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Darden Restaurants, Inc. (DRI)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Darden Fiscal Year 2023 Third Quarter Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] Please note, today's 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.

Thanks, Todd. 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 the 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 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 2023 fourth quarter earnings on Thursday, June 22nd, before the market opens, followed by a conference call. During today's call, any reference to pre-COVID when discussing third quarter performance is a comparison to the third 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 third fiscal quarter, industry same-restaurant sales increased 7.2% and industry same-restaurant guest counts decreased 3%. This morning, Rick will share some brief remarks on the quarter and our focus moving forward, and Raj will provide more details on our financial results and an update to our fiscal 2023 financial outlook.

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

Ricardo Cardenas

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

Thanks, Kevin. Good morning, everyone. We had a strong quarter on both the top and bottom line. We significantly exceeded the industry benchmarks for same-restaurant sales and traffic, outperforming more on traffic than we did on sales. We also continue to underprice inflation, resulting in lower overall check growth relative to the industry. Our ability to make this investment and provide strong value to our guests reinforces the power of our strategy, which comes to life through our four competitive advantages and executing our Back-to-Basics Operating Philosophy.

I am particularly proud of the way our restaurant teams continue to execute at a high level by being brilliant with the basics. This intense focus on providing great food, service, and atmosphere enables them to consistently create memorable guest experiences. During the holiday season, Olive Garden and LongHorn Steakhouse set new all-time weekly sales records, only to break them during Valentine's week. In fact, all of our brands achieved record total sales for the quarter.

Of course, none of this would be possible without having the right people in the right roles ready to serve our guests. Our restaurants continue to be well-staffed, and our manager staffing remains at historic highs. Our leaders work hard to ensure each of our restaurants is a great place to work. During the quarter, several of our brands were recognized as industry leaders by Black Box Intelligence.

LongHorn and Eddie V's received the Best Practices Award, which evaluates the brand's employee retention as well as sales and traffic performance. Olive Garden, The Capital Grille, and Seasons 52 were honored with the Employer of Choice Award, which is based on workforce data, including employee turnover and gender and racial diversity.

We know from our recent engagement survey results that our overall level of engagement is very high, and our team members understand what is expected of them at work. This is helping drive high guest satisfaction metrics, both internally and externally. Data from the American Customer Satisfaction Index shows customer satisfaction is down across all industries. However, across all of our brands, our internal guest satisfaction ratings remain exceptionally strong.

In fact, Cheddar's Scratch Kitchen, Yard House, and Bahama Breeze achieved all-time highs during the quarter. Additionally, for the second consecutive quarter, the Darden brand was ranked number one among major casual dining brands in each measurement category within Technomic's industry tracking tool.

Even with the traffic growth we achieved during the quarter, To Go sales remained strong, accounting for 26% of total sales at Olive Garden, 14% at LongHorn, and 12% at Cheddar's. We continue to leverage technology to make it easier to order, pickup, and pay without having to pass the added expense of third-party delivery on to our guests.

Our teams are executing off-premise experience at a high level. For example, To Go orders accounted for 33% of Olive Garden's total sales on Valentine's Day, and they significantly improved their ratings for both on time and order accuracy for that day. For the quarter, digital transactions accounted for more than 62% of all off-premise sales and 10% of Darden's total sales.

Finally, we opened seven new restaurants during the quarter across seven states. Our new restaurant opening teams continue to do an excellent job of hiring and training new team members and successfully opening these locations. We are on track to open 25 net new restaurants during the fourth quarter, and I am confident in our ability to do so because of our well-prepared leadership pipeline and the tremendous support teams we have in place.

We are fortunate to have the best team members in the industry, and I am proud of the focus and commitment they continue to display. On behalf of our senior leadership team and the board of directors, I want to thank all of our team members for everything you do to nourish and delight our guests and each other.

Now, I will turn it over to Raj.

Rajesh Vennam

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

Thank you, Rick. Good morning, everyone. We had high expectations for the third quarter sales growth, as we were wrapping on last January's Omicron outbreak and several weeks of severe winter weather that combined to reduce sales by over $100 million in the third quarter of last year.

We exceeded those high expectations, posting record total sales of $2.8 billion, which was 13.8% higher than last year, driven by 11.7% same-restaurant sales growth, along with the addition of 35 net new restaurants. This same-restaurant sales performance outpaced the industry by 450 basis points; and our same-restaurant guest counts performed even more, as they exceeded the industry benchmark by 700 basis points.

Diluted net earnings per share from continuing operations were $2.34, an increase of 21.2% above last year. Total EBITDA was $448 million, and we returned $272 million of cash to our shareholders this quarter, consisting of $148 million in dividends and $124 million in share repurchases. Total pricing for the quarter was approximately 6.3%, 70 basis points below total inflation of roughly 7%.

Now, looking at our margin performance compared to last year; food and beverage expenses rose 110 basis points, driven by commodities inflation of approximately 9%, which was higher than we anticipated going into the quarter and significantly outpaced pricing of 6.3%. Chicken, dairy, and grains continue to be categories experiencing the highest levels of inflation, but each improved versus prior quarter, as we expected. However, beef inflation increased from the second quarter level and drove the majority of our higher than anticipated commodities inflation this quarter.

Restaurant labor was 120 basis points better than last year as we benefited from sales leverage, and our restaurants continue to run efficient labor despite hourly wage inflation of 8%. Total restaurant labor inflation was 7%. Restaurant expenses were 40 basis points favorable to last year as we leveraged higher sales that more than offset elevated inflation on utilities, as well as higher repairs and maintenance expenses.

Marketing expenses were 10 basis points lower than last year, driven by sales leverage. G&A expenses were 40 basis points higher than last year, driven by the timing of our incentive compensation accrual and other expenses. Operating income margin of 12.6% was 30 basis points better than last year. Our effective tax rate for the quarter was 13.2%, and we ended the quarter with earnings from continuing operations of $287 million.

Now, looking at our margin performance versus pre-COVID, we grew operating income by 70 basis points while underpricing inflation by more than 400 basis points since pre-COVID. Increased food and beverage costs were more than offset by improved productivity, reduced marketing, and other cost savings initiatives.

