

19-Dec-2024

Darden Restaurants, Inc. (DRI)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Darden Restaurants, Inc. Q2 Fiscal Year 2025 Earnings Conference Call and Webcast. At this time, all participants are in listen-only mode. [Operator Instructions] . As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host, [ph] Phil McClain (00:00:40), Vice President-Finance and Investor Relations. Please go ahead, [ph] Phil (00:00:42).

Unverified Participant

Thank you, Kevin. Good morning, everyone, and thank you for participating on today's call. Joining me 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 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 a certain non-GAAP measurements, and reconciliations of these measurements are included in the presentation. Looking ahead, we plan to release fiscal 2025 third quarter earnings on Thursday, March 20 before the market opens, followed by a conference call.

During today's call, all references to industry results refer to the Black Box Intelligence casual dining benchmark, excluding Darden. During our fiscal second quarter, industry same-restaurant sales grew by 1% and industry same-restaurant guest counts decreased 1.8%. This morning, Rick will share some brief remarks on the quarter, and Raj will provide details on our financial results and an update to our fiscal 2025 financial outlook.

Now I will turn the call over to Rick.

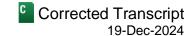
Ricardo Cardenas

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

Thank you, Phil, and good morning, everyone. We had a strong quarter that met our expectations. Same-restaurant sales at three of our four segments were positive, and all of our brands remained intensely focused on our back-to-basics operating philosophy anchored in food, service, and atmosphere. I was pleased that our four largest brands Olive Garden, LongHorn Steakhouse, Yard House, and Cheddar's Scratch Kitchen all generated positive same-restaurant sales for the quarter.

During the quarter, the Olive Garden team's ongoing focus on being brilliant with the basics, combined with great execution of an extended Never Ending Pasta Bowl, drove a positive sales gap to the industry. Never Ending Pasta Bowl featured a starting at price point of \$13.99, marking the third consecutive year at that price point and making it an even more compelling value for our guests. NEPB was once again well-received, as evidenced by the highest refill rate ever and higher protein add-ons compared to last year.

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In October, Olive Garden launched its Uber Direct pilot in approximately 100 restaurants. They are not promoting it yet in order to focus on the technology integration and operational execution. The pilot has gone very well thanks to the operators in the pilot restaurants, the Olive Garden Operations Excellence team and the Darden IT team. Olive Garden is on track to begin rolling it out to the rest of the system after the holidays with potential completion by the end of the third quarter.

Olive Garden is a brand that is well-positioned to leverage news to drive traffic, and the team has been working on several initiatives to continue appealing to core guests, as well as value seekers. One of these initiatives is an updated menu that launched two weeks ago featuring the return of two fan favorites, Steak Gorgonzola and Stuffed Chicken Marsala. These dishes were the most requested entrées that fans asked Olive Garden to bring back, and the initial response from guests is encouraging. Starting in January, Olive Garden's advertising will feature the return of these fan favorites and an additional guest-driving news: a compelling price point.

LongHorn continues to exceed expectations, driven by great guest value and strong operational execution. The LongHorn team is extremely passionate about serving the highest quality steaks in casual dining, which not only requires grilling each steak perfectly, but also having the highest quality product.

During the quarter, LongHorn hosted their first steak cutter summit with their suppliers from across the country to review their custom specifications and immerse their partners in the LongHorn business and culture. The summit ended with one supplier receiving the Golden Steak Award for the best adherence to LongHorn standards, and all of the partners left the event more aligned and better positioned to consistently meet the brand's expectations.

After receiving steaks that meet their stringent quality specifications, it's up to LongHorn team members to grill them to perfection. That's why the LongHorn team validates their Grill Masters' expertise each year, regularly retrains on how to correctly season their steaks, and ensures their managers verify that each steak is grilled to the right temperature. This focus continues to pay off and resulted in an all-time high steaks grilled correctly score during the quarter.

The performance of Yard House and Cheddar's drove positive comps within our Other segment.

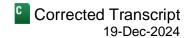
Yard House has built a competitive advantage of distinctive culinary offerings with broad appeal through a range of approachable and trend-forward items. One example of how they bring this to life is the bratwurst sliders that were featured during Oktoberfest, which helped drive further sales momentum for the brand during the quarter. The Yard House team is well-positioned to build on their momentum with new food news during the third quarter.

The Cheddar's team leverages efficiency and Darden's purchasing power to provide great food, serve with speed at a wow price. One way they achieve this is by capitalizing on lower-cost opportunity buys to create limited time offers. During the quarter, two LTOs returned to their menu: their Texas T-Bone for \$21.49, which was followed by their Bone-in Ribeye for \$22.49. And each of these entrées also include Honey Butter Croissants and two sides for that price.

I'm proud of the momentum the Cheddar's team is building. During the quarter, they achieved their best ever retention level, already exceeding their annual goal. Also, in Technomic's most recent survey, their value score once again outperformed the casual dining category, and Cheddar's ranked first among casual dining brands for affordability.

Now let me provide a brief update on Chuy's. We successfully closed the transaction during the quarter. And the leadership team including Chuy's President, Steve Hislop; and their operations leader, John Korman, is in place.

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The integration process has just begun and is being led by the same team that successfully directed the Ruth's Chris integration. They're focused on three key objectives: preserving the employee experience and Chuy's unique culture, maintaining the guest experience, and successfully migrating Chuy's onto the Darden platform with as few disruptions as possible.

The timeline for this integration will likely be a little longer than the one for Ruth's Chris because we are about to begin rolling out the next generation of our point-of-sale system. This system currently supports nine different brands and is the nerve center for our competitive advantage of extensive data and insights. This is not an off-the-shelf product. Rather, it's a proprietary system that we first built more than 20 years ago and continued to maintain and enhance ourselves. It's integrated with all of our key restaurant applications and also has a number of great features that are designed to make our managers' jobs easier, deliver key data to help enhance operations, and ensure labor compliance.

Our IT team has been working for some time to completely rewrite and modernize the application in order to provide an improved and more modern user interface, implement updated technology architecture, offer the ability to operate on different types of hardware, and deliver near real-time analytics. All of this will reduce training time for our new team members, drive speed by reducing the number of clicks required to enter orders, as well as other tasks, enable our IT team to respond faster to requests for system enhancements, and further strengthen our competitive advantages of significant scale and extensive data and insights. The learning we capture from rolling it out will help minimize disruptions when we bring it online at Chuy's.

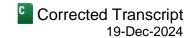
During the second quarter, we also experienced meaningful impacts from Hurricanes Helene and Milton. Our Operations teams and our Severe Weather Task Force did an outstanding job ensuring our restaurants were prepared for the storms and able to reopen quickly. Only one restaurant, the Cheddar's in Asheville, North Carolina, has been unable to reopen due to the damage it sustained. We expect to reopen this restaurant next fiscal year.

Hurricane Helene's impact was felt across multiple states, while Hurricane Milton left a path of destruction across Florida, each affecting our team members and guests. As a company that cares, one of the ways we nourish and delight everyone we serve is by responding to help others in times of need. That's why Darden is a proud partner of the American Red Cross. Each year, the Darden Foundation provides a \$500,000 grant to their Annual Disaster Giving Program. The program enables the Red Cross to prepare communities for disasters like Helene and Milton, and respond to help families during the recovery process.

