

23-Jun-2022

Darden Restaurants, Inc. (DRI)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden Fiscal Year 2022 Fourth Quarter Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] The conference is being recorded. If you have any objections, please disconnect at this time.

I will now turn the call over to Mr. Kevin Kalicak. Please go ahead. You may begin.

Kevin Kalicak

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

Thank you, Maurine. 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 includes certain non-GAAP measurements, and reconciliations of these measurements are included in the presentation.

Any reference to pre-COVID when discussing fourth quarter performance is a comparison to the fourth quarter of fiscal 2019. This is because the results from the fourth quarter of fiscal 2021 and 2020 are not meaningful due to the pandemic's impact on the business and the limited capacity environment that we operated in during those periods. This will be the final quarter that we provide comparisons to pre-COVID. Moving forward, we will provide comparisons to the prior year. We plan to release fiscal 2023 first quarter earnings on Thursday, September 22, before the market opens, followed by a conference call.

This morning, Rick will share some brief remarks on the quarter and full year before discussing our focus moving forward, Raj will provide details on our Q4 and full year financial results and share our fiscal 2023 financial outlook, and then, Rick will close with some final comments.

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

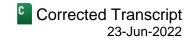
Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Thank you, Kevin, and good morning, everyone. This is our first conference call since Gene's retirement, so I want to take a moment to thank him. Gene never wanted a spotlight on himself and he's probably listening right now and telling me to move on. But Darden is stronger today and better positioned to navigate any operating environment because of Gene's leadership. And personally, I know I'm better prepared for my role, thanks to Gene's mentorship. So, on behalf of our 180,000 team members, thank you, Gene, for putting our guests and team members first and for leading Darden with a steady and decisive hand.

As you saw from our press release this morning, we had a very good quarter, even in this highly inflationary environment. For the quarter, we exceeded our sales expectations and our earnings were in line with our outlook.

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Overall, fiscal 2022 was a solid year. Each of our brands strengthened their business models, while our restaurant teams remained disciplined and executed well in a challenging environment. We stuck to our strategy, continue to price below inflation, and ended the year with significantly better margins than pre-COVID. As a result of this business model improvement and our strong balance sheet, we are well positioned as we begin our new fiscal year in what remains an uncertain environment.

Raj will share details for the quarter and the full year in a moment. But first, I want to spend my time reiterating Darden's strategy, which is not changing and will remain our focus moving forward. Our brands benefit from Darden's four competitive advantages of significant scale, extensive data & insights, rigorous strategic planning, and our results-oriented culture. But none is more evident in our financial results than our scale. To quickly dimensionalize our scale advantage for you, our total sales are more than 2 times our closest full-service restaurant competitor, more than 2.5 times the next closest. We also have higher-than-average annual restaurant volumes, lower overhead costs, which we achieved by centralizing our support functions and margins that are significantly higher than our competitive set.

Our scale creates cost advantages that our brands could not achieve individually. A great example is the fact that each of our specialty restaurant brands The Capital Grille, Eddie V's, Seasons 52, Yard House, and Bahama Breeze achieved record results for the year, even in the midst of the historic inflation. We will continue to leverage our scale and our superior financial position to make long-term investments in our business. First, we will continue to invest in our brands' value propositions by underpricing inflation over the long term. This is the biggest investment we make every year. Additionally, we will continue to leverage our scale to invest in technology that enhances the guest experience and simplifies operations. Finally, it is our people who bring our brands to life, and we will continue to invest in them so they can grow and thrive and help us do the same.

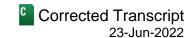
At the restaurant level, our strategy comes to life through our back-to-basics operating philosophy. This philosophy anchored in food, service, and atmosphere has never been more important than it is today. Our restaurant teams focus on being brilliant with the basics ensures we put the full in full service dining. The work our brands are doing to drive execution by simplifying our processes and menus puts our restaurant teams in the best position to deliver great guest experiences and its working. Olive Garden's overall guest satisfaction scores are at all-time highs. Additionally, on Mother's Day, the Olive Garden team delivered record performance. Mother's Day was the highest sales day and second highest guest count day in their history.

We also continue to make key investments across our portfolio to position each brand for long-term success. For example, LongHorn Steakhouse has made significant investments over the past few years in the quality of their food. They continue to lead the casual dining industry on food quality and taste of food, which propelled them to over \$2 billion in annual sales for the first time. Similarly, Cheddar's Scratch Kitchen is a value leader and the investments they have made to simplify their menu and price below inflation has resulted in improvement in their industry-leading value ratings.

Finally, as I mentioned, our specialty brands had record performance for the year, which was due to the investments they made during COVID and the scale advantage of Darden. Our strategy remains the right one for the company, and we will continue to execute it to drive growth and long-term shareholder value. As we begin our new fiscal year, we continue to experience significant inflationary pressures, and we will stick to our strategy of pricing below inflation and our competitors over time. While we can't predict the future, we're focused on managing the business for the long term and the power of Darden positions us to navigate this environment better than anyone else.

Now, I'll turn it over to Raj.

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Rajesh Vennam

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

Thank you, Rick, and good morning, everyone. Total sales for the fourth quarter were \$2.6 billion, 14.2% higher than last year, driven by 11.7% same-restaurant sales growth and the addition of 33 net new restaurants, which included one temporary closure that will reopen in fiscal 2023. Diluted net earnings per share from continuing operations were \$2.24. Total EBITDA was \$431 million, and we returned significant cash to shareholders, paying \$137 million in dividends and repurchasing \$237 million in shares for a total of \$374 million of cash returned to investors in the quarter. We continue to see increasing cost pressures with total inflation for the fourth quarter of 7.5%. During the quarter, we took additional pricing to help offset a portion of the growing inflation that brought total pricing to 6% for the quarter and 3% for the full year. This is well below our annual inflation of just over 6% as we continue to execute our strategy to strengthen our value leadership position.

Turning to the fourth quarter P&L, compared to pre-COVID, food and beverage expenses were 300 basis points higher, driven by investments in both pricing below inflation and in food quality. For reference, food inflation in Q4 was 12% versus last year. Restaurant labor was 40 basis points lower, driven by hourly labor efficiencies gained from operational simplifications, which were partially offset by continued wage pressures. Total restaurant labor inflation was 7% versus last year, primarily driven by hourly wage inflation of approximately 9%. Marketing spend was \$48 million lower as we remain disciplined in our approach to marketing activities, resulting in 230 basis points of favorability.

