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Darden Restaurants, Inc. (DRI)

Q2 2020 Earnings Call

CORPORATE PARTICIPANTS

Kevin Kalicak

Vice President-Investor Relations & Corporate Analysis, Darden Restaurants, Inc.

Eugene I. Lee

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

Ricardo Cardenas

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

OTHER PARTICIPANTS

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Sara Harkavy Senatore

Analyst, Sanford C Bernstein & Co., LLC

John Glass

Analyst, Morgan Stanley & Co. LLC

David E. Tarantino

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

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Christopher Carril

Analyst, RBC Capital Markets LLC

Will Slabaugh

Analyst, Stephens, Inc.

Gregory R. Francfort

Analyst, Bank of America Merrill Lynch

Dennis Geiger

Analyst, UBS Securities LLC

Brett Levy

Analyst, MKM Partners LLC

Nicole Miller Regan

Analyst, Piper Jaffray & Co.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Peter Saleh

Analyst, BTIG LLC

Jeff Farmer

Analyst, Gordon Haskett Research Advisors

Katherine Fogertey

Analyst, Goldman Sachs & Co. LLC

John Ivankoe

Analyst, JPMorgan Securities LLC

Matthew DiFrisco

Analyst, Guggenheim Securities LLC

Stephen Anderson

Analyst, Maxim Group LLC

Jake Rowland Bartlett

Analyst, SunTrust Robinson Humphrey, Inc.

Jon Tower

Analyst, Wells Fargo Securities LLC

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden Fiscal Year 2020 Second 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 would now like to turn the call over to Mr. Kevin Kalicak. You may begin.

Kevin Kalicak

Vice President-Investor Relations & Corporate Analysis, Darden Restaurants, Inc.

Thank you, Carol. Good morning, everyone, and thank you for participating on today's call. Joining me on the call today are Gene Lee, Darden's CEO; and Rick Cardenas, 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.

We plan to release fiscal 2020 third quarter earnings on March 19th before the market opens, followed by a conference call. This morning, Gene will share some brief remarks about the quarterly performance and business highlights, and then Rick will provide more detail on our financial results from the second quarter.

As a reminder, all references to the industry benchmark during today's call refer to estimated Knapp-Track excluding Darden, specifically, Olive Garden and LongHorn Steakhouse. During our fiscal second quarter; industry total sales growth was 1.2%, industry same-restaurant sales increased 0.3%; and industry same-restaurant guest counts decreased 2.3%.

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

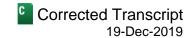
Eugene I. Lee

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

Thank you, Kevin, and good morning, everyone. As you've seen from our press release this morning, we had a good quarter. Total sales from continuing operations were \$2.06 billion, an increase of 4.2%, same-restaurant sales increased 2%, and adjusted diluted net earnings per share were \$1.12.

Looking at the industry overall, we continue to see that consumers are willing to visit brands with compelling value and strong in-restaurant execution. That's why we remain relentlessly focused on executing our back-to-basics operating philosophy anchored in food, service, and atmosphere, and support it with integrated marketing that resonates with our guests.

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We also continue to strengthen and leverage our four competitive advantages. One of those advantages is our results-oriented culture. Amidst record low unemployment, I am proud to see our retention rates continue to improve. We have a compelling employment proposition, and our ability to retain and staff our restaurant with the right people is an important driver of our success.

Turning to brand highlights for the quarter; Olive Garden delivered its 21st consecutive quarter of same-restaurant sales growth. Total sales grew 2.6%, driven by same-restaurant sales growth of 1.5%, and 1.1% growth from new restaurants. Olive Garden outperformed the industry benchmark in same-restaurant sales and traffic by 120 basis points and 110 basis points, respectively.

As a reminder, Olive Garden had a difficult promotional ramp to start the quarter with Lasagna Mia comping over Buy One, Take One for the first four weeks. Additionally, we made some changes to our promotional messaging and we reduced marketing spending. As a result, we had to make up some ground from negative same-restaurant sales at the beginning of the quarter. Sales trends improved as we moved into Never Ending Pasta Bowl with more comparable marketing spend.

The Olive Garden team continues to focus on operational execution, convenience, and everyday value. Delivering exceptional guest experience has remained a key priority for the restaurant teams. Olive Garden also continued to meet their guests' need for convenience, as off-premise sales grew 17% during the quarter, driven by strong preference for the \$5 Take Home offer. For the quarter, off-premise sales represented 17% of total sales. Digital sales grew approximately 33%, and represented 38% of total ToGo sales.

Finally, as we noted last quarter, Olive Garden introduced a new weekday lunch menu with 21 options under \$10 to strengthen everyday value. This platform continues to perform well and is seeing meaningful improvements in lunch sales trends. Overall, I'm pleased with Olive Garden's performance. They have the right strategy in place, and I'm confident that they will continue to make the appropriate investments and execute at a high level, which will enable them to continue to grow market share.

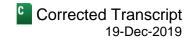
LongHorn Steakhouse had an outstanding quarter. Total sales grew 8.4%, driven by 1.7% growth from new restaurants and same-restaurant sales growth of 6.7%, the brand's 27th consecutive quarter same-restaurant sales growth. LongHorn outperformed the industry benchmark in same-restaurant sales and traffic by 640 basis points and 550 basis points, respectively.

LongHorn's performance is a result of adhering to their long-term strategy of investing in the quality of the guest experience, simplifying operations to drive execution, and leveraging their unique culture to increase team member engagement. Over the last four years, the team has made significant investments in this strategy, and those investments continue to pay off.

During the quarter, they introduced several enhancements to existing core menu items to further strengthen the quality of their food and beverage. And in order to tell their quality story more effectively, the LongHorn team evolved their award-winning You Can't Fake Steak advertising campaign to better communicate their expertise and showcase their high-quality steaks. The overall LongHorn experience is a key differentiator, and their distinctive, relevant advertising continues to resonate with guest.

LongHorn [ph] with (00:06:45) design is a very simple business, and the operations team has done excellent job of finding opportunities to simplify to drive execution. During the quarter, they implemented a number of ideas that were the result of direct feedback from restaurant teams. Additionally, a renewed focus on execution standards led to improved throughput during the busiest weekend hours this quarter.

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And finally, LongHorn continues to leverage their biggest competitive advantage: their unique culture. Manager retention reached another all-time high during the quarter, and hourly retention rates remained at industry-leading levels. This high level of engagement is further evidenced by the fact that LongHorn's guest satisfaction rating for the quarter reached record levels across all key metrics.

I'm extremely proud of the discipline the LongHorn leadership team brings to the business, and I'm confident that adhering to their long-term strategy will continue to drive their momentum.

Cheddar's Scratch Kitchen total sales increased 4.2% driven by sales growth from new restaurants of 5.4%, and partially offset by same-restaurant sales decline of 1.2%. We continue to see improvement in Cheddar's HR and operations metrics, which we know are foundational elements of running great restaurants. I'm encouraged by these trends, knowing that the restaurants that have made these improvements are operating successfully.

Overall staffing levels for manager and team members remained strong during the quarter, and retention levels continue to move in the right direction. Hourly turnover improved by nearly 20 points compared to last year, and management turnover showed meaningful improvement as well.

