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Darden Restaurants, Inc. (DRI)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden Fiscal Year 2023 First Quarter Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] This conference is being recorded. If you have an objection, 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 and Investor Relations, Darden Restaurants, Inc.

Thank you, Jake. 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 2023 second quarter earnings on Friday, December 16, before the market opens, followed by a conference call. During today's call, any reference to pre-COVID when discussing first quarter performance is a comparison to the first quarter of fiscal 2020.

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

Now, I will turn the call over to Rick.

Ricardo Cardenas

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

Thanks, Kevin. Good morning, everyone. As you saw from our press release, we had a solid quarter in what continues to be a challenging inflationary and uncertain macroeconomic environment. This was also the first quarter where we began to see the industry return to normal seasonal patterns. I'm proud of the way our restaurant teams are performing. Our brands remain focused on executing our Back-to-Basics operating philosophy, anchored in food, service and atmosphere, while at the Darden level we continue to concentrate on strengthening and leveraging our four competitive advantages of significant scale, extensive data and insights, rigorous strategic planning and our results-oriented culture.

Our people bring our brands to life every day, and our restaurant teams continue to execute at a high level, even with a lot of new team members, as our staffing has returned to normal levels. Our team's ability to be brilliant with the basics is driving strong guest satisfaction across all our brands. These satisfaction measures at Olive Garden

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are at or near all-time highs, and steaks grilled correctly scores at LongHorn Steakhouse are the highest in their history.

We remain focused on creating great learning environments for new team members to ensure they are fully trained and execute to our standards. Further, our ongoing investments in our team members helps reinforce our strong employment proposition. This focus takes on added significance as we open value-creating new restaurants, which further strengthens our scale advantage.

During the quarter, we successfully staffed and opened nine new restaurants, and we remain on track to open 55 to 60 new restaurants this fiscal year. We also continue to invest in our digital platform and To Go sales benefited from these investments during the quarter. To Go sales accounted for 24% of total sales at Olive Garden, 14% at LongHorn Steakhouse, and 13% at Cheddar's Scratch Kitchen.

Digital transactions accounted for 32% of all off-premise sales during the quarter and 10% of Darden's total sales. Our technology investments have created an infrastructure that reduces friction for our guests and our operators, and we will continue to invest in technology that benefits both off-premise and in-restaurant dining occasions.

We are also leveraging our scale to help mitigate the impact of heightened inflation. During the quarter, we continued to experience significant commodities cost pressure, and our supply chain team did an excellent job of working with the suppliers to minimize or offset cost increases to the extent possible.

Inflation remains a headwind for consumers as well, particularly those in households making less than \$50,000 a year. Olive Garden and Cheddar's have more direct exposure to these guests.

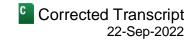
Looking at guest behavior across our entire portfolio, we are seeing softness with these consumers, while conversely we are seeing strength with guests and higher-income households. Even in this environment, our brands are made committed to our strategy to price below their competitors.

Since we emerged from the height of the pandemic, you have heard us talk about the search for equilibrium or more normal business trends. During the quarter, we saw a return to historical seasonal patterns, which we did not experience last year. As we have discussed in recent calls, finding that equilibrium will inform our brand's marketing strategies. As we execute our plans, we will be very selective in bringing any promotional activity back. And any promotional activity we introduced should be evaluated with the following filters. First, it needs to elevate brand equity by bringing the brand's competitive advantages to life. Second, it should be simple to execute. We will not jeopardize all the work we have done to simplify operations, which allows our teams to consistently deliver exceptional guest experiences. And finally, it will not be at a deep discount. We are focused on providing great value to our guests, but doing that in a way that drives profitable sales growth.

As an example, Olive Garden's unique competitive advantage is never ending abundant craveable Italian food. That is why their television advertising progressed from spots that feature their never-ending first course to those that are now focused on their made-from-scratch sauces, and anything they do going forward should continue to elevate this core brand equity.

I am pleased with the progress our teams made executing against their strategic priorities during the quarter. Our strategy is working, enabling us to grow sales, increase market share, and invest in our people and our brands, all while continuing to return capital to our shareholders.

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Last month, we held our annual leadership conferences, which provide a powerful way for us to engage with every general manager and managing partner across all 1,875 restaurants. These restaurant leaders hold the most influential role in our company, and the opportunity to interact with them and listen to those closest to the action is invaluable. Our leaders return to their restaurants aligned to their brand's operational priorities and motivated to continue winning.

In order to win, we must stay focused on executing our Back-to-Basics operating philosophy and leveraging our four competitive advantages as we continue to working in pursuit of our higher purpose to nourish and delight everyone we serve; our guests, our team members, and the communities where we operate.

One of the ways we serve our communities is by fighting hunger. Once again this year, Darden is helping Feeding America add refrigerated trucks for 10-member food banks to support mobile pantry programs and food distribution in communities with the highest need. With the addition of these new trucks, 25 different food banks have received a truck since January of last year.

Of course, our philanthropic giving would not be possible without the passion our restaurant teams have for nourishing and delighting our guests. On behalf of our leadership team and our board of directors, I want to thank our 180,000 team members for everything you do to serve our guests and communities.

Now, I will turn it over to Raj.

Rajesh Vennam

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

Thank you, Rick. Good morning, everyone. We had strong absolute results in the first quarter and continue to be pleased with the efforts of our restaurant and support center teams to drive sales, effectively manage spending and navigate a challenging environment. We're lapping record first quarter performance from last year, which was driven by a resurgence in demand, more efficient labor with staffing levels below our standards and many other costs that had yet to be reintroduced into the business as we recovered from the impacts of the pandemic.

Total sales for the first quarter were \$2.4 billion, 6.1% higher than last year and driven by 4.2% same-restaurant sales growth and the addition of 34 net new restaurants. Diluted net earnings per share from continuing operations were \$1.56.

Total EBITDA was \$340 million, and we paid \$150 million in dividends and repurchased \$199 million in shares, returning a total of \$349 million of cash to our shareholders this quarter. In the first quarter, total inflation was roughly 9.5% and total pricing was approximately 6.5%, almost 300 basis points below inflation.

We expect total inflation and our gap between pricing and inflation to have peaked in the first quarter. We also expect inflation to moderate throughout the remainder of the year, while our pricing gap should narrow in both the second and third quarter and then reverts in the fourth quarter. And while we'll have commodities inflation risk in the back half of the year, we have pricing plans ready to put into action, which will help preserve our targeted gap to inflation for the year if we see inflation higher than our expectations.

Consistent with what we expected and communicated in the June call, the significant level of pricing below inflation pressured all aspects of our P&L in the first quarter and drove margins well below last year. As we look to the second quarter, we expect margins to decline less than they did in the first quarter and then grow versus last year in the back half.

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Now looking at the details of the P&L compared to last year, food and beverage expenses were 280 basis points higher, driven by commodities inflation of 15%. Restaurant labor was 50 basis points above last year, driven by hourly wage inflation of just over 9% and wrapping on last year's elevated productivity. Total restaurant labor inflation was 7.5%. Restaurant expenses were 10 basis points above last year driven by higher repairs and maintenance expense due to supply chain challenges and utilities inflation of 16%. Marketing spend was 20 basis points higher as we increased testing of both digital and television marketing.

G&A expense was 130 basis points below last year, driven primarily by two factors. First, mark-to-market expense on our deferred compensation plans was lower by about \$7 million; and as a reminder, due to the way we hedge this expense, this favorability is largely offset on the tax line. Second, equity compensation expense related to retirement-eligible individuals and our incentive accrual, while both in line with our plan, were significantly less than last year.

Operating income margin of 10% was 220 basis points below last year, but 60 basis points above pre-COVID levels. Our effective tax rate for the quarter was 13.7%, and we ended the quarter with earnings from continuing operations of \$194 million.

Now looking at our segments. All of our segments outperformed their respective industry benchmarks on both traffic and sales. And as Rick mentioned, we began seeing a return to normal seasonal sales patterns. This was evident in our monthly same-restaurant sales compared to last year when we did not experience typical seasonal softness. Same-restaurant sales for June were in the mid-3% range, July was in the low-1% range, and they were approximately 8% in August.