G&A expense was 140 basis points lower, driven by our corporate restructuring in fiscal 2021 and sales leverage. As a result, we achieved restaurant-level EBITDA margin of 19.9%, 40 basis points above pre-COVID levels and quarterly EBITDA of \$431 million. Total EBITDA margin for the quarter was 16.6%, a 170 basis point improvement to pre-COVID. Our effective tax rate for the quarter was 11.8%. We ended the quarter with earnings from continuing operations of \$282 million, which was 10.8% of sales.

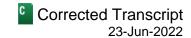
All of our segments had higher total sales and higher average weekly sales per restaurant. Segment profit dollars were higher for all segments as well. Olive Garden and Fine Dining segments also grew their segment profit margin, while LongHorn and Other business segment had lower segment profit margin this quarter, driven by higher level of inflation and other investments in those businesses since pre-COVID.

Fiscal 2022 proved to be another unpredictable year. We experienced strong demand early in the year as capacity restrictions were largely removed. Additionally, we faced reduced demand and staffing challenges as the Delta variant emerged in the fall and the Omicron variant followed in December and January. Finally, inflation increased throughout the year. In fact, our total inflation doubled from our original expectation of 3% to just over 6% for the full year. Despite all of those challenges, we were able to deliver \$9.6 billion in total sales and achieved diluted net earnings per share from continuing operations of \$7.40 in line with our internal expectations and at the higher end of our – the annual guidance we provided at the beginning of the fiscal year.

We see a strong top and bottom line performance drove over \$1.5 billion in EBITDA from continuing operations, resulting in 15.9% EBITDA margin, nearly 200 basis points higher than pre-COVID. We also invested almost \$400 million of capital in the business, returned over \$1.6 billion to shareholders and ended the year with \$421 million of cash on the balance sheet.

A strong operating model generates significant cash flows. In fact, since 2017, we have averaged EBITDA growth of 9.5% annually. Our balance sheet is well situated at just 1.8 times debt to adjusted EBITDAR at the end of fiscal 2022, well below our targeted range of 2 to 2.5 times and provides us flexibility for the future. A strong

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balance sheet, coupled with our disciplined approach to simplifying operations, underpricing inflation, and driving profitable sales growth positions us well for the future.

Finally, turning to our financial outlook for fiscal 2023, we expect total sales of \$10.2 billion to \$10.4 billion, representing growth of 6% to 8% from last year; same-restaurant sales growth of 4% to 6% and 55 to 60 new restaurants; capital spending of \$500 million to \$550 million; total inflation of approximately 6% and we plan to continue underpricing total inflation with annual pricing of approximately 5%. Furthermore, we expect commodities inflation of approximately 7% that's heavily weighted in the first half of the year; hourly labor inflation of approximately 8%; an annual effective tax rate of approximately 13.5%; and approximately 124 million diluted average shares outstanding for the year, all resulting in diluted net earnings per share between \$7.40 and \$8.

Heading into 2023, we expect the commodities inflation rate to increase in the first quarter from the 12% we had in Q4 and then to moderate significantly, ending the year roughly flat. So, due to this significant unusual timing, we would like to provide some context on the cadence of quarterly earnings expectations. With the first quarter commodities inflation in the mid-teens, we expect a low double-digit percentage decline in EPS from last year. For the second quarter, commodities inflation eases a bit to the low double-digit range, resulting in flat EPS to last year. And for the back half of the year, we anticipate low single-digit commodity inflation and positive EPS growth.

As a result of our strong performance and our fiscal 2023 outlook, our board approved a 10% increase to our regular quarterly dividend to \$1.21 per share, implying an annual dividend of \$4.84. This results in a yield of 4.2% based on yesterday's closing share price.

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

Ricardo Cardenas

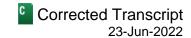
President & Chief Executive Officer, Darden Restaurants, Inc.

Thanks, Raj. I want to close by thanking our team members in our restaurants and our support center for their outstanding efforts throughout a challenging year. As a publicly traded company, we strive to earn a profit and create long-term shareholder value. And while we are proud that our average annual total shareholder return has always been at least 10% for any 10-year period as a public company, there is a larger purpose to what we do and that is to nourish and delight everyone we serve. As a restaurant company, we continue to nourish our guests with delicious high-quality food. But to us, it means more than that. We want to nourish the spirits of our guests to delight them with great service in an atmosphere that enables them to reenergize and connect with family and friends over a great meal.

We also want to nourish and delight our team members by providing competitive wages and benefits while giving them opportunities to build meaningful careers within our company. With more than 1,850 locations and 8,000 leadership positions across our restaurants, we provide a pathway for thousands of people across the country to transform an entry-level job into a lifelong career. Helping others realize their potential and achieve their dreams is one of the things that makes our industry special. And that's why a central tenet of our approach to team member development is a commitment to promote from within. We are proud that more than half of our restaurant managers' positions are filled by our hourly team members. But their growth doesn't stop at the restaurant manager level. In fact, more than 15% of our officers began their careers with us as hourly team members.

Finally, we want to nourish and delight the communities where we operate and our team members call home. When we open a new restaurant, we make a positive impact by creating an average of 100 new jobs and serving the local community. We aim to make a difference by helping tackle issues that we are best equipped to address like fighting hunger and sourcing food with care. So, our purpose to nourish and delight everyone we serve is not

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limited to just sales and earnings growth. Rather, it's about sales and earnings growth as a way to make a positive difference in the lives of millions more guests, tens of thousands more team members, and hundreds more communities. And by doing so, we'll continue to create long-term value for our shareholders.

Now, let's take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will take our first question from Jared Garber from Goldman Sachs.

Jared Garber

Analyst, Goldman Sachs & Co. LLC

Hi. Thanks for taking the question this morning. Obviously, appreciate all the guidance that you provided. We're entering what may be a more challenging macro environment. So, just wanted to get a sense of, I guess, what are the underlying assumptions in your guidance on both the topline and the cost? I know you went through a couple of them on commodities and pricing. But as it relates to consumer spending, maybe in the near term what you're seeing and then the outlook for the balance of the fiscal year, what are some of the assumptions underlying that guidance? Thanks.