Our team members can count on us as well. Nothing represents the strength of our culture quite like Darden Dimes, our signature employee giving program that enables team members across our family of restaurants and at the Restaurant Support Center to support their fellow coworkers when the unexpected happens. We are grateful that all of our team members in the affected areas are safe, and we move quickly to help those who were hardest hit. Darden Dimes provided grants totaling \$1.1 million to more than 5,600 impacted team members.

As I reflect on the quarter, I continue to believe in the power of our strategy and our brands' ability to compete effectively regardless of the environment. Each one of our brand leadership teams is focused on the long term and staying committed to our back-to-basics operating philosophy. I am proud of the way our teams performed throughout the second quarter, and now we are in the midst of the busiest time of the year for our restaurants as they nourish and delight our guests and create lasting holiday memories.

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On behalf of our leadership team and the board of directors, I want to thank our 195,000 team members. I wish you and your families a happy holiday season and hope to see you in our restaurants.

Now I'll turn it over to Raj.

Rajesh Vennam

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

Thank you, Rick, and good morning, everyone. Second quarter earnings results were in line with our expectations with positive same-restaurant sales at our four largest brands. The Thanksgiving shift to the third quarter this year caused the sales benefit for the casual dining brands and a headwind for our fine dining brands in the second quarter. However, even when adjusting for the benefit of the Thanksgiving holiday shift at our four largest brands, same-restaurant sales were still positive.

In the second quarter, we generated \$2.9 billion of total sales, 6% higher than last year, driven by same-restaurant sales of 2.4%, the acquisition of 103 Chuy's restaurants on October 11, and the addition of 39 net new restaurants. The Thanksgiving holiday shift contributed approximately 90 basis points to the same-restaurant sales for the quarter, but was partially offset by a negative 30 basis points impact from Hurricanes Helene and Milton. We outperformed the industry benchmarks again this quarter. Same-restaurant sales were 140 basis points better than the industry, and same-restaurant guest counts also exceeded the industry by 140 basis points.

Adjusted diluted net earnings per share from continuing operations of \$2.03 were 10% higher than last year. We generated \$445 million of adjusted EBITDA and returned \$308 million to our shareholders, paying \$166 million in dividends and \$142 million in share repurchases.

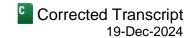
Now, looking at our adjusted margin analysis compared to last year, food and beverage expenses were 80 basis points lower, driven by the pricing leverage as commodities were slightly deflationary, and they were better than our expectations. Restaurant labor was 20 basis points lower, with productivity improvements and sales leverage from the Thanksgiving shift more than offsetting the total labor inflation of 3.7%, which was well-above our pricing. Restaurant expenses were flat. Marketing expenses were 30 basis points higher, driven by increased media spending due to more weeks of Never Ending Pasta Bowl, which we remain – while we remain disciplined in how we spend our marketing dollars.

Our restaurant-level EBITDA of 19.5% for the quarter was 70 basis points higher than last year. Adjusted G&A expenses were 10 basis points higher than last year as unfavorable mark-to-market expense on our deferred compensation caused 20 basis points increase for the quarter. Due to the way we hedged mark-to-market expense, this unfavorability is largely offset in the tax line. Interest expense increased 20 basis points, driven by the financing expenses related to the Chuy's acquisition and other cash needs.

Our adjusted effective tax rate was 12.3%, which includes the favorable impact from the mark-to-market hedge I referenced earlier. Our effective tax rate would have been approximately 14% without the impact of mark-to-market. In total, our adjusted earnings from continuing operations were \$240 million, which was 8.3% of sales and 20 basis points better than last year.

Looking at our segments for the quarter, total sales for Olive Garden increased by 3.3%, driven by same-restaurant sales of 2%, outperforming the industry benchmark by 100 basis points. Last year, Olive Garden same-restaurant sales were 4.1% in the second quarter. On a two-year basis, Olive Garden has grown same-restaurant sales by over 6%, exceeding the industry benchmark by 640 basis points over that period. Olive Garden

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continues to have strong segment profit margin, delivering 21.4% for the quarter, which is 40 basis points higher than last year.

At LongHorn, total sales increased 10.4%, driven mostly by same-restaurant sales growth of 7.5%, outperforming the industry benchmark by 650 basis points. These results build on strong results from Q2 last year where they had same-restaurant sales of 4.9%. Leverage from the strong sales growth resulted in segment profit margin of 18.9%, 150 basis points above last year.

Total sales at the Fine Dining segment decreased 3.8%, as same-restaurant sales were negative at all of our fine dining brands for the quarter. Thanksgiving is a busy day for our fine dining brands, and the shift of this holiday from the second quarter last year into the third quarter this year, combined with the hurricanes, resulted in an approximately 200 basis points of negative impact to same-restaurant sales. Adjusted for these impacts, Fine Dining same-restaurant sales decreased approximately 3.8%, which was a sequential improvement from the first quarter. The negative sales growth resulted in lower segment profit margin than last year.

The Other Business segment sales increased by 12.9%, driven by the acquisition of Chuy's and positive same-restaurant sales of 0.7%. Segment profit margin of 13.6% was 70 basis points better than last year.

Turning to our financial outlook for fiscal 2025, we updated our guidance to reflect the acquisition of Chuy's, our year-to-date results, and expectations for the back half of the year. As a reminder, same-restaurant sales for the year do not include Ruth's Chris Steak House or Chuy's because they were not owned and operated by Darden for a 16-month period at the beginning of the fiscal year.

So we now expect total sales of approximately \$12.1 billion, including approximately \$300 million from Chuy's; same-restaurant sales growth of approximately 1.5%; 50 to 55 new restaurants; capital spending of approximately \$650 million; total inflation of approximately 2.5%, including commodities inflation of approximately 1%; an annual effective tax rate of approximately 12.5%; approximately 118 million diluted average shares outstanding for the year. This results in no change to our adjusted diluted net earnings per share outlook of \$9.40 to \$9.60, which excludes approximately \$47 million of pre-tax transaction and integration-related costs.

Looking at the back half of the fiscal year, we expect sales and EPS growth rates to be lower in Q3 than the growth rates in Q4, given the impact of the Thanksgiving holiday shift into the third quarter.

Finally, as we expected, we closed in – on the Chuy's deal in October, acquiring 103 Chuy's restaurants. We're in the early stages, but the integration is going well, and we now expect to realize run rate synergies of approximately \$17 million, with approximately \$2 million realized in fiscal 2025 and the balance in fiscal 2026. As we mentioned previously, we anticipate the transaction will be neutral to our adjusted earnings per share for the fiscal year, not including transaction and integration-related expenses.

We're very pleased with the actions our brand teams are taking to address their guests' needs and deliver strong results. We'll continue to adhere to our strategy and have confidence in the strength of our business model.

Now we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from David Palmer from Evercore ISI. Your line is now live.

David Palmer

Analyst, Evercore ISI

Thanks. Good morning, guys. Wanted to ask a question on Olive Garden. I know you have a very good consumer insights team there. Wanted to ask you about what you're seeing with that brand. Given the fact that the customer satisfaction levels are so high, sort of comparable to the leaders in any segment, Olive Garden is – seems to be equal to that superiority in the Italian segment. I was wondering, why do you think the sales gap to the industry is not better? Is it – and why is that not related to the advertising? I think a lot of people ask about that. The gap right now and your advertising spend to pre-COVID, I think it's down about a half. So, any comments on that would be helpful.

Ricardo Cardenas

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

Hey, David. It's Rick. A couple of things about Olive Garden. One, the gap to the industry, while it's a little bit narrower than it has been in the past, if you think about how much we've gapped over the last five years, it's been an exceptional gap. And so if you go back a few – maybe a year ago in the call, we said we don't expect to keep the gap as high as it is now. And so – and that happened. We've also not gone after some significant discounting promotions like others have brought back. We kept our strategy to drive profitable same-restaurant guest count growth, profitable sales growth.

And so this quarter, we showed the power of doing some things. We added a few weeks to our Never Ending Pasta Bowl promotion. And those weeks that we are running Never Ending Pasta Bowl against nothing were great weeks for us. Just like others who are starting – who have started running promotions against nothing, they've been doing it a little longer. And so our gap, while smaller, we still feel confident we're doing the right things in the long term.

And in terms of marketing, the amounts that you said I don't think are exactly accurate. I'll let Raj kind of comment on that part.

Rajesh Vennam

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

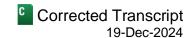
Yeah. David, on the marketing spend, it's really driven by essentially LongHorn spending very little, right? So, LongHorn used to spend close to 3%. I think today, they're spending probably maybe 0.3%, 0.4% of sales at best. So that's really the biggest driver of marketing decrease. Olive Garden is spending less, but it's not half. It's more in the, call it, 25%, 30% less than what it used to spend.

David Palmer

Analyst, Evercore ISI

So, you don't believe that the – you don't believe the scale of advertising is a problem. You're comfortable at these levels of advertising spending going forward?

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Ricardo Cardenas

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

Yeah. David, I wouldn't say whether we're comfortable or not. I would say we can continue to look at ways to advertise Olive Garden. And there, as we think about what we're going to do, we ticked up advertising in this quarter. We could continue to do that. So, it depends on what we're running and what kind of promotions we have. But we feel really good about what we have in our second half of the year. And so there potentially could be a pickup in marketing in the second half. But we don't want to comment on that for competitive reasons.

David Palmer

Analyst, Evercore ISI

Thank you very much.

Ricardo Cardenas

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

Sure.

Operator: Thank you. Next question is coming from Eric Gonzalez from KeyBanc Capital Markets. Your line is now live.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

Hi. Good morning. Thanks for the question. Just on that last point about marketing, I think you mentioned in January, you're going to bring back two of the fan favorites to the menu, and then your messaging will also include a compelling price point. So, just putting the pieces together, does it sound like the next quarter might have a little bit of an uptick in advertising?

Ricardo Cardenas

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

Well, if you think about – the third quarter is already a really strong quarter for us. Usually it's one of our highest volume quarters. So, without commenting on how much marketing will tick up or not, I would just tell you that our advertising will look different. We have, as I said, some exciting news with our two returned fan favorites and another fan favorite that's coming with a compelling price point for a limited time. So, our advertising will look different in the third quarter. I won't comment on if it's going to be higher or lower.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then just also on the Never Ending Pasta Bowl, I think you talked about the strong performance, particularly those weeks that didn't compare against the prior year. So, I'm just curious how the promotion played out during the quarter. Like, how did it do once – with the longer promo period, how did it do once those easy last weeks kind of lapped last year?

Ricardo Cardenas

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

Yeah. I'm going to start by saying how proud I am still of the work that Dan and the team at Olive Garden has done to improve the guest experience and react to what's going on in the marketplace. And one of those reactions

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was to add some weeks to Never Ending Pasta Bowl. And so we're pleased about those four extra weeks. We knew that we would have a trend change by adding those four extra weeks. But then we knew in the last eight weeks, we'd be wrapping against stronger media weight kind of looks than in launch weights, et cetera.

But what happened throughout the promotion, it was a good promotion for us. We kept our preference on Never Ending Pasta Bowl throughout the entire thing, so there was no wear out on demand for the items. And as I said in my prepared remarks, we had record preference for refills and record preference for the buy-up. So, the promotion did well.

Now, we expected it to be below prior year in the back – in the second part of the promotion, especially when we were wrapping on launch weights. What we did during that was add the new sauce, but the new sauce isn't going to be as powerful as a launch weight of a new promotion. So, we feel really good at where we ended up with Never Ending Pasta Bowl. And we're looking at what that did for us and what we could do in the future with other promotions.

Eric Gonzalez

Analyst, KeyBanc Capital Markets, Inc.

That's very helpful. Thank you.

Operator: Thank you. Next question today is coming from Jim Salera from Stephens. Your line is now live.

Jim Salera

Analyst, Stephens Inc.

[ph] Thanks (00:25:45). Good morning. Thanks for taking our question. I wanted to drill down a little bit in LongHorn in particular. Just given some of the commentary you guys had, marketing spend there is really low, but the engagement is very strong. Can you just kind of parse out which is driving the continued strength there, maybe relative to some of the other trends we've seen in casual? And how should we think about that progressing through the years, especially as other competitors have very prominent marketing that focuses on dollar price points and got LongHorn's more experiential value?

Ricardo Cardenas

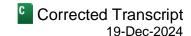
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

Well, that's what LongHorn's brand is. So, they're not going to fight back, whether price point promotion or a brand that's about quality and experience. So, I'll start by saying, LongHorn has made investments over the years, even before COVID, to improve the quality of their food, to improve the execution of that food. And so things that we've done over those times of making sure that our Grill Masters are well-trained to cook the steaks exactly as the guests like it, and that showed up in our record guest – record steaks grilled correctly score this quarter, dramatically different than where it was just three or four years ago.

We continue to make investments in food. We have – we put more dollars on the plate than anybody else in our space. And guests noticed that value. And so they're willing to come to our restaurants and do that. And so what are the results? The results, 7.5% comp for the quarter, up on a 4-plus percent comp last year and on a 7-plus percent comp the year before. So, those investments in quality have paid off. Guests know they're getting the highest quality steaks and expertly prepared at a great value.

And then the last thing I'll say is, steak brands that — with strong operations that deliver on quality are winning. And so that's — we think that LongHorn is working on the right things. And I can't comment on do I think they're

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going to continue to way outperform everybody else for the next few years, but we think they're doing the right things.

Jim Salera

Analyst, Stephens Inc.

Great. And are you able to just break out that 7.5% traffic mix price for LongHorn?

Rajesh Vennam

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

Yeah. The traffic was mid-4s. I think 4.3-ish -4.3% or 4.4%, and the check was about 3% something. And the price was like 2.8%-2.9%. So they had a positive mix a little bit. Yeah.

Jim Salera

Analyst, Stephens Inc.

Okay. Great.

Operator: Thank you. Next question is coming from Peter Saleh from BTIG. Your line is now live.

Peter Saleh

Analyst, BTIG LLC

Hey. Good morning, and congrats on a great quarter. I did want to ask maybe about the Uber Eats partnership and the accounting of how you guys are accounting for the delivery and the service charge in the Olive Garden comp. And what, if anything, is reflected in your guidance kind of going forward from the benefit of customers maybe switching from self-pickup to delivery through Uber Eats? Is there anything there?

Rajesh Vennam

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

Yeah. Peter, first of all, it's very small, right, when you think about the impact. Let me start with the accounting part of it. The delivery fee and service fee are considered as part of sales. However, when you look at the impact of – right now, we have it at 100 restaurants. We have had it for maybe less than half the quarter fully throughout the – those 100 restaurants. And when you take the dollars that come through, it's single basis points impact. So, it's not – it's very minuscule.

And as we look forward to, yeah, there may be could it be 5 basis points, 10 basis points maybe, but it's not going to be huge. I mean, it obviously depends on what percentage the off-premise or what percentage of sales delivery will be. So, we'll share more when we actually have more information to share. But right now, we expect it to be fairly minimal.

Peter Saleh

Analyst, BTIG LLC

Great. And then just on the unit growth, it looks like it ticked up. At least your guidance ticked up by about five units. Any comments on where that's coming from? Is that the inclusion of Chuy's or is there something more? Just trying to understand where the incremental five are coming from.

Rajesh Vennam

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

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It's really the inclusion of Chuy's. There's five additional openings related to Chuy's. And as we said, we're trying to continue to work towards getting – as we look at next fiscal year, trying to build a pipeline. And so that's – some of them, there's some difference between the year-to-year. [ph] The few weeks move could Rick come in (00:30:23), but it's really driven by Chuy's. Yeah.

Peter Saleh

Analyst, BTIG LLC

Thank you very much.

Operator: Thank you. Next question is coming from Jeffrey Bernstein from Barclays. Your line is now live.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you very much. My first question is just on the fiscal 2025 comp guidance. It looks like for the system, you tightened it to 1.5%. I think previously, you were 1% to 2%. So, just two related questions on that. One, just why, with two quarters remaining, would you tighten it to such a specific price point? I'm just wondering whether that demonstrates maybe increased confidence that there's going to be a lot less volatility.

And the second question around that is just, what does it assume directionally, at least for Olive Garden and LongHorn? And I know with Olive Garden, you had much easier compares. You got a new value LTO potentially on the come. LongHorn obviously has very strong momentum. So, I would have assumed maybe both of those brands would be above that 1.5%. Just trying to see if I'm interpreting that correctly. Thank you.

Rajesh Vennam

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

Hey, Jeff. Let's just start with the guidance on the same-restaurant sales itself. We said, yeah, we expect it to be approximately 1.5%. The way we're thinking about it is, we're looking at the underlying trends on a multiyear basis and the actions we're taking in the back half. We're incorporating all of that. And, yeah, you could say that implies that we have a little bit more increased confidence in the sales being more closer to that midpoint or better, and that's all in that range and that's why we've tightened it to be there.

And as we get – we have two quarters behind us. So, we have the idea. We have – those are [ph] actualized (00:32:04), so it makes it a little bit more – the range is not as narrower when you take into consideration the fact that now we're looking at only two quarters and we're trying to calculate the full year.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Got it. And in terms of the assumption for Olive Garden and LongHorn within there, am I correct to assume that you would think Olive Garden would accelerate from here? And obviously, LongHorn has been running well above those ranges. So, just trying to get a sense for whether that's the correct interpretation or whether there are some offsets that were not fully appreciating.

Rajesh Vennam

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

No. I think that's probably a fair assumption, given the mix of the brands we have in the portfolio.

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Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Understood. And then my follow-up is just on the Fine Dining comps. I think you said they improved sequentially when you back out the Thanksgiving and hurricane shifts. I'm just wondering, are there any particular brands leading or lagging? I'm just – we're getting a lot of questions around maybe the increasing GLP-1 impact that might have an impact on kind of higher end brands. I'm wondering whether you think that's having any noticeable impact at this point. Thank you.

Ricardo Cardenas

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

Hey, Jeff. Think about our fine dining brands, there's really no brands leading or lagging. Ruth's Chris is just a little bit less than Capital Grille and Eddie V's. But some of that is due to the fact that last year, if you recall, in the second quarter, we eliminated lunch in a lot of the restaurants. We turned off third-party delivery in a lot of their restaurants. And actually we didn't take any price at Ruth's Chris where we had for the other brands.

In regards to GLP-1s, I think right now it's about 6% of the population are on GLP-1 drugs. It could be having an impact on the higher end brands, and we'll continue to monitor that. That said, that's the benefit of a large portfolio like ours and having multiple brands in many different categories. But we will monitor the GLP-1 and see if there's any actions that we have to take to help strengthen from that.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Thank you.

Operator: Thank you. Next question is coming from Sara Senatore from Bank of America. Your line is now live.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Thank you. I have a question, actually, I guess, about the broader environment. You mentioned that, like, fine dining – I mean, that the large casual dining brands were all positive, and then I guess polished-casual and fine dining were a bit softer. And yet one of the things that you were seeing in Olive Garden, for example, is that pricing up through the protein items.

So, it seems like people are willing to pay up for protein specifically, but indulge a little bit. Are you seeing any trade, do you think, among your brands, Capital Grille to LongHorn or anything like that? Again, you just mentioned the value having a portfolio, and I was just curious if you can draw any – or extrapolate some of the performance, which seems to be strongest at the sort of mid-price points, but with a clear desire to – for some indulgence and positive mix.

Ricardo Cardenas

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

Yeah. Sara, a couple of things on the environment. First of all, it looks like the consumer is starting to feel a little bit better than they were in prior quarters. I'll give you a little bit of our research. Our external research shows that consumer sentiment is trending positive. And there's a little bit of a feeling of optimism out there by the belief the labor market will improve.

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But then when you – in the terms of the [ph] more (00:35:42) casual brands versus the fine dining brands, we're actually seeing optimism in our restaurants in contrast to – seeing this optimism there, in contrast to previous quarters. We're seeing growth in visits from our guests making between \$50,000 and \$100,000 a year, which is really more about casual dining brands. We're not seeing as much of an increase in visits yet on the consumers that are above that.

And so the other thing in Fine Dining, in the past – just like we've said in the past, it appears that consumers who are splurging on fine dining for the – basically those who are making less than \$150,000 have continued to pull back. So, it's impacting Fine Dining a little bit. The kind of more average income consumer is starting to feel a little bit better.

In regards to trade-down, there could be some trade-down from Capital Grille to LongHorn or Ruth's Chris to LongHorn that might be benefiting them and maybe other steak players. But frequency isn't super high, so to be able to vet that out quarter-to-quarter isn't necessarily the easiest thing to do. But there's probably a little trade-down.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Yeah. That's really helpful. Thank you. Just – and the point about sort of maybe where the middle class is indulging itself is maybe it was briefly at Fine Dining and now it's more kind of trading up at casual.

Ricardo Cardenas

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

It's probably trading back to where they were.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Right. Okay. Got it. Thank you. But then just a quick follow-up. This is more on Cheddar's, comping positively. Seems like it's really hit its stride after maybe being a little slower off the mark after the acquisition. So, I think at one point, the expectation was for much faster growth, unit growth out of that brand. Isn't that an inflection point now where we could see that?

Ricardo Cardenas

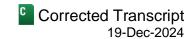
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

Well, we think that they've actually done a lot to improve the operation, as I said earlier. John Wilkerson and his team have been amazing at bringing their turnover down, turnovers at their best ever levels. And it helps on having team members that know the brand, understand the brand, and can execute the brand.

We've also done a little bit of testing with some ways to let the consumer know about Cheddar's. And so I would say, inflection point, I don't want to use that word because that would imply something significant change. When you think about unit growth, it takes a little while to build the pipeline.

That said, we've opened one restaurant in a new lower cost prototype that's doing very well for us, and we're opening another one fairly soon. And we would expect to start ramp – building that pipeline up so that we can get towards that high end of our framework for new unit growth, and Cheddar's will be part of that improvement. So, we'll talk a little bit more about unit growth in the March call, which is what we normally do. But, yeah, inflection

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point might not be the right word, but confidence that we can continue to open these restaurants is maybe a better way to say it.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Thank you so much.

Ricardo Cardenas

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

Sure.

Operator: Thank you. Next question is coming from Andrew Charles from TD Cowen. Your line is now live.

Andrew M. Charles

Analyst, TD Cowen

Great. Thanks. Raj, within the reiterated EPS guidance, can you just help level set the expectations for line items around G&A, interest expense, and depreciation for the year just following the Chuy's acquisition?

Rajesh Vennam

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

Hey, Andrew. I think G&A, we had previously guided approximately \$450 million. I think we're going to be – with Chuy's, really, it's going to be close to \$470 million. So, think of it as \$470 million roughly. Obviously, there will – it's going to be some movement, depending on what happens with mark-to-market and incentive comp, but that's a good number to use.

And then from a interest expense, I think our interest expense for the back half is probably, call it, \$47 million a quarter, in that range. And then [ph] D&A (00:39:57), I think as a percent of sales, shouldn't be fairly similar to where we've been trending. There's an increase year-over-year. You saw in the back half, probably 10 basis points, 20 basis points higher, driven just by the incremental CapEx, our inflation on the CapEx really over the last several years. But I think that's really how you think about it. Yeah.

Andrew M. Charles

Analyst, TD Cowen

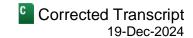
Okay. That's helpful. And then just on beef, good to see low-single digit inflation outlook, 40% coverage. Talk about the conversations you're having with vendors on this. I mean, is this something that you'd like to be more covered on, but it seems like the cost to do so would be prohibitive and you'd rather go more spot market rather than more covered? Just love to kind of know more the outlook there beyond what's covered and what would lead you to be more covered there.

Rajesh Vennam

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

Yeah. I think beef, I'll start by saying, really, our supply chain team has done an amazing job at being better than market. If you look at what happened throughout the year, we've been able to the strategy that they have deployed in terms of selectively contracting, but also having the spot market at the right times, looking at all their knowledge. And talking to the suppliers has been very helpful in delivering strong results for us. And that's been – that shows up in our P&L, right, when you look at the results.

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So, the – as you all know, currently the beef prices are up significantly year-over-year, just driven – as retailers are actively promoting some of these prime beef cuts and rib eyes. So, the prices are up in November-December.

However, I think we – our team expects that as we get into calendar 2025, early January, the seasonal dip will – there will be some opportunities for us to go cover a little bit more. So, I don't want to get too much into the details, but I just know that we have very high confidence in the strategy that our team is pursuing in terms of how we get the coverage.

The last point is, from a vendor's perspective, they've been asking for, the [ph] packers (00:41:57) have been reluctant to [ph] code (00:41:58) out front due to the supply concerns that they have. So, that's part of the reason the premiums that are being demanded are – the prices are not what we like. So, that's why we have not covered as much.

Andrew M. Charles

Analyst, TD Cowen

That's helpful. Thank you.

Operator: Thank you. Next question is coming from Andrew Strelzik from BMO Capital Markets. Your line is now live.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Hi. I wanted to talk about total inflation for 2025, and perhaps if you could walk us through some of the drivers of that, and maybe how you're thinking about margin progression through the back half of the year. Thank you.

Rajesh Vennam

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

Yeah, Andrew. So, from a total inflation, I think we said we're going to be approximately 2.5%. So, if you think about the first half, was just over 2%. So, food was fairly neutral. Food – commodities inflation was basically flat in the first half, but labor was in the high 3s. And then all other costs were somewhere in the 3%. That's how we get to that 2-ish – little over 2% in the first half.

As we look at the back half, we expect it to be - Q3 to Q4, Q4 would be probably the highest is what we're expecting, as food and beverage steps up a little bit. Part of that is driven by beef and chicken have been turning inflationary in the back half and actually seafood as well. So, if you look at beef, was pretty flat in the first half, chicken was deflationary for us in the first half, and then seafood was basically slightly deflationary.

So, those three categories turning inflationary in the back half, albeit low single digits, is part of the reason why we have that step-up. We would expect the back half to be around 2-ish percent on commodities inflation with Q3 maybe a little bit south of that and Q4 north of that.

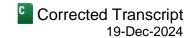
And then from a labor, it's probably not a big change. We probably would be in that high 3s. And then all others would be in that 3% range.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.



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Got it. Thank you. And then I just wanted to dig a little bit deeper into Olive Garden's Never Ending Pasta promotion and how that performs relative to expectations, specifically as it relates to the mix of customers that opted to pay extra for the protein add-on and the impact that that had on same-store sales growth in the quarter. Thank you.

Ricardo Cardenas

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

Yeah. Andrew, as I mentioned, we had record consumers buying that buy-up, and so that performed above our expectations. And we had record refills, which was above our expectations. The refills, I think, was a positive thing for us. It gives the consumer even more value, more abundance. And so the same-store sales impact on the buy-up wasn't tremendous, but we did have positive mix at Olive Garden. So, that could have been part of it.

But without getting into the detail of how much that buy-up caused impact – caused same-restaurant sales, that would kind of get you to [ph] sort of (00:45:10) know how many people bought up. So, we're not going to get into that level of detail.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

All right. Thank you very much.

Ricardo Cardenas

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

Sure.

Operator: Thank you. Next question is coming from Brian Harbour from Morgan Stanley. Your line is now live.

Brian Harbour

Analyst, Morgan Stanley & Co. LLC

Yeah. Thanks. Good morning, guys. Just on Uber, I know you said you didn't promote it yet, but was it fairly material at some of the stores where you've rolled out so far, I guess, to the extent you want to comment? And then is the expectation that you would start to kind of promote it more actively in the fourth quarter? Or how do you plan to kind of approach leaning into that?

Ricardo Cardenas

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

Yeah, Brian. Uber, the pilot has gone very well for us, as I mentioned. But we aren't promoting it yet, so we're not assuming any of these sales are incremental. So, the – in order to get the item or the delivery, you have to go to our website to try to place – take that order. And if the restaurant is in the pilot, it will ask you if you want delivery or not. So, that's the only way people know about it.

We're averaging somewhere about 1.5% of sales across the 100 restaurants on delivery without – not including the delivery fee. So, it's not going to be a tremendous impact to comps for this quarter. Again, we said it's not – we don't think it's incremental.

It does – we have seen some positive results, though. So, it accounts for about 6% of our to-go business. And order volume is increasing week-to-week, so that's, again, with no marketing. The average order size is actually

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bigger than the average pickup order size. That was a little bit of a surprise for us. And the real pleasant surprise is that about 15% of the orders have a catering item on there, and our existing catering delivery requires ordering prior to 5:00 PM the day before. So, maybe guests are figuring out they can order these items closer to when they want them, if they don't want the extra service that they get from Olive Garden catering itself.

So – and in terms of marketing, I'm not going to tell you the timing of the marketing. Right now, we're assuming the pilot restaurants aren't incremental, as I said. We're focusing on rolling it out to the rest of the system, to the rest of Olive Garden. And as I said, we intend to complete that by the end of the third quarter. Most likely it will be done by the end of the third quarter. And then as locations come online, those guests will know that you can get delivery.

After we complete the rollout, we're going to make sure that the operators have time to run it. And make sure that they learn how it works, even though it's been very seamless to the restaurants that have had it.

And then the good thing is, is part of our partnership with Uber, marketing dollars are available. And the Olive Garden marketing team is working on plans to deploy those dollars and some more with marketing this delivery. I can't tell you if it's going to be in Q4. I can't tell you [ph] it's been (00:48:21) in Q1. But we do plan on marketing this new offer after the rollout.

Brian Harbour

Analyst, Morgan Stanley & Co. LLC

Okay. Yeah. That's helpful. Thank you. Just – you quoted pricing for LongHorn. Could you cite what it was for Olive Garden as well? And I think you previously provided some comments just on the rest of the year. Is pricing still kind of what you expect for the second half? Or any change to your plans there?

Rajesh Vennam

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

Yeah, Brian. Olive Garden pricing was also south of 3%. I think they were [indiscernible] (00:48:55) like 2.8% or 2.9%. Across the system, Darden was also just under 3%. We expect back half to be fairly similar. Mid to high 2s is what we're expecting.

And then the other thing with Olive Garden mix in the second quarter was, we did see a significant contribution from catering. Catering was contributing about 60 basis points positive, which we don't necessarily count as guests, but that's a meaningful impact to sales.

Brian Harbour

Analyst, Morgan Stanley & Co. LLC

Thank you.

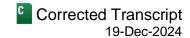
Operator: Thank you. Next question today is coming from Lauren Silberman from Deutsche Bank. Your line is now live.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Thank you. Congrats on the quarter. So, really strong performance, particularly at Olive Garden and LongHorn. Can you just talk about the cadence through the quarter? And any color on what you're seeing in December? You

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have the Thanksgiving shifts, so that's created some noise. So, just trying to understand what you're seeing in terms of underlying trend.

Rajesh Vennam

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

Yeah, Lauren. Good morning. So, when we look at the quarter – the trends within the quarter, September was pretty strong for us, driven by Olive Garden Never Ending Pasta Bowl. But when we actually look at the underlying base traffic trends during the quarter adjusted for holiday and weather because we had storms impact, as we talked about earlier, I think the hurricane impact in September was about 30 basis points. The hurricane impact in October was about 50 basis points. So, when you account for that noise of the weather and then shift of the holidays and promotion, what we see is the underlying basic traffic trends improved versus what we saw the prior two quarters across all of our brands.

And actually, as we think about what that has continued as we look into the third quarter – but we're only three weeks into the quarter. But with a significant change in holiday schedule versus last year, the holidays impact each brand differently. So, the best way to really look at this, the trends versus pre – is versus pre-COVID when we had the exact same holiday schedule, 2019 holiday schedule was the same as this year for this quarter. So, if you look at that timeframe, we – when we look at – through that lens and look at retention on traffic versus pre-COVID, we feel very good about what we're seeing. So – and so that is all incorporated into our guidance.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Great. Thank you. And then I just wanted to follow up on the LTOs that you'll be promoting in January. Clarifying you'll be promoting these three items: Stuffed Chicken Marsala, Steak Gorgonzola, and then a third classic at a specific price point. And any color about how you're thinking about the price point and what's compelling, given some of the promos out there in the industry?

Ricardo Cardenas

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

For competitive reasons, we're not going to talk about what the price point is, Lauren. I will say that we are going to continue to stick to our filters, though. So, this is not a deep discount, but it's a compelling price point. So, you'll see that pretty soon. I think it's January 2nd, I think is when it starts, or right around then. So, it won't be long.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Great. It's all three of those menu items?

Ricardo Cardenas

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

Excuse me?

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

It'll be all three menu items that are promoted at a price point?

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Ricardo Cardenas

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

No. There'll be one at a price point. The other two are already on the menu, so people know – would know what that price point is. But the one, that's the limited time offer. The other two will stay on the menu.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Great. Thanks so much.

Ricardo Cardenas

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

Sure.

Operator: Thank you. Next question is coming from Jon Tower from Citi. Your line is now live.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Great. Thanks for taking the question. Rick, I know in previous calls, you talked about the idea of speed of service across the brands, particularly Olive Garden, as being an area where you feel like there's still room for improvement. I'm just curious, you can give us any sort of update on where you are on progress there. And perhaps weaving that into some of the technology you had spoke to earlier in terms of upgrading the infrastructure around the point of sales, and if you think that will be a bit of an unlock to help expedite the speed across the system.

Ricardo Cardenas

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

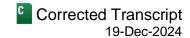
Yeah, Jon. Thanks for the question. As I said on the last call, the opportunities for speed vary by brand. So, each brand is approaching at a different way that makes the most sense for them. We are seeing gradual improvement in all of our brands. Every one of the brands have seen improvement in speed.

That said, we also said this is going to be a very long-term improvement in the speed because this was a long-term thing that happened in the casual dining industry and the full-service industry to actually get slower, so it's going to take a while to get faster. You have to convince people in our restaurants – not guests, we have to convince our team that this is the right thing. And so it's – we have 200,000 people, so it will take a while.

And I'll give you an example without necessarily getting to Olive Garden because they're doing the same thing. But Cheddar's has really taken a big push on this because, again, great food at speed in a wow price is what Cheddar's is about. And they recently updated their steps of service to focus on a few key areas. I'm not going to get into what those areas are. And they've already seen faster execution in their restaurants. As I said, all of the other brands have to.

In regards to technology, as I mentioned, we are going to be piloting and rolling out our next-generation point-of-sale which actually helps do things a little bit faster. When you think about the brands today that have Ziosk on the table, many of them are really focusing their servers on ringing the appetizer in right at the table, which is something that's always been available. But really having a push on that, and that is helping.

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So, there's a lot of things that we're doing to get speed. But, again, this is going to be a long-term thing, and we're really pleased of the early progress.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Great. Thank you. Appreciate that. And then maybe just in terms of the marketing side, I know you touched on a little bit earlier, but I'm just curious where the connected TV piece comes into this. And specifically, you'd mentioned the idea of Cheddar's maybe building some brand awareness. I'm curious if that's weaved into it.

And just speaking broadly about connected TV versus traditional linear TV, can you give us a gauge of the cost differential between the different spend channels? So, connected versus linear, if there's any significant savings you can drive utilizing that relative to traditional TV?

Ricardo Cardenas

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

Hey, Jon. We have been testing a lot of different things in digital marketing and connected TV for several years. We've got a great internal digital team that knows a lot about that. And we have been testing it at Cheddar's. We've been testing at Olive Garden. We've been testing it at LongHorn. And the benefit of our portfolio is, we can test it at our big brands, Olive Garden and LongHorn, and then move it to our smaller brands like Cheddar's and others. Cheddar's is seeing pretty good results from their test, and they've expanded their test. We believe it's a channel that we can continue to expand.

As – in the cost, it's more effective. So, whether it costs a little bit more, it's much more effective because it's targeted. We can target to the geocodes if we have to. We can target to specific age groups or consumer groups and – or users or non-users of our brand. We can get some pretty good targeting for connected TV, and so we feel pretty good about where that is. But even if – I think when you take the effectiveness out into account, it's probably not that different in cost.

Jon Tower

Analyst, Citigroup Global Markets, Inc.

Got it. Thanks for taking the questions.

Operator: Thank you. Next question is coming from Dennis Geiger from UBS. Your line is now live.

Dennis Geiger

Analyst, UBS Securities LLC

Great. Thanks, guys, and thanks for the encouraging color on Uber Direct. Encouraging also that the rollout, I think, is a little bit faster than we had thought previously. I'm just curious, relative to the full year guide and Uber Direct, if there is anything embedded there. I feel like previously that there was no expectation for any contribution. Rick, I said – I know you said you're not commenting on the marketing. And as of now, you're kind of assuming not incremental. So, just – is anything embedded from Uber in the guides for this year or not yet?

Ricardo Cardenas

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

Hey, Dennis. Thanks for pointing out that the rollout may be a little bit quicker than we thought, and I'll tell you why that is. A couple of things. One is the technology worked flawlessly from the beginning. If you think about pilots,

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sometimes technology has some issues. Yeah, we had a few little tweaks here or there. But the IT team and the Uber team did a great job integrating our proprietary point-of-sale into their systems. And actually, Uber had to make some changes to their systems to work the way we wanted it to work. So, we wanted to make sure that all work well.

And second, if you think about, what we – the reason that we're going a little bit faster is because one of the most important things that we think helps things be successful is operator buy-in. And operators at all the pilot locations are pretty much fully embraced in this and are almost unanimous in that we should put this in every Olive Garden as fast as we can. It's essentially almost exactly like curb-side pickup. And so it's not a real big change for them because it's integrated into our point of sale, and that was a key.

In regards to our guidance, we don't have any real incremental sales built into our guidance for the launch and for the rollout in this fiscal year.

Dennis Geiger

Analyst, UBS Securities LLC

That's great. Encouraging. Thank you. Just one if I could sneak it in, as it relates to menu innovation just going forward as we look ahead, how do we think about that? Will we see more menu innovation from Olive Garden specifically going forward than the last few years? Is there a shift at all there as we think about the longer term? Thank you, guys.

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

Yeah, Dennis. As you think about what we've done over the years and really simplifying the Olive Garden menu, there are items that we've wanted to continue to improve and to bring back, and you see two of them right now with Steak Gorgonzola and Stuffed Chicken Marsala. There are others that we've worked on. As we look at our menu and see where we have gaps in the menu, there are – there will be some more innovation, and even some more innovation on the compelling price points that we can offer for a limited time, just to get that consumer that needs a little bit more value to come in, but still have great value across their entire menu for all of our guests.

Dennis Geiger

Analyst, UBS Securities LLC

Great. Thanks, Rick.

Operator: Thank you. Next question is coming from Gregory Francfort from Guggenheim. Your line is now live.

Gregory Francfort

Analyst, Guggenheim Securities LLC

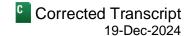
Hey. Thanks for the question. Rick, I – this might be a little bit out of the left field, but one of the things I guess we've seen recently from maybe outside of restaurants is a lot of major retailers being able to have a step function, a major step function in processing customer data, operational data. Al feel like it's playing a role in that. Do you feel like that's relevant at Darden? Are you seeing this internally at Darden? And I guess what sort of competitive moats do you think this helps create?

Rajesh Vennam

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



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Hey, Greg. This is Raj. So, we have actually been on – a little bit on the forefront in terms of leveraging the data. A lot of the tokenization was put in place several years ago for us. We moved to the data lake a few years ago. We have a strategy. We had embarked on this data strategy work four, five years ago. And so we built a strong foundation to really collect and organize the data. And then we have a team of data scientists and advanced analytics teams that actually leverage all of that. And whether it's new technology with Snowflake or other technologies that we've been able to leverage that are cloud-based, that have helped us really stay ahead of our competitors in terms of analytics, that's already been in the works.

I don't necessarily expect it to be a step change, but it's been a gradual improvement and we continue to get better. Obviously with the advent of GenAl, we have a team that's focused on our group of people that are focused on figuring out how best we can leverage it within our business. There is – there are some pilots, but there's not a lot at this point for us to share. But we are on that journey, and we feel good about the capabilities we built.

Gregory Francfort

Analyst, Guggenheim Securities LLC

Thanks for the perspective. Thanks, Raj.

Operator: Thank you. Next question is coming from Danilo Gargiulo from Bernstein. Your line is now live.

Danilo Gargiulo

Analyst, AB Bernstein

Thank you. When we look at the labor market, especially for maybe the back half of 2025 into 2026, if the tighter immigration policies were to be implemented, maybe the restaurant labor pool might be shrinking and this may be driving the [ph] salaries (01:02:38) up. So, understandably, you have a better employment proposition than peers, and you've demonstrated that over the years. But assuming that some of that impact may also be affecting you, are you planning to – considering to pass on any cost increases onto consumers? Do you think the consumers can absorb that? Or are you going to be continuing with much more prudent pricing actions going forward? Thank you.

Ricardo Cardenas

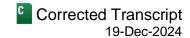
President, Chief Executive Officer & Director, Darden Restaurants, Inc.

Hey, Danilo. I think it's still a little too early to comment on the new administration and what they're going to do. We've been through an administration that kept immigration a little bit lower or more – at a more normal level and had – and we're able to operate in that environment before.

I will go back to our actual – our overall strategy. Our overall strategy is to find ways to become more efficient, to take all of our inflation into account, which includes our food inflation, our labor inflation, and other. And also using our scale advantages at Darden to find other ways to take some costs out so that we can price below others. Without getting into what we would do, we'd have to see what the impact is. But right now, we expect to stick to our strategy of keeping our pricing below who we compete against.

And if you look at over the last five years, I think it's about 500 basis points less than CPI and almost 1,000 basis points less than limited-service restaurants. So, I think it's about 20% over the last five years of pricing total for Darden. So, that's much less than everybody else. And we'll continue to focus on that.

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Danilo Gargiulo

Analyst, AB Bernstein

Great, Rick. And building on your comment, given the shift in not only the political environment, but also the consumer sentiment, as you mentioned earlier, so in light of that, looking into 2025, what is the one item that you're most excited about? And what is the one item that you're watching more closely because maybe you have some concerns about? Thank you.

Ricardo Cardenas

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

I'm excited about our team and our brands. I'm excited about what Olive Garden is doing to talk about their brand in a different way to drive the guests to our restaurants. I'm excited about the investments that LongHorn has made over the last five years and continue to make. I'm excited about the performance at Cheddar's and Yard House and all of our brands. I also feel better about the consumer. So, there's – those are the things I'm excited about. I want to talk about – I'm excited about our internal stuff. Whatever happens externally, we will handle. But I'm excited about what we're doing. And I think we have been clear that we focus on the long term. And we have ways to move the needle, and we showed that in the second quarter.

Danilo Gargiulo

Analyst, AB Bernstein

Great. Thank you.

Operator: Thank you. Next question today is coming from David Tarantino from Baird. Your line is now live.

David E. Tarantino

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

Hi. Good morning. Just a quick question on the CapEx guidance. So, it stepped up quite a bit versus the midpoint of the range that you had last time, and I suspect some of that is related to Chuy's. But could you just elaborate on why the big step-up, and then whether you think that is a good run rate for us to think about kind of growing from going forward?

Rajesh Vennam

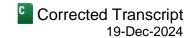
Senior Vice President & Chief Financial Officer, Darden Restaurants, Inc.

Hey, David. So, a couple things. Obviously, Chuy's coming in is a part of it. I mean, as we mentioned, we expect to open five Chuy's restaurants, but there's also a pipeline. And we also bought some – in some situations, we bought some land, which increases the CapEx.

But with that said, the other part of it is us laying the pipeline building for next year. So, we've said all along that we've been trying to kind of get – we would like to get to the higher end of our framework of 3% unit growth. We're on the pathway to that. We'll share more in March. But right now, obviously for those projects next year, we have to spend now.

To your question around run rate, I would say this is a function of new units versus maintenance, right? The maintenance CapEx, IT CapEx, all of that is probably around \$300 million a year. Wouldn't expect that to move up materially. But if we have a step-up in new units, it would go up, too. And so we'll share more in March. Yeah.

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David E. Tarantino

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

Great. Thank you.

Operator: Thank you. Our next question today is coming from Rahul Krotthapalli from JPMorgan. Your line is

Rahul Krotthapalli

Analyst, JPMorgan Securities LLC

Good morning, guys. Rick, team, any – this is a broader industry question, and I have a follow-up. Any preliminary thoughts from your vantage point on what a potential broader deregulation versus previous years would mean for the industry, particularly casual dining space as it relates to, say, M&A or accelerating development pipeline, given your guide up on permitting, et cetera? And also, any comments around specific policies for pay or tax [ph] incentive (01:07:53) credits that you foresee?

Ricardo Cardenas

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

Yeah. I'm not going to comment on anything that could be coming down the line. We'll comment on it when it happens. But I will say, anything that reduces the time to have to open a restaurant is good for us, permitting, regulate, whatever. Whatever it is. Anything that can help us kind of open up the marketplace in some way would be good.

Rahul Krotthapalli

Analyst, JPMorgan Securities LLC

Got it. And a quick follow-up. What are your thoughts on having a fast-casual brand within the portfolio over time? Your comments on Cheddar's were very helpful, but I'm just curious why not tap into M&A to address this sooner, given the shifts we see in the industry overall, given as more younger customers seem to gravitate towards this model and who will eventually be a part of the demography interacting with your brands?

Ricardo Cardenas

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

Rahul, a couple of things. One is, we are a full-service restaurant company. That is where we have our scale advantage. That is what we know. The fast-casual model is a very different model, and we believe that we can continue to excel in full service. There is a – we've had conversations in a long time about that. We'll get into more detail if you'd like on things we've said in the past. That said, the speed initiatives that we're doing will help, but fast-casual is not something that we would anticipate being in anytime soon.

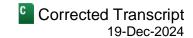
And then I'll say the other thing that you mentioned about the younger consumer. The younger consumer, we over – we actually have a higher percentage of visits from younger consumers than we have from older consumers. And as consumers move into their peak earning years, they move into casual dining. If you go back 10 years ago, the millennials had a certain percentage of visits to casual dining. And you come now, those same people are visiting casual dining more. So, it's really more of a lifestyle and need state than it is that they like fast-casual versus casual dining.

Rahul Krotthapalli

Analyst, JPMorgan Securities LLC



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Appreciate the insight, Rick. Thank you.

Ricardo Cardenas

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

Sure.

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Operator: Thank you. Next question is coming from Jake Bartlett from Truist Securities. Your line is now live.

Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

Great. Thanks for taking the question. Mine was on labor efficiencies. And if we look at your labor cost per operating week, it's been trailing your wage inflation that you've been quoting and [ph] obviously (01:10:28) a little bit of a narrower difference this quarter. But I'm wondering, is there kind of a – some more significant efficiencies that you gained at some point last year that you're going to start to lap, and so maybe we shouldn't expect labor per operating week to lag so much?

And then could you talk about other opportunities you have for driving efficiencies? I know improved retention is helpful, but anything else? And I have a follow-up.

Rajesh Vennam

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

Hey, Jake. So, yeah, we've talked about how we're always as a system trying to find efficiency. When we look at labor specifically, you pointed out, yes, labor has kept – has grown less than the wage growth, and that's really driven by a significant improvement in turnover. If you look at what's happened over the last year and year and a half, we've been – our turnover has been improving. And you heard Rick mentioned earlier about some of the historic best levels at some of our brands. That's one of the big contributors.

And the second part I'll mention specific to this second quarter is, the Thanksgiving shifting is actually you leverage labor a little bit more, right, because your – the day is open for casual dining brands versus closed. So, there's a little bit of leveraging of that fixed labor that helps. But – and then as we said, we're always in the process of continuous improvement. It has to come at the – it has to come through improving steps of service, improving – eliminating and streamlining the processes, but getting – giving guests a great experience. And so we'll continue to do that.

Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

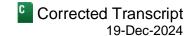
Great. And then the follow-up was on the selling as a percentage of sales. And I think the past commentary that I have here is, you'd expect a couple of [ph] tenths (01:12:18) higher in 2025. It was about 30 basis points higher as a percentage of sales in the second quarter. I'm wondering, is that being rethought? Should we think about 30 basis points to 40 basis points versus maybe 20 basis points of an increase in 2025 at this point?

Rajesh Vennam

Yeah, Jake. Again, it's also a function of things I mentioned on the call. One was, we had more weeks of Never Ending Pasta Bowl. And then also, we shift – Thanksgiving shifting out would mean that we were still on air, an extra week than what we would have been a year ago. And so those are a couple things that drove. But when we

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

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look at the full year, we still expect to be in that, call it, 10 basis points to 20 basis points higher. Again, if we find that we can deploy marketing dollars and grow sales and grow profit like we did this quarter, we'll do that.

Jake Rowland Bartlett

Analyst, Truist Securities, Inc.

Great. I appreciate it.

Operator: Thank you. We reached end of our question-and-answer session. I'd like to turn the floor back over to [ph] Phil (01:13:20) for any further or closing comments.

Unverified Participant

That concludes our call. I want to remind you that we plan to release third quarter results on Thursday, March 20, before the market opens, with a conference call to follow. Thank you for participating on today's call.

Operator: Thank you. That does conclude today's teleconference webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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