Sales at Olive Garden were 3.7% above last year, and average weekly sales were 101% of the pre-COVID level despite the significant reduction in promotional activity and couponing versus that time period. As we talked about in the past, we believe the pre-COVID marketing and promotional activities historically drove double-digit traffic. And when we look at our average weekly traffic at Olive Garden, we're retaining over 90% of pre-COVID indicating that traffic trends are flat to above pre-COVID levels when considering historical marketing activities.

LongHorn sales were 6.6% above last year, and average weekly sales were 126% of the pre-COVID level. Sales in our Fine Dining segment were 8.6% above last year, and average weekly sales were 120% of the pre-COVID levels. Our Other segment sales were 9.9% above last year, and average weekly sales were 109% of the pre-COVID levels.

Despite all of our segments having higher sales above last year, the high levels of inflation and wrapping on last year's inflated earnings, when many costs had not fully returned to the business, pressured segment profit margin below last year for all the segments.

Turning to our financial outlook for fiscal 2023. We reiterated all aspects of our guidance in this morning's press release, culminating in diluted net earnings per share between \$7.40 and \$8 for the year. Finally, looking at the second quarter, we've seen continued strength in our sales trends with quarter-to-date sales above the high end of our annual same-restaurant sales outlook range. We also expect commodities inflation close to 13%, pressuring the second quarter EPS to be flat to slightly below last year.

In what continues to be an unpredictable year, we're confident with the underlying strength of our business model and in our team's ability to effectively manage through it.

And with that, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will begin with Brian Mullan with Deutsche Bank. Please go ahead.

Brian H. Mullan

Analyst, Deutsche Bank Securities, Inc.

Hey, thank you. Rick, in the prepared remarks, you referenced seeing some continued softness with the lower-income consumers with the most exposure at Cheddar's and Olive Garden. Just to the degree you'd be able to comment, is that consumer feeling incrementally more pressure than they were when we heard from you three months ago or does it feel more stable to you right now? It would just be helpful to hear your thoughts given all the crosscurrents.

Ricardo Cardenas

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

Hey, Brian, thanks for the question. The consumer at the below \$50,000 is feeling a little bit worse than maybe before, but gas prices are helping. So if you think about that consumer at \$50,000 a year and below, gas prices make up a big portion of their income. And actually, that consumer spends more money on gas per person than any other income group above them. So as gas prices came down, they started feeling a little bit better, but we'll see what happens with gas prices going forward.

And if I can clarify one other thing that I mentioned in the prepared remarks, I said that To Go sales were 32% – I'm sorry, digital sales were 32% To Go of off-premise. They were actually 62%. So sorry about that.

Brian H. Mullan

Analyst, Deutsche Bank Securities, Inc.

Okay. Thanks. And then just a follow-up question on marketing. You did touch on how you'll approach it from here, if you were to bring it back. But if you could just maybe elaborate a little bit on how you will approach that. I know the goal is to make sure you're driving restaurant profit dollars for the organization. But maybe from a capability perspective or from how you measure ROI, is there anything different going forward than maybe how you would have did this three or four years ago as you bring it back – if you do bring it back?

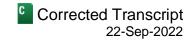
Ricardo Cardenas

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

Yeah, I'm not going to get into detail on if we're bringing it back. As I did say in the prepared remarks, if and when they introduce promotional activity, it should elevate brand equity in which we've been doing for the last year or so at Olive Garden, it should be simple to execute and not be at a deep discount. Our goal with anything we do promotional activity or anything else we do to drive sales is profitable sales growth and we have ways to measure ROI. The things that we learned through COVID and even – and we knew before when LongHorn started to reduce their kind of limited time offer price point, deep discounted promotions is there was a lot of work involved in getting items that we don't usually have in the restaurant, getting that through the supply chain, training it. And so there were a lot of costs there. And so as we think about future potential kind of communication methods and the way we talk about our products and promote, as I said, is going to be things that don't make it more complicated, much more complicated in the restaurant, but it has to focus on our brand equities and not be a deep discount.

Operator: We'll now move to our next question, which will come from Jeffrey Bernstein with Barclays.

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Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you very much. Two questions. One, just on the near-term results. I'm just wondering how did the actual comp and earnings compare to internal expectation for the first quarter. And as you think about fiscal 2023, I know the guidance was unchanged, but it would seem like the lower end more likely in a slowing macro. I'm just wondering whether we're missing something in terms of your expectation for a comp reacceleration or more significant inflation easing or more cost savings. Just trying to get a sense for the first quarter relative to the rest of the year?

Rajesh Vennam

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

Hi, Jeff, this is Raj. So when we think about our plan and our actual internal expectations and our estimate, we're basically just – told the board that we're basically back on plan. We're really in line with our internal expectations. As we look specifically at the quarter, was there a little bit of a miss on the sales side? Yes, but not as big as you guys might think. And then overall, profitability was in line and actually slightly ahead. But again, quarter-to-quarter, there is some volatility. As the quarter started or as the year started, we started to see the seasonality return to normal and that was really one of the things that changed how we thought about the business.

And if you look at versus pre-COVID, how we trended, the traffic retention was actually pretty similar in Q1 to the way it was in Q4. So there's a lot of noise when you look at year-over-year because of the reopening last year and especially if you think about California that reopened in the middle of June or late June that helped Olive Garden and, to some extent, Yard House, you're wrapping on those levels. So that's why there's a lot of noise year-over-year. But I think the best way to look at it is versus pre-COVID. And when we look at it through that lens, Q1 was actually, like I said, pretty consistent with the performance we had in Q4.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Understood. And then just to follow up, the comps. I think you mentioned in August, you were running roughly – you ran roughly 8%. That seems like a significant acceleration versus the June and July, and I think you said in September, you're running above the 4% to 6% that you guided for the full year. So I'm just wondering if you can share any thoughts in terms of why you think you saw such a sharp reacceleration versus maybe June and July, I didn't know if it's just all that compares on a multiyear basis or maybe, Rick, as you mentioned, the easing gas price is helping. Just trying to get your thoughts on the reacceleration and your directional assumption for the rest of the year. Thank you.

Rajesh Vennam

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

Yeah. I think I would, again, go back to the reference to pre-COVID. And if you actually look at it through that lens, you're going to find that August, while year-over-year was higher, it wasn't that big of an increase versus pre-COVID. Is there a movement of a point or two between the month-to-month when you look at it versus pre-COVID? Yes. But in general, we're actually fairly consistent, and I think it's just – I know it's hard because it's three years ago, but that's really the baseline you got to look at. If you look at it through that lens, our cadence actually looks pretty reasonable. It doesn't look like there's a huge acceleration.

Now there are some specific things related to unique – in the promotional activity for the brand that when we wrap on that, the pre-COVID retention might be a little different. And that is part of how we look at it, and we take that into consideration as we estimate the business. And that's where you see the retention may be a little bit different

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month-to-month because of the promotional activity we might be wrapping on versus pre-COVID. But when you exclude that, in general, it's actually been fairly consistent and our estimate essentially assumes that going forward.

Operator: We'll now move to our next question, which will come from John Glass, Morgan Stanley.

John Glass

Analyst, Morgan Stanley & Co. LLC

Thanks very much, and good morning. Rick, first of all, can you just talk about the competitive intensity, promotional intensity in the industry. Everyone presumably is seeing the same pressure on the low-end consumer. So are you seeing more of competitive activity, versus I heard some of your competitors talk about reducing promotional activity just to repair their margins. So there's a lot of crosscurrents here. How do you perceive what's going on in the industry from a competitive intensity standpoint right now?