From an operations perspective, Cheddar's is a high-volume business that requires efficient throughput. One of the key operations metrics the team focused on during the quarter was speed of service, and they saw significant improvement versus last year. In fact, they saw strong improvement in the guest experience across all key metrics compared to last year.

In addition to strengthening HR and operating fundamentals, the team also worked to improve the appeal of the amazing value Cheddar's offers. In October, they began providing every guest with their most craveable and highest-rated menu item, their Honey Butter Croissants. This is an element of guest service that we identified as an opportunity when we acquired the brand.

Providing every guest with a warm Honey Butter Croissant reinforces the wow value Cheddar's provides. After making the necessary operational adjustments to facilitate this new step of service, and given the overall improvements the operations teams have made, this was the right time to roll it out. And the response from the guests and team members has been very positive.

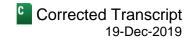
As I shared on the last call, this quarter the Cheddar's team increased their working media spend and conducted numerous test and learnings using a variety of marketing channels to drive awareness in trial. They're in the early stages of this learning and still have a lot of work to do. They will continue to invest the time, effort, and resources in order to determine the most effective way to market the brand in the future.

While I'm encouraged by the results we're seeing, the work at Cheddar's is far from over. The team is working on the right priorities and I'm confident they are moving in the right direction.

And, finally, the holidays are the busiest time of the year for our restaurant teams, as they delight our guests and help create lasting holiday memories. This time of year is also a great reminder that being of service is at the heart of our business. We embrace a higher purpose of enhancing people's lives, which is why we serve with purpose to delight our guest, support our team members, and make a better tomorrow.

One of the ways we're working to make a better tomorrow is through our Harvest program. One in eight households in our country live without consistent access to food. To help fight hunger, every one of our

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restaurants donate surplus food to local food banks and non-profits in their communities on a weekly basis. More than 115 million pounds of food has been donated through this program. That's the equivalent of nearly 96 million meals. The impact of our Harvest program takes on added significance during the holidays, and I'm so proud of the passion our team members have for it.

On behalf of the management team and the board of directors, I want to thank our 185,000 team members for everything you do to serve our guest and communities. I wish all of you a wonderful holiday season.

Now, I'll turn it over to Rick.

Ricardo Cardenas

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

Thank you, Gene, and good morning, everyone. We had another good quarter, with second quarter total sales growth of 4.2%, driven by 2.2% growth from the addition of 37 net new restaurants and same-restaurant sales growth of 2%. As I mentioned in last quarter's call, same-restaurant sales benefited by about 80 basis points this quarter, driven by two factors. First, an increase of approximately 100 basis points due to Thanksgiving moving from the second quarter in fiscal 2019 into the third quarter in fiscal 2020. As a reminder, the third quarter should see a corresponding decrease to same-restaurant sales because of this shift. And second, approximately 20 basis points of headwind due to the impact of Hurricane Dorian early in the second quarter.

Second quarter adjusted diluted net earnings per share from continuing operations were \$1.12, an increase of 21.7% from last year's diluted net earnings per share. We paid \$108 million in dividends and repurchased \$136 million in shares, returning over \$240 million to our shareholders this quarter. Additionally this quarter, we had \$0.91 of adjustments to our reported diluted net earnings per share. This was primarily the result of a \$147 million pre-tax charge related to the termination of our primary non-contributory defined benefit pension plan, most of which was non-cash. The termination of this plan and the anticipated expense was previously communicated in our Fiscal 2019 Form 10-K.

Now, turning to our detailed margin results; food and beverage costs were 20 basis points favorable to last year, as pricing of just over 2% and continued cost savings initiatives offset commodity inflation of approximately 1.7% and continued investments. Second quarter restaurant labor was unfavorable 10 basis points to last year. Total labor inflation of 4% was offset by pricing, check mix, and productivity improvements in new and existing restaurants. We continue to manage labor well in this environment, given the heightened inflationary pressures we still face.

Marketing expense was 30 basis points unfavorable to last year. Approximately 40% of this was related to a LongHorn marketing timing shift from the first to the second quarter, and the remainder was driven by increased media spending in our Other segment, primarily Cheddar's. As a result, restaurant level EBITDA margin of 16.5% was 20 basis points lower than last year.

General and administrative expense was 40 basis points better than last year, as we wrapped on higher incentive expense and sales leverage. Our second quarter effective tax rate of 5.9% was favorably impacted by the resolution of prior year's tax projects that were contemplated in our earlier guidance. Excluding these projects, our effective tax rate would have been closer to 11% for the quarter. All of this culminated in adjusted earnings after-tax margin of 6.7%, 90 basis points higher than last year.

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Turning to our segment performance; Olive Garden grew sales and profit in the quarter, driven by positive same-restaurant sales and net new restaurant growth. Segment profit margin increased by 20 basis points by leveraging the same-restaurant sales growth and managing costs effectively.

LongHorn also grew sales and segment profit in the quarter, driven by positive same-restaurant sales and net new restaurant growth. However, segment profit margin decreased 20 basis points, primarily due to the marketing timing shift I mentioned earlier, which increased marketing as a percent of sales in the quarter for LongHorn. In addition, LongHorn continued to have slightly elevated beef inflation, while making continued investments during the quarter.

Fine Dining segment grew sales and profit in the quarter as well, driven by positive same-restaurant sales and net new restaurant growth. Segment profit margin decreased versus last year 10 basis points, due to higher preopening expense and inefficiencies related to our four new restaurants open year-to-date.

Sales for our Other Business segment grew 3.5% driven by net new restaurants. Both segment profit dollars and margin decreased this quarter due to incremental marketing expense, primarily at Cheddar's, and margin deleverage from negative same-restaurant sales growth.

As you saw in the press release this morning, we reiterated all aspects of our fiscal 2020 outlook. As we look forward to the second half of fiscal 2020, we feel confident in our ability to achieve same-restaurant sales between 1% to 2% for the year, resulting in adjusted diluted net earnings per share of between \$6.30 and \$6.45.

Finally, beginning in the first quarter of fiscal 2021, we will modify the reporting of same-restaurant sales to align with our four reportable business segments: Olive Garden, LongHorn Steakhouse, Fine Dining, and Other Business. This change will better align the current reporting of segment profit with reportable segment sales growth metrics.

Before I close, I'd like to wish all of our 185,000 team members and each of you a safe and happy holiday season. And with that, we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Brian Bittner from Oppenheimer. Please go ahead.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Thank you. Good morning, guys. My question is just on Olive Garden, the slowdown in comps in the quarter, it seems like you're saying this is mostly related to tough promotion, tough marketing comparisons early on in the quarter. Have you seen performance in the business improve enough to have the confidence to say that these issues are indeed transitory at Olive Garden, and maybe even that they're behind you?

Eugene I. Lee

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

Well, I think we're pretty clear on how sales performed throughout the quarter. We definitely had a tough [ph] wrap (00:18:20), and I think that we signaled that at the end of the first quarter that Lasagna Mia wasn't performing as well as we had hoped. We pulled the promotional advertising for that promotion, and we focused on the introduction of \$5 Take Homes. As I stated, as we introduced Never Ending Pasta Bowl and had comparable marketing, trends improved throughout the quarter. And I would say, how we feel about the businesses is really in how we think about our guidance for the year. We come back out and reconfirmed our guidance, and we feel as though that, that business continues to perform well. It continues to take market share in the industry, and we're comfortable with where we're at.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Thank you. Gene.

