3% from the 2% to 3% range. Is that still valid kind of going forward? And it's going to be lower in 2024, but longer term, should we think of the higher end of the range as the right point or are we kind of getting back into maybe the middle of the range longer term?

#### Ricardo Cardenas

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

Yeah, Jake. Our goal is still to get towards the higher end of the range. It might take us a little bit more time to get there than we originally thought. COVID has slowed a lot of stuff down in development. The permitting that Raj talked about, equipment that Raj talked about, those things are getting better than all the way back. It would be great if we could get permits as fast as we used to get them.

It would be great if we can get utilities turned on as fast as we used to get them. That's just not come back anywhere near where we need it to be. And as we think about construction costs, getting back to a more normal level, Raj mentioned that we've had the last few contracts that we've bid out have come in better than what we expected and that's a good sign for us. So that will help us get back to that higher end of our framework.

And I would also remind people, we don't talk about this very much, but that framework includes M&A. And while we would like to get to the high end of the framework just with organic growth, M&A is part of the framework. And the thing is when we shared that framework earlier today, the five-year delta, the five-year impact to the framework had no M&A in it. And we were still within probably the mid-range of our unit growth.

So, M&A is part of that. It is part of our capital allocation. But we would still like to get to the high end without M&A.

#### **Jake Rowland Bartlett**

Analyst, Truist Securities, Inc.

Great. Thank you so much.

**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



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Hey. Good morning. I guess as we think about the segment profitability into 2024, are there any segments that you guys see as outliers either in terms of improvement or pressure that you're expecting?

Raiesh Vennam

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

Well, I think it's fair to expect that, as we talked about, Fine Dining is going to have a tough wrap in the first quarter. So, as far as how we think about year-over-year, we expect all our segments to get a little bit better. That's kind of how we plan the year and that's what we push our teams to do.

John Parke

Analyst, Wells Fargo Securities LLC

Got it. And then kind of just on the pricing side similarly, I guess just given the beef inflation that you're seeing, is it fair to assume the LongHorn and Fine Dining pricing is above that range and Olive Garden [ph] entirely is (01:10:28) below?

Rajesh Vennam

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

Yes. That's a fair assumption.

John Parke

Analyst, Wells Fargo Securities LLC

Great. Thank you.

Operator: Our last questions will come from the line of Gregory Francfort with Guggenheim. Please proceed with your questions.

**Gregory Francfort** 

Analyst, Guggenheim Partners



Hey, thanks. I just had two quick follow-up on labor. The first is, I guess, within that 5% labor inflation that you're expecting, how much of that has been statutory this year and how much of it maybe still market pressure?

And then maybe a correlated question is, as you guys are going out there to hire new workers, you're talking about turnover, the wage that it costs to hire somebody new today, have you seen a break in that or material break in that wage? I'm just curious as I think about how much easier it's gotten for you guys to hire people. Thanks.

Rajesh Vennam

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

Hey, Greg. So just let me start by clarifying. We did not say it's 5%. We said mid-single digits, and I want to make sure that it's not treated as a 5%. I think our plan actually assumes a little bit north of that, but our guidance range embeds something closer to that 6% for wage inflation. So I just want to clarify that.

And then as far as the regulatory piece, the minimum wage impact, that's about just under 2%, I think, for the full year. Maybe 1.5% to 2% is what we have there. And then beyond that, it's just the normal merit increases and other stuff.

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Now, as far as the question around wages and – clearly, the environment has gotten a lot better. We are doing a lot fewer out-of-cycle adjustments than we were doing even six months ago. So, from that perspective, there is clearly a lot of, I would say, for lack of a better term, positive signs in hiring environment, in the starting wages, all those things getting a lot better than where it was a couple quarters ago.

### Ricardo Cardenas

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

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And if I can just add one thing to that. If you think about our turnover coming down, that means we don't have as many people we're hiring as we were before. So we didn't have to hire as many people now than we did before. And so the wage, even if the wage break didn't happen, it's still not as big a deal for us, but the wage break is starting to happen. But the fact that we don't have to hire as many people helps us as well.

# **Gregory Francfort**

Analyst, Guggenheim Partners

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Awesome. Thank you guys for the perspective. Appreciate it.

**Operator**: Thank you. There are no further questions at this time. I would now like to hand the call back over to Kevin Kalicak for closing remarks.

### **Kevin Kalicak**

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

Thanks. That concludes our call for today. I'd like to remind you that we plan to release our first quarter results on Thursday, September 21, before the market opens with a conference call to follow. Thanks again for participating in today's call and have a great day.

**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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