Rajesh Vennam

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

Hey, Jared. Good morning. This is Raj. Hey, look, this is our best estimate based on the data and information we have today. Obviously, like everyone else, there's a lot of uncertainty out there, and you see that we have a wide range similar to last year to kind of reflect that underlying uncertainty. And with that said, we've shared information around commodities and what we estimate, and we actually even provided the quarterly cadence on that front. And we're focused on things we control. And I actually want to have Rick chime in on the consumer – what we're seeing with the consumer and our expectations high level.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

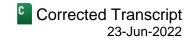
Yeah, Jared. I will start by saying the consumer sentiment right now is at the lowest it's been in 60 years according to the University of Michigan. But one of the benefits of our portfolio is we have a wide range of consumers. Our data indicates that higher-end consumer hasn't seen the same impact as consumers at the lower end of the spectrum. And consumers at the lower end, especially at Cheddar's has shown signs of check management. And they do make up a smaller percentage of our current guest base than it did six months ago. So, the impact that inflation is having on that lower-end consumers is showing a little bit, but we incorporated that in our guidance.

Jared Garber

Analyst, Goldman Sachs & Co. LLC

Great. Thanks for that. And I guess just sort of one follow-up there. How do you think about sort of the tools that you have in the toolbox if the consumer does slip a little bit more and maybe it's more than just that lower end at Cheddar's? But how are you thinking about some of the tools you have to maintain that higher level of sales growth as we go throughout the year, whether that's discounting or promotions? Obviously, you've done a lot of

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work in the last couple of years on limiting some of that, particularly in Olive Garden and LongHorn. So, just want to get a sense of how you're thinking about the levers that you have to pull for the year. Thanks.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

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Yeah, Jared. For competitive reasons, we're not really going to get in too much into detail in our plans. But as you've seen over the last couple of years, our teams have done a great job being flexible and reacting to changing dynamics. We won't overreact. As you know, that's not the way we work. We won't overreact. We're going to continue to focus on profitable sales growth and manage the business for the long term. If the consumer slows dramatically, if we see a big slowdown in consumer traffic, we would also expect the rate of inflation to decline as well. And just to give you an idea, 1% decrease in the rate of inflation is more than offset, that is more, more than offsets a 2% decrease in traffic. And so that should still help us get within the range of our guidance.

As you think about our media message and what we're doing, Olive Garden's scale provides them the opportunity to use media to get our message out to many guests. That's one of the benefits of scale. We believe we can drive traffic by highlighting the value we provide every day through an abundance of our never-ending first course. And if you look at our current media message right now, it speaks to one of our most craveable items, our Alfredo sauce that we make in-house every day. It reinforces the core advertising and core equity at Olive Garden that we've invested in over the last two years and that ad is the highest-rated ad we've had in years. And so, our strong margins give us an optionality if we do promote, but we don't expect it to be at a deep discount. So, we do believe we have the tools in our toolbox to keep traffic at a better level in the industry, but we won't do things that will hurt us in the long term for short-term benefit.

Operator: We will now move on to our next question from Nicole Miller from Piper Sandler.

Nicole Miller Regan

Analyst, Piper Sandler & Co.

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Thank you and good morning. Could you talk a little bit about the marketing spend embedded within guidance and also, more specifically, the message. I'm thinking around Olive Garden, which has been about, more about brand equity than any, call it, action in terms of price point. So, what are you thinking in terms of marketing? Thanks.

Rajesh Vennam

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

A

Hi, Nicole. We don't expect a significant increase in marketing, maybe within 10 basis points of what we had spent in 2022 as a percent of sales. As we look at Olive Garden, specifically, as Rick mentioned, we're focused on really further strengthening the core equities. So, the advertising, the messaging is going to focus on the brand equity, the never-ending abundance. And any message that further enhances that is really what we're focused on. We don't see a need to do, like Rick said, a deep discounted promotion there, but promotions that actually help elevate the brand equity.

Nicole Miller Regan

Analyst, Piper Sandler & Co.



And then just a follow-up and last question, what kind of staffing levels, I mean, I imagine at the two big brands pretty much where you at, capacity is not the right word, but fully staffed, fully staffed. So, what kind of staffing levels are embedded? And how does labor inflate, if at all, in 2023? Thanks again...

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Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, Nicole. It's Rick. Right now, we have more managers per restaurant than pre-COVID. And so at the manager level, we're really well staffed. We're continuing to add new team members. But as I said, we have 180,000 team members now, which is what we had pre-COVID. So, we're back to the level of our team member staffing from pre-COVID. That said, we still have pockets of restaurants that can improve their staffing levels just like in pre-COVID. So, we still have restaurants that could have a little bit more staffing level. But in general, we're staffed right where we were before COVID.

Rajesh Vennam

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

And then just on the inflation, labor inflation hourly wage is around 8% and total labor is somewhere around 6-ish is what we have embedded in the guidance.

Operator: We will now move on to our next question from Jeff Farmer, Gordon Haskett. Please go ahead.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors

Great. Good morning. Thank you. So, it looks like LongHorn's average weekly sales are up more than 25% versus pre-COVID levels, Olive Garden sales are up about 5%. I'm just curious what your view is in terms of the factors that have contributed to that large gap in sales growth across the two concepts over the last of couple years.

Ricardo Cardenas

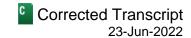
President & Chief Executive Officer, Darden Restaurants, Inc.

Hey, Jeff, this is Rick. Thanks for noticing how strong LongHorn's performance has been and the fact that Olive Garden is still up versus pre-COVID. I will start by saying – if you think about what we started at LongHorn and reducing the dependence on price point and promotions on advertising, we did that before COVID and we had almost finished before COVID started. And throughout COVID, they continue to make significant investments in their food and the quality of their food and have improved their overall execution in the restaurants. So, they've had a great run of sales over the last couple of years versus pre-COVID because of the things that we did going into COVID and that we continued during COVID.

Olive Garden started that process a little bit later, right? Olive Garden before COVID was still doing significant discounting and price-pointed promotions. We had started to wind off of some of those, but we still had quite a few of them. In addition, remember, we're significantly below our pre-COVID levels in marketing at Olive Garden. And that was driving some guest count that we think weren't as profitable as the guest counts that we're getting today. So, the marketing that we've done has helped – the marketing we're doing today is still driving some traffic, but it's driving the guests, our core guests that come to us because of the everyday value.

And finally, I want to say Olive Garden's margins are really strong. So, while their sales may not be as strong as pre-COVID as LongHorn, they have made a huge improvement in their business model and have the best margins basically in casual dining, which gives us flexibility to do the things we need to do going forward if we need to.

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Jeff Farmer

Analyst, Gordon Haskett Research Advisors

That's helpful. And just a quick follow-up, you touched on this, but with that steep decline in consumer confidence, is there relationship between net decline in consumer confidence and just sort of a softening of consumer health versus your job applicant flow, the pace of hiring. We just talked about staffing levels, but as the consumer comes under a little bit more pressure, has that actually been a little bit of a silver lining and in terms of being able to hire?