Ricardo Cardenas

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

Yeah. We aren't seeing a lot of significant promotional activity. Other than a couple out there, there's one brand out there doing an all you can eat promotion that they did before COVID at the same price point. There's another brand out there doing an all you can eat promotion at a much significantly higher price point than pre-COVID. But I think you mentioned it, margins are challenged in a lot of these competitors. And so the ability for them to do significant discounted promotions to drive traffic may not be something that they do. Now if food costs come way down, they might start talking about promotions and price points. But the margins that you see out there versus pre-COVID might make it a little bit harder for them to do some significant deep discounting.

John Glass

Analyst, Morgan Stanley & Co. LLC

That's great. And then you talked about your own low-end consumer, particularly at Olive Garden being under pressure. Do you intend to target those consumers to stimulate the return to your restaurants or do you view this as like, look, right now, they're not probably dining out as much and so no matter what you do, it doesn't really change their outlook on dining? How do you think about recapturing those visits?

Ricardo Cardenas

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

Yeah. I think a couple of things. One is, let's not read into it that we're seeing a huge, huge reduction in that consumer. We're seeing a little bit of change in the behavior from that consumer, but not huge. And so we don't want to change what we do just to capture a segment of the population. We want to continue to focus on what we've been doing, especially at Olive Garden is to earn one more visit from our loyal guests. And our loyal guests span a lot of income levels. And so anything we do is going to help drive more loyalty from our existing guests, whether they are at below \$50,000 or above \$50,000. Remember, we said that \$50,000 income consumers make up a portion of Olive Garden, but it's not a majority. And so, a majority of our consumers still are above that, and that consumer, especially above \$100,000, is doing very well.

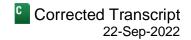
Operator: [Operator Instructions] We'll now take a question from Jared Garber with Goldman Sachs.

Jared Garber

Analyst, Goldman Sachs & Co. LLC

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Great. Thank you for the question. Raj, I wanted to ask about the commodity inflation and the outlook maybe from here for the next three to six months. I think you said there's some risk in the back half of the year. And it seems like maybe the second quarter inflation guide is a bit higher than what we have been expecting based, I guess, on some recent commentary. So, wanted to just get a sense of what you're seeing and how you're contracting forward, and then maybe when we can start expecting maybe some inflation easing, particularly on beef, I think we've seen some easing in the inflationary environment on some of the costs there. So, I just wanted to get a sense of how you're planning for that to flow through throughout the year. Thanks.

Rajesh Vennam

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

Yes, Jared, I think, first of all, I want to remind you that the commodities inflation, when we talk about inflation is really a function of what we purchased last year at what price. And for us, I'll take one great example is, we had a great chicken contract. I think we were buying boneless chicken breast in the range of, call it, mid-\$1 range and as you all know, I think over two, three months ago, the price of that was as much as \$3.50. And I think this week, it's come down to almost \$1.80, \$1.85, right? So, it's come down a lot. The pricing level, we are definitely seeing the movement in the right direction. But we had expected some of that to happen as we guided. And in fact, directionally, things are moving consistent with what we expected, maybe not as quite as fast as we thought. But it's not that far off. I mean our commodities inflation for the year – at the beginning of the year, we said we're around 7%. We're probably looking at closer to 7.5%, but that's not a huge change given the volatility we've had in the market. But as we get to the back half, we do wrap on some of these elevated costs. And so, as we look at quarter-to-quarter, we do expect, as we get into Q3, to be more in that mid-single-digit range. And as we get to Q4, probably more close to flat to slightly deflationary year-over-year.

The other thing is we have – our coverage, it's really still hard to get coverage too far out. And as you can saw from this morning, I think we showed it in the amount of coverage in our slides here. I think we have 50% coverage over the next six months. And in fact, when you look at the next three months, that's just over 70% but then after that, it's only – it's closer to 30% coverage. And so, it's still hard to get – the forward premiums are still high, and we – especially when things are coming down, we don't want to lock ourselves and not have that optionality. But again, as I said in my comments earlier, if it ends up being a little bit higher, we have headroom in pricing to be able to deal with that.

Jared Garber

Analyst, Goldman Sachs & Co. LLC

Thanks.

Operator: We'll now move to Chris O'Cull with Stifel. Go ahead, please.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

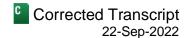
Thanks. Good morning, guys. Raj, I was hoping you could just level set us for the second quarter. The comps you said were above the 4% to 6% range quarter-to-date. But, if the comps relative to pre-COVID are pretty steady for the rest of the quarter, would that imply much variation?

Rajesh Vennam

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

So, I think, much variation – I want to make sure I understand the question right. When you say much variation from like month-to-month within the quarter, if that's the case, yes, there is some, because of – again, if you look

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at – I have to go back, look at exactly the pre-COVID numbers. But I know that, like I was mentioning earlier, there is the promotional activity that you have to take into consideration as a base. So when we look at pre-COVID, we tease out the impact of promotions and look at that, and that's how I – we say that's fairly consistent when you look at it, taking out the impact of the promotional activity from then to now. But are we seeing that versus pre-COVID or are we a little bit better September to-date? Yeah, but it's not meaningful – it's not big enough to really call it a trend change.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. I was just trying to figure out if October, November comparisons relative to COVID or pre-COVID or relative to last year even are much different from what you have in September, you're wrapping in September.

Rajesh Vennam

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

I don't believe so. I'm trying to think if there is a holiday shift in November, but that's the only thing I can think of. But I don't think there's any change. Yeah.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. And then assuming the holiday is following – assuming the holiday is following a more normal seasonal pattern this year, which of your brands do you expect to be impacted the most on a year-over-year basis? For example, I would think fine dining's performance might accelerate if we have a normal holiday season, but I wasn't sure how all the brands might be impacted.

Rajesh Vennam

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

Actually, I think by the time we got to the holiday season last year, obviously Omicron was a factor that started to kick in late into the holidays, and we expect third quarter to be an outperformer on the comp side because of that wrap on that. But outside of that, when we look at our segments, I don't know that there's anything unique that this year holiday wrap that would cause them to be different from where we were before COVID. And I just want to remind you, last year, December was a record sales month for us. It was really – the Omicron impact was kind of basically the last week of December leading into January.

Operator: We'll now move to our next question. That will come from Dennis Geiger with UBS.

Dennis Geiger

Analyst, UBS Securities LLC

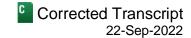
Great. Thanks for the question. I appreciate the details and the commentary on pricing. Just wondering if you could speak to what you've seen to-date as far as the customer response to the pricing and kind of how that impacts your go-forward thoughts, obviously, marrying that up with how you spoke to inflation.

Rajesh Vennam

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

Yeah, I'd say, generally, the pricing flow-through is consistent with what we would expect. I think, Rick mentioned earlier, when you look at the lower income, is there a little bit of erosion on the add-ons? Yes, but it's not meaningful enough for us to say that there's a pushback on pricing, but mind you, we're pricing a lot less than our

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competitors. And as you think about the fact that the last quarter, our pricing was 6.5% roughly that compares to full-service CPI of 9%. And in fact – and then – and I'll just point out that when you look at it over a two-year basis, we price 7.5%. And I think, FSR is close to 14% on a two-year. And that just gives you a sense of the fact that we may not be seeing what some others might be seeing, because we haven't taken the levels of pricing that the industry in general has taken.

Dennis Geiger

Analyst, UBS Securities LLC

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Right, appreciate that. And then just I'm wondering if you could speak to dining room traffic levels currently. Where that stands? What kind of runway you may still have within the dining room and the benefits there, if To Go stays elevated? Thank you.

Rajesh Vennam

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

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Well, I think we've said in the past, there's not a huge difference in profitability between dining room versus take off-premise. The margin differential is de minimis across the portfolio. Is there some difference from brand to brand? Yes. But when you look at through the portfolio, the levels of profitability is not that different. And as we look at – if you're looking at what the impact might have if the mix changes, I wouldn't say that changes the margin that much. And again, we – two quarters in a row, now we are seeing consistent off-premise level. So, we'll have to see how that plays out over time. But I don't expect the margin to change materially based on the change in mix.

Operator: David Tarantino with Baird has our next question. Please go ahead.