Operator: Our next question comes from Sara Senatore from Bernstein. Please go ahead.

Sara Harkavy Senatore

Analyst, Sanford C Bernstein & Co., LLC

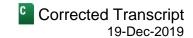
Hi. Thank you. I just wanted to ask sort of a bigger picture question about the brands, because it sort of looks to me like LongHorn and Cheddar's, you've made investments behind marketing or value and you saw real improvement on the top line, and I know you talked about the tough laps from Olive Garden, but the fact that the margins were better sort of evinces a different trade-off. So, do you have an opportunity to push a little bit harder on value for Olive Garden, maybe more level-load it through the quarter? And when you think about how you value those trade-offs, so maybe lower margin but great comps at LongHorn for example, how do you think about that trade-off generally and then perhaps with each of the brands? Thank you.

Eugene I. Lee

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

Yeah. That's a great question, Sara. We did know that LongHorn was performing really well throughout the quarter, and we made the decision not to push extra TRPs into Olive Garden to try to make up for the slower start we had in the quarter. We have levers to pull if we need to, and we chose not to pull them and decided to let the

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quarter play out the way it did. And that's the beauty of the portfolio. We knew that we had really great strength in LongHorn and we didn't up the marketing spend; we actually spent less money in advertising and in marketing in the second quarter than we did the prior year. So, I think that's – we have to always pull back and say, what's going on in the business.

I do think as we do go forward, we will continue to look at how we use value in Olive Garden to drive same-restaurant sales, but also compete effectively against our competitors. And we'll have to continue to watch what our competitors are doing, and we'll have to match that intensity. Olive Garden is – when you look at what Olive Garden has accomplished over the last four years, it's incredibly impressive, and we believe that it is positioned to continue to dominate in casual dining, and I believe we have more leverage than most to pull to support that business.

Sara Harkavy Senatore

Analyst, Sanford C Bernstein & Co., LLC

Thank you.

Operator: Our next question comes from John Glass from Morgan Stanley. Please go ahead.

John Glass

Analyst, Morgan Stanley & Co. LLC

Thanks very much. If I could just follow-up on LongHorn, maybe I missed just what the combination of things were that really drove that material acceleration, but can you just revisit that specifically. And it sounds like some incremental marketing or something changing the promotional environment [indiscernible] (00:22:11) promotion, but advertising environment. How sustainable is that? In other words, did you pull it forward that you can't maybe replicate it in future quarters, or is this a new run rate of advertising promotional? So we should think about this as maybe you've taken a permanent step-up on that brand from a sales perspective?

Eugene I. Lee

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

John, we had two extra weeks of media in the quarter. You saw that in the restaurant level expenses. I wouldn't give that a lot of the credence for the increase in same-restaurant sales. I think, as I said, the LongHorn team has been investing in this business for four years. Every steak today is bigger or better than it was four years ago.

They've invested in the bread service. They've invested in many other aspects of the overall operation. But I think the most unique thing about LongHorn in this environment is that it is a smaller box with less employees than the average casual dining restaurant. Their ability to attract a top quality employee, train them well, and retain them I believe allow – enables them to execute at a higher level. And if I was to point to one thing that is driving that business, it's that single attribute right there.

To answer your question, is this a sustainable trend? I don't know. All I know is this team has made – had great discipline for four years, made a lot of really good investments. And I believe that they continue to do the right things every single day for their team members and their guests. And again, it's a unique operation because it's much smaller and inside a smaller box, and they deliver at a high level. And it all came together this quarter, combined with a couple extra weeks of media, and they had a great quarter.

John Glass

Analyst, Morgan Stanley & Co. LLC



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Thank you. That's very helpful. And, Rick, just on the commodity front, specifically beef, I know you talked about where inflation is and you've given us at your coverage through at least May in thinking about low single-digits. But has anything changed on the margin? Are you incrementally more concerned about particularly proteins as you think about calendar 2020 in total and as – there's obviously been a lot of noise and incremental discussion in the marketplace around ASF and how that may impact protein pricing?

Ricardo Cardenas

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

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Yeah, John, we still feel comfortable of our guidance for total commodity inflation of 1% to 2%. We were a little higher – at the higher end of that range at 1.7% this quarter. A couple of things on beef, we're really not seeing significant changes to what we thought would be in the beef market. The only thing we're seeing from ASF right now, as we said a couple of quarters ago, we only have about 2% of our pork – of our buy is pork, but there could be an impact 18 months from now into overall proteins. We are seeing a little bit in ground beef right now, but we're covered for the year on ground beef. So, we still feel really good about where we are. Chicken, we're starting to see a little bit of inflation, but again, we're covered for that as well.

John Glass

Analyst, Morgan Stanley & Co. LLC

Got it. Thank you.

Operator: Our next question comes from the line of David Tarantino from Baird. Please go ahead.

David E. Tarantino

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



Hi. Good morning. I'm wondering just related to sort of the strategy on advertising and media heading into the election year. Normally, we see media costs increase and just wondering, Gene, how the brands are planning to manage through that type of environment, and if you expect any differences there?

Eugene I. Lee

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



Yeah. Great question, David. I think we'll continue to focus on non-working media spend to see how much we can pull that down to help offset the inflation. But we will try to spend from a media standpoint at the same levels without increasing the overall spend for the brand. Now, I think, as you know, as you get around the elections, especially when you're doing a lot of national stuff and some spot television, you can get bumped and try and make sure that we get our full complement of advertising as we move into the last six months prior to the election, depending on the marketplace, will be a challenge.

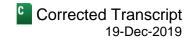
We'll try to work around that. We've got other levers that we can pull; social, we've got TDIs, we've got some other things that we can do to help offset that if we're not getting our full complement of advertising. But we'll continue to work and focus on making sure we're as lean as we possibly can be on our non-working so that we can maybe shift a little bit more of that into working to offset the inflation.

David E. Tarantino

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



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Great. And then, Rick, just a quick one on the margins. I think there's been several quarters in a row of productivity and mix cited as a pretty nice offset to the labor inflation you're seeing. Just wondering what the sustainability of that looks like and whether you're starting to lap that at any point in the next few quarters?

Ricardo Cardenas

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

Yeah, Jeff (sic) [David], a couple of things. One, we've said quite a few times that we don't expect to have labor below last year for quite a while as we keep inflation. And so this quarter played out, we're about 10 basis points lower than last year in labor. The productivity, if you remember, a lot of that started with new restaurants last year around the third quarter, and we started to see a little bit of an increase in productivity from new restaurants. That should start lapping itself. So, we still feel pretty good about managing our labor well the way – based on inflation

what's going on now, and we've all contemplated that in our guidance of 1% to 2% total inflation.

David E. Tarantino

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

Great. Thank you.

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

I'm sorry, 2.5% total inflation.

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

Thank you.

Operator: Our next question comes from Jeff Bernstein from Barclays. Please go ahead.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you very much. Two questions as well. First one, Gene, you mentioned watching your competitors closely. I'm just wondering in that vein as you think about casual dining broadly, do you think maybe you're seeing an increase in promotional activity and maybe that would change your marketing approach in the back half of your fiscal 2020, whether it's in response to what competitors are doing or whether you feel the need to be a leader in terms of being more promotional or a change in your promotional cadence? Any thoughts on the industry broadly would be great.