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Well, we've seen our applicant flow grow over time, even before you started seeing that decline in consumer sentiment – as the beginning of the fiscal year – as the beginning of the calendar year started we had mentioned in our last call that we have seen significant applicant flow and that's helping us on kind of leveling off our wage inflation over time, but – so I'm not saying that's the exact relationship. But as consumer confidence wanes and maybe people feel a little less comfortable in environment they'd be more likely to come back into the job market and that'll be a good thing for us.

Operator: Ladies and gentlemen, we will now move on to our next question from Jeffrey Bernstein from Barclay's.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you very much. Just wondering if you can give us some color on near-term comp trends just so we can assess that consumer sentiment slowdown whether there was any change in trajectory by brand, perhaps through the fiscal fourth quarter into June or change in pursing patterns. I think you mentioned maybe a little bit of mix shift down at Cheddar's, but just wondering if you can give some color at other brands or as compared to traffic just trying to get a sense for whether there is any early indication across the broader portfolio of a sign of perhaps slow in consumer spending?

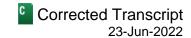
Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, Jeffrey. When I talked about the trends throughout the quarter in – if you think about our comps throughout the quarter, they stayed strong and they actually continue to build from March-April to May. But the industry actually started to see some decline from March-April to May in same-restaurant sales. I want to be clear on the check and the little bit of a check management at Cheddar's, it's not dramatic. Its small, we are not seeing it at our other brands as much – actually we are not seeing at our other brands. But I also – the point that I made about the mix of consumers at the lower end of the spectrum that's across all of our brands, it's not just at Cheddar's. So, it's across all of our brands.

Just to give everybody some comfort about the – not comfort, but just talk about the quarter, the industry sales have slowed from May to June and we have seen that as well. But some of this might be a return to normal summer seasonality that we didn't see last year. As the dine-in was reopened and people felt more comfortable, we didn't see the normal seasonal patterns that we typically do. The industry comps do [indiscernible] (00:29:55) softening, but quarter-to-date across our portfolio we are achieving in the industry and we are within our annual guidance range.

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Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Understood. And then just more broadly as you think about full year 2023, it seems like the mid-point of your earnings range would be maybe in the 4%-ish range and on the dividend you mentioned 4%. So, 8% total shareholder return seems to be a little bit below your 10% to 15% long-term target and you mentioned that over 10-year periods you're proud to be consistently delivering within that range. But for fiscal 2023 it doesn't seem to necessarily be sales led considering what looks like strong comp growth in the assumptions and your pricing of 5% is pretty close to this 6% inflation to protect the margins. So, just wondering if you can give some color on where you see the shortfall at least within your own guidance, again the sales seem to be strong and it seems like you're pricing to protect the margins. So, just the – whether it's just conservatism or just keen to give a wide range just trying to get the assessment for where you see the potential earning shortfall coming from.

Rajesh Vennam

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

Hey, Jeff. Look, we still believe that 10% to 15% is the right target long term, but, however, any given year that might be different. And as I mentioned in our prepared remarks, we're choosing not to pass along all of our inflation to our guests and for a couple of reasons, right? We don't think all of this cost is permanent. For example, chicken, dairy, and wheat, which are a significant portion of our basket, especially at Olive Garden are at a very high level right now. We don't believe that's very sticky for the long term. And so, we think it's prudent to be cautious and preserve flexibility rather than pass through these some costs that may not be permanent.

The other part of this is when you think about comp, our sales growth is mostly driven by the pricing. We mentioned that we have about 5% pricing for the year and our guidance is 4% to 6% on SRS. So, we're not assuming a significant traffic growth going into the year at the mid-point. And so, I will just end by saying we are really focused on the long term, and we do not want to overreact to near-term pressures, even if that means that some short-term margin erosion are not able to get our long-term targets in any given year. That all being said, I mean, we still have a pretty strong business model. Our margins are well ahead of where we were pre-COVID, even in the guidance we provide, that implies margin improvement to pre-COVID.

Operator: Thank you. We will take our next question from David Palmer from Evercore. Please go ahead.

David Palmer

Analyst, Evercore ISI

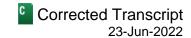
Thanks. Helpful call so far. You mentioned the high income versus middle income factor and that might be a differentiator in the trends and the pricing power lately and even that in the softness we're seeing through June. I wonder to what degree you think family-oriented visits, that larger party size paid by one person versus the closer to two people per check is a differentiator as well and as a factor for the Cheddar's and the Olive Gardens versus the steak in Fine Dining lately.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, David. We haven't really seen a big difference in mix of families with – larger families versus smaller families. But what we have seen in the Fine Dining is some of the urban markets are coming back a little bit. And we're seeing private dining coming back. So, those are large parties, too. So they're not necessarily families, but they're large parties. The private dining is coming back in the urban markets in our higher end brands. But we haven't seen a real shift down from our families going out to eat, even at Olive Garden and Cheddar's because

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family visit at Olive Garden and Cheddar's is still a lot less expensive than a family visit in other places. So, we haven't seen that change very much.

David Palmer
Analyst, Evercore ISI

Q

Thank you. And then just on food inflation guidance, the second half, what's your visibility there? How hedged and contracted are you? And I know you guys are proud of the fact that you guys have a good balance when you have weakness in the topline in the industry, oftentimes you get some relief. So, I'm wondering if you're maybe being less hedged in the second half to allow yourself, if the industry does get softer, to benefit from that in terms of your food costs. And I'll pass it on.

Rajesh Vennam

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

А

Yeah, David. So, we are fairly well covered for the first half. But we are choosing to not cover as much for the back half for – we want to stay short given where the trends are and given what we think is likely to happen. So, we want to preserve our flexibility should the environment get better on the commodities front. And so, you saw that, I think we shared this morning about 70% coverage for the first half, maybe a little bit north of 75% for the first quarter and the second quarter being closer to that 70% or just under. But we're fairly covered for the first half.

Operator: Our next question today comes from Lauren Silberman from Credit Suisse.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC



Thank you. Just a couple of quick ones. Are you seeing any regional differences in performance across the brands?

Ricardo Cardenas

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President & Chief Executive Officer, Darden Restaurants, Inc.

Lauren, a little bit of regional differences, but it's really when we compare to prior year. And it's really driven by the fact that some parts of the country opened a lot faster last year than others. So, we're seeing some pretty good performance in California because they didn't have a whole lot of growth last year. We're seeing some good growth in New England, which, again, was a little bit slower to reopen in the Pacific Northwest. But we are positive in all of our regions. It's just a little bit – quite a bit more positive in those that didn't open as fast last year.