Looking at our segment performance, all of our segments significantly outperformed their respective industry benchmarks on both traffic and sales. Sales at Olive Garden grew 13.9% above last year, driven by same-restaurant sales growth of 12.3%. Average weekly sales at Olive Garden were 108% of pre-COVID level. Segment profit margin of 22.5% was 150 basis points better than last year, driven by sales leverage and labor efficiencies.

LongHorn sales grew 13.5% above last year, with same-restaurant sales growth of 10.8%. Average weekly sales at LongHorn were 127% of the pre-COVID level. Segment profit margin of 17.4% was 80 basis points below last year, driven by elevated commodities inflation.

Sales in our Fine Dining segment grew 13.2% over last year driven by same-restaurant sales growth of 11.7%, and average weekly sales were 113% of the pre-COVID level. Segment profit margin of 21.8% was 110 basis points below last year, driven by elevated commodities inflation.

Our Other segment sales grew 14.1% above last year with the same-restaurant sales growth of 11.7%, and average weekly sales were 109% of the pre-COVID level. Segment profit margin of 14% was 20 basis points better than last year, driven by sales leverage and labor efficiencies.

Turning to our financial outlook for fiscal 2023, we have increased our guidance to reflect our year-to-date results and expectations for the fourth quarter. We now expect total sales of $10.45 billion to $10.5 billion, same-restaurant sales growth of 6.5% to 7%, approximately 55 new restaurant openings, capital spending between $550 million to $575 million, total inflation of 7% to 7.5%, and annual pricing of 6% to 6.5%.

Furthermore, we expect commodities inflation between 9.5% and 10%, the annual effective tax rate of approximately 13%, and approximately 123 million diluted average shares outstanding for the year, all resulting in diluted net earnings per share between $7.85 and $8.

This outlook implies fourth quarter sales between $2.73 billion and $2.78 billion, same-restaurant sales between 3% and 5%, diluted net earnings per share between $2.43 and $2.58. It also implies higher commodities inflation than we last communicated. We now expect commodities inflation that is solidly in the low single-digit range for the fourth quarter versus the closer to flat estimate we shared with you on the last earnings call. The increase in commodities inflation is primarily due to higher than anticipated beef costs.

For fiscal 2024, we anticipate opening 50 to 55 new restaurants and capital spending between $300 million and $325 million related to new restaurants, and another $200 million to $225 million related to ongoing restaurant maintenance, refresh, and technology spending.

And while we don't normally provide a commodity outlook this early for the next fiscal year, we are anticipating low single-digit inflation for the total commodities basket in fiscal 2024, led by high single-digit inflation on beef and produce. We expect all other categories to range from slight deflation to low single-digit inflation.

And with that, I'd like to close by saying that we continue to be very proud of how our teams are managing their businesses to deliver strong results in this dynamic environment. Now, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Chris Carril with RBC Capital Markets.

Christopher Carril
Analyst, RBC Capital Markets LLC

Q

Hi. Good morning. So, I just wanted to talk or ask first about the top line trends. So, I guess, just given the choppiness of the comparisons last year, can you talk about the progression of sales through the quarter; maybe specifically what you saw following the Omicron lap, and maybe perhaps what you're seeing in the current quarter, just as we're trying to get a sense of where trends are shaking out kind of on a normalized basis? I know, Rick, you spoke of the strength around the Valentine's Day. So, any detail beyond that point would be great.

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

A

Hey, Chris. This is Raj. Good morning. So when we actually look at our underlying traffic trends versus pre-COVID, excluding the noise from holidays and weather and promotions, they've actually been fairly stable month-to-month and that has continued into the fourth quarter. And basically, everything we know after quarter-to-date is incorporated in our guidance. But when you step back and look at what is pre-COVID, it's pretty stable.

Christopher Carril
Analyst, RBC Capital Markets LLC

Q

Got it. Thank you. And then, appreciate the preliminary commodity inflation outlook for FY 2024. So, thanks for providing that this morning. Any thoughts on – or any guidance you can provide on how you're thinking about just pricing here going forward, just relative to that commodity inflation outlook that you're providing for FY 2024?

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

A

Yeah. Chris, I think the way we think about pricing is we look at total inflation, and I think as we talked about, over the last three years, we underpriced inflation by over 400 basis points. And also, we underpriced full-service CPI by over 600 basis points. So we created a significant gap between our competitors and it positions us well as we head into the next year. We'll share more thoughts on our fiscal 2024 pricing plans in the June call.

Christopher Carril
Analyst, RBC Capital Markets LLC

Q

Got it. Thanks so much.

Operator: Thank you. Our next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Yes. Thank you. Maybe just a question on the labor side. I know that you're in a very good place right now on staffing. Do you still see, as you look into next year, do you still envision taking up wages continually? And I think, obviously, we're in an environment where it's important to kind of retain people and continue to pay better than your peers. How does that kind of factor into what you expect from a wage inflation perspective going forward?

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

A

Hey, Brian. This is Rick. Yeah. Let's talk about our staffing. As we mentioned on our call, we're very well staffed. We have more managers per restaurant that we've ever had in our history. So, we feel really good about where we are. We're not going to talk necessarily about what our wage growth will be next year. I will say that even before COVID, wage inflation was in the mid-single digits. So, we will continue to work with whatever the economy comes our way and however we can handle that.

But we have a great employment proposition. Our turnover is significantly reducing. It's getting closer to our pre-COVID levels. And we still think we've got room to improve our turnover. We're hiring great people and we're being as discerning as we had been before COVID. So, we feel really good about where we are. We'll talk about our inflation targets and our pricing and all of those things in June.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. And maybe just on capital spending, I know you kind of took up the low end of that. But what's driving that? Is that more of an inflationary thing, or is there any sort of bucket of spending that's running higher at this point?

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

A

Well, I think we've talked about inflation being one of the big things, right. When you look at construction costs have gone up quite a bit, especially when you compare to pre-COVID. And we're ramping up growth, so we do have – I think this year, we said we're approximately 55 new units, and then we talked about next year kind of in that 50 to 55 as well. So it's really a function of the increase in construction costs. I think on the construction cost front, especially the FF&E for new restaurants has been growing quite a bit. And so, you're seeing 25-plus-percent increase in those costs related to pre-COVID.

So those are really the big drivers. But having said that, given the improvements we've made to our business models and where our unit economics are, we still have pretty strong returns on our new units, and we continue to want to grow that. And that's why we do want to try to target as much growth as we can. Now, we're going to be disciplined in how we do that, but we're being a little bit more selective, but still, we feel like we have opportunity to take share.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question comes from David Tarantino with Baird.

David E. Tarantino
Analyst, Robert W. Baird & Co., Inc.

Q

Hi, good morning. My question, I guess, Raj, if you could just tell us what level of pricing you are running in the fourth quarter. And just trying to frame up the comp guidance of 3% to 5%, and what might be implied from a traffic perspective in that number.

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

A

Yeah, David, I think we have – basically, we're going to be under 6%. So call it, 5.5% to 6% is probably what we're running – or expect to be running in Q4.

David E. Tarantino
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. And then I guess then the guidance implies maybe slightly negative traffic. And I was wondering if you or Rick, could you comment just on why you think that is? And is it a macro issue, or is it something else in your view? And maybe, Rick, I'd love to hear your thoughts on the current macro environment given all the volatility we've seen lately. Just how are you thinking about kind of the outlook for the next several quarters?

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

A

Yeah, David, let's talk about the macro for the macro consumer. But if you think about where our guide is for the next quarter, if you look at it versus pre-COVID, you take out the Omicron change and the Never Ending Pasta Bowl change that we did in Q2, when you think about pre-COVID, our trends are very similar, even what we're thinking about for Q4.

But as you think about the state of the consumer and the state of the economy, we've said this in previous calls, there's been a shift in spending from durable goods to services, restaurant businesses are benefiting from that. What's interesting is, for most of calendar year 2022, customer sentiment was pretty bad but consumer spending was significantly high.

So even though they were thinking that things were bad, they were still spending. And so, we think as long as the unemployment rate is low and wages are increasing, consumers should continue to spend. Casual dining same-restaurant sales improved sequentially each quarter during the fiscal year, and our positive gap to the industry improved especially in traffic. So, we feel like what we're doing is really helping us.

I will also say the data from our proprietary brand health tracker suggests that most consumers are not pulling back from restaurant visits, and they do not appear to be trading down from full-service to limited service based on the data that we have. Now there is a tension between what people want and what they can afford. Consumers continue to seek value, which is not about low prices, consumers are making spending trade-offs and food away from home is one of the most difficult expenses to give up because going out to a restaurant is still an affordable luxury for them.

And so what does that mean for us? For our brands, we believe that operators that can deliver on their brand promise and value will continue to appeal to consumers despite economic challenges. And that's what we remain focused on doing, no matter what happens in the industry and whatever happens to the category.

David E. Tarantino
Analyst, Robert W. Baird & Co., Inc.

Q

Makes sense. Thank you.

Operator: Thank you. Our next question comes from Jeffrey Bernstein with Barclays.

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

Great. Thank you very much. Two questions. The first one, just on the implied fourth quarter earnings guidance. Looks like that's growth of maybe 8% to 15%. I know last quarter, you talked about maybe the third quarter and the fourth quarter should be pretty even in terms of growth both quarters. The third quarter grew 21%.

So, it just looks like you're maybe tempering the earnings growth algo for the fourth quarter relative to the third. Just wondering whether you view that as conservatism, or perhaps it's the modest uptick in inflation? Kind of how you think about the sequential trend from an earnings perspective in the fourth relative to the third quarter? And then I had one follow-up.

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

Hey, Jeff. It's actually what you said. It's the commodities inflation. As we said last call, we thought Q4 was going to be flat, closer to flat. And then now that we're saying that's in the – solidly in the low single digits. So when you kind of layer that in, that's where the growth is a little bit less. But outside of that – that's really the primary dynamic that's different.

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

Understood. And then just following up on the macro question. With interest rates still on the rise, I'm just wondering how does that impact your business or how you manage it, if at all, in terms of new unit growth, which seems to still be stable or how you think about borrowings, or whether you think it impacts consumer behavior, maybe any return of cash decisions? Like how does that come into play, if at all, as you manage the business? Thank you.

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

Yeah, Jeff. This is Rick. The interest rates really aren't making a huge impact in our business. We actually have a significant balance in cash. So, higher interest rates has actually given us a little bit more interest over time. You think about our new restaurant openings that we have seen inflation, as Raj mentioned. And so we're being prudent in looking at some of these deals and saying, you know what, we might wait just a little bit of time to see if we can get a second bid. Sometimes during this year, we're only getting one bid for some of these sites. So, we want to be prudent.

But the interest rates really haven't done anything for us. And if you think about the consumer, they're still spending. We'll see what happens when these credit card balances, which were at record highs in December, come due, but they're still spending today. So, so far, nothing in our space.

As it pertains to return of cash, we have a very strong dividend as we announced it again today. We feel like that's one way we return our cash to shareholders. We'll talk about our capital returns coming up in June. But it hasn't really changed our outlook and what we think about our long-term framework.

So, if you go back to our framework and how we return cash to shareholders, we've got targets for our rough dividend as a percent of our earnings and how much we buy back in shares. This year, we've bought back somewhere in the $400-and-some-odd million, and our share count target that we gave you would imply a little bit more in the fourth quarter. But we'll talk more about our return on cash and long-term framework in June.

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

Got it. And, Rick, just to clarify, I think you mentioned before that you've seen relative stability in sales through the fiscal third quarter and even into March. Just from the outside looking in, I mean, with the most recent banking noise and things like that over the past few weeks, does that lead to greater volatility day-to-day or week-to-week; or do you really not see it in the restaurant sales line despite all the headlines that create so much noise for the broader macro?

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

Well, Jeff, I think if you think about March, when you think – volatility will happen in March just because of shifts in spring break. So you have to take that into account. But trends are fairly consistent. So when you think about, a state might change where the spring break is. So, that will show volatility at restaurants. But in general, we feel like our trends haven't really changed much.

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

Great. Thank you.

Operator: Thank you. Our next question comes from Joshua Long with Stephens.

Joshua C. Long
Analyst, Stephens, Inc.
Q

Great. Thank you for taking the question. In terms of the context of relative visibility in your business, how are you thinking about the marketing and the messaging opportunity as we go into the back half of the year and then into fiscal 2024? I mean, still at kind of lower levels versus what we had seen on marketing spend basis versus prior years. Are you comfortable with that? Is there any reason to kind of adjust that strategy as we go into what could be a more challenging or potentially volatile macroeconomic environment?

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

Hey, Josh. This is Rick. We're not going to get into too much detail on our promotional plans, but I would say that our marketing spend isn't going to be significantly different year-over-year. It might be 10 to 20 basis points either way, up or down, as we think about next year. But as we've said before, advertising is always going to be part of Olive Garden's mix because of the scale advantage they have. And so we'll continue to leverage that scale advantage with Olive Garden.

And we'll use the filters that we mentioned before to evaluate any marketing activity. It has to elevate brand equity, it has to be simple to execute, and it's not going to be at a deep discount. And so, we plan on sticking to that strategy. But if things dramatically change, we'll react accordingly. And as we've said many times in the past, if and when we increase our marketing spend, we'd expect it to earn a return compared to where we would have been without it. So, it should be a positive ROI, and it shouldn't hurt our margins.

Joshua C. Long
Analyst, Stephens, Inc.
Q

Understood. That's helpful. And then maybe one follow-up for me. In terms of talking about the restaurant manager pipeline and the fact that you mentioned having more restaurant managers than you've had in your history. Can you talk about the benefits and kind of just the opportunities that unlocks from either a service component, or how we should think about that positively impacting guest experience as we go forward and maybe helping to drive that gap versus the industry a bit wider over time?

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

A

Yeah, Josh. The manager role in our restaurants is the most important role we have, especially the general manager or the managing partner, and being fully staffed there gives them more time to spend with their team and train their team, develop them, make them stronger, and just spend that time forecasting their business and spending time with guests. If you under-staff managers, the restaurant doesn't run as well.

But the other thing about being fully staffed with managers and have the highest staffing in our history is that, that helps us open restaurants going forward, right. If you think about our pipeline of new units, we have about 25 net openings coming in this quarter, and we are ready for it with the managers that we have. So, there's a lot of benefits of being fully staffed, managers can spend more time with their team, they can spend more time with guests, and we have the managers to open our restaurants.

Joshua C. Long
Analyst, Stephens, Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo
Analyst, AB Bernstein

Q

Good morning. So, Rick, you mentioned that the ability to price below inflation is giving Darden the ability to grow faster than the market in terms of sales and traffic. So, are you expecting the same momentum to continue if inflation decelerates and food at home inflation perhaps increases at a lower pace compared to the food away from home inflation?

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

A

Well, our strategy has been this strategy for quite a while, and we plan on sticking to it. It's really helped us over the long-term on whether inflation has been high or inflation has been low. If inflation comes down or things slow down, a lot of our pricing is already built in for next year based on where we are right now. And so we'll be able to react accordingly. In the long run, we plan on pricing below inflation; but in any 12-month period, it might be a little bit higher, a little bit lower than inflation.

That said, we believe that our scale advantage gives us the opportunity to find cost savings so that we can price below inflation in the long run to drive a better value for our guests. And as we said earlier, guests appreciate value, especially when or if the economy slows down a little bit, they go for places that they get a great value and they get great consistent experiences, and that's what we intend to provide.

Danilo Gargiulo
Analyst, AB Bernstein

Q

Thank you. And maybe, Raj, what caused the marginal deceleration in expectations on net new units? And if you can also comment on your recent comment of strong returns in the new units and that you're going to be a little bit more selective. So can you share how the real estate strategy is evolving over time?

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

A

Yeah. So, a couple of things. The new units, I think we talked about, part of it is just the construction delays and the challenges we've had. And we are still opening quite a few. I mean, our expectation for this year is approximately 55 new openings. So, we're opening quite a bit.

As far as the comment on the returns, when we look at our new units actually, especially the recent openings, have actually outperformed on the top line more than we expected going into. So, they are actually opening – at most of our brands, they're opening at volumes that are exceeding what we would have estimated going into the – when we approved the capital for the project.

So, overall, we always had a lot of headroom in terms of the returns versus our cost of capital. And so, we are exceeding the hurdle by a wide margin even with the increased construction cost.

Operator: Thank you. Our next question comes from Dennis Geiger with UBS.

Dennis Geiger
Analyst, UBS Securities LLC

Q

Great. Thank you. I wanted to ask one more on margin and maybe, Raj, if there's any update to how you're thinking about holding on to gains longer-term that you've seen since the pandemic? I know you've recently kind of spoken more to a long-term total return algorithm rather than sort of an annual margin growth number. But just curious if any new observations or thoughts on sort of longer-term margin trajectory, given what you've seen recently.

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

A

Yeah, Dennis. I think we've talked about, this year, we've been purposeful and deliberate in actually choosing to price where we price, right, over the last few years because of the gains we have had versus pre-COVID. Our intent would be to try to grow from these levels. But in a given year, it can be different. Ultimately, we do go back to that 10% to 15% TSR. That's the EPS growth plus the dividend yield. And how we get there any given year might be different. But from where we are starting at the end of this fiscal year, we expect to build margins over time.

Dennis Geiger
Analyst, UBS Securities LLC

Q

That's great. Appreciate that. And just one more, just on the 24 new openings, can you speak to whether the breakdown by brand will look similar sort of to what you've seen in prior years? Thank you.

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

A

Yeah. I think you're going to see a little bit more of Olive Garden openings just because they have the best returns in the portfolio, and they have – we've shared that we think there is more opportunity for growth coming out of the pandemic. So, you might see 20-ish for them, and then mid-teens for LongHorn, and then everybody else making up the rest.

Dennis Geiger
Analyst, UBS Securities LLC

Q

Great. Thanks, Raj.

Operator: Thank you. Our next question comes from Jeff Farmer with Gordon Haskett.

Jeffrey D. Farmer
Analyst, Gordon Haskett Research Advisors

Q

Great. Just following up on margins, some of the stuff you just discussed. But you did touch on marketing, but your restaurant expense and G&A as a percent of revenue are running at looks like roughly 100 basis points below pre-COVID levels. Do you think that lower cost structure at both the restaurant and corporate level is sustainable moving forward?

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

A

Yeah. We always focus on – that's the opportunity for us, right? When we talk about our scale benefiting, we always are trying to take costs that are not directly impacting the guest. So, that's really restaurant expenses and G&A are the two places where we think our scale benefits us the most in terms of being able to take costs out, leverage our scale. And so, we do expect those to continue to be – maintain a wider gap to pre-COVID, positive gap.

Jeffrey D. Farmer
Analyst, Gordon Haskett Research Advisors

Q

And then, just one more on the – follow-up on the lower income customer sort of demand profile. You've obviously pointed to some slowing demand there, but I'm just curious how that manifests itself. Is that sort of reduced visit or check management? How does that show up when that lower income customer changes their behavior?

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

A

Yeah. In the past, we had talked about our lower income consumer, over the last few quarters, the mix shifting down a little bit, but still being above pre-COVID. The good news is we haven't seen a material change in mix from the last time we talked to now in that lower-end consumer. But if it manifests itself, it generally starts with managing check.

Generally, consumers will manage their check first, and then they'll manage their visits later. And so far, we really haven't seen a whole lot of check management. So that tells you, based on what I said earlier, consumer sentiment was pretty bad in 2022, but consumers still spent. And as people shifted to restaurants, we benefited.

So, we haven't seen it yet. We may see it. And when we do, it will start at check probably. And then, it will impact – probably more likely impact our lower-end consumer brands. Not that they're lower-end brands, they just have a bigger mix of lower-end consumers. And it will impact less our high-end brands. But that's the benefit of a portfolio and the portfolio that we have, that we can withstand shocks to one segment of the population.

Jeffrey D. Farmer
Analyst, Gordon Haskett Research Advisors

Q

Got it. Thank you.

Operator: Thank you. Our next question comes from Andrew Charles with TD Cowen.

Andrew M. Charles
Analyst, TD Cowen

Q

Great. Thanks. One quick bookkeeping question. Raj, as we think about 2023 EPS guidance, is roughly $390 million still the right number for G&A?

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

A

Yeah, that's right.

Andrew M. Charles
Analyst, TD Cowen

Q

Great. Okay. And then, I realize that you guys are going to provide 2024 guidance on the 4Q call, but just in the backdrop of this uncertain macro environment combined with inflation has just proven stubbornly high. Can you talk about your confidence in the ability to deliver 10%-plus TSR in 2024, and just the different avenues you could take to get there if we were to see a slowing consumer backdrop? Thanks.

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

A

Yeah, Andrew. This is Rick. I will say that if you think about our confidence returning a TSR of 10% to 15% in any one year, we've said many times that in any one year, it could be below that or above that. And, remember, that's earnings growth and dividend yield. I will say, go back in our history since we've been a public company, we've never had a 10-year period that we have had less than a 10% annualized total shareholder return. So we feel confident over the long run that we're going to get to 10% to 15%. We're not going to talk about next year, but I would feel like we're pretty confident we should be able to get there.

Andrew M. Charles
Analyst, TD Cowen

Q

Very good. Thanks.

Operator: Thank you. Our next question comes from Jon Tower with Citi.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Awesome. Great. Thanks for taking my question. Hopefully, you can hear me okay. I was struck by the commentary about your own consumer survey suggesting that your customers are not trading down from away from full-service into limited service. Frankly, it's counter to what we've been hearing from a handful of operators in recent weeks. So, I'm curious to hear from you, is that broadly speaking about just your – or is that speaking specifically about your brands, or is it more broadly about the full-service category? Number one.

And then, number two, can you talk about what these customers are telling you as to why they're sticking with your brand versus trading down elsewhere? Are they using you differently now than, say, in years past, when thinking about their own budgeting for going out or eating away from home?

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

A

Yeah, Jon. This is Rick. What we said earlier is most customers aren't. Now, that doesn't mean there aren't any customers shifting from full-service to limited service. But most aren't. And we're not really seeing that in our results. So, others might be, but what we have been doing is providing a great value. We've actually taken a lot less pricing than most of our competition. So, that might be a reason that others might be seeing that when we're not, and we're improving our guest experience.

So, at the same time that we've taken pricing that was lower than inflation by, Raj said, 400 or 500 basis points versus pre-COVID, we've been improving our experience. Our customer satisfaction is growing. We've had records at Cheddar's and Yard House, as I mentioned already. So, I think that's what people will crave. When environments get a little bit tougher, they crave things that provide them a great value and that gives them a consistent experience. And we've been doing that and we'll continue to do that.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Okay. So, you're suggesting that this brand survey work you did is more specific to your brands than necessarily the whole full-service category?

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

A

No, I'm not suggesting that it's only our brands. What I'm saying is that most consumers aren't trading down. Some are, but most aren't. And in prior big downturns or things like that, we had a lot more consumers trade down. We haven't seen that. Now, when I talk about specifically to our brands, our satisfaction is up. Our value is better than it was before. So, there's a little bit of both in my answer, industry and us.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Okay. And circling back to the marketing question, I know we hit on it a few times already, but I'm curious what the trigger might be. Are you going to be a little bit more reactionary in terms of waiting to see some slowdown, or if there is one that comes before necessarily pulling that trigger?

And I understand the context you put around how you would go after increasing marketing by not necessarily offering deep discounts. But just curious to know what sort of triggers you're looking for in the marketplace? Maybe it's just the slippage in traffic, either relative or absolute, before you start spending a little bit more on the marketing side.

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

A

Hey, Jon, it's Rick. We're not necessarily going to talk about specific triggers. What I can say is we're going to be very prudent in our marketing spend. We've done a lot over the last few years to simplify our business to make it easier to operate, and we've done a lot of testing during this time on what marketing really does drive. And when things change dramatically, we may change.

But right now, we're going to continue to stick to our strategy of making our communication be much more branded, elevating brand equity, simple to execute, and we don't expect it to be a deep discount. So, this industry has gone through this before, buying guests, and we're not ones that are going to go out and buy guests. We're going to continue to do what we do and strengthen our business. And if things change, then we may react.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you for the time.

Operator: Thank you. Our next question comes from John Ivankoe with JPMorgan.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Just a follow-up on that, I think. I know we've talked about most consumers not trading from full-service to limited service and certainly giving up dining out is something that people don't want to do, especially when they're employed. But you're guiding, and I assume a lot of guidance over the next three months or so, is assuming a negative same-store traffic.

So I guess the question is, grocery in terms of total number of meals consumed is still bigger than restaurants, actually multiple, 2-plus-x of restaurants depending on how you want to calculate it. Grocery pricing has actually been well in excess of restaurant pricing. It remains so now. When you guys think forward, and this is I guess a forward-looking question, really, a view of your industry. Grocery pricing oftentimes follows commodities. Commodities are expected to drop just in your own language from what was 10-plus percent to very low single-digits.

Is there like a way to kind of be prepared for grocery kind of retaking relative value relative to restaurants? And is that something that you think about internally? And maybe to Jon Tower's question of maybe bringing back some advertising, bringing back some promotion just to make sure that you're keeping customers maybe the bottom 5% or 10%, whatever you want to say, still coming to your brand and using the brand even if year-over-year grocery start – and other brands, perhaps limited service included, start to emerge as a pricing opportunity for them.

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

A

Yeah, John, thanks. It's Rick. One of the things I want to let everybody make sure to hear is we're not going to risk margin, significant margin declines, because of what happens in the economy. If food costs go down, think about what we've said in the past, a 1% decline in commodity inflation will offset a 2% decline in traffic, all else equal with us doing nothing. So, if commodity costs come down and inflation comes down, we can weather a little bit of a traffic decline and still get to the same EBITDA.

So, I think we have to think and the industry has to think long-term about how they drive traffic through discounting. And we have made that shift and we made that shift, even started it before COVID, to drive traffic through better experiences, better overall value, and not discounting to a very small – a small portion of our guest base. So, that's our strategy going forward. If things change, we'll let you know.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

And I think that's very clear. It's a lesson permanently learned, not temporarily learned. And I think that's important certainly to hear and express, so thank you.

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

A

Thanks.

Operator: Thank you. Our next question will come from Chris O'Cull with Stifel.

Chris O'Cull
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Good morning, guys. Rick, you've tied the traffic outperformance this quarter to less pricing than the competition. So, I'm just wondering why you believe consumers are now noticing that difference and relative value. If there was some sort of trigger with a marketing or advertising effort? Or what do you think has caused that change this quarter?

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

A

Hi, Chris, I would say that I don't think it's just this quarter. I think it's been a long time what we've been doing. We've been underpricing inflation. Even before COVID, we started underpricing inflation. And we've been putting more on the plate. And so we've actually invested while underpricing. And so, if you look at variable margin, contribution margins, just take Olive Garden, for example, you can't do the math, but if you look at contribution to margin in Olive Garden, it's lower today than it was before COVID. But their margins in this were up.

Chris O'Cull
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay

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

A

So our consumers are seeing that they're getting more value when they come into the restaurants, and that doesn't take – it doesn't take a week to figure that out. It takes them a long time to figure that out. And that's why when we talk about what we're doing, you have to think about this over the long run because we're not shouting out to the rooftops that we've done this. The closest that we did to that was brought Never Ending Pasta Bowl back at a $3 higher price to show people that we still have some great value in our restaurants, and Olive Garden being on TV talking about the things that make their brand special.

Right now, we've got back on our advertising of Sauce is Soul, and talking about our freshly made sauces every day, while we still have a 15-second spot talking about our Never Ending First Course, and that Never Ending First Course is on us. There aren't many brands that actually give you Never Ending for every item that you order. And so, again, it's not something that we necessarily talk about. We don't go out and shout from the rooftops that we have lower prices than others do, or we price less. They see it as they come into our restaurants, and that builds over time.

Chris O'Cull
Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's great. And I know you guys have a rich consumer data-set. I mean, does your data indicate that certain consumer segments have increased their frequency of visits, especially at Olive Garden?

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

A

What I would say is versus pre-COVID, our data would tell us that we're getting a little bit younger than we were before COVID across all of our brands, and that's somewhat driven by an increase in To Go business. But the great news is a lot of these folks that actually used us for To Go for the first time, and that's their first visit to us, are actually starting to come into our restaurants, too. So, it was kind of a handshake to come in.

And so we're slightly younger, but our consumer segments are fairly similar to what they were before. And that's great news for us. We're also getting a little bit more frequency in our core guests, and that's really what we've been focusing on. So, the good news is our consumers are not that different. They're slightly younger. That means that we don't have to really change what we're doing because we can keep talking to our consumers just like we have been before.

Chris O'Cull
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks.

Operator: Thank you. Our next question comes from Sara Senatore with Bank of America.

Katherine Griffin
Analyst, BofA Securities, Inc.

Q

Hi. Thank you. This is Katherine Griffin on for Sara. I just wanted to ask again on marketing, sorry. Just if you could speak a little bit about what you're seeing at other restaurants, if you're seeing them ramping up on marketing and promotional spending?

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

A

Yeah, Katherine. This is Rick. You probably see it just as much as we do. But I can tell you that there's a big competitor that just went back on TV, and they talked about it before they did it. And you've got some of these other competitors that are out there a little bit more on television than they were before. That said, Olive Garden still is usually in the top two or three of advertising spend in our space, and we're doing that through branded, kind of, advertising versus deals.

Katherine Griffin
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question comes from Andrew Strelzik with BMO.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning. Thanks for taking the questions. I just wanted to ask about the customer satisfaction scores you mentioned and you talked about records, I believe, or all-time highs at Cheddar's and Yard House and maybe Bahamas Breeze as well, but not at Olive Garden and LongHorn. It does sound like they're up, but not maybe as much as some of the others. So, I guess, I'm just curious what your perception is of the difference between the two, why maybe those aren't up as much, and how that maybe is guiding your strategy going forward? Thanks.

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

A

Andrew, this is Rick. Let me start by saying that satisfaction at Olive Garden and LongHorn are significantly high; and our other brands, our Fine Dining brands, are very high. And so it takes a little bit more to move them up significantly versus what we've seen at Cheddar's and Yard House. Cheddar's and Yard House and others have made significant improvements to their brand, significant improvements to service, and significant improvement to value; and customers see that. And so, we've had great performance at those brands that I mentioned having record highs. But I wouldn't tell you that the others aren't at/or near their records. It's just Cheddar's and Yard House actually made a record this quarter.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. That makes sense. And maybe just one other one about the value proposition and, obviously, you're very positive on how that's driving the comp. So, we're coming out of a period now or the pricing environment overall maybe seems to be settling a little bit. And I'm curious if you've gone through the exercise or maybe just an ongoing exercise where you've looked at where your brands stand and what are the different pieces of the menu stand now? I'm curious if there's any opportunities to address within menus or within brands now that maybe things have settled a little bit? Thanks.

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

A

I think we always look at where we have opportunities within menus, within brands, within regions of the country; and we will never stop. What I would tell you is we feel really good about where our pricing is, and we feel really good that we've been able to price well below what most of our competitors have done. And that gives us, as Raj said, some room to take a little bit more pricing if we want to take a little bit more pricing.

And so, we will always look, and we generally try to price restaurants into strength and not into weakness, and we have a lot of great data scientists here that help us look at that. And we also talk to our operators and get their perspective. So, that won't change no matter what happens in the economy or what happens with others. We'll continue to do what we do, and we feel like we've earned the right to keep doing what we've done.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you very much.

Operator: Thank you. Our next question comes from David Palmer with Evercore ISI.

David Palmer
Analyst, Evercore ISI

Q

Thanks and good morning. I think investors are looking at the industry trend and they're thinking about comparisons on a multi-year basis. And they're thinking the industry is going to go flat, something like that, in the second half of calendar 2023. And so, that's sort of where people's heads are with regard to casual dining. I wonder, do you think that is too pessimistic, I mean, based on what you're seeing? Because obviously full-year trends don't need to stay stable.

But if that were to happen, your gap is positive to that industry at this point, and you've been very clear on this call about you're not wanting to pull levers unless it really got bad. But if you're doing 2-plus points better than that and you're coming along in the low single-digits, would you not really change your mix too much with regard to the advertising and the value marketing and kind of stay the course?

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

A

Yeah, David. I don't want to talk necessarily about the second half of calendar 2023 because that's fiscal 2024 for us. But I think if you look back in history and you look back in other slowdowns, if that is what happens, and you look at some of our brands, Olive Garden significantly outperformed during that time. Because guests go where they see value and they go to trusted brands, and I think Olive Garden is one of the most trusted brands out there.

So, we would expect that we could outperform. I can't say we will, but I think that's what our history would say. And so, we're going to look at our marketing mix just like we've done in the last few years, and we may move it a couple of tenths here or there. But unless something dramatically changes, we don't anticipate doing anything differently.

David Palmer
Analyst, Evercore ISI

Q

The other thing I was wondering about is just seeing those Cheddar's scores being number one in value, first of all, congrats on all these scores. But Cheddar's has a big TAM potentially. I mean varied menu is a big thing. Originally, this might have been thought to be bought and become a bar and grill killer, that varied menu is a big category and value scores are going to help you move into the center of the country, much better returns. So, any thoughts about maybe metrics on returns? And you're growing 11, 12 units right now a year. Why can't that maybe go up quite a bit as you see that brand where it is today? Thanks.

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

A

Yeah, David. I would say when we bought Cheddar's, we thought they had a lot of opportunities ahead of them. We still believe they have a lot of opportunities ahead of them. And we're going to be prudent on their growth as we make sure that they have the leadership teams for their restaurant to grow. I said it at ICR that the world is littered with brands that grew too fast, and we're very, very strategic on how we grow our brands. And so the days of 10-plus-percent growth for a brand at Darden, that doesn't happen very much.

And so with Cheddar's, we're going to be prudent. We're going to open in the single digits for a little while to see how they continue to do. And as we infill markets that they already have restaurants in and we find ways to get into the new markets, as long as we have the people to do it, we can grow them. And I will tell you that John

Wilkerson and his team have done a great job developing their people to have people ready to open these restaurants; and the more pipeline we have of people, the faster we can open.

David Palmer
Analyst, Evercore ISI

Q

Thank you.

Operator: Thank you. Our next question comes from Lauren Silberman with Credit Suisse.

Lauren Silberman
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you and congrats on the quarter. On the traffic outperformance, the 700-basis-point gap, do you view this level of outperformance as sustainable; or how do you think about the outperformance?

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

A

Hey, Lauren. This is Rick. 700 basis points of outperformance is pretty strong. It all really depends on what the total traffic growth is for the industry. If we do – if the industry is growing at 1%, do we expect to get 7% every quarter in outperformance? No. And if anybody would say that, I think that's thinking a little bit too hard. We're very pleased with that outperformance of 700 basis points this quarter, but we wouldn't expect to be 700 basis points every quarter. And there might be quarters that we have lower performance in traffic than our competition. But we think about this over the long-term; and over the long-term, we expect to outperform.

Lauren Silberman
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you for that. And then just on M&A. I know you've talked about that in the past and interest in another brand. I guess what are you seeing in the current environment? Any change in the calls that you guys are getting or valuation?

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

A

I don't want to get into the detail on calls we're getting or valuations we're getting. All I can say is what we've said before, biggest competitive advantage we have is our scale, and one of the ways to build that scale is to buy other brands. And as volatility reduces, price discovery improves. And so, that's what we've got to continue to think about. And interest rates have made some change. So, we still feel like we'll talk to our board when the right opportunities come to play and we'll be ready when they do.

Lauren Silberman
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you very much.

Operator: Thank you. Our next question will come from Brian Bittner with Oppenheimer.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Hey. Good morning. Just as we look at the quarter, your EBIT margins obviously expanded this quarter, but it was the first time in many quarters that we saw EBIT margin expansion. And it seems to be primarily driven by Olive Garden when we look at the segments. Olive Garden was the only segment that showed measurable margin expansion this quarter. The other segments were actually down on average.

So can you talk about the drivers of the bifurcation in margin performance for Olive Garden versus the rest of the segments? And is that kind of how the margin trend should continue over the next couple of quarters?

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

A

Hey, Brian. Any given quarter, I think, the brand-to-brand, it's a function of the pricing versus inflation. So, if you look at – and frankly, as I mentioned, the third quarter, beef was the biggest surprise, right? So, for instance, our LongHorn and, to some extent, our Fine Dining brands, they weren't prepared for that level of inflation. So, the pricing hadn't been in place.

And like I said in the past, the way we think about pricing is we're not going to overreact to near-term fluctuations. We kind of think about what's truly the more secure part of the inflation and try to price for it. And so, there was a little bit of, really, noise on that front this quarter that impacted the other segments.

With that said, Olive Garden is our largest brand. I mean, it makes up over 50% of our sales and 55% or more of that profit. So, for us to grow, you got to see Olive Garden to have some growth or it takes a lot of heavy lifting from everybody else to make up. But the other thing with Olive Garden was we did – some of the costs did moderate from where they were in the second quarter. So, if you recall, second quarter, it was the other way around where the margins were deteriorating.

And the third piece is, Olive Garden was disproportionately impacted by Omicron last year. We talked about that last year. Now, as we wrap on it, they're benefiting from some of that. There were labor inefficiencies last year. So, especially for them because of their geography and because of the demographic mix of their guests, it hurt them most and now you're seeing them outperform the most.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Thanks for the clear answer there, Raj. And then just follow up, the labor margin leverage for the consolidated model was incredibly strong this quarter relative to any recent quarters in the past. And I realize your sales were strong this quarter, above average. But was there anything else going on within the execution of the labor margin this quarter outside of strong sales that you can point to that help that leverage amplify this quarter, so we can think about how labor can potentially be executed moving forward?

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

A

Yes, Brian. I think that's – so, obviously, as you mentioned, sales is the biggest part, but we are seeing turnover get better. And I think we called out last year, we had a lot of sick pay and some inefficiencies in labor last year because of Omicron. And so, that's actually also helping.

But you do see a quarter-to-quarter improvement, right. I mean I think we progressed by over 100 basis points from second quarter to third quarter. And that's really the function of sales delta. We had almost $300 million more in sales and that helps with a lot of leverage. And then the last piece, as I said earlier, is the retention is getting better and that helps with improved productivity.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question comes from Gregory Francfort with Guggenheim Securities.

Gregory Francfort
Analyst, Guggenheim Securities LLC

Q

Hey. Thanks for the question. Rick, my question, just on your – maybe how to think about margins, not necessarily in 2024 but the next few years. Just because within your long-term framework of 10 to 30 basis points, when I look at this year, you had a big step down, and a lot of that was food cost pressure. And I'm just wondering if you think that 10 to 30 basis points is the right way to think about it? And maybe does more of that come on the store-level margin side versus the G&A the next several years? Just any updated thoughts on that would be helpful. Thanks.

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

A

Hey, Greg. Thanks for the question. What I would say, first of all, is we've got that long-term framework of 10 to 30 basis points of margin expansion. We had significant margin expansion during COVID. And we talked about it last year that we'd probably give some of that back this year. So, we had significant expansion during COVID of over 200 basis points, I think 250, and now we're closer to 150 pre-COVID.

And so, as we think about going forward, as we get to our long-term framework and we still think our long-term framework will hold over time, and some of that will come probably – maybe a third to half of that will Come below the restaurant level as we think about leveraging other costs. But as traffic grows and same-restaurant sales grow, we should still get some from the restaurant. But G&A should be some of that savings going forward.

Gregory Francfort
Analyst, Guggenheim Securities LLC

Q

Awesome. Thank you, guys. Appreciate it.

Operator: Thank you. Our next question comes from Brian Vaccaro with Raymond James.

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

Q

Hi. Thanks for squeezing me in. My question was just on labor and operations. There's obviously been a lot of new hires across the industry in the past 6 to 12 months. Are there any metrics you can share that speak to the proficiency of your staff and how that's benefiting operations? And just kind of to what degree you think that, that could be driving your widening performance gap to the industry. And then also, would you be willing to share kind of where your manager and hourly turnover is currently running?

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

A

Yeah, Brian. Let me start by saying we've had a reduction in turnover, which has been helping us. Our team members are starting to learn more about what they do, especially the newer team members. And as I mentioned earlier, our manager staffing is at high levels. And so, they can spend more time teaching their team and getting more productivity out of their team.

Without getting into too much detail on turnover, our turnover is closer to pre-COVID levels than COVID levels. And we would intend to get it back towards those levels. What I would also say is our gap to pre-COVID isn't that different than it was. So, as the industry gets better, we're getting better. And so, we feel like we'll continue to improve.

And what we've seen over the last couple of quarters is a really big improvement in turnover. So I think people now feel like they understand what their job is and how to do it. We've actually spent a lot more time – as I said on our last call, every one of our general manager, managing partner conferences in August, talked about how to make our each whatever brand a better place to work and even better place to work. It was already a great place to work. And those things are bearing fruit.

So, our turnover is getting better. Our first 90-day turnover is significantly improved from where it was just six months ago because of the focus that we're putting on training and making sure that those team members feel up to speed before they get thrown out on a busy Friday night.

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

Q

All right. Great. That's helpful. And I guess my quick follow-up, just on pricing, Raj, I heard your comments on your expectation for the fiscal fourth quarter. But could you let us know how much have you taken or how much did you take in the fiscal third quarter or have planned to take in the fourth quarter? And just thinking with a little more pressure on commodities, has your thinking changed on sort of the arc of your pricing, and how quickly you might look to let that moderate over the next few quarters? Thank you.

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

A

Yeah, Brian. I think, I'm not going to comment on past Q4, but I will tell you that if you look at where the pricing has been, second quarter was 6.5%. Third quarter that we just completed was 6.3%. We expect fourth quarter to be under 6%. So the peak pricing for us on an annual basis is behind us. I think it's going – unless something dramatically changes, we see pricing coming down. And I can – and I know, not to compare it to everybody else, but when you look at what's happening in the market, I think most people are on an upward trend on pricing. We think we're actually, from here on, we're on a downward trend. But overall, though, that's actually translating into the results we've talked about. And then when we started the year, we started with 100 basis points target of roughly pricing below inflation for this year of about 100 basis points. I expect us to end in that range.

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

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from John Parke with Wells Fargo.

John Parke
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning, guys. I guess there's been a lot of focus on trade down to low end. But, I guess, are you guys seeing any signs of that middle-income consumer is moving more into like your value brands and coming a bit more?

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

A

Yeah, John. We really haven't seen a whole lot of change in mix across of our brands. And I would say value brands versus not, if you look at our release today, we had same-restaurant sales ranges between the different segments between, I think, it was 10.8% and 11.7%. So, three of our segments, I think, actually had 11.7% comps and our total comp for the company was 11.7%. So it's very consistent across, and all of our brands had very strong same-restaurant sales.

John Parke
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Thank you. At this time, we have no further questions in queue. I will now turn the call back over to Kevin Kalicak for any additional or closing remarks.

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

Great. Thanks, Todd. That concludes our call for today. I would like to remind you that we plan to release fourth quarter results on Thursday, June 22nd, before the market opens, with a conference call to follow. Thank you for participating in the call today. Have a good day.

Operator: This concludes today's call. Thank you for your participation. You may disconnect at any time.