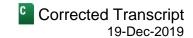
Eugene I. Lee

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

Yeah, I think what we're seeing in the industry is that there's more pressure on some promotional constructs that have now become permanent parts of menus. You got a big competitor out there that stated they're going to continue to be very, very aggressive. But I continue to look at – I look at Knapp and Black Box, I continue to look at the check average is growing north of 2.5%. So the consumer is still paying 2.5% plus or plus more.

So I think that we've got to stay on top of what's happening in the industry. We need to make sure that we're offering value in our large brands across the platform. So some value in price, some value in portion, as we try to attract and talk to each and – all the different constituents that we have for consumers. I would say that Olive

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Garden is the value leader, and that we need to stay focused on that and making sure that we have the appropriate price point for all the consumers that want to use Olive Garden. And I think that we have the ability to lead in that, not just follow.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Got it. And my follow-up is just as we think about the fiscal 2020 outlook, Rick, you mentioned guidance unchanged and that's now the first two quarters of this year. It seems like it's contrary to past practice of thinking of Darden as guiding conservatively and, more often than not, beating and raising. So, I'm just wondering if maybe you entered this year guiding more aggressively for the year, or maybe fundamentals have eased relative to your expectation a little bit. I'm just wondering if maybe you're a little bit more cautious as we move through – or into the back half of the fiscal year, what might have changed relative to historical practice of being able to beat the conservative start to the year guidance?

Ricardo Cardenas

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

Yeah, Jeff. Every year at the beginning of the year when we guide, we guide what we think is appropriate, and we adjust as things play out, and things have been playing out exactly as we thought, which is why we haven't changed our guide. In the past, things have been a little bit better than what we thought in the beginning of the year, so that's how we've adjusted up.

But I wouldn't say that we were more aggressive in this year's guide than we have in the past. We use the same philosophy that we always have. It just happened that the first quarter and the second quarter didn't outperform what we thought as much as it has in the prior years; that's why we didn't raise our performance. And we still have, coming into the back half of this fiscal year, chances of weather, chances of election, and everything that else is going on in talking about consumers having other things to think about. So, again, we didn't change anything the way we've done things in the past, and we feel pretty good about where our guide is right now.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you very much.

Operator: Our next question comes from Chris Carril from RBC Capital Markets. Please go ahead.

Christopher Carril

Analyst, RBC Capital Markets LLC

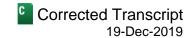
Hi, good morning. Thanks for taking the question. So, I'm curious to hear your current thinking on the off-premise opportunity and, in particular, how the performance of the \$5 Take Home offer and the sequential acceleration in off-premise growth may impact your thought process on off-premise strategy today? Thanks.

Eugene I. Lee

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

I think that \$5 Take Home has been a great addition to the off-premise menu for Olive Garden. It's been well-received by consumers. We'll continue to evolve that platform over time. We think there's continued upside there. As we focus on off-premise, our biggest initiative is to improve the convenience for our consumer. We go back to – we know the two most important things are on time and accurate. And as we continue to grow this business, we

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focus on those two things with the addition of ensuring that we have the right capabilities in each one of our restaurants.

We're investing capital dollars into our restaurants to ensure that we have the space and the right equipment to handle the additional demand and that will be a big effort over the next 12 to 18 months, and we think that we can take a little more friction out for the consumer. This is a very highly-rated experience for our consumer, and we'll continue to focus on executing at a high level.

As long as the consumer demand is still there, we think there's opportunity to grow this space, and I'm really excited about what we're doing. But more importantly, what excites me about, what we're doing from an off-premise standpoint is the quality of the experience and the quality of the product that's leaving our restaurant. And I believe that's why our business continues to grow.

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Analyst, RBC Capital Markets LLC

Great. Thank you.

Operator: Our next question comes from Will Slabaugh from Stephens. Please go ahead.

Will Slabaugh

Analyst, Stephens, Inc.

Yeah. Thanks, guys. I had a question on Cheddar's. I know you're not where you want to be quite yet, but it was a nice improvement from what we've seen, and you mentioned some improved turnover and customer metrics, but there was something else. I was wondering if you might point to in the quarter that helped improve the two-year trend, I think, over 400 basis points. I would love to hear your thoughts there.

Eugene I. Lee

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

Yeah. Will, bottom line is that we're operating better. We've got more stability. I'm starting to see a culture develop inside of Cheddar's for the first time, a one culture, right. So, you go back to when we did the acquisition, we had these three distinct cultures, and for the first time I'm feeling like we're Cheddar's of one.

And I've said all along, this is not a brand issue, this is an operations issue and I think our teams are making significant progress. And we got stabilities in a lot of places for the first time, and again this is the beginning of a journey. But look at the power of LongHorn when we have this stability and what we're able to accomplish. Getting 20 points of reduction in employee turnover is huge, and I think we can continue to do that again. And so, that's really what's got me excited.

I think we're just doing a better job. I had lunch in Cheddar's this week, it was fantastic. It was the best experience I've ever had in a Cheddar's. And so, I mean, that's why I think we're starting to make improvement. As I said, there's still pockets in the company where we don't have that stability yet, we don't have that tenure, and we haven't developed that culture, but we're in a much better path.

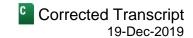
Will Slabaugh

Analyst, Stephens, Inc.

Great. Thank you.



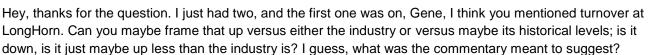
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Operator: Our next question comes from Gregory Francfort from Bank of America. Please go ahead.

Gregory R. Francfort

Analyst, Bank of America Merrill Lynch



And then the other question I had was on off-premise. It's been I think a couple years since, Gene, you've given some thoughts on the competitive push into off-premise. And, I think, a few of your competitors have gone into third-party partnerships. They've grabbed a few points of sales, but then profitability is becoming more of a focus. Can you maybe give where your updated thoughts are on third-party delivery, particularly small order? Thanks.

Eugene I. Lee

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

Yeah. When I think of LongHorn, I would just say, the management turnover is sub-15%, and it's less than 10% at the managing partner level, which is very, very important. And I think compared to industry of mid-30s, I mean, we're – that's just – it's industry-leading, it's leading inside of Darden. We have tremendous tenure there, and most importantly, we have tremendous pride in that business. And so, that's a big thing.

Employee turnover is in the low-60s. That's looking much more like one of our upscale businesses. And so, you can do so many different things. Think about the lack of training costs that we have in that business and the rest of our businesses, because we're so far below the industry average, especially that one there. And I think that really leads to great operations and I think that's what's been driving.

On off-premise, our opposition hasn't changed on off-premise with the last mile delivery. We believe, today, we want to control the experience. We do have off-premise last mile delivery in Olive Garden. Again, I'll remind everybody, above \$75. And if you call it in before 5:00 the night before, we will deliver. That's a big business. It's a growing business for us. We've got an average check in the 300s. That's business that's really worth chasing and doing. So, we're in it in our own way.

But as we think about it as a team, we really like controlling that experience, and we get back to those two two critical aspects that consumer is looking for: on time and accurate; and we control those when we control the overall experience. So our position on the last mile delivery companies has not changed.

Gregory R. Francfort

Analyst, Bank of America Merrill Lynch

Thank you.

Operator: Our next question comes from Dennis Geiger from UBS. Please go ahead.

Dennis Geiger

Analyst, UBS Securities LLC

Great. Thank you. Gene, just wanted to ask a bit more about Olive Garden looking ahead. Good to hear that the trends accelerated through the quarter. But just wondering if you could talk a bit more about contributions from key drivers going forward to continue to support this outperformance. You talked quite a bit about off-premise. Is

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there anything more, kind of, on the strength of the operational execution, how impactful that can continue to be; the lunch gains you mentioned, thinking ahead; promotional dry powder; maybe your thoughts on the innovation pipeline; and just kind of anything else to kind of continue to support the outperformance that you've seen for quite some time now? Thanks.

Eugene I. Lee

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



I think the off-premise will continue to be a driver. I think the \$5 Take Home platform will continue to be a strong driver. There's a lot of innovation that we can still do in that platform. I think that we've got other platforms out there that will continue to strengthen whether it's Buy One Take One, Never Ending Pasta Bowl. I think that the promotional pipeline continues to be strong.

And I think that – I want to pivot back to, I think that this is an important time that we focus on running great restaurants, and staffing is the most critical thing that we face today in this employment environment. And so, we need to make sure that our Olive Gardens remain staffed with great people. We need to continue to focus on improving our employment proposition. These are high-volume restaurants, and I think that we win if we have the best people inside the box. I'm comfortable with our ability to create a strategy to continue the momentum, and I think there are drivers out there.

Dennis Geiger

Analyst, UBS Securities LLC

Great. Thank you.

Operator: Our next question comes from Brett Levy from MKM Partners. Please go ahead.

Brett Levy

Analyst, MKM Partners LLC



Great. Thank you. Good morning everyone. First, I guess, can you share a little bit more on the granularity of the calendar shift. Was that 100 basis points largely split evenly, or was that – did you see any major shift among brands? And then also did you see anything within the regionality?

And then I know you don't like to give inter-quarter type updates and I know you talked about how you had a softer start to the quarter but strengthened throughout, is it possible to quantify what the market share gains were versus – on the gap later in the quarter versus earlier? And then finally, is there anything that you saw fundamentally operationally at Olive Garden from a score relation, guest satisfaction, quantifying the turnover that can help substantiate and support just the dominant position that the brand is generally in? Thank you.

Ricardo Cardenas



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

Hey, Brad. It's Rick. In regards to the calendar shift – a lot of questions there, but in regards to the calendar shift, it impacted brands differently. So, the casual brands were impacted favorably in general, and the finer dining brands were impacted unfavorably in general. And each brand was impacted a little differently. In the casual brand, Cheddar's having the smallest positive impact. The regionality of that really wasn't that different. So, it's basically a – Thanksgiving shift was no different in one region or another; the only regionality would be weather.

In market share gap for the quarter by month, we don't really want to get into the change in share gap by month, other than what Gene said about Olive Garden being negative in the first month and having to dig out of that little

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bit to get to be positive for the quarter. And then, on operating metrics for Olive Garden specifically, their operating metrics are at all-time highs. So, their guest satisfaction, a lot of their different metrics operationally, are all-time highs and they were at all-time highs for every month of the quarter. So, hopefully that answers those questions. But thanks, Brett.

Brett Levy

Analyst, MKM Partners LLC

Great. Thank you.

Operator: Our next question comes from Nicole Miller from Piper Jaffray. Please go ahead.

Nicole Miller Regan

Analyst, Piper Jaffray & Co.

Thank you. Good morning. There was a lot of discussion around value proposition in Olive Garden. I'm wondering when you do see the value proposition and how you look at it, your lens, your perspective, move one way or another in the dining rooms, does that show up in a demographic shift? Does every demographic want or seek value in the same way, or do you see some more or less sensitive to value?

Eugene I. Lee

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

Well, I think that – Nicole, it's an interesting question. I think that for some of our – because it's such a broad audience, some of our consumers values a lot more about what they pay from a dollar standpoint, and they're looking for that entry-level price point. Some of our consumers values more about portion size compared to price. And so, we try to define value for everybody a little bit differently, and I think you have to – in a brand that has such broad appeal, you have to have value in everything; it's just which part is important, the numerator, the denominator.

We know that there's a guest base inside of Olive Garden that price plays a very important part of their decision making, and we have to have an offer out there a lot of the time so that they will come to us. If they don't have an offer, they will go someplace else. We know that through our token analysis. But we also know that there are folks out there that look at value on, say, chicken alfredo. When we increased the size of the portion of chicken, the value scores went way up, and that was very important to them, but that's not an entry-level price point in Olive Garden.

And so we've got to think across a broad spectrum and define value different for each opportunity. But we have to have something for that consumer that is very deal-oriented, and we know we have to have something out there most of the time.

Nicole Miller Regan

Analyst, Piper Jaffray & Co.

That's very helpful. And I was thinking about it in the kind of bigger, broader, looking forward context of how do millennials seek value? So, I think, if you could remind us the prime casual diner Olive Garden years around the 30-years-old age. And the millennial population is getting ready to peak in size of being in that age as a demographic cohort. Is it too early for Olive Garden to be thinking about how to benefit from that, or will they just actually naturally benefit from that change?

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Eugene I. Lee

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

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Yeah. I mean, the prime demographic is 35 to 55 for Olive Garden. And we've talked about the fact that population for the prime dining out years are going to start to grow and continue to grow for a while. I would say when we think about millennials, I think the one thing that millennials of all socioeconomic background like to do is have a lot of choice. They like to build their own meals, that's where Cucina Mia works so well for that cohort.

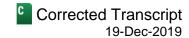
But I would tell you that millennials that have lower incomes are looking for value, just the way other groups look for value at that point in time. And I think we have to be careful with gross generalizations of this cohort, as they transition into the next phase of their life. We over-index with millennials. This is a very millennial-friendly brand. It is a very social brand. And I'll tell you that millennials love the value of Olive Garden, because they can stretch their dollars.

is a very social brand. And I'll tell you that millennials love the value of Olive Garden, because they can their dollars.	stretch
Nicole Miller Regan Analyst, Piper Jaffray & Co.	Q
Thank you.	
Operator: Our next question comes from Andrew Strelzik from BMO Capital Markets. Please go ahea	d.
	Q
Hi. Good morning. This is actually [ph] Dan (00:47:07) on for Andrew today. We saw sort of mixed performances some of the polished casuals where trends have been a bit more challenged recently. You talked some of the incremental marketing spend at Cheddar's and LongHorn, but I know last quarter you also about potentially adding some marketing spend around some of the smaller portfolio brands as well. So end up doing that? And if you did, can you just kind of give us an update on how those initiatives are per and how you think it'll work given the lack of national scale?	d about spoke o, did you
Eugene I. Lee President, Chief Executive Officer & Director, Darden Restaurants, Inc.	A
I think the brand that we made the most progress was in Yard House, and the Yard House was positive Thanksgiving shift. So, we're very pleased to see that. And so, we'll continue to find ways to try to use depromote these brands. We're doing a lot of test and learn in those brands also to try to be effective. But trying to make – we're making progress in all of those brands. I would say that, Seasons – as Rick allude Seasons was the most impacted by the holiday switch. I think we're making progress in that business.	ligital to we're
	Q
Great. Thank you.	
Operator: Our next question comes from Chris O'Cull from Stifel. Please go ahead.	

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

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Yeah. Thanks. Good morning. Gene, another company had indicated Cheddar's would be testing some these various marketing initiatives, but did these tests have a material impact on the comp performance during the quarter, and when do you think we could see some of these tests being implemented more broadly?

Eugene I. Lee

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

I think they had - I don't know if they had a meaningful impact. I mean, they had some sort of impact on the quarter. I would tell you that we're testing some of this activity on a very small scale, trying to get an understanding of what can move the needle. I would say that this is an evolution. I think that we need to continue to use a new store development backfill strategy, so that we can become more efficient and in some more markets to really make some of this stuff pay out a little bit more positively. So, I don't know, I can't give you a time to say, hey, this is when we think we're going to have this all figured out.

I will also add that in the digital world today, it is very, very dynamic, and I think test and learning digital is going to be something that companies are going to be doing forever. Because there continues to be new avenues and new channels in which you can get to your consumer. And that audience is very fickle today compared to what it used to be with spot TV. So, I think test and learn is going to be a part of our vernacular for a long time.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

That's great. And then, I know you mentioned Olive Garden's comps improved during the quarter. But I'm curious whether the check benefit from the \$5 Take Home was somewhat negated by the Never Ending Pasta Bowl promotion?

Ricardo Cardenas





Chris, this is Rick. The check benefit from the \$5 Take Home was not negated by the NEPB, Never Ending Pasta Bowl; it was really the lunch investment that we made earlier in the fiscal year that drove our check down. If you think about Olive Garden check, Olive Garden's check grew by 2.7% for the quarter, 2% of that was pricing, about 80 basis points with catering, and everything else washed. So, you think about the 80 basis points of catering, you can think about that like guest count since we don't talk about - we don't give them credit for guests. But to answer your question, no, \$5 Take Home was not offset by NEPB.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.



Okay. Great. Thanks, guys.

Operator: Our next question comes from Peter Saleh from BTIG. Please go ahead.

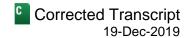
Peter Saleh

Analyst, BTIG LLC



Great. Thanks. I just want to come back to the conversation I think we had several quarters ago on loyalty. I think you guys had loyalty test in place for over a year and maybe about 10% of your stores. Where do you guys stand on the loyalty test? Is that something you plan to move forward with, or - just an update on loyalty would be great.

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Eugene I. Lee

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

Hi, Peter. We're still testing. There's really no further update. We continue to analyze the results, but at this point in time, we're just in the same 10% and we'll continue to watch how that's maturing.

Peter Saleh

Analyst, BTIG LLC

Is there anything you're looking for in particular before you decide whether to just scrap it all together or move forward?

Eugene I. Lee

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

I think that we want to continue to see if there's something there. I mean, we're trying to value what's the first party data worth to us, and how much can we move sales with a loyalty program. We're trying to get that read. And again, this is a very, very, very big decision, and one that's very difficult to undo. And so, we have to have a high confidence level that this is the correct path to go down, and at this point, we're not at that level yet.

Peter Saleh

Analyst, BTIG LLC

Great. Thank you very much.

Operator: Our next question comes from Jeff Farmer from Gordon Hastings (sic) Haskett. Please go ahead.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors

Great. Thanks. On the June earnings call, I believe you commented that your concepts were seeing some – I think you described it as day-to-day and week-to-week sales volatility. I'm just curious if that volatility has continued? And if it has, what that might signal about the consumer and their demand for casual dining more broadly?

Eugene I. Lee

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

Yeah. I mean, I think it's – we've had some huge calendar swings, so I think the volatility on a comparative basis is still there. I think the environment is a little bit better than it has been in a while. I think that employment is still strong, confidence is rebounding, I think the near-term risk of a recession has receded. So, I feel pretty good about the overall environment right now.

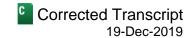
And, you know what, I don't think that I – us as a team, we get too worried about day-to-day, week-to-week volatility. I mean, it's still there. There's volatility around what your competitors are doing and what we're doing, and we're cognizant of trying to match promotional weeks. But we've been much more willing to make longer-term decisions and let there be a little bit of volatility week-to-week with our marketing activity. So, sometimes it makes a little harder to read in the short-term. In the long-term, it all works out.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors



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And then just as a follow-up to that, in terms of some of the volatility that you've seen with the consumer demand side, despite incredibly strong consumer metrics that, sort of, breakdown in that very strong relationship historically; meaning, if you saw good consumer trends, good consumer health metrics, you typically saw a pretty nice casual dining same-store sales. You guys pointed out that that had softened up a little bit. Any further comment on that?

Eugene I. Lee

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

I think I might have a real brief comment on that, this marketplace is going to be defined by winners and losers. If you have a strong value proposition and you're executing at a high level, and that execution is going to be driven by your employment proposition in this environment attracting and retaining great employees has never been more difficult, and those that can do that with a strong value proposition are going to win.

Jeff Farmer

Analyst, Gordon Haskett Research Advisors

All right. Helpful. Thank you.

Operator: Our next question comes from Katherine Fogertey from Goldman Sachs. Please go ahead.

Katherine Fogertey

Analyst, Goldman Sachs & Co. LLC

Great. Thank you. I wanted to touch a little bit on the off-premise at Olive Garden. You talked about overall sales starting the quarter pretty soft and then improving. Did you see similar trends in off-premise, especially kind of when you take away the \$5 Take Home side of the business and then kind of focus on the traffic that you're seeing from people placing orders 5 pm ahead of time, \$75 and higher threshold. Did you see softness there in the beginning of the guarter and that improved, or was that business behaving differently?

Eugene I. Lee

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

that.

You're getting a little too granular there. All I would say is that our delivery program continues to grow at a good pace. And when we're doing Never Ending Pasta Bowl, that's not a great time and it's not one of our best periods

Katherine Fogertey Analyst, Goldman Sachs & Co. LLC

Okay. Thank you. And then you gave some good color around the 100-basis-point benefit from the Thanksgiving shift by some brands. But curious if you would help us understand a little bit more, was it Olive Garden that benefited more than LongHorn, or was that benefit equally split?

for off-premise. It's just not a promotional item that lends itself to that. But overall, I would just say that \$5 Take Homes was a big piece of what we have for a new offering, and you got people excited. But our overall off-

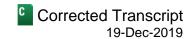
premise business continues to grow with consumer demand, and I'm not going to get into a much more detail than

Ricardo Cardenas

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

Hey, Katy. This is Rick. The Olive Garden/LongHorn were pretty similar in benefit for the Thanksgiving shift.

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Katherine Fogertey

Analyst, Goldman Sachs & Co. LLC

All right. Thank you.

Operator: Our next question comes from John Ivankoe from JPMorgan. Please go ahead.

John Ivankoe

Analyst, JPMorgan Securities LLC

Hi. Thank you. I heard your comments that you made on, obviously some of the upscale brands actually being hurt by Thanksgiving. But could you talk about, are there any other common themes in upscale that are kind of noteworthy at this point? And I guess, Gene, wouldn't you expect the upscale brands to actually be performing better today for where we are in the economic cycle and where we are in the stock market, for example, and is there anything Darden can do, self-help, to improve those?

Eugene I. Lee

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

Yeah. I mean, Thanksgiving has turned into one of the biggest days in upscale, and they didn't have that in the second quarter. So, I think these upscale brands are performing really well. I mean, we have two of the best upscale brands out there today, very high volume with Capital Grille and Eddie V's, and they continue to perform at high levels. I'm excited about what they have going forward. As I've said before, I think, their books look good through the holidays. These are exciting businesses, and I'm very pleased with their overall performance.

John Ivankoe

Analyst, JPMorgan Securities LLC

And I may have missed the number, how big a calendar shift actually was there in the second quarter, and could you also comment on some of the brands between Olive Garden and LongHorn and the two Fine Dining brands?

Ricardo Cardenas

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

Hey, John. It's Rick. The calendar shift for Darden was 100 basis points favorable. As I said on the call, the casual brands were benefited by that, and the upscale Fine Dining brands were hurt. And the upscale Fine Dining brands were hurt more than the casual dining brands were helped; but the casual dining brands are bigger, that's why we're at about 100 basis points.

John Ivankoe

Analyst, JPMorgan Securities LLC

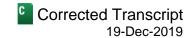
Okay. All right. Understood. Thank you for that. And then the brands in the middle?

Ricardo Cardenas

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

There weren't really many brands in the middle. We pretty much have casual. I also mentioned that Cheddar's was the least benefited of the casual brands. And, again, everything that's Fine Dining that takes reservations was hurt.

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John Ivankoe

Analyst, JPMorgan Securities LLC

Okay. Thank you for that. But also, like, when we talked about Yard House for example, we talked about Bahama Breeze, even Seasons 52, I mean, again, these are higher ticket brands than Olive Garden and LongHorn. You actually expect that the consumer would trade up to those brands in the current economic environment, current stock market. Is there anything, as you kind of look at what Darden can do on a self-help basis to kind of improve those businesses, is there anything that we should be considering? Obviously, no brand in itself is that big, but together certainly they are.

Eugene I. Lee

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

Yeah, John, I think that we've talked about it in the past. I think that these brands are in some of the best retail trade areas in the United States. They continue to face competitive intrusion, and you have to fight that competitive intrusion off. They're small enough for one or two restaurants being down a significant number can have an impact on the overall business.

As I said, I'm pleased with the trends in Yard House. Seasons, we're making progress in Seasons. We've been able to pull out a lot of the discounting that was happening in that business which we believe was a good long-term decision that's had an impact on the headline number. Bahama Breeze, we've had some competitive intrusion. We've also cannibalized ourselves in our biggest market, Orlando, opening up a couple of restaurants that have had an impact on the overall system. And we know this market well, those are places where we want to have restaurants, but right now, there's been some cannibalization.

I don't really pay a whole lot of attention to some of those top line numbers. I pay a lot of attention to the individual restaurants in each group, and I understand how they're performing. These are well-positioned brands that continue to perform well. But they're in the best trade areas in America and they're facing competition.

John Ivankoe

Analyst, JPMorgan Securities LLC

Thank you.

Operator: Our next question comes from Matt DiFrisco from Guggenheim Partners (sic) [Securities]. Please go ahead.

Matthew DiFrisco

Analyst, Guggenheim Securities LLC

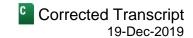
Thank you. Just a little bit of a different track here. I guess on growth, a lot of people always look at sort of the smaller brands, Cheddar's and others, to be the growth vehicle, but LongHorn is one that really you've done a tremendous turnaround on the margin side. Are we positioned for a little bit better growth ahead? I think, you're maybe 8 net stores you've added over the last 12 months, seems a little low. You're only in about 13 or 14 states, so there's certainly a lot more room for growth. I'm just curious, what has been the governor to that? Why can't that brand go back to its growth year days, and could that be on the cusp ahead?

Eugene I. Lee

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

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Well, I think that there is a growth opportunity with LongHorn. I mean, we're concentrating on entering new territory slowly, and we're focused on trying to backfill where we have opportunities. We think the governor to growth is the human capital. This is a brand that is very important how we develop our culture and how we run it, but we on a path to do 15 to 20 this year, which is pretty good number. We haven't opened up any LongHorns in California. That's really the last big territory of available to us. We are going to open up a restaurant this spring in California, see how the brand is received. We'll open a few more and we'll support that. But we're very pleased with this and I love the controlled growth, because to me that's where we're at. We're in 43 states, So I don't know where you got your number from...

Matthew DiFrisco

Analyst, Guggenheim Securities LLC

I'm sorry.

Eugene I. Lee
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

...LongHorn's in 43 states today. Over 500 units, closing on \$2 billion brand. We're going to continue to grow this. This brand has growth opportunity; we're going to grow it responsibly.

Matthew DiFrisco

Analyst, Guggenheim Securities LLC

Sorry about that. I was thinking you have an average of 13 in a state, that's what I was saying. Just also, I guess, we've been checking a lot and a lot of these smaller brands have been closing down. Is that opportunity, when you look at where you would grow LongHorn, does it have to be necessarily a new site or are there opportunities maybe more in this economic cycle where you could take over an existing restaurant that just went belly up and it's sitting next to a couple of Olive Gardens or in a market with a couple of Olive Gardens where you can get some synergies?

Eugene I. Lee

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

We look at every real estate opportunities, what is the best way. If the building has a good enough structure, we'll do a rehab. We've done a few of those. If we don't believe the building has the structure to really be a good place for a LongHorn over 30 years, then we'll tear it down. But each individual site is evaluated through an economic and say, which is the best economic outcome for the investment.

Matthew DiFrisco

Analyst, Guggenheim Securities LLC

Excellent. Thank you so much.

Operator: Our next question comes from Stephen Anderson from Maxim Group. Please go ahead.

Stephen Anderson

Analyst, Maxim Group LLC

Yes. Good morning. I wanted to follow-up with you on the off-premise opportunity, and specifically at a Cheddar's, seeing that you've built out a good infrastructure over at Olive Garden and at LongHorn. Just wanted to see what's your thought are as soon as you build out your marketing capabilities at Cheddar's, what role off-premise will play and online mobile ordering will play there?

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Eugene I. Lee

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

Yeah, Steve, good question. We have not had any emphasis on improving our off-premise sales in Cheddar's. We believe this to be a big opportunity, and it's an opportunity that we will tackle over the next 6 to 18 months. We need to go back and we need to develop good processes, understand what the – develop good capabilities, implement online ordering, which is not accessible today. All those things are in our growth opportunity and it will all be sequenced in when we believe we have the right operational capabilities to handle it. But you have identified a future growth vehicle for Cheddar's.

Stephen Anderson

Analyst, Maxim Group LLC

Thank you.

Operator: Our next question comes from Jake Bartlett from SunTrust. Please go ahead.

Jake Rowland Bartlett

Analyst, SunTrust Robinson Humphrey, Inc.

Great. Thanks for taking the question. Hey, it was the second quarter of last year that you talked about – more explicitly about pulling back on incentives that the consumer was strong enough, [indiscernible] (01:06:40) your pocket if the economy got worse. Where do you stand on incentives? Have you kicked that up since the second quarter of last year? How do you think your approach on incentives for consumers is going to be going forward this year?

Eugene I. Lee

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

Yeah. I believe that you'll see us use that lever appropriately. We have been in the marketplace testing some new offers with some relatively short expiration time to see how the consumer reacts to them, and it's just one piece of our overall toolkit to drive the business. Again, we have identified, as we pulled out and slowed down our TDIs over last year. There is a consumer out there that will only visit our restaurants when we have an incentive out there. So we've learned that we need to have something out there for this consumer.

And we'll continue to – we talk about – one of our focuses when we talk about back-to-basics is our integrated marketing approach. And this is part of our integrated marketing approaches, how do we use TDIs, how do we use other discounts or incentives, and combined with what we're doing on a promotional level, too. We always think about those in unison. So, it is another lever that we can pull. I will say for those that do look at our frequency, I would urge you not to look at that in isolation, because there are other parts of our media spend that have a lot more impact than our TDI spend, primarily how many total rating points we have in the marketplace.

Jake Rowland Bartlett

Analyst, SunTrust Robinson Humphrey, Inc.

Great. And then, second question is on acquisitions. And one is, just, if you could talk about your appetite for kind of continuing acquisitions. It's been, I guess, almost two years since acquiring Cheddar's; but also the environment, whether you're seeing some the smaller chains, kind of, under more pressure, given the kind of scale benefits with technology and with some inflation that's going on. So, one, your appetite; and the second, kind of, the environment for acquisitions out there that you're seeing.

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Eugene I. Lee

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

Yeah. I'm going to probably dodge that a little bit and give you the standard answer that we'll continue to evaluate our current portfolio and evaluate the opportunities to add to the portfolio. As you know, we continue to look at the opportunities out there, we continue to look at the opportunities internally, and we'll continue to have those discussions with our management team and our board. And, while we're doing that, we're going continue to focus on running the great brands that we have.

Jake Rowland Bartlett

Analyst, SunTrust Robinson Humphrey, Inc.

Great. Appreciate it.

Operator: Our next question comes from Jon Tower from Wells Fargo. Please go ahead.

Jon Tower

Analyst, Wells Fargo Securities LLC

Thanks, and happy holidays. Just a quick one from me. So based on our work, it looks like your off-premise business at Olive Garden was greater than 100% of the comp growth in the period. And I believe that off-premise offers like catering and \$5 Take Homes only show up in the mix and not traffic. And I think, Rick, you hit on it earlier that lunch might have drove down mix a little bit in the period. But I am curious if you could expand upon the thought that maybe these ToGo businesses are cannibalizing potential future visits, or maybe if you can give us some comfort that it isn't happening in the market.

Eugene I. Lee

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

Yeah. I don't think – we don't believe that they're cannibalizing future visits. I mean, obviously, I think that people make a choice, am I going to eat in or eat out tonight, and we want to be in both those decision sets. I go back inside the quarter and say, we started off, we had a great promotion last year with Buy One, Take One, and we had a promotion that was weaker.

I think it's important that we're sitting here today, admitting that we didn't hit the mark with Lasagna Mia, and we pulled off the promotional advertising to support that. Not everything that we're going to do is going to work, but we recognize that this wasn't – something wasn't right with it, and we didn't put the promotional dollars behind it, and we pivoted. And I think that put us in a hole in the quarter and we decided to just let it play out. And that's primarily because we had LongHorn doing well.

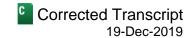
So, I look at it as all one big pool, and we've been saying [ph] for years (01:11:37) that we're going to try to feed people Olive Garden where and when they want it. And I think that we're doing a great job with that. And I'm excited about what we've done at lunch. We've definitely improved that trend. We're competing more effectively. And I believe into the future we'll have to make strategic adjustments to compete more effectively at dinner, too. You're constantly evolving in this business. You're not staying still. And so I'm confident in our team, I'm confident in our insights, and all I want to do is sell Olive Garden food to anybody that want to, anywhere they want it.

Jon Tower

Analyst, Wells Fargo Securities LLC



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And then just following up on the promotional miss/hit – or hit/miss in this quarter. Was there anything different about the testing process on this promotion relative to past testing that might have altered the go-to-market or what really played out in the market versus what you guys are seeing in test?

Eugene I. Lee

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

A

No. I think that anytime you – testing environments is small and it's always different than a macro test. So, we're not sure what else was going on. We made the decision. I think in hindsight we may have made that decision too quickly, and didn't give a chance to play out. But we did what we thought was right, right, wrong or indifferent. We made a pivot, and it's behind us, and now we're moving on.

Jon Tower

Analyst, Wells Fargo Securities LLC

Great. Thank you.

Operator: Our next question comes from Brian Vaccaro from Raymond James. Please go ahead.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.



Thanks, and good morning. Just two quick ones from me. Can we circle back on the Olive Garden incentives in the quarter? If you look across all marketing channels, how did the mix of value and incentives compare year-on-year?

Eugene I. Lee

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



Yeah, we were definitely out there with a lot more incentives and that was part of we need to be out there because we pulled back on the advertising spend, so it was just – again, it's a small channel in which we play in, but we definitely increased and we also were out there doing a ton of testing. So, test and learn just doesn't apply to our smaller brands; it was test and learn inside Olive Garden. They probably did the most test, trying to understand which TDIs would resonate with consumers, how long of time do they need to put on those to activate the consumer.

So we were definitely in the marketplace, and it's a great way for us to talk to our eClub members. So, again, I just think it's a risk for you to look at all of that in isolation because the media spend was down significantly, and we were testing and learning in this channel.

Brian M. Vaccaro



Analyst, Raymond James & Associates, Inc.

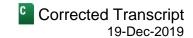
All right. That's helpful. And shifting gears to LongHorn, obviously, a pretty sharp sequential acceleration that you saw, and I know you talked about a few different factors. But could you possibly rank order the factors that drove that acceleration in your view? And then maybe just a little more color on how you drove that improved throughput during the busiest weekend hours that you referenced. Thank you.

Eugene I. Lee

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



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Yeah. I'll answer them backwards. I think it's just focus. I think we're focusing on those busiest hours. We're asking for our top management person in the restaurant to be at the front door to help with that process. It's like anything else in our business. We focus on something we get it, and the management team there has done a great job focusing on that.

I think the beauty of the LongHorn quarter is, I can't point – I'm not going to point to anything in specific. I believe this was a quarter where four years of investment; a couple extra weeks of really, really good advertising that's resonated with the consumer; great stability in the leadership roles in the restaurants all came together and we had a great quarter. Anybody that tries to isolate the point to one thing other than a one-time promotion, I believe it's very hard – very difficult to do. And I just think everything came together for LongHorn, great quarter, great job to the team. Anybody that's out there listening, you guys did a great job.

Brian M. Vaccaro

Analyst, Raymond James & Associates, Inc.

All right. Thank you.

Operator: I would now like to turn the call back to Kevin Kalicak for closing remarks.

Kevin Kalicak

Vice President-Investor Relations & Corporate Analysis, Darden Restaurants, Inc.

Thanks, Carol. That concludes our call for today. I'd like to remind you that we plan to release third quarter results on Thursday, March 19th before the market opens, with a conference call to follow. Thank you, all, for participating in today's call.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you again for your participation. You may now disconnect.

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