Lauren Silberman

Analyst, Credit Suisse Securities (USA) LLC



Great. And then just on on-premise versus off-premise, can you talk about what you're seeing there at Olive Garden and LongHorn? Where is on-premise traffic running versus pre-COVID? Any color there would be helpful.

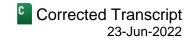
Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.



Yeah. Without talking about traffic, I think traffic at on To Go is a little bit different because of some of the catering. So, we don't necessarily talk traffic as much as we do on sales. But if you look at our sales versus pre-COVID at both Olive Garden and LongHorn, our sales in To Go are much higher and they're still higher. But in the fourth quarter, our traffic – our sales in To Go went down a little bit from the third quarter, partly because the third

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quarter had Omicron and our in-restaurant sales have actually continued to grow. So, as our sales have gone down from Q3 to Q4, our in-restaurant sales have more than offset that. We're still seeing strong To Go performance across our two big brands and in Cheddar's as well. And Olive Garden is still above 25% To Go for the quarter and LongHorn is read at around 15%, which is much higher than they were pre-COVID.

Operator: We will now take a question from David Tarantino from Baird. Please go ahead.

David E. Tarantino

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

C

Hi. Good morning. I wanted to revisit how you would approach a downturn in consumer spending if we were to get one. And if I look back to the last major recession we had, Olive Garden clearly held up very well and LongHorn did not hold up as well in terms of their sales performance. So, wondering – I know that was early days in your ownership of LongHorn. I'm wondering your specific thoughts on LongHorn and what levers you would pull for that brand this time around if we do get a downturn versus maybe what was the case last time.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.



Yeah, David, this is Rick. Thanks for that. If you think about where we were back in the last downturn, yeah, we had just bought LongHorn, not too long before that. So, we're still going through integration – through the challenges of integration and it was our first big acquisition. So, there are probably more challenges than we have as we continue to move forward. And as you've seen from every acquisition we've made since then, we have some initial comp declines in doing so.

Olive Garden performed very well for a couple of reasons. One is they're a trusted brand and as consumers think about their spending during a time where they're minimizing their spending, they go to brands they trust. And that's something that typically happens in a recession or in something along those lines when people are really trying to figure out where to spend their hard-earned dollar. But Olive Garden was also pricing a little bit during that time. And we want to make sure that we don't get into that same situation we overprice and then run into challenge a couple of years later, which is what happened with Olive Garden.

So, what I would also say is the steak category is a great value right now. If you think about what LongHorn has done over the last couple of years as we've said, they've increased the size of most of their steaks, they've increased the quality of most of their steaks, and they're executing their steaks better than they ever have. There's in-restaurant execution of steaks grilled correctly, is at record highs for LongHorn. And so, consumers see the value in what we put on the plate with cost of sales for every dollar they spend at a steakhouse, they get more food on the plate. So, they're starting to see that a little bit better.

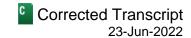
I can't tell you what this – if there is a recession or a slowdown, what consumer is going to be impacted by that. But I can tell you that we've done a lot of things over the last years and even since the last recession to strengthen our business models, to strengthen our brands so that we can react in whatever way we need to depending on what happens. We feel really good about what Olive Garden has done, what LongHorn has done, and what all of our brands have done to prepare for anything that could happen to us.

David E. Tarantino

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

Great. Thank you.

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Operator: We will now move on to our next question from Dennis Geiger from UBS.

Dennis Geiger

Analyst, UBS Securities LLC

Q

Great. Thank you. I wanted to ask a little bit more about any thoughts on the competitive environment this year or assumptions that you have. And if you care to weigh in sort of on whether a more pressured consumer should be a benefit for your business or maybe for larger chains in general, just based on some of the commentary you've made already?

And I don't know if you want to opine here at all. But as it relates to delivery, given the cost there in a more challenged environment, is that again something where you maybe sort of underweight that channel versus some other larger brands, if that can potentially be a benefit for you as well if that's at all part of your consideration set, if you're carried away in any of that?

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.



Yeah, Dennis, this is Rick. The competitive environment is not the same kind of environment that we had before COVID. If you think about what a lot of our competitors have done is to bring in things to drive sales, third-party delivery, ghost kitchens and those things, which actually maybe have done a little bit to hurt their margins. We've simplified our operations to improve our margins over time. I think with the margin pressure and inflation pressure that others are seeing, it might be more challenging for someone to do some deep discounting to drive traffic.

And so, I think you might be right on to something here around if the consumer starts feeling more strapped, will they be willing to pay the kind of rates they have to get food delivered or they would just decide to go pick it up. And if they do, we have what I believe is the best To Go pickup experience in casual dining with the investments that we've made in technology to make it easier to order, pick up, and pay. And we keep making investments in those areas to make it easier for our guests. I think it was about 60% of our total To Go sales were digital, which equates to 10% to 12% of our actual sales completely whether To Go or not. So, we've made some great investments to make it easier for our guests to order, pick up, and pay. And if that means that, the guests that we used to do delivery in a downturn, they stop doing it and they still want to get great food at home, they can get ours.

Dennis Geiger

Analyst, UBS Securities LLC



Very helpful color, Rick. And I guess just one more as a follow-up on the technology piece. You touched on it then and I think during the prepared remarks, the focus and the investment in technology. Anything you would highlight as it relates to the biggest opportunities for this year on the tech digital side of things be it sales, maybe even some margin efficiency type of initiatives. Anything beyond you kind of just framed out there. Thank you.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.



Yeah, Dennis. We continue to make investments in technology. Without getting into too much detail for competitive reasons, we continue to strengthen the consumer proposition and eliminate friction for our guests. And that's something big for us, is to take any friction the guest has out by incorporating technology that's not directly really in their face, but it takes friction out.

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But we're also doing a lot of investments to make the managers' jobs easier and our team members' jobs easier, which don't show up directly at the guest, but it does show up in better execution at the restaurants. So, for example, we are using machine learning and AI to do forecasting at our restaurant and that's significantly improving our forecast accuracy at the restaurant so that managers can schedule better, schedule people and guests who are coming into the restaurant, and order food more accurately and get food more accurately to reduce waste. So, that should help on the efficiency side. But those are things that are kind of not first-level order driving traffic. But it's things that make our restaurant managers' jobs easier, so they can spend more time with their team members to train them and more time with their guests to make them feel special so that people come back.

Operator: Thank you. We will now move on to a question from Andrew Charles from Cowen. Please go ahead.

Andrew M. Charles

Analyst, Cowen & Co. LLC

Great. My first question, Rick, is just around off-premise, that this is the fourth quarter now where you guys are running off-premise around a 25% to 30% sales range, holding on quite strong and quite sticky as the dine-in business rebounds. But before COVID you guys were saying that Olive Garden could be a 20% plus off-premise sales mix. Do you think just given the recent stickiness and strength of that, that it's more likely we'll see this hang in around 25% plus?

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, Andrew. We are running at 25% plus now at Olive Garden. And we have said throughout COVID that, we expect our off-premise sales as a percent to be higher than they were pre-COVID and probably higher than the 20%. We're still not quite at equilibrium yet. And we want to make sure that we get to equilibrium before we kind of give a new goal. But I will say that we expect it to be higher than it was pre-COVID and we expect it to be higher than that initial kind of 20% goal mainly because of the investments that we've made and what a great job our team members do to make sure that their guests get their food on time and it's accurate. Those are very important qualities for our To Go experience, and we're making some more investments for the guests to understand whether food is in the process and things like that to hopefully keep our To Go business at the higher end of that range, while our dining rooms continue to build. But when we get to equilibrium, we'll have a better idea.

Andrew M. Charles

Analyst, Cowen & Co. LLC

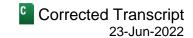
Great, thanks. And then can you guys compare kind of a historical target for 10% to 15% total shareholder return, just given that now we're seeing two consecutive years of topline in excess of that target and margins that are probably not going to make that 10 to 30 basis points expansion – recognize that 10% plus is still the target here, how would you say the factors are going to be different, just given this is the second consecutive year of the dynamics that we're seeing?

Rajesh Vennam

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

Yeah. I mean, look, given the uncertainty environment, this is probably not the best time to update the components of the framework. We still believe 10% to 15% is the right target. How we get there will vary year-to-year. And again, this is a long-term target. This is not a one-year target. So, when we have better – when we get

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to a better place, maybe use Rick's word of equilibrium, we'll put something out there that incorporates all of that and our assumptions going forward that will lever the components of how we get to 10% to 15%.

Operator: We will now take our question from Chris O'Cull from Stifel.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Thanks. Good morning, guys. Raj, can you help us understand how sensitive margin performance is to various levels of comp sales? And I would assume that relationship is not linear. So, at what point do you see a meaningful margin degradation if you experience softness in consumer spending?

Rajesh Vennam

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

Chris, I think I would kind of point back to the comment Rick made earlier about thinking about comp without the context of cost mix is not the best way to think. Because we think that they move in tandem, maybe there's a little bit of a lag. But if the consumer environment gets really soft, that should kind of make its way into inflation being less than we have and the cost pressures being less than we have. So, it's not a pretty straightforward linear equation. And obviously, I think what we say is you saw how our teams kind of remain flexible and figure out how to work through the environment, whatever environment we operate in. And so, I will just reiterate that we're going to stay disciplined and we're going to not overreact to near-term pressures, but focus on making sure we're making the right bets for the long term and operate the best way we can in the environment that we're dealt.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you. And then I had a follow-up on the commodity outlook. What's giving you confidence that you could see some relief in some of the key commodity costs beyond fiscal – the first half of the year or fiscal 1Q at least? Are there specific factors that you're aware of that make that scenario more likely or is it driven by macro outlook for the consumer, like you just mentioned that maybe that cooling demand helps commodity prices? Just trying to get some understanding or what gives you confidence you could see flat inflation in the back half or in the fourth quarter.

Rajesh Vennam

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

Yeah. Sure. So, here is why I think the way we think about it is, one, first of all, you got to remember the wrap on how high they were this year. Second quarter – I mean, third quarter this year was 11% and the fourth quarter was 12% and we're wrapping on those. And fourth quarter this year was wrapping on 4.5% a year ago. So, on a two-year basis, when you look at where we were for the fourth quarter, we were about 16.5%, 17%. So, next year, first quarter or this Q1 in FY 2023, we're starting high. So, one, that's the dynamic that we take into consideration, right, where are the levels of pricing and what are we wrapping on. When you look at it through that lens, we expect that to get better.

The second piece is we are starting to see, in some specific products, the prices breaking a little bit from the elevated levels they've been, right? So, whether its beef that's come down a little bit, even chicken for instance is not at the highest levels it's been recently, so it's starting to come down a little bit. The other factor we have is what happens with the fall harvest on the grain side. So, we do expect, right now, we think from the information we have, better harvest season and that should help a little bit with the grain. So, these are all factors we are taking into consideration. We don't have a crystal ball, but this is our best estimate at this point.

Operator: Thank you. We will move on to our next question from John Glass from Morgan Stanley.

John Glass

Analyst, Morgan Stanley & Co. LLC

Q

Thanks and good morning. First, Rick, just on pricing on the 5%, can you just reconcile where you think the industry is on pricing? So, how much your pricing you think below not just inflation, but also your competitor's. And just more broadly, how do you think about pricing on a portfolio basis? Are you pricing to each brand's relative inflation or are you willing to take more pricing at certain brands where you just think there's more or less elasticity, so you get it. And therefore, we shouldn't think about it as a brand to brand, but sort of on a portfolio basis. Is that how you think about pricing?

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.



Yeah, John. I'll answer the second part of your question and I'll give Raj to answer to the first part of the question. So, when you think about pricing across our portfolio, one of the biggest benefits of Darden is we've got a portfolio and we serve a lot of different consumers. And so, our pricing will be different depending on the brand and depending on kind of the consumer that they serve. And so, we would expect our pricing to be closer to inflation at the brands that can support that, which are more likely the brands at the higher end of the consumer spectrum and our pricing to be below inflation at the brands that we want to protect their value. And those brands are more like the casual brands, specifically Olive Garden and Cheddar's, who've made significant business model improvement so that we can go ahead and take a little less pricing than inflation.

So, that's the way we think about pricing. We look at the inflation rates those brands are seeing as well and see what kind of level of pricing we'd like to take. But generally, generally, we would price our higher-end brands or more affluent consumer that can absorb some of that pricing and is a little less elastic than we would on the lower-end brands.

And I'll let Raj talk about competitive pricing.

Rajesh Vennam

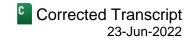
Senior Vice President, Chief Financial Officer & Treasurer, Darden Restaurants, Inc.



Hey, John. I'll start with the broader macro overall FSR CPI. This is not new to you guys. This last – the published data from last month was 9% on a one-year basis and over 12% or 13% close to on a two-year basis. And then when you look at the breakdown of that, from what we understand, the chains are taking less than the independents. So, when we look at our closest competitors, they're probably close to that 6% range between 5% to 6%, depending on who you're looking at, but the average is closer to 6%. But then these are larger chains. But the small chains and independents is where you're seeing double-digit pricing. Again, that's the competitive intel we have.

So, with that said, you asked a question about flexibility we have. I think part of what we've said all along has been that we want to be underpricing until we feel like certain things are permanent and then we start to slowly increase that. We feel great about the pricing level that we have because, especially when you look at it versus where the overall industry is and where our nearest competitors are, we're better. And then, actually we're even better when you look at it on a two-year basis. And so really, that's kind of what drives us. But also it does give us some flexibility should there be a need. And that's what we're trying to do is protect ourselves, preserve our flexibility. And if there is a need and if we feel like we can pass through some more, we will do that.

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John Glass

Analyst, Morgan Stanley & Co. LLC

Thank you. What is the impact of inflation then on the build cost of new restaurants? Anecdotally, some smaller chains have talked about a pretty material increase in construction costs of new builds. So, what is your view on that in 2023?

[audio gap] (00:54:36-00:55:03)

Operator: ...the interruption, Kevin, I believe your line might be on mute.

Rajesh Vennam

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

Sorry, sorry. Thank you. So, I was saying the construction costs, we're seeing about, call it, low double-digit increase in construction costs. And when we look at our overall returns, because of the business model improvements we've made through COVID, we're still getting pretty strong returns. In fact, I would argue our returns are better today than they were even before COVID even with the increased construction costs because of the improved margins.

With that said, we are starting to see the cost not continue to go up as much. So, we're starting to see that rate of change start to kind of plateau, if you will. And then, what we're doing is trying to find opportunities to kind of do conversions that can help save a few hundred thousand dollars on a build, right, \$0.5 million to \$600,000 if we kind of take an existing shell and convert that. And so, we've been doing some of that at our brands. So, we're trying to find ways to manage through that, but the costs are still pretty elevated.

Operator: And we will now move on to our next question from Jon Tower from Citi.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Great. Thanks. I appreciate taking the question. First, on the inflation side, I think we hit pricing quite a bit earlier, but I am curious to dive into the idea of – during COVID you were able to find quite a few productivity enhancements across the portfolio. And I'm just curious to know if there is any more opportunity there should, say inflation persists above and beyond what your expectations are currently for the year.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

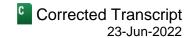
Hey, Jon, this is Rick. Yes, you mentioned that over the last few years our brands have done a great job simplifying their operation with significant productivity enhancements. We're going to continue to look for more. I will say, during the last year, we had significant training costs that, as we continue to ramp up people, we would hope that the training dollars would go down. It wouldn't be the same kind of level of productivity enhancements that we had before during COVID, but there should be some enhancements to help mitigate a little bit of the wage inflation, but not enough to offset the wage inflation.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

And then just following up, I think earlier in the call you talked about the company's core competitive advantages and particularly highlighted the scale and the company's balance sheet has some significant advantages versus

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the industry. So, I'm curious how you see yourselves taking advantage of that, particularly in an environment where you might see some closures of independents and/or some of your smaller competitors needing to slow down growth. I'm just curious, in the past I believe you've used these slowdowns as an opportunity to find some of the best real estate in the industry. How are you thinking about taking advantage of a potential macro slowdown?

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

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Yeah, Jon. We are continuing to look for more real estate, especially if the macro environment slows down for the smaller competitors. I would say there's some industry estimates that this coming up fiscal year will have no net unit growth. We are growing units and so that could give us some more opportunities to find some sites. We have, I think we mentioned in our guidance, 55 to 60 new openings this year, which is a lot higher than the 37 net we had the year that just ended. And that will continue to try to get more to that level of growth in units. And we have the balance sheet and the cash position to do that. And just as importantly, we've got the leadership pipeline that we've been developing to get people ready to open those restaurants.

So, we feel like putting the – stepping the – putting our foot on the gas on unit growth, which is what we've always said, we've been saying that for a couple of years is something we would do, but not to slam the accelerator down. We'll continue to be measured in our unit growth and our goal would be to get to the higher end of our sales from the units in the framework that we had announced before.

Operator: Our next question today comes from Andrew Strelzik from BMO.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.



Hey, good morning. Thanks for taking the question. I'll just ask one and I wanted to follow up on the food inflation and the coverage question. And I understand why you don't want to be as covered for the back half of the year. But the question is really about the ability to get coverage further out should you have wanted to go that route. Is that getting any easier with some of the broader demand uncertainties if you wanted to do that? Are those conversations or the asks to extend further out getting any better, even if that hasn't totally converged maybe with your expectations?

Rajesh Vennam

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



Yeah. I think it's the price certainty is the piece that is a little bit of an issue, right, when you talk to our – so the coverage, yeah, you can get the product coverage, but we're trying to get a product coverage with price certainty. And that's where we still don't believe – we're still not in a place where that is in a great place for the back half. As we look at what the suppliers think we should be paying and what we believe we should be paying, there is a disparity there. And that's really why we don't see it – we don't feel like we need to do anything right now and just have that optionality.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.



But I guess the spread or with some of the demand uncertainties you've spoken about now, maybe some cracks here or there, maybe the view on the other side of that conversation isn't the same. But has the spread narrowed at all even if it hasn't converged all the way or it's still kind of stayed the same?

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Rajesh Vennam

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

Yeah, for sure. Yeah. Things are – yes, the spread has narrowed, but again, our expectations are going down even more, right? So, I think that's part of the discussion here. So, it's not – yeah, yeah.

Operator: We will now take a question from Brett Levy, MKM Partners.

Brett Levy

Analyst, MKM Partners LLC

Great. Thanks for taking my question. Just going back on the development side, you talked about a willingness to grow and an ability to grow, but you also talked about not wanting to get too far ahead. Where do you see the greatest opportunities within the brands right now? And also just from a net flat growth environment out there and a strong balance sheet, how are you thinking about supplementing the current portfolio with additional brands? Thanks.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, Brett. We would like to see all of our brands continue to grow. At the more specialty brands, those sites are specific and we want to make sure we have the great sites for them. So, it just depends on when a great site comes available. We may have some higher growth in one year and maybe a little bit lower growth in the next year. But for more killer casual brands, we'd like to continue to see that ramp up versus the year before. And the fact that we're going from 37 to 55 to 60 should tell you that most of our brands are going to see an acceleration in unit growth.

As it relates to your second part of your question on M&A, I will say that our biggest competitive advantage is what we talked about is our scale. And one way to build on that is to do an acquisition. And so, we'll continue to speak with our board and use our strong balance sheet and our cash position to evaluate any alternative to allocate that capital. But we do believe that we have the ability to do both, to increase the number of units that we're building and to do M&A.

Brett Levy

Analyst, MKM Partners LLC

Thank you.

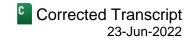
Operator: Thank you. We will now move on to our next question from John Ivankoe, JPMorgan.

John Ivankoe

Analyst, JPMorgan Securities LLC

Hi, thank you. Actually as a perfect follow-up to Brett's question. On the M&A side, I guess where are we in that spectrum? I mean, you've announced \$1 billion for buyback, which could presumably be used for M&A. You do have borrowing capacity, at least looking at what your investment-grade credit rating is. I mean, in terms of, I guess, Darden kind of being excited and being in the market and being proactive looking for things versus sellers that, in all reality, will have to accept a price for their business today that was very different than six or 12 months ago. I mean, I guess, like it's how — I mean, if you want to talk about it in this term, hopefully it's a fair question. I guess how close are we to a deal that really could matter relative maybe to some previous periods? How are the

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stars lining up or not lining up? Is that something could maybe get done in the near or term versus longer term? Thanks.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Hey, John. I can't tell you if we're closer or farther away from now versus where we were before. As equity prices move quickly and on the downward trend, you got to get to what's a fair valuation level for the seller. And so, I can't tell you if we're there yet or not. I can tell you that we'll continue to evaluate and we would like to continue to build our scale, and M&A is one way to do that. But when we do a deal everybody will know. And we're always talking to our board about M&A and the best ways to allocate our capital.

John Ivankoe

Analyst, JPMorgan Securities LLC

Fair enough. Thank you.

Operator: And our next question comes from Peter Saleh from BTIG.

Peter Saleh

Analyst, BTIG LLC

Great, thanks. Very helpful call so far this morning. So, thank you. Just wanted to come back to the conversation around the consumer. In the past recessions, I think you've seen a trade down at Olive Garden and some of the brands with trading down with fewer appetizers, desserts, drinks and maybe in some instances, consumers trading out of entrees into appetizers as their main meal. It doesn't sound like you've seen any of that at some of the core brands clearly at Olive Garden. I just want to confirm that.

And two, Rick, I'd just love to get your opinion on the probability of a recession or the consumer outlook, given where you sit and what you see in the environment right now.

Ricardo Cardenas

President & Chief Executive Officer, Darden Restaurants, Inc.

Hi, Peter. To answer the first part of your question, we haven't really seen a lot of check management at any of our brands. We've seen a little bit at Cheddar's. But part of that is because they also introduced a great limited time value steak, which might have mean people were trading away from appetizers to the steak on their menu, which is a T-bone at a very great value compared to the competition. But we had seen some management of check at Cheddar's.

In regards to the probability of a recession, I'm not an economist. I can tell you what the economists are saying and they're saying somewhere in the 40% range. At least some of them are saying that over the next 12 months. I can tell you we will be prepared for that if and when it comes. I would hope to not see one. But if we do, we're going to be prepared. And I think we're better prepared than most of the people we compete with because of the margin differential that we have versus them and what we've done over the last few years to simplify our menus and what we've done to make sure our restaurants are fully staffed.

And I would say one last thing is – if you think about our management turnover in our restaurants, it's significantly below the industry. So, they've seen more things than others have. Maybe they haven't seen a recession, but they have seen what happens when guest counts turn soft for even if it's a month, maybe others haven't. So, we're going to be better prepared, we believe, to handle plus we've got great everyday value. You think about what

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we've done over the last couple of years in pricing below inflation and pricing below our competition, that means our value differential continues to grow. And we've got, I think, what's a great place. We've got Olive Garden, which is an iconic brand that people trust that has improved their value. We've got Cheddar's, which we didn't have in the last time there was a recession, that's the value leader in casual dining. So, while I can't tell you what the probability of a recession is, I can tell you, I believe, that we're well prepared to deal with whatever comes our way.

Peter Saleh

Analyst, BTIG LLC

Great. Thank you very much.

Operator: And we will now move on to a question from Brian Vaccaro from Raymond James.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

Thanks and good morning. I just wanted to circle back on your industry sales comment that you mentioned about June slowing a bit. Could you help us level set the magnitude of slowing that we've seen within casual dining over the last few weeks? It's just a little difficult given the Father's Day shift, if you're trying to compare that to 2019, also some differences in the year-on-year compares, I think, moving through May and June as the industry recovered last year. So, any help there would be much appreciated.

Ricardo Cardenas



President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah, Brian. When I talked about the kind of the sequential slowdown, it was versus prior year, so not worrying about pre-COVID. The only comment I had about pre-COVID was the seasonality differences. But you're right, Father's Day is something that we're going up against the same week last year in Father's Day. So, Father's Day to Father's Day should have been the same. And we talk about magnitude – it's a couple of hundred basis points of the industry. It's not like the industry went negative completely, but it's closer to flat than it was before in the month of May.

Brian M. Vaccaro



Analyst, Raymond James & Associates, Inc.

Okay, great. And then circling back on the consumer, how do you break it down? You talked about the low income versus other income categories and seeing differences in behavior. Could you just update us on what percentage of your guests or sales are from the low versus middle or upper income consumer for Olive Garden and LongHorn, however you kind of bracket that out?

Ricardo Cardenas

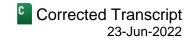


President & Chief Executive Officer, Darden Restaurants, Inc.

Yeah. I don't want to get into too much detail on the percent of our guests that are at the low end. The lower-end consumer typically would be more of an Olive Garden consumer or Cheddar's consumer, more likely a Cheddar's consumer. And it makes up a portion of their guests, but not a majority of their guests. But the other thing is, remember, we've got a portfolio of brands that impact every segment of the economy and all the different economic stratifications of guests. So, we feel like we've got the ability to deal with whatever comes our way, as I

said, and would – but don't want to give you the specific percentage of those consumers.

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Operator: Ladies and gentlemen, as we have no further questions, that concludes our Q&A session today. And I would like to hand back to Kevin Kalicak for any additional or closing remarks.

Kevin Kalicak

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

Thank you. That concludes our call. I'd like to remind you that we plan to release our first quarter results on Thursday, September 22, before the market opens with a conference call to follow. Thanks again for participating in today's call. Have a good day.

Operator: Thank you. Ladies and gentlemen, that will conclude today's call. Thank you for your participation. You may now disconnect.

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