David E. Tarantino

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



Hi. Good morning. Raj, I just want to clarify a couple of comments you made on the underlying sales trends. So, my question really is specific to Olive Garden and how you're viewing the performance for the first quarter relative to what you were seeing prior to the first quarter. It sounds like maybe you aren't viewing it that differently, but I just wanted to clarify just the way we would calculate kind of multiyear comps. It did look like a slowdown, but then you did have that promotional activity pre-COVID. So I guess, when you sort of make all the adjustments you're making for Olive Garden specifically, how are you viewing the performance of that brand in the first quarter?

Rajesh Vennam

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



Yeah, David. Look, we're actually very pleased with the work that Olive Garden team has done in keeping with their strategy. And I'll tell you, as we look at our guest count retention, which is the way we look at it, Q4 Olive Garden guest count retention was in that low-90s, call it 91%, 91-ish and in the first quarter, they were basically in that range. So they're within 0.5 point of what Q4 was. Was there – I think year-over-year, there are a lot of dynamics, which is why I think there's a little bit of that confusion as well. But when you look at it on a three-year, traffic retention from Q4 to Q1 at Olive Garden was pretty consistent.

And then, the other thing I'll point out is Q1 before COVID, what we're comparing to is the quarter where we had buy one, take one for nine weeks of the – eight or nine weeks of the quarter. And then we also had a big launch of a second promotion that had high TRPs and couponing. And in fact, so when you actually exclude all that, we feel like Olive Garden was actually in a great place. And that's the point we're trying to make is that, I don't think – we

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are – us being close to the business and understanding the details, when we take out those noise – take that noise out, Olive Garden's performance has been pretty consistent.

David E. Tarantino

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

Great. That's helpful. And then on the quarter-to-date number, I think you said last year, you were doing comps versus pre-COVID around 7%, if I'm not mistaken. So, if you're north of 6% versus that number, it would imply a pretty big acceleration versus what we've seen in recent quarters. And it didn't sound like you were viewing it that way. So I guess, could you reconcile that math for us in your comments that maybe you haven't seen an inflection?

Rajesh Vennam

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

Yeah, David, I think a couple of things. One, you got to take into consideration the pricing difference between over three years from the first quarter to the second quarter. Then I think when we look at traffic, yeah, I mean it does like I was mentioning earlier, there is a little bit of an increase versus pre-COVID. But when we take out the impact from promotions from three years ago, it's not a huge step change. So that's the other part that I think you're missing is like September, three years ago, we did not have the same level of promotional activity at Olive Garden as we did in June and August – or the first quarter of this year. So that's another factor that plays into how we look at it.

Operator: Now moving to a question from Peter Saleh with BTIG.

Peter Saleh

Analyst, BTIG LLC

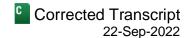
Great. Thanks. Appreciate all the color. I just wanted to come back to that conversation around the guest count consistency at Olive Garden and just kind of pair that with the commentary you guys made earlier. So just trying to understand, I think last quarter, Rick, you had mentioned that there was some check management at Cheddar's. I think this quarter, you're talking about some slowdown or weakness with the consumer under \$50,000 of income. Just trying to understand how that's manifesting itself right now in these two brands. Is it more traffic declines or is it check management? Just trying to understand that in the context of what Raj just indicated on guest count retention at Olive Garden.

Ricardo Cardenas

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

Hey, thanks, Peter. All right. We're getting a lot of questions on traffic at Olive Garden. I just want to reiterate, we're really proud of the work Olive Garden has done and Dan has done and the team over the last couple of years. What they've done to simplify their operation, to improve margins over time, over pre-COVID has been great. They outperformed the industry this year, this quarter in both sales and traffic. And as I shared in our prepared remarks, within our portfolio, they have more consumers at below \$50,000. That doesn't mean that we're worried about the below \$50,000 consumer because it hasn't been a significant move in traffic from that. Yes, we've seen some check management a little bit. And as we've said, it's not significant. So, our media is a lot lower. There's a lot of reasons for the performance at Olive Garden and the performance at Cheddar's. But we haven't seen much check management, maybe a little bit at Cheddar's.

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Peter Saleh

Analyst, BTIG LLC

Understood. Okay. Very helpful. And then just on the marketing expense for the full year, I think you guys had indicated previously, maybe that would be up about 10 basis points. I think in the first quarter, it was up about 20 basis points. Are you still on track for maybe just a modest increase this year or do you think you guys will maybe take that up slightly given the trends so far in the first quarter?

Rajesh Vennam Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc. Peter, this is – actually, I don't think it has anything to do with the first quarter trends. But as we look at our plans, I think we're basically within that 10 to 20 basis points, and quarter to quarter, it might vary. But you might see some quarters at 20 basis points, some at 10 basis points, but that's still what we expect to do for the year. Peter Saleh Analyst, BTIG LLC Thank you very much. **Operator**: We will now hear from Brian Bittner with Oppenheimer. **Brian Bittner** Analyst, Oppenheimer & Co., Inc. [ph] Thanks. I think there's some confusion in how you're talking about (00:38:46-00:38:52) trends relative to pre-COVID because clearly Kevin Kalicak Senior Vice President, Finance and Investor Relations, Darden Restaurants, Inc. Brian, your line is [ph] breaking (00:38:54) up. Can you clear your line? **Brian Bittner**

Operator: We hear you better now. Go ahead.

Analyst, Oppenheimer & Co., Inc.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Can you hear me? Hello?

Okay. So you can hear me, okay. I just – I think I want to address, I think there's some confusion in how you're talking about trends relative to pre-COVID. Because clearly, we as the analyst have no way to strip out impacts of promotions like you do when we speak to your underlying trend and you speak to it excluding promotions, it's kind of apples versus oranges to our models. So like for instance, if you hold anywhere near this 6% comp for 2Q, it would suggest 400 basis points of acceleration in the pre-COVID trend from where you were in the first quarter. And so I think what we're trying to figure out is there's something happening that's more positive in the business recently than you're leading on or conversely should we expect that one-year trend to come down a lot moving forward to kind of keep that multi-stack trend intact, if that makes sense.

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Rajesh Vennam

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

Yeah, Brian, I mean, I understand where you're coming from. But I think there's so much uncertainty in this environment for us to basically say that what we saw in the last three weeks or four weeks and then just to be able to say that should be the new number, and that's how we should look at it for the full year. That doesn't make sense. If we look at what happened over the last six months, consistently there's a little bit of movement from week to week. But when you come back and look at it over a larger period of time, call it six or eight weeks, it's pretty consistent. And that's really what we're looking at it through that lens. And I get the point around the promotions, and you don't have visibility to some of that. But even if you just look at the absolute number, I think for Q1 – Q4, it was, like I said, 91%, 91% to 92%, and Q1 was basically 91% of pre-COVID at Olive Garden, for example. So it's actually pretty consistent from Q4 to Q1 at an absolute quarter level. Month-to-month, week-to-week, there is some volatility, but that's really – that's where the promotions come into play.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Okay. And just going back to the first quarter on Olive Garden, I know you were happy with its performance and again stripping out the promotions, great noise in how you look at it versus us. But obviously versus the quarter before, it did slow materially in the trend versus 2019 or versus pre-COVID, whereas all the other segments and brands really held steady. And I guess the question is does Olive Garden have a bigger return to seasonality factor in its business and the other brands? And also, what percentage of Olive Garden is exposed to that under \$50,000 consumer relative to the other brands?

Ricardo Cardenas

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

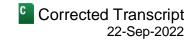
Yeah, Brian. So Olive Garden did not have a different seasonal pattern than the other brands, so the seasonality pattern was very consistent with Olive Garden with LongHorn and Cheddar's. The difference in kind of the two – the three-year difference or pre-COVID difference was something that Raj said. In the summer of 2019, we had buy one, take one in the first quarter at Olive Garden. It was the first time we did it in the first quarter. So it was about, I think, a 2-point swing that we had from Q4 to Q1. But the seasonality was very consistent across when you compare.

As the \$50,000 income, Cheddar's and Olive Garden are fairly consistent. They're a little bit higher than they are at LongHorn. But it's not anywhere near the majority. And so we're not going to give you an exact number, but it is higher than LongHorn, but it's not significantly higher.

Brian Bittner Analyst, Oppenheimer & Co., Inc.	C
Okay. Thank you.	
Ricardo Cardenas President, Chief Executive Officer & Director, Darden Restaurants, Inc.	Д
Sure	

Operator: Andrew Charles with Cowen has the next question. Go ahead.

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Andrew M. Charles

Analyst, Cowen and Company, LLC

Great. Thank you. Given the return of seasonality in the industry that could weigh on Olive Garden seasonally like fiscal 2Q, within the reiterated revenue guidance though, what gives you confidence that you'll see the benefit of seasonality in fiscal 3Q and fiscal 4Q the strongest fiscal quarter – the strongest seasonal quarters for the business as the consumer backdrop, particularly at the low end, is a bit shaky here?

Ricardo Cardenas

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

Yeah. Well, when we talk about return to seasonality, it's based on the consumer backdrop there is today, it's not necessary – if something changes dramatically, you might see some different seasonal patterns. But my guess is you'll still see the same flows month-to-month, quarter-to-quarter. It just might be a little bit lower, a little bit higher depending on where the consumer is. The only difference that we'll see – and that's versus pre-COVID. When you think about versus last year, we are going to have the Omicron wrap that we have in January basically and a little bit of February.

So that should help versus last year on a Q3 basis. But as we talk about seasonality, it's really more about the consumer returning more to normal based on COVID, not on the economy, because we're basically assuming that the economy stays somewhere around where we are. If it gets a little worse, that might impact inflation in a positive way for us. And as we said in the call in the first quarter, if food costs go down 1%, it's better – it offsets a 2% decline in guest count. I'm sorry, if total inflation goes down 1%, it impacts – it's the same impact as a 2% change in guest count.

Andrew M. Charles

Analyst, Cowen and Company, LLC

Thank you.

Operator: And Lauren Silberman with Credit Suisse has the next question. Go ahead, please.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

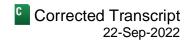
Thank you very much. I have a quick follow-up on Olive Garden. So it seems like the headwinds in the reduction and discounting impact – were outsized in the fiscal first quarter, given all the promotions. To be clear, excluding the promotions, were three-year trends closer to positive mid-single digit and is that what you'd expect for the rest of the year?

Ricardo Cardenas

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

I would say on three-year trends in sales, we would be positive even more than that because we were positive to three years ago in sales right now. On the traffic side, what we've said in the past is the marketing activity and the spending that we've done in marketing is probably around a 10% impact to traffic. And Raj mentioned that in the first quarter and in the fourth quarter, we were in the low-90s to traffic to pre-COVID, and that's mostly driven by all of the media that we did before and the coupons and all the other things. But it was something that we wanted to do, and we expected to see some traffic miss from that. And so total sales would be higher and guest count would be higher if we were in the same kind of marketing mix we were before.

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Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC

Understood. And then just – I wanted to ask about on-premise traffic across the industry. It's still down despite closures. Any perspective on why that might be the case and which occasions still haven't fully recovered, especially as we enter what seems to be an increasingly challenging consumer environment?

Ricardo Cardenas

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

Yeah, I think a couple of things. The off-premise experience is a lot better across a lot of places. So, people have other ways to get their food from casual dining than they did before. And so that could lead to a little bit less dining room traffic, especially as there are still some consumers that don't want to go out to eat. While a lot of people think COVID is over, there are some that don't. And so even with restaurant closures, a lot of the closures happen in independents in urban markets. And so some of the suburban markets are still doing well and they didn't have as many closures. So – but what Raj was mentioning earlier, with margins being basically the same for us on off-premise versus on-premise, because we don't have that delivery charge, then we're okay wherever it is.

We want our dining rooms to be more full, and you're starting to see them fill up. Not all the brands are back to pre-COVID levels. LongHorn is above pre-COVID levels in traffic. And so we feel good about all of our brands and what they're going to do. The good news is if our dining rooms aren't back to full, we've got capacity. And as we continue to see some improvement, as we continue to do the things that we have been doing over the last few years, focusing on simplification, making it easier for our teams to do what they do, investing in our food, investing in our teams, then we're going to have an even better experience as guests come back, and they are coming back. So, that just gives us more opportunity to grow in the long run because our dining rooms in some of our brands aren't back to pre-COVID levels. That's being offset in most of our brands by To Go.

Lauren	Sil	bern	nan
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Analyst, Credit Suisse Securities (USA) LLC

Thank you very much.

Operator: Moving to Jeff Farmer with Gordon Haskett.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors

Thanks. Just a couple of quick follow-ups. So, can you update us on where you see G&A dollars for the full year considering what we saw in the Q1?

Rajesh Vennam

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

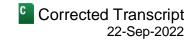
Yeah, Jeff, I think for the full year, we're probably still close to that \$400 million, which is where I think we were before COVID. So, three years of inflation and other things, growth costs all help offset the corporate restructuring savings of over \$25 million or so that we got. So, I would say, at this point, our estimate is closer to that \$400 million for the full year.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors



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Okay. And then there were a couple of mentions about this. But as we approach that January-February timeframe when you saw the most significant Omicron headwinds, is there any color you can provide on the magnitude of sales headwind that you potentially saw over that January and February time period?

Rajesh Vennam

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

Yeah, I think last year, if you go back, we talked about that impacting sales by about \$100 million – call it, in that \$90 million to \$100 million range. So that's really the tailwind as you look at it year-over-year on the sales front.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors

Okay, appreciate that. Thank you.

Operator: We'll now move to Jon Tower with Citi. Go ahead, please.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Great. Thanks for taking the questions. Just two for me. First, Rick, your comments earlier in the prepared remarks and answering some of the questions about promotions only coming back on if they're profitable. Does that mean that we may see historical promos of the past show up again, but priced at a level that's more profitable to Darden, so for example, I'm thinking like Never Ending Pasta at Olive Garden?

Ricardo Cardenas

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

Yeah, Jon, we're not going to discuss our plans for competitive reasons. But as we've said a few times today, anything that we do should emphasize our brand equity and be more profitable than they were before.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Okay. And then I guess just following up another comment earlier in the call, the idea that you're seeing strength in that higher income households for those over \$50,000. Can you just talk about how that's showing up in the business either across the brands or within brands? Are you seeing, say, for example, higher traffic growth at Olive Garden in that subsegment or is it more about the check growth? Just curious if you could suss that out a little bit.

Ricardo Cardenas

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

Yeah, Jon, I think there's a few ways to kind of tease that out. One is look at our Fine Dining business and how well they're doing and the sales that they've had. Even though in the first quarter, the urban markets hadn't reopened yet really much and a lot of people hadn't gone back to work. We had a significant difference in Fine Dining in the suburban markets versus the urban markets. That's tightening now with people going back to work. But Fine Dining is doing really well.

Many of our other brands in the other segment, you've got Yard House, you've got Seasons 52 doing very well because of that consumer. And at Olive Garden, our mix has changed and so our consumer is a little bit higher. And so think about LongHorn. LongHorn caters to a little bit higher consumer and their sales are still strong, and

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traffic is still strong versus pre-COVID. So there's a lot of ways to see it. And we're seeing the ability as we take price in some of the Fine Dining brands, there's really no pushback. So we think that is a broad-based benefit for us because we have a portfolio of brands that kind of run the spectrum of the consumer. And so when one segment of the population isn't doing as well, the other segment is, then we are still okay. And then if it flips the other way, we're okay. And so right now, there's just one segment of the population that's being hurt a little bit more by inflation than others. And the good news is we've got brands that aren't impacted by that.

Jon Tower Analyst, Citigroup Global Markets, Inc.	Q
Thank you.	
Operator: Moving on to Eric Gonzalez with KeyBanc. Go ahead, please.	

Hey, thanks. Good morning. Just maybe one about your guidance. It was encouraging to see that you reiterate all the components of the outlook. Raj, last quarter, you commented that the guidance implies full year margin in 2023 will exceed that of pre-COVID levels. But if I look at where things fell in the first quarter, the 17.5% was about 50 bps or 60 bps below where you were in the first quarter of 2020. So the question is, do you still expect those store-level margin to exceed pre-COVID levels for the full year? And second, can you give us a bit more color on how you expect the margin to progress throughout the year and what some of the levers outside of pricing that you can pull to bring it back up?

Rajesh Vennam

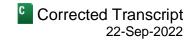
Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.

Yeah, Eric, let's say, we always talk about margins at the operating profit level or EBITDA level. The reason we do that is because there's a lot of difference. If we manage G&A better, that give us flexibility to put more costs into the investment into the four walls. So we don't focus as much on the four walls as the full because for us, at the end of the day, it's the total portfolio, right? Where are we for the whole P&L? Where are we from an EBIT margin, where are we from an EBITDA margin. If you look at it through that lens, first quarter was higher than pre-COVID by about, call it, 60 basis points on the profit level and 40 basis points when you look at it through EBITDA, so let me start with that.

And then as we look at the full year, do we still expect restaurant-level margins to be better than pre-COVID? Yes, that's what's embedded in our guidance for the full year. The cadence of that is going to be that we have – if you recall last year, the first and second quarter had the most improvement versus pre-COVID. So that's why you saw a year-over-year decline in the first quarter. We expect that to narrow a little bit in the second quarter, but still decline versus last year, but still ahead of pre-COVID. And then as we get to the back half, we expect to be higher than last year. That's what's embedded in our guidance. And part of that is the shrinking gap between pricing and inflation. And again, this was planful as we went into this year. And so we expect – at this point, we expect it to play out that way.

Eric Gonzalez Analyst, KeyBanc Capital Markets, In	<i>16.</i>		C
That's very helpful. Thar			

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Operator: And our next question will come from Andrew Strelzik with BMO.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Great. Good morning. Thanks for taking the question. I wanted to come back to the value and pricing discussion. And you noted – I know I'm asking this question amid all the inflation, but you noted chicken breast prices [ph] having (00:55:07) come back and you mentioned that beef prices [ph] having (00:55:10) come back. So I guess if we do go into kind of a more deflationary environment, you do see commodity costs really pull back. How do you think about promoting value throughout your brands? And do you feel like we end up in a position where maybe we're offside from a value perspective as maybe a casual dining group? I know we used to talk about food at home, food away from home. I don't know if you – how you think about that risk, but just curious for your thoughts on the levers, maybe if we were to go into that scenario.

Ricardo Cardenas

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

Yeah, if we're going to in a scenario that food costs deflate even more or reduce even more than we have in our estimate already, because remember, what I've said in the June call and even today is we continue to expect food cost to go down, the inflation to go down from where it was in the first quarter. And I'm assuming that our competitors are assuming the same thing. That said, we don't anticipate changing our messaging to be a pure value play. We think we have value on all of our brands every day based on the investments that we've made in our food, the improvement that we have in our service, and our brands are going to talk about whichever ones do any kind of communication, they're equities.

And at Olive Garden, it's never ending craveable abundant Italian food. At LongHorn, its quality and they talk about quality. It doesn't have – they don't have to talk about price. And at our other brands, we talk about – at Cheddar's, it is [ph] wow value (00:56:42). So if Cheddar's talks more in digitally, it will be about value because that's their equity. So we're not going to change our marketing based on what's happening with food cost. We're going to market based on our strategy.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Okay. Okay. Great. That's helpful. And then I apologize if I missed this. You mentioned staffing being back kind of to normal levels. But can you just give us an update on what you're seeing in terms of turnover and application flow? Thank you.

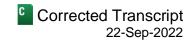
Ricardo Cardenas

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

Yeah, we continue to get a significant increase in applicant flow across the country. We have a new talent management system. We've had it for over a year. And that system allows applicants to automatically schedule their interviews, et cetera, and we've got so many interviews scheduled. We're going to have to figure out how to maybe slow that down because managers, all they're doing is interviewing in a lot of places. So we've got a really good applicant flow.

As we said, we opened quite a few restaurants this quarter. All of them were fully staffed with great people ready to go. Our turnover, our manager retention is much closer to pre-COVID levels. It's pretty close to pre-COVID levels and well better than the industry average, our manager retention. And our team member retention is also well above the industry, but it's not quite back to pre-COVID levels. So our teams are focused. And as we

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mentioned, we had our general manager/managing partner conferences last month. And most of those conferences we're talking about ensuring that we train our new team members and improve retention. We think that's a key for us going forward, and we'll continue to focus on trying to get our retention levels back to pre-COVID levels.

Operator: We'll now move to our next question. That will come from David Palmer with Evercore ISI.

David Palmer

Analyst, Evercore ISI

Thanks. Good morning. I think you said all traffic at Olive Garden is down 9% versus pre-COVID. Raj, I think you said that that's the inverse of the 91%. And if To Go mix was up maybe 9 points since then, the dining room traffic would be down more than that, maybe mid-teens or something like that. So maybe you can confirm if that's about right. But I'm wondering how much you look at that traffic gap in the dining room versus pre-COVID is an opportunity that you can invest against in a good ROI type of fashion versus traffic that was simply not profitable and not worth chasing with TV advertising, LTOs or coupons because just not efficient spend and you've got a healthy reset with COVID.

Rajesh Vennam

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

Yes, David, I think let me start by saying your numbers are right. That's accurate. The – yes, does that present an opportunity in the dining room? Absolutely. But we're going to go about it in a manner that's actually sustainable and that's where we go back to – over the last three years, we've invested so much into underpricing inflation. If you look at where Olive Garden's pricing has been over the three years, combined – full three years combined is at 10%. When you look at where full-service CPI – restaurant CPI was for the same timeframe, it's 17.5%.

So we've actually significantly underpriced the industry and actually, I would argue, significantly underpriced, maybe not to the same extent our competitors. So that is the way we believe to build back that guest. And Rick mentioned getting that one extra visit from our loyal guest, we think this is a sustainable, durable way to really get our guests back, it's going to take time. It's not a one magic, let's drive people in today or tomorrow. It's just going to happen over time. And I would argue that we're starting to see the fruit of some of that, but it takes time.

Ricardo Cardenas

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

And I just want to add one thing, David, which is what you said. Some of those guests that we were doing in these dining rooms might not have been as profitable as we'd like, right? We had a lot of coupons. There were times when we had five coupons in one week at Olive Garden, when we were running never any possible, right? And so we had to ask ourselves, is that the right thing to do to drive traffic, just to have a full restaurant if that traffic really isn't very profitable. We do a lot of work when they're there. And so are we better off with a loyal guest that doesn't need all of those discounts to come in, and we can serve them. They know what they're going to get. They get a consistent experience. So everything Raj said, I agree with, but our strategy is to – we've significantly reduced discounting. It's such a small part of the number of checks, very, very minimal, and we'd like to keep it that way.

David Palmer

Analyst, Evercore ISI

The other comment that you said in the opening comments, I think you said that customer satisfaction levels were near highs. I don't know if there – I'd have to go back and check, but what brands maybe we're talking about

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there, that's pretty striking because I think the industry customer satisfaction levels are near lows. I mean they've kind of gotten roughed up by a tough labor market, so are you finding that you've sort of your gap to the peers has dramatically shifted and the reason I ask that is because given your strategy, we see obviously best-in-class operators, they have very thin marketing and promotion budgets. So to some degree, if there might be a return on the customer set gap that you might be thinking about at this point. Thanks.

Ricardo Cardenas

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



Yeah, David, we specifically mentioned Olive Garden being at or near record highs, and we talked about LongHorn having their stakes grow correctly at record, but I would tell you that Cheddar's is at a record high for us in the time that we've owned them. They've got the highest satisfaction. They've got the lowest dissatisfaction they've ever had. We've got the same thing at Olive Garden, high satisfaction at LongHorn. I believe they're at their highest overall ratings or if not at the highest, are as close as they've been because cooking the steak right is a big part of satisfaction.

At our other brands, at Seasons 52, satisfaction is really high. So we haven't really seen – we've actually bucked the trend on consumer satisfaction, not just in the category. If you look at consumer satisfaction or customer satisfaction over the last few years, it's been on a decline. Ours is not. And we think it's because of what we've done over the last few years and even the last 5 or 10 years to continue to improve our guest experience to continue to add more value on the plate and to be consistent.

We've got a core group of team members that work in every one of our restaurants that have been there a long time. Our restaurants are fully staffed in general. We've got pockets of restaurants that are understaffed, but those are the same kind of pockets that we had before COVID. And so we believe that the things that we've done over the last few years have helped improve guest satisfaction because we've got great loyalty members. So is that part of the reason that we aren't – we don't have to do as much versus others on the marketing front? Perhaps. But what I would say, it gives us even more confidence that if we do turn on some media that we're going to execute really well and delight even more people.

David Palmer
Analyst, Evercore ISI



Thanks.

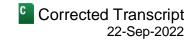
Operator: And with Bank of America, Sara Senatore. Please go ahead.



Thank you. Just two follow-ups, please. One, you made the point that your collective gap between food away from home and your own pricing has been quite wide, but you also said that you expect that gap or your inflation – your input inflation and your pricing gap to narrow. So I guess is there a – which presumably means your gap with – the collective gap with the CPI overall will also narrow. Is there like sort of a specific ratio you'd like to keep or I guess how do you think about that, the importance of having that very wide gap, but at the same time, seeing it narrow a little bit as perhaps support for margin? So just that was one question.

And then my second question is just on margins overall as you think about versus pre-COVID, I guess, my sense is that the big changes are in Cheddar's in particular. But as we think about kind of structural earnings power, what's the right segment margin, can you give any guidance among – across the different segments, Olive

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Garden, LongHorn and then the Fine Dining and Other? Just to get a sense of what normalized earnings should look like by segment? Thanks.

Rajesh Vennam

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

A

Okay, Sara, that's a lot. So let me start with the pricing gap first, and then I'll get into the margins. So the comment we were making was specifically quarter-to-quarter movement in the year. But what we're targeting for the year is about 100 basis points gap to our inflation. This is not necessarily reflecting the food away from home or that – but I don't anticipate that our gap to the full-service restaurant CPI will shrink. This is more about what's going to happen over the – by a lot. Maybe is there a 50 basis points movement? Sure. But is it going to shrink a lot? No.

What we're talking about is we are targeting for the year, as we said at the beginning of the year, we said approximately 6% inflation – total inflation and approximately 5% pricing. And we're continuing to – we're just saying that we'll continue that. But the gap is the largest in the first quarter. It's really a function of year-over-year and the commodities being at those highest levels. So as they come down, the gap to that inflation will narrow and might actually even reverse a little bit in one quarter in the fourth quarter. But the point here is that when you look at it over time, our gap is still pretty wide. And we expect that to remain that wide relative to the full-service CPI and implied also relative to competitors. So that's the thing on the pricing side.

As far as margins versus pre-COVID, our guidance implies that our margins will be less than last year; however, they will be still higher than pre-COVID. It still implies, call it, 40 to 50 basis points erosion versus last year for the full year. However, on the – versus pre-COVID still somewhere close to 150 basis points is what that implies.

As far as individual segments, I think the benefit of the portfolio is that our ability to react differently to different situations. And so to the extent, we have – we don't want to put a specific target by segment, because that really boxes us into a corner. And the way we would think about it is if the consumer on the high end is doing well, maybe we get a little bit more margin from there and invest in the places where we need to. And so, we're thinking long term to get to this portfolio number, but we continue to kind of really evaluate that and play it by the year based on the environment. And so we want to just be more nimble on that front.

	Q
Okay. Thank you.	
Operator: Now, we'll move to a question from Danilo Gargiulo with Bernstein.	
	Q

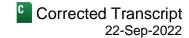
Thank you. Good morning. So first question, I'd like to understand a bit better on kind of the markers that you're looking for, for the marketing expense to accelerate as a percent of sales, in particular, if it's not kind of additional softness in traffic, what are the markets that you're looking for?

Ricardo Cardenas

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

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Yeah, I would say that this year, our marketing is going to be 10 to 20 basis points above last year. What are specific markers we're looking at to significantly increase marketing? There's quite a few. One is we're going to continue to – we're testing right now in some digital marketing and other media to see which one drives the best ROI. And when we feel like it's time to turn that on, we will. We're going to make sure that our turnover is back to a more reasonable level. Our guest experience is still great. But there's no one individual marker that we're going to say this – when this happens, we're going to turn on media. We just don't want to let our competitors know what the markers are.

Q

Thank you. And then the follow-up on unit growth. So, we noticed that on a Fine Dining basis, there was a reduction of – a net reduction of three units. So, I'm wondering, is there going to be a different composition in terms of kind of the plan of your portfolio going forward or was the reduction just a kind of a quarterly reduction that you don't expect in the longer run?

Ricardo Cardenas

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

A

Yeah, a couple of things. One, we had one of our restaurants catch fire and it had to close temporarily. But yeah – and we have – yeah, we moved Capital Burger into the other segment versus Fine Dining before, and there's three Capital Burgers in there. But we opened a restaurant in Fine Dining, but we only had one total closure. So, our total openings across the year are going to be consistent with what we said in June.

Operator: We'll now hear from Brian Vaccaro with Raymond James.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Good morning and thank you. I just wanted to follow up on the labor environment. And you said staffing levels are less of an issue, and your guest sat metrics are strong. So maybe this is less of an issue for you. But on the – it seems like retention, training, rebuilding teams and culture seems to be a significant challenge for a lot of companies in and outside of the restaurant industry. So, could you talk a little bit about how you're navigating these challenges, what changes or adjustments you've made? And what are some areas where you still see opportunities to improve on the labor front?

Ricardo Cardenas

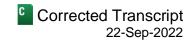
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President, Chief Executive Officer & Director, Darden Restaurants, Inc.

On the labor front or the staffing front. So a couple of things. One, yes, when we hire – when we have a lot more hires than we normally do, because we were trying to fill our restaurants back up and when our turnover is a little bit higher than it used to be, that leads to higher training. But we've got a great employment proposition. We're continuing to build up our certified trainer ranks. Some of them left the industry when COVID happened. So we're going to – we're just going to ensure that we do what we did before COVID. We're going to make sure when we hire somebody, they get onboarded like they should at a Darden restaurant that they go through the training, all of the training, and they're not just kind of thrown into the wolves because of short staffing. The fortunate thing is we're not really short staffed. So we have time to spend to train our team members.

In our industry, like many service industries, most – a lot of the turnover happens in the first 90 days. And so when you spend the time on training somebody and they leave within 90 days, there's a lot of cost. So we're

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focusing our efforts on hiring the right people and training them to our standards, so they don't leave in the first 90 days. And if we can just get that back to close to pre-COVID levels, our retention is going to be back to pre-COVID levels and that will save a lot of money on the P&L.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

That's helpful color. And, Raj, I think you said hourly wage inflation up around 9.5%, up a little over 9% in this quarter. I guess, with staffing levels recovered, I'm curious to what degree do you expect hourly inflation to moderate over the next few quarters?

Rajesh Vennam

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

Yeah, Brian, we expect for the full year to be around 8%. So that has implied, there's some moderation as we go through the year. Yeah, you're right, we started with a little bit over 9% in the first quarter. But again, we had – if you look at last year cadence, you got to look at that there was a step-up in the back half of last year. So as we wrap on that, we don't expect it to be at those levels, yeah.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

All right. Thank you. And then last one for me, shifting gears just for a second. I guess, I wanted to ask about the path to sustaining higher margins in a post-COVID world and I realize COGS is a big piece, but I ask it in context of Olive Garden store margins that are sort of for the first time running a couple of hundred bps below pre-COVID levels. And, I guess, where do you see ultimately COGS settling out over a multi-quarter or 12-plus months out from here? And maybe if not getting that specific, maybe just walk through or remind us the line item dynamics that you need to play out to achieve higher margins in a post-COVID world? Thank you.

Ricardo Cardenas

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

Yeah, hey, Brian, I'll start and then turn it over to Raj on maybe some line items. But if you think about Olive Garden, Olive Garden had the highest inflation of any brand at Darden this quarter. You had a lot of chicken inflation. Olive Garden sells a lot of chicken. There was inflation in wheat and inflation in cheese. And so that basically is Olive Garden's menu. And so that's why you saw a little bit more of a margin squeeze pressure at Olive Garden, but we have a portfolio that allowed Olive Garden to continue to price the way they've been pricing.

And so, we would expect, over the years, our cost of sales to move back towards where it was before. And - so we made some investments during COVID to shift some cost - some spending from marketing to cost of sales. We did that at LongHorn. We did it at Olive Garden. But we would expect our cost of sales to get back to a more reasonable level over the next few years. It's not going to happen in one year. It's going to happen in over a few years as food cost becomes more normal.

But if Raj, you want to add any more color on the different margin line items.

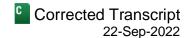
Rajesh Vennam

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

Yeah, I would just say, obviously, in the near term, from a margin perspective on the line items, we expect food cost to be higher. We expect, but everything else to be lower than pre-COVID. If you look at, restaurant labor is better than pre-COVID because of the productivity improvements, restaurant expenses are better than pre-



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COVID. Marketing is better than pre-COVID and then G&A is better than pre-COVID. So these are all the other line items that are actually helping fund some of the – deal with this higher inflation and helping fund some investments we've made into the plate. But then, as Rick said, over time, we'll continue to evaluate what makes sense and as inflation kind of normalizes or gets deflationary on the commodities front, that gives us more room to kind of balance back over time.

Brian M. Vaccaro Analyst, Raymond James & Associates, Inc.	Q
Thank you very much.	
Operator: Now we'll hear from John Ivankoe with JPMorgan.	
John Ivankoe Analyst, JPMorgan Securities LLC	Q
Hi. Thank you. Rick, at the very beginning of the call, I think it was you, [ph] Rick (01 making this up. There was a mention on technology investments that could potential off-premise experience. Could you, I guess, elaborate a little bit more in that? I mean employee-facing work that could potentially drive some efficiencies or are there any that you're seeing, particularly on the off-premise side that you think could increase elaborate a little bit, what that means, I guess, both over the near and medium term the brands may have on the technology side from this point forward?	Ily influence both the on- and n is that more kind of customer-facing initiatives sales? If you could just
Ricardo Cardenas President, Chief Executive Officer & Director, Darden Restaurants, Inc.	A
Sure, John. I want to start by saying, we've got a great team on the IT team that does experience and the team member and the manager experience. We've been spendil last few years improving the To Go experience because that's where the business we make investments in the off-premise experience. We've got some things that are in guest on the off-premise experience. But we've also got some things that we're work managers to make it easier for them to do their job. So, if the manager job is easier, time with our team, our team can be trained better and spend better time with their go	ng a lot of our efforts over the vas. And we'll continue to test now that will help the king for the restaurant then they can spend more
And so we're going to be spending some time and energy on focusing on things that easier. And we're also still doing some guest-facing things at the restaurant, but not how does somebody get on the wait list a little easier? How does somebody check it easier? How do they pay for their check a little bit easier? So there are some things across all those dimensions. And the benefit of our scale is we can do that, we can to one brand and move it to the other brands, and it kind of leverages that IT spend across all the second content of the other brands.	overtly in their face. And so n to the restaurant a little bit that we're still working on test it in one restaurant and in
John Ivankoe Analyst, JPMorgan Securities LLC	Q
Thank you.	
Operator: Next, we have Chris Carril with RBC Capital Markets.	

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Christopher Carril

Analyst, RBC Capital Markets LLC

Great. Thanks. Good morning. Just following up on off-premise. Can you talk about how that roughly 10-point swing in Olive Garden off-premise sales mix versus pre-COVID levels potentially impacts the check or maybe mix specifically versus those pre-COVID levels that we're comparing to? And then as you're thinking about the balance of the year, does your guidance assume that off-premise mix stays steady from here?

Rajesh Vennam

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

Yeah, Chris, off-premise mix, I mean, I think pre-COVID we were running close to 15%, 16%, so 8% more than that. That doesn't really change the check that differently. There is a little bit less beverages, but there are other add-ons. So when you look at overall, it's not a big difference. The other thing is catering, is one mix that could – that has an impact on the check average. But again, it's not huge at this point, but that is something that we have seen some resurgence in. In fact, when you look at over the last two quarters, while our total off-premise mix stayed pretty consistent at Olive Garden at 24%, there's more of catering and a little bit less of individual To Go, but ended up being 24% of total sales, but it was just a different mix. So that's really the only mix change we've noticed on the off-premise, but really no major impact on the check.

Christopher Carril

Analyst, RBC Capital Markets LLC

Got it.

Rajesh Vennam

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

And then as we look at guidance, I mean that – there's really not a lot of – we don't – again, I think we kind of expected this to come down a little bit. But given where we've been over the last two quarters, we're not assuming a big change or a big decline in off-premise in guidance. But our belief is that to the extent there is some change there, that's offset with dine-in.

Ricardo Cardenas

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

And one last thing. Just so you know, the third quarter is generally a highest off-premise experience, right, because you get a lot of catering, a lot of parties. So, what I would say is after Q2, we might – it is what it is, but Q3 may be higher than you would expect because of what normally happens in our third quarter in To Go.

Christopher Carril

Analyst, RBC Capital Markets LLC

Got it, that's helpful. And then just returning to labor costs, I think you mentioned, you expect wage inflation to be about 8% for the year. But what's your total labor inflation outlook, just inclusive of any kind of productivity measures or any shifts in hours, anything like that?

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

Yeah, the total labor is somewhere in that 6% to 6.5% year-over-year because last year – we already got all the productivity last year. So, we don't see a year-over-year significant improvement in productivity. In fact, as I was

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mentioning, first quarter, we were wrapping on elevated productivity from last year. But 6% to 6.5% for total labor is how we're looking at it, that includes the indirect labor as well, the manager salary and all that stuff.

Christopher Carril

Analyst, RBC Capital Markets LLC

Got it. Okay, thanks so much.

Operator: Now we'll hear from Nick Setyan with Wedbush Securities.

Nick Setyan

Analyst, Wedbush Securities, Inc.

Thank you. It would be really helpful if you could just tell us what the pricing at Olive Garden is and what it's expected to be for the full year versus LongHorn. And then just a clarification. Was the – month-to-month volatility in the quarter, was it largely driven by Olive Garden or was it very similar across the brands? Thank you.

Rajesh Vennam

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

Let me start with the latter first. The month-to-month volatility was actually pretty much across all our brands. I think we kind of had – June was, like I said, mid-3s for the portfolio. That delta between Darden and Olive Garden was pretty consistent quarter-to-quarter – I mean, month-to-month during the quarter. So there wasn't a huge one segment or one brand that was driving the volatility month-to-month.

On the pricing side, I don't want to get specifically to a brand, but I mentioned already that when you look at over three years, Olive Garden's pricing has been 10%. And Darden's pricing is also basically 10%, 10.2%. So it's within Olive Garden being such a big part of our portfolio. What we say about Darden pretty much represents what Olive Garden is going to be.

Nick Setyan

Analyst, Wedbush Securities, Inc.

Thank you.

Operator: Ladies and gentlemen, this will conclude your question-and-answer session. I'll turn the call back over to Kevin for any additional or closing remarks.

Kevin Kalicak

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

Thanks, Jake. That concludes our call. I'd like to remind you, we plan to release second quarter results on Friday, December 16, before the market opens with the conference call to follow. Thank you all for participating in today's call.

Operator: And once again, ladies and gentlemen, this does conclude your conference. Thank you for your participation. You may now disconnect.

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