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Darden Restaurants, Inc. (DRI)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden Fiscal Year 2019 Third Quarter Earnings Call. Your lines have been placed on a listen-only mode until the question-and-answer session. [Operator Instructions] This conference is being recorded. If you have any objections, please disconnect at this time.

I will now turn the call over to Mr. Kevin Kalicak. Thank you. You may begin.

Kevin Kalicak

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

Thank you, Sue. Good morning, everyone, and thank you for participating on today's call. Joining me 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 our 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 www.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 2019 fourth quarter earnings on June 20 before the market opens followed by a conference call. This morning, Gene will share some brief remarks about our quarterly performance and business highlights and Rick will provide more detail on our financial results for the quarter before updating our outlook for fiscal 2019 and providing initial guidance for fiscal 2020. Then, we will take your questions.

As a reminder, all references to industry benchmark during today's call refer to estimated Knapp-Track, excluding Darden. During our fiscal third quarter, industry total sales grew 2.1%. Industry same-restaurant sales grew 0.8% and industry same-restaurant guest counts decreased 1%.

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 see from our press release this morning, we had another good quarter. Total sales from continuing operations were $2.25 billion, an increase of 5.5%, more than double the industry benchmark. Led by strong same-restaurant sales growth at Olive Garden and LongHorn Steakhouse, Darden's same-restaurant sales grew 2.8% and diluted net earnings per share were $1.80, an increase of 5.3% from last year's adjusted earnings.

The strategy we implemented four years ago is still [ph] a right (00:02:52) strategy today, and it continues to drive our success. Our operating teams remain focused on food, service, and atmosphere. While at the Darden level, we continue to concentrate on our four competitive advantages: one, leveraging our significant scale to create cost advantages; two, using our extensive data and insights to improve operating fundamentals and to better understand our guests and communicate with them more effectively; three, ensuring our brands systematically go through our rigorous strategic planning process; and four, cultivating our results-oriented culture to enable growth.

I'm really proud of our teams and the results they continue to achieve. It may sound simple, but consistency and flawless execution are hard to accomplish day-in and day-out. Our leadership teams remain focused on simplifying the business and they continue to find more ways to do so.

Olive Garden had a strong quarter, which resulted in its 18th consecutive quarter same-restaurant sales growth. Total sales grew 5.3%, driven by same-restaurant sales growth of 4.3% and 1% growth from new restaurants. Same-restaurant guest counts grew 0.1% even as we continued to reduce incentives. Olive Garden outperformed the industry benchmark across all these metrics.

Check average increased 4.2% this quarter, driven by 1.8% pricing and 2.4% menu mix. This mix was driven primarily by consumer preference as guests reacted positively to our promotions and our Chicken Alfredo entrée that now contains 50% more chicken. The reduced incentives also had a positive impact on mix.

These results were driven by Olive Garden's focus on operational execution, everyday value, off-premise and a strong promotional lineup. The third quarter was highlighted by the busy holiday season and Olive Garden restaurants' teams were well prepared to deliver exceptional guest experiences which led to record sales and profit for the month of December.

The restaurant teams also flawlessly executed two new exciting promotions, Oven Baked Pastas and Never Ending Stuffed Pastas, while reaching all-time highs for overall guest satisfaction. Olive Garden's value ratings also reached record levels as they continue to reinforce their everyday value platforms such as Lunch Duos, Early Dinner Duos, and Cucina Mia, across all guest communication touch points.

Finally, Olive Garden's off-premise business grew 13% and represented 15.9% of total sales for the quarter. On Valentine's Day, which is their second busiest day of the year, off-premise sales grew 20% and more guests took advantage of the convenience of online ordering with a 52% increase in online orders. The Olive Garden team continues to operate at a high level and I'm confident that the strategic focus will enable them to continue competing effectively.

LongHorn Steakhouse had another solid quarter. Total sales grew 6.7%, driven by 2.9% growth from new restaurants, and same-restaurant sales growth of 3.8%, the 24th consecutive quarter same-restaurant sales growth. Same-restaurant guest counts grew by 0.5%. LongHorn outperformed the industry benchmarks across all of these metrics. This performance was driven by improved operational execution, compelling promotions supported by LongHorn's You Can't Fake Steak advertising campaign and their industry- leading retention.

The LongHorn team continues to manage the business for the long term, anchored in their strategy of increasing the quality of the guest experience, simplifying operations to drive execution, and leveraging their unique culture to increase team member engagement. To ensure they deliver on quality, LongHorn continued its focus on grilling steaks correctly. Thanks to several efforts designed to simplify responsibilities across the restaurant teams, they once again achieved a record high steaks grilled correctly score during the quarter.

Also during the quarter, LongHorn received the Best Practices Award from the People Report which recognizes the best workplace cultures in casual dining. LongHorn continues to find unique ways to drive higher levels of passion and pride among its team members. During the quarter, they introduced Grill Master Legends, a program designed to celebrate culinary team members who have grilled more than 1 million steaks. The team at LongHorn is laser focused on its strategy, which is reflected by their strong sales and profit performance during the quarter. They continue to make sound business decisions, and I'm pleased with the momentum they have created.

Cheddar's Scratch Kitchen total sales increased 1%, driven by same – driven by sales growth from new restaurants of 3.7% and partially offset by same-restaurant sales decline of 2.7%. The Cheddar's team remains focused on their three strategic priorities: they have to win, master the tools, and standardize and simplify. They have been focused on establishing strong, stable restaurant leadership teams that strengthen culture and build team member engagement. And now, for the first time, our manager and training pipeline is on par with their other brands, which will enable Cheddar's to manage turnover and new restaurant openings more effectively.

While, I'm encouraged by the initial improvement we saw in some of the HR metrics during the quarter, I want to see these at a quicker pace. During the quarter, the restaurant teams continue to build acumen with the tools that have been implemented this year. The Cheddar's team improved their skills with reporting tools that included guest count forecasting and food waste management. These productivity tools are leading to better cost controls across the P&L.

Finally, their focus on implementing consistent standards like having managers present in the kitchen, lobby, and dining room during peak period is having a positive impact. Ensuring managers are consistently engaged in the service experience has led to meaningful improvement in key guest satisfaction measures, including overall ratings, speed and service metrics.

Cheddar's made meaningful progress during the quarter and while I'm encouraged to see the sales trend improve, while there's – the work is far from over, I'm confident that team at the Cheddar's has the right plan in place and I'm pleased by the results that we're beginning to see.

Before I turn it over to Rick, I want to close by saying thank you to our 180,000 team members. As I noted in the beginning of the call, our strategy is working. And it has to do with the commitment of our restaurant teams to be brilliant with the basics and to the tremendous support provided by the team here at our Restaurant Support Center.

So, on behalf of our management team and the board of directors, thank you all for everything you do to help us win every day. Rick?

Ricardo Cardenas

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

Thank you, Gene, and good morning, everyone. Third quarter results were strong with total sales growth of 5.5% from the addition of 39 net new restaurants and same-restaurant sales growth of 2.8%.

We expanded margins again this quarter with restaurant-level of EBITDA growth of 40 basis points and adjusted EBIT margin expansion of 50 basis points. Diluted net earnings per share from continuing operations of $1.80 was 5.3% higher than last year's adjusted diluted net earnings per share.

As anticipated, this was our lowest quarterly earnings growth for the year, as we [ph] lapsed (00:10:56) the year-to-date favorable tax through up, in last year's third quarter related to the implementation of tax reform. During the quarter, we returned a total of $166 million to our shareholders, paying out $92 million in dividends and repurchasing $74 million in shares.

Turning to the margin analysis for the quarter. Food and beverage costs were 28.4% of net sales. Commodities inflation increased to just over 1% this quarter. This, combined with the unfavorable menu mix, resulted in a 10 basis point increase in food and beverage expense. The menu mix impact was driven by guests choosing higher-priced items with the higher cost of sales percentage, providing our guests a better value.

Restaurant labor of 31.7% was favorable 40 basis points driven by several factors that more than offset overall labor inflation of just over 3.5%. First, pricing leverage contributed 60 basis points of favorability, and incremental sales leverage from higher check mix and improved labor productivity contributed another 70 basis points of favorability.

Next, we gained 20 basis points of favorability as the labor performance in our new restaurants improved and new restaurant growth was skewed to brands with lower restaurant labor than the overall Darden average, primarily LongHorn, resulting in favorable brand mix. Finally, we had approximately 10 basis points of favorability from year-over-year mark-to-market performance.

Restaurant expense of 16.9% was favorable 10 basis points as sales leverage offset inflation, and marketing expense was 2.8% and was flat on a year-over-year basis. This all resulted in restaurant-level EBITDA margin of 20.3% this quarter, 40 basis points better than last year.

Below the restaurant-level, general and administrative expense improved 30 basis points to 4.6% this quarter. Half of this favorability was related to sales leverage and strong cost management while the other half was related to favorable year-over-year mark-to-market expense. We also recorded $1.6 million of net impairments during the quarter, which is primarily related to a future restaurant closing. This net impairment charge is included in our $1.80 diluted net EPS. Taxes were unfavorable to last year, as we cycled through the implementation of tax reform in the third quarter of last year, as I mentioned earlier.

Turning to our segment performance. All of our segments grew both sales and segment profit dollars. Segment profit margin increased in the LongHorn, Olive Garden and Fine Dining segments, driven by positive same-restaurant sales and cost management. Segment profit margin declined 30 basis points in our Other Business segment due to margin deleverage from negative same-restaurant sales and the adoption of new revenue recognition standard.

Now, on to our outlook for this fiscal year and a few items of note for fiscal 2020. As stated in this morning's press release, we increased our financial outlook for fiscal 2019. We now expect total sales growth of approximately 5.5% driven by same-restaurant sales growth of between 2.5% and 2.7%, an effective tax rate of approximately 10%, and diluted average shares outstanding for the year to be between 125 million and 126 million. This all results in an increased diluted net EPS outlook to be between $5.76 and $5.80 from the previous range of $5.60 to $5.70. Our new EPS outlook represents a growth rate of approximately 20% versus last year's adjusted diluted EPS.

Looking ahead, we are providing some preliminary guidance for fiscal 2020. We currently anticipate total capital spending of between $450 million and $500 million, of which $240 million to $265 million is related approximately to 50 gross new restaurant openings. And $210 million to $235 million is related to ongoing restaurant maintenance, remodels, technology, and other spending.

In addition to the CapEx and new unit guidance we typically give during our third quarter announcement, we want to highlight two unique items that will impact our fiscal 2020 earnings. First, as we mentioned on our last quarter's call, fiscal 2020 is a 53-week year and we anticipate a positive impact on diluted net earnings per share from continuing operations of approximately $0.15. Second, as we've outlined in our filings with the SEC, we will be implementing ASC 842, the new accounting standard for leases in the first quarter of fiscal 2020. In our filings, we have indicated that we don't anticipate this standard having a material impact on our consolidated earnings. While we are still finalizing the effect of this new standard will have on our consolidated financial statements, we currently estimate this will negatively impact EPS by approximately $0.05. In our fourth quarter conference call in June, we plan to provide more details on the specific impacts to various P&L categories, as well as to our consolidated balance sheet.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from John Glass with Morgan Stanley. You may go ahead.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Thanks and good morning. Gene, I know you don't like to [ph] necessarily (00:17:36) talk about intra-quarter trends on same-store sales, but is there any reason to believe that as the consumer's sort of lapping the benefits of tax reform from last year, the consumption rates or spending patterns somehow have changed early in calendar 2019 or not?

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

A

John, you guys didn't even give me warm-up question this morning before you went there. Let me address that I think the consumer environment today is – continues to be strong. I mean, confidence remains strong, wages are growing across all the different parts of the population. I think, if we look back last year at this time, we were trying to quantify that the tax reductions were actually working their way into the business. And I'm not sure that we were able to really say that.

So, I'm not really worried about year-over-year changes based on whether there's a little bit more tax money in the – with the consumer, where they're feeling strong. I think the consumer today, focus is really strong and I really like the position that we're in. And I think it's – I think we're seeing it in all of dining. When you look back at our last quarter, I mean, with Darden, the industry grew approximately 3% total growth and that's a really good number. I'm excited about that. And I think we're going to continue to be able to grow share in that environment. So, I think the consumer is really strong at this point.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. That's helpful. And just on your Other Business brands, they've comped negatively collectively for two quarters and I understand Cheddar's has been discussed – well discussed. But is there any generalization or any takeaway you have from that in terms of how those brands may have been impacted more from a competitive environment, or do you think it's just idiosyncratic to those individual brands?

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

A

Well, I think there's three things that are happening. There is no doubt that large brands are taking share, they're a little bit more competitive. They've increased the advertising. I think the value propositions in the large brands have improved, number one.

Number two, I think that we're taking a long-term approach in each of those brands to ensure that we're really making sure that our advertising is right. We pulled back on some incentives.

And I think the third part of it is – [ph] especially (00:20:09) with Yard House and Breeze – Yard House really suffered from the cold and wet on the West Coast. We lost a lot of capacity out – our outside dining is an important part there. And we had the same issue in Florida. Florida was not as cold but it was very wet during the quarter. And [ph] we've lose (00:20:30) a lot of capacity with Breeze and Yard House in Florida. So, I think there was some issues there.

And as far as Seasons goes, we've been readjusting that menu and bringing down the overall check average which has been great. And the team's done a wonderful job there. We've been able to improve the profitability of Seasons dramatically over the last year. So, I'm really pleased with where they're at. I think our other – our smaller brands are really healthy, making great long-term decisions. It had some impact with things out of their control.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you very much.

Operator: Thank you. Our next question comes from Sara Senatore with Bernstein. You may go ahead.

Sara Harkavy Senatore
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you. One question and then one follow-up. [indiscernible] (00:21:14) I wanted to ask you about, sort of value and competition. I think some of your casual dining competition is talking about perhaps taking more price, or relying more heavily on ticket and just as an offset to some of the sort of inflationary pressures we're seeing.

So, to the extent that you're seeing that more broadly or hearing more broadly, I was wondering if that's the case? And also, is that an opportunity for you to take traffic share or would you approach it is more an opportunity to maybe raise the pricing umbrella yourselves and support margin? So, just trying to think about that traffic versus margin trade-off, if in fact we are seeing some of your competitors being willing to take a little bit more price?

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

A

Yeah. I think it's going to be a combination of both. I mean, I'll remind everybody of our strategy is to try to use our scale to really underprice the competition long-term and being able to come up with some productivity enhancements to help offset some inflation. So, that'll be part of the strategy. Depending on what others do, then we'll react to that. And hopefully, it'll be an opportunity for us to be able to maybe pass on a little bit more pricing than we have in the past but maintain our strategy of under pricing the competition but also use it as an opportunity to gain some share.

Sara Harkavy Senatore
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay, great. And then, just the follow-up was on Cheddar's. I know you were saying that you wanted to see some of the HR measures improve more quickly. I'm just trying to figure out how you effect that change, and at what point we would expect to see that in maybe a – even a sharper inflection in the same-store sales?

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

A

Yeah. Good question. I think that what we're really looking for is, we need to make really good decisions on who we decide to be our managing partners of our restaurants because they have such an impact on the overall stability of the teams. So, as we continue to learn the people, learn their capabilities, our team's starting to make – will start making better decisions on who they decide to lead the unit.

And that is – and then, when I think about this business, that's one of the most – that is the most important decision we make and has the biggest impact on our overall success, is who we decide has to run our individual restaurants. And as our management team is developing some more tenure [ph] with J.W. being in and out (00:23:42) for a little bit over six months. Paul has been there a year. They are learning the people and they're making better decisions. And I think that will be the key to really, really stabilizing the team members in getting that – getting the retention levels closer to Darden norms, which is what I'm looking for.

Sara Harkavy Senatore
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question comes from Will Slabaugh with Stephens Inc. You may go ahead.

William E. Slabaugh
Analyst, Stephens, Inc.

Q

Yes, thanks guys. First on Olive Garden, it seems like their range in everyday value options broadened a little bit, with the Lunch and Early Dinner Duos, on top of the Cucina Mia platform. So, can you share how your value piece of transactions relative to historical quarters look to this quarter?

And then, at the same time, you continue to pick up higher-than-normal check and I was wondering if you could help us out with what's driving most of that? Whether it's that lack of incentives that you've talked about the past couple of quarters that you're offering or maybe the promotions that you're advertising driving more of it?

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

A

Yeah, well, I was only able to catch the last part of that question on mix. So, I'm going to address that and I'll give you back the microphone and maybe you can check your head piece or whatever you're speaking into because it's – you're really muffled.

But on the mix, a couple of things really driving that up. The promotional menus have been very strong and we're seeing – this consumer that I described in the opening that's really strong, has really been upgrading in the promotional constructs that we've offered. So, that's been a significant part of the overall mix.

Now, there are a lot of little things contributing to the mix also such as – they're fairly significant and – but when you add them up, you're getting that 2.5%, approximately 2.5%. You're getting benefit from less incentives, you're getting benefit from catering and delivery, you're getting benefit from the $5 beverage platform that we're running. And so, we've got a lot of things going on that are all seeming to work.

We made a couple of changes to our – what we call our food and wine menu. And what we pictured that contributed. So, overall, and as I mentioned, the Chicken Alfredo with the increased portion size of the chicken is doing extremely well too. So, great promo offerings and a bunch of other little things really contributing to the mix.

William E. Slabaugh
Analyst, Stephens, Inc.
Q

Great. I'll give the first part one more shot. It seems like the range of everyday value options has broadened a little bit with the launch in Early Dinner Duos on top of the Cucina Mia platform that you've been offering. So, I was wondering if you could share how that value piece of your transactions looked this quarter relative to historical quarters?

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

Yeah, I mean, I think that they're – they all continue to grow, especially we're starting to into our second full year of Early Dinner Duos, which we knew when we introduced that platform that that was going to take time because we didn't really go out and heavily advertised that. We knew it was going to take time to build.

We keep refreshing the Lunch Duo portion of the lunch menu to try to create excitement there. That gives us price certainty at lunch. And Cucina Mia is getting close to 10% of sales which is, we think about, it's only four years old and to have that kind of preference is really strong. So, we're pleased with our value offerings but we're also pleased with how the consumer is buying up into some other areas of the menu. So, in balance, we are very happy with how the Olive Garden menu is working.

William E. Slabaugh
Analyst, Stephens, Inc.
Q

Great. Thank you.

Operator: Thank you. The next question comes from Matt DiFrisco with Guggenheim Securities. You may go ahead.

Matthew J. DiFrisco
Analyst, Guggenheim Securities LLC
Q

Thank you. I think there was a comment there with respect to the new store openings being – coming on a little stronger margin and being better contributors maybe than prior year cohorts. So, curious why maybe you're not leaning into 2020 with some more openings, seems to be similar pace to what you did in 2019?

So, with Cheddar's coming around a little bit here, potentially a little better than your expectations maybe on previous calls in addition to the strong margins, could we see maybe some ramped up growth and look to win market share further through that maybe a point or so greater expansion of the portfolio overall?

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

A

Yeah, I think, what – we've laid this long-term framework and I want to pivot back to that. We really think that 2% to 3% new restaurant growth is the right level of growth for Darden. I think that – and I always talk about the importance of the human resource element of growth and we believe that that is the right level for us.

We also want to be disciplined in our approach to choosing real estate. We think that that's an important part of growth. So, I really believe that we want to stay in that 2% to 3% new restaurant growth as we've got in our long range framework and we're trying to make great long-term decisions and have great real estate discipline. And so, that's what we're at, and that's why I think we'll – when we talk about 2020, I think that's where you'll see us be.

Matthew J. DiFrisco
Analyst, Guggenheim Securities LLC

Q

All right. And then, just a follow-up on – looking at where you are in less incentives, if we look into 2020, especially with the Olive Garden brand, how should we look at the benefit from less promotional activity going through 2020? Are we sort of that at the end of that now and we'll have maybe similar number of weeks of promotion or degree of discounting or promotional activity relative to the pressure of the check in 2020 on 2019, or it still going to be a tailwind?

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

A

I think – I mean, eventually, we're going to lap the reduction. I think we probably got the fourth quarter and then we've got probably – we pulled back a little bit in the first quarter, but let me just pull back and just say, the incentives are just one piece of our overall advertising and marketing strategy. And we'll continue to try to optimize how we spend our advertising dollars and how we interact with our consumers. And so, depending on the environment and the competitive situation, we will make adjustments as needed to try to continue to grow our share and increase same-restaurant sales. But this is just one piece of our marketing and advertising strategy.

Matthew J. DiFrisco
Analyst, Guggenheim Securities LLC

Q

But the first quarter and first half, would there be more opportunity, or is it going to be since you had [indiscernible] (00:30:56)

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

A

I'm not going to commit to that. It depends on the environment, and depends on other things that we're doing. So, obviously, the over – the [ph] lap – the wrap (00:31:08) in the first quarter is less than the rest of the year so, there's more upside that could be there in the first quarter.

Matthew J. DiFrisco
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: Thank you. The next question comes from Brian Bittner with Oppenheimer. You may go ahead.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Good morning. A question on margins and then a follow-up.

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

A

Brian, we can't hear you.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Can you hear me now?

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

A

Yes.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Sorry. Question on margins, and then, I have a follow-up. Rick, you expanded margins 50 basis points this quarter, which is very unique for a restaurant in this environment. But, more interestingly, this quarter you did it through labor, unlike COGS the last few quarters. And as you look into 2020, I realize there's no earnings guidance yet, Rick, but do you see any variables that's going to make it more difficult to achieve your long-term goals of expanding EBIT margins 10 bps to 30 bps? Or do you think your scale is going to allow you to navigate this environment again in 2020?

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

A

Hey, Brian, thanks for – we don't foresee anything that's significantly different than what we've seen this year. We're not giving guidance for next year. But we feel comfortable that we'll be able to be in our margin expansion framework for the foreseeable future, unless things drastically change.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Okay. And Gene, your [ph] gift (00:32:40) to the industry did improve nicely this quarter and it came in at a time when you're pulling back on these incentives and you're trying to drive better profitability. You talked a lot about the Olive Garden drivers in your prepared remarks but can you just frame up some of the specifics behind your share acceleration this quarter given the backdrop in the industry?

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

A

No, I think I would pivot to our operational teams. I think that we did a great job on improving our throughput in our restaurants. This was – it's a very busy time of year for us. I think our folks really prepared for what we call the busiest days of the quarter, they maximized their opportunity during that.

I think that we had good marketing programs. But I think our continued efforts to simplify operations is the – probably the biggest driver of our ability to execute at a higher level. And I think our teams did a fantastic job. They're really focused on really getting back to executing some basics of restaurant operations that are paying dividends.

And I think that's where we're get we're getting the improvement. And especially, when you look at Olive Garden, just doing an outstanding job of off-premise. Creating experience where the guest wants to come and pick it up. And so, I think that that's really where I'm giving the credit to this – the momentum in the quarter, was our operational execution.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Thanks. And then, just lastly, to-go sales. I'm not sure if I missed this or not, but can you just say what the growth of to-go was in the quarter?

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

A

13%.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Thanks, guys.

Operator: Thank you. The next question comes from Jeffrey Bernstein with Barclays. You may go ahead.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. Two questions. One, just following-up on the labor line for the quarter. I mean, I think you said it was still greater than 3.5% inflation, plus your ability to leverage was very impressive. So, I'm just wondering, I know – I believe it was this quarter we were lapping the tax savings that you reinvested last year. I'm wondering whether that had anything to do with it? Or as you look out to fiscal 2020, whether there's any reason to believe, if inflation was to stay at a similar level, why you couldn't perhaps continue to leverage the labor line specifically? And then, I had one follow-up.

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

A

Hey, Jeff. There are a few things that impacted this quarter we talked about the remarks. One was, a little bit of favorability in mark-to-market year-over-year. And the other one was that new restaurant and brand mix that we had which, depending on the brand, on the restaurant openings next year, may not be an impact. But further, we had 60 basis points of – I'm sorry, 70 basis points of check mix and productivity enhancements. Some of that productivity but some of that was this significant mix we've been getting for the last couple of quarters that we wouldn't anticipate staying in our P&L for a very long time. We do anticipate our inflation to stay about where it is and we'll continue to find productivity enhancements to help offset. But this quarter was probably a little bit stronger in labor versus last year than we would anticipate in the future.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Got it. So, the mix component of it was a big help and that we should expect less benefit from as we look to fiscal 2020?

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

A

Yeah. Unless consumers continue to buy like they're buying, we would expect a little bit lower in favorability from mix.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Got you. And then, Gene, just on M&A, I mean, there's been lots of talk of portfolio companies, I guess, expanding their portfolio. And you mentioned in your opening remarks to have – leveraging scale and your cost advantages as a real competitive advantage.

Just wondering, I mean, do you feel the need to acquire another brand anytime soon or is it just more opportunistic? I get the impression you're – got your hands full with your existing brands and I wouldn't think of you guys as eager to acquire any time soon, but I just wanted to make sure I understood that correctly.

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

A

Yeah, I think what's important is our current portfolio can deliver the long-term framework for the foreseeable future. And I don't want to – without repeating what you just said, I mean, we're really focused on regaining momentum in CSK. But the management and the board's got an obligation to our shareholders to continue to evaluate the situation on our current portfolio and look for opportunities to add over time. But I think it's important to reinforce that we do not need to do an acquisition in the – for the foreseeable future to be able achieve our long-term framework.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: Thank you. The next question comes from Gregory Francfort with Bank of America. You may go ahead.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch

Q

Hey, guys. I just had two quick questions. The first one was, I think, maybe it was the first question on smaller brands. Gene, your response was that you were seeing some greater weather pressure on those brands, but I also think you've been sourcing talent to the larger brands out of the smaller brands. How do you gain confidence or see confidence that you're not seeing senior level management churn that isn't impacting operations at the smaller brands?

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

A

Yeah, I think that we – I think the one – there was one brand that we took a lot of talent out of which was Bahama Breeze, but we've installed some new talent, it's getting up to speed. I feel – I mean, I feel really good about the work that we're doing and we've got exciting brands in that other segment that are making – we're really making good long-term decisions by pulling back in some incentives. I mean, the beautiful thing at the portfolio is that we don't have to make shorter-term decisions to drive us a comp number for a brand that is inside our portfolio.

And I'm just happy with where those brands are positioned. I think it's well documented by a couple other West Coast companies that were impacted by the February weather in Southern California, and losing that capacity which is so important to us out there. And we have the same problem in Florida. It was extremely wet here and when you lose 40% of your capacity, you just can't make that up. So, I feel good about these businesses. I've got good management teams, they're making good decisions, and I think they're going to compete very effectively in the future.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch

Q

Thanks for the thoughts. And then, maybe just on the quarter, I think you had another [ph] net Never Ending (00:39:36) promotion, you took up $1 and – how much mixed impact did that have? Is that – was that a big enough component of preference that had impacted mix this quarter?

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

A

Yeah, it definitely impacted mix. It impacted mix on increased preference, but also the add – the buy up. There's a few opportunities to add protein to the dish that we've actually seen consumer preference that are much higher than we thought we would see.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch

Q

Thanks for the thoughts. Appreciate it.

Operator: Thank you. The next question comes from [ph] Mary Hodes (00:40:15) with Baird. You may go ahead.

Q

Good morning. My question's on Cheddar's. The initiative there that I think you've talked about being in [ph] early year innings on (00:40:23) is simplification. So, could you maybe just provide an update on progress you've made on simplifying the menu or operating processes to date? And then, what's to come on that front throughout 2020?

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

A

Yeah, I think that we've made very – we've made a few process improvements in Cheddar's, but the focus has been implementing our productivity tools and figuring out how to improve the HR metrics. The management team has identified a few more significant process improvements that will be implemented throughout fiscal 2020, once we really lock into solidifying our progress on the other initiatives on staff to win and really figuring out how to maximize our productivity tools. We don't want to overwhelm this group. And there is – so, there is opportunity and you'll see more process improvement implemented throughout fiscal 2020.

Q

Thank you.

Operator: Thank you. Our next question comes from John Ivankoe with JPMorgan. You may go ahead.

Brandon Sonnemaker
Analyst, JPMorgan Securities LLC

Q

Great. Thanks, guys. Brandon Sonnemaker on for John. In the past, you mentioned that once turnover levels at Cheddar's are at Darden norms, you'd accelerate growth of that brand to 7% to 10%. Is that still the expectation maybe fiscal 2021, that you'll eventually be able to grow that brand in the high-singles or would you need a different concept to accelerate unit growth?

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

A

Well, I think that we've said is we need to stabilize the human resource metrics of this business that should lead to stable – improved sales and profit results. And then, from there, we'll be able to continue to grow this business. I think that we're going to – we'll continue to look at it. I don't want to put a number out there as a target. We have said that we don't like to grow brands at greater than 10% unit growth, we think that puts tremendous stress on the human resources. So, we'll evaluate Cheddar's growth each and every year.

I would end this comment by saying that we think Cheddar's is still a huge opportunity in the marketplace and we're more excited today than we were when we first bought this chain. The more we understand the consumer and the resiliency of the consumer, we get excited about the opportunity to grow this, but we're going to grow it responsibly over time and we're excited about it.

Brandon Sonnemaker
Analyst, JPMorgan Securities LLC

Q

Okay. And just one follow-up. Could you discuss whether you view the current mix-driven check increases as desirable and maybe if you could help with the first half, whether we should still expect a positive mix contribution at Olive Garden and LongHorn?

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

A

Well, I think, we've – as we've said in past calls, we've been – we've made some moves to try to mitigate the mix, but the consumer continues to utilize the full menu in Olive Garden, and has surprisingly, in some ways, bought up into the promotions. And it's really been a confluence of a lot of individual – well, small individual things coming together that has drove the mix.

Ideally, we don't want to have that kind of mix. We don't think that's sustainable for a long period of time. But in this environment right now, it's not one thing that we can point to that's driving the mix. It's a multiple of small areas that, coming together, are giving us this outsized mix growth.

Brandon Sonnemaker
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Thank you. Our next question comes from Nicole Miller with Piper Jaffray. You may go ahead.

Nicole M. Miller Regan
Analyst, Piper Jaffray & Co.

Q

Thank you. Good morning. Off-premise was up substantially, like you talked about at Olive Garden. I'm wondering what you attribute that to, have you been marketing or doing something else differently, clearly effectively?

And then, what does that signal? Does that does that correlate to something for us to better understand. Does this mean you'd have consistent same-store sales momentum or accelerated same-store sales momentum? Thank you.

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

A

Well, I give all the credit to Olive Garden off-premise growth to the value in the offering and then the store-level execution. Our consumers know they can count on Olive Garden to be on time and to be accurate.

And you put that on top of an awesome value proposition to the consumer with its – especially around its pans of Lasagna or pans of Fettuccine Alfredo, Our bulk salad, our bulk soup. Our offering is compelling and our execution is really high. And that – what that tells me is the consumer is really engaged in that and that experience.

We're doing a normal level of communication to our guests to remind them of the experience. But the repeat business there is extremely strong. And it – to me, it's one of the best values out there in the marketplace and executed at an extremely high level.

Nicole M. Miller Regan
Analyst, Piper Jaffray & Co.

Q

And then, just a question around Cheddar's. It was much better sequentially and also much better versus expectations. Is this an inflection point for Cheddar's? First, why was it better? And then, I was just looking at the math and I know it is not this simple, but comparisons ease now in this current quarter by about 250 basis points. If this continues, [ph] it'd be (00:46:23) back in flat territory. Is this a fair expectation?

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

A

I think there's some logic around your statement. This business is – continues to perform well. We have a few areas inside the organization that are still struggling, primarily around what we call the C&P Restaurants which was basic – all in the state of Georgia. We continue to have that way on the organization. But there's a lot of progress in the rest of the organization and a lot of momentum.

I really don't want to call this an inflection point or predict exactly when the business may go – may stabilize and get back to flat. But I will say that I am very excited about where the management team is. I'm excited about what they're focusing on. I'm excited about what they've accomplished. They just presented to the board of directors yesterday in really detail – in a detailed fashion, went through everything that's been – they've accomplished in the last six months and it's getting to be exciting. And – but I'm not going to sit here and predict that this is – or say this was the inflection point or predict that we're going to be positive.

Nicole M. Miller Regan
Analyst, Piper Jaffray & Co.

Q

Thank you very much.

Operator: Thank you. The next question comes from Karen Holthouse with Goldman Sachs. You may go ahead.

Karen Holthouse
Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks for taking the question. One just quick clarification before my question. The comment on 2020 [ph] speaking within (00:48:02) the long-term margin framework, is that including or excluding any benefit from the 53rd week?

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

A

I don't think it matters either way. Excluding, we would still expect to be within the framework.

Karen Holthouse
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then, a different maybe way to ask off-premise question. If you go back a year or so, there was pretty consistent commentary that double-digit growth was not likely to continue for forever, and – yet it has. So, doing a little bit of a postmortem on that, do you think that continued strong performance is really just the execution in value in Olive Garden specific or reflective of the overall category, kind of, continuing to gain steam for the consumer?

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

A

Karen, I think, it's a combination of both. I mean, I do think that consumer demand for convenience is – it continues to grow. And I think that we're meeting that need. And I do think that, again, the value proposition and what we do in Olive Garden is spectacular. And the execution and the thought that went into this over last four years has helped them continue to gain market share. But there is definitely a significant growth happening in this part of the business.

Karen Holthouse
Analyst, Goldman Sachs & Co. LLC

Q

What is – within that then, would you still have that same sort of skepticism that double-digit growth can continue for the medium term? Or is there just kind of more optimism on the overall trajectory?

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

A

Yes, I mean, I think right now, we're probably a little bit more optimistic than we were a while ago because we've been able to sustain that. And there is so much energy and effort being put on the whole industry into that space, I think we're benefiting from that too, right. So, everybody is talking it and pushing that part of their business, but yet when you come back to it, we've got the best value proposition so we're benefiting with – benefiting by everybody talking about it and trying to promote that part of their business.

Karen Holthouse
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question comes from Jeremy Scott with Mizuho. You may go ahead.

Jeremy Scott
Analyst, Mizuho Securities USA LLC

Q

Hey, good morning. Just wanted to go back to that 70 bps of labor productivity which is – up from the 40 bps in the last two quarters. I know you mentioned mix and impact of simplification efforts, but to what extent is that being driven by that growing off-premise mix? I know – if it's not impactful now, is it something you expect to extract as the business starts to normalize? In other words, because off-premise mix continues to grow [ph] with a (00:50:55) rapid clip, there may be some inefficiencies you're willing to live with now that you'll eventually start to draw from whether that means labor allocation or something else?

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

A

Yeah, Jeremy, I wouldn't put much of our increase in off-premise growth, increase in mix and off-premise growth to labor. As we continue to grow off-premise, we continue to need to add people in Olive Garden to help offset the growth in off-premise. So, I would say that it – as we continue to grow, if we're at 10% to 15% growth in off-premise sales, that's going to provide us the opportunity to add more people to make sure that we actually get the food on time and accurately to the consumers that will walk in the door.

Jeremy Scott
Analyst, Mizuho Securities USA LLC

Q

Got it. And you talked about the contribution of mix coming from a variety of different places, customers spending more generally at the table. Is that impacting your table turn at all and impacting traffic?

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

A

Not really impacting our table turns. I mean, we've been really focused on improving throughput in our restaurants. So, even though we're adding mix in Olive Garden, remember most of that mix at Olive Garden is coming from entrées, not necessarily on the add-on sales side. So, it's not extending the meal period.

And at LongHorn, their mix has been coming from add-on sales, but they've always had a pretty good add-on sales business. Our focus is to continue to drive better throughput in our restaurants and we're not seeing the impact of mix lengthening that time in the restaurant.

Jeremy Scott
Analyst, Mizuho Securities USA LLC

Q

Got it. Thank you. Thank you.

Operator: Thank you. Our next question comes from Andy Barish with Jefferies. You may go ahead.

Andy Barish
Analyst, Jefferies LLC

Q

Thanks, guys. On your wage inflation, I mean, it's certainly lower than most of what the industry is seeing. Is there anything you'd like to call out in terms of what you've looked at? Is it geographic, is it retention? Would appreciate any comments there.

And then – and secondly, I think you – Gene, you mentioned some productivity improvements continuing. Is there another layer at any particular brand? I imagine Olive Garden's pretty efficient given the margins you're showing currently. So, is that kind of cycling through any of the other brands where it's making a difference to call out?

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

A

Well, a couple of things, Andy. First of all, we talked about overall labor inflation of 3.5% to – about 3.5% to 4.5% in general. We're seeing hourly wage inflation higher than that. So, above 4%, somewhere between 4.5% – around 4.5%. So, others are talking about inflation but they're probably focusing more on the hourly inflation and we're seeing that. That said, we're being more productive with our team, because our turnover is so much lower. We don't – the money that we spend in training is actually spent to train our people to be even better, not necessarily train them how to do their jobs, because of our turnover rates.

The other thing, we continue to focus on productivity enhancements. We still have a lot room to go in some of our other brands. Olive Garden still has room to go in improving productivity and improving their menu and taking out steps. We've got some more to go in Cheddar's. We believe that as we continue to simplify our operations, we should be able to find productivity enhancements. Now, they may not be as high as we've seen more recently, but we still believe we have productivity enhancements.

And then, finally, I'll still mention the throughput. Olive Garden has some high volumes, Cheddar's has some high volumes. We still believe that there's room to improve throughput even in those brands. So, we would anticipate continuing to find those enhancements and to continue to help leverage – or help offset some wage inflation.

Andy Barish
Analyst, Jefferies LLC

Q

Okay. Very helpful. Thanks.

Operator: Thank you. The next question comes from Stephen Anderson with Maxim Group. You may go ahead.

Stephen Anderson
Analyst, Maxim Group LLC

Q

Yes, good morning. Most of my questions have been answered, but I do want to go back to Cheddar's. I know in past quarters, you've talked about once you've gone through a lot of these steps to improve productivity, maybe worked through some of the throughput issues, you would maybe revisit maybe some of the sales building layers perhaps doing something like increasing online and mobile sales. And when do you think you could see this opportunity, seeing now that you've done very well in this regard at both Olive Garden as well as LongHorn?

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

A

Yeah, Stephen. As Gene mentioned, we're focusing on making sure that we have the teams in place. The management teams in place before we start driving a lot of incremental sales initiatives.

That said, we have not turned on online ordering for Cheddar's. We have not turned on mobile ordering for Cheddar's. That stills a potential for us. And we will turn those kind of things on and those big sales building initiatives on when we feel it's the right time.

We've got the team in place. They're trained and they're ready to execute flawlessly. We don't like to do anything until we're ready to execute perfectly. And we've got a little bit ways to go before we get there.

Stephen Anderson
Analyst, Maxim Group LLC

Q

Now, in terms of like having that infrastructure in place, have you done any testing to make sure that once you do decide that you want to turn those levers on, that it can be done in such a way that it can be executed close to flawlessly as you can?

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

A

Well, we haven't done any testing on some of these new sales building initiatives. We're still focused on simplifying the operation, improving the menu. We just added a new – another new menu at Cheddar's. To making sure that we're fully staffed. That said, we've got a lot of our learnings in our other brands on how to do this stuff right.

So, if you think about Cheddar's, the Cheddar's guests, it's very – it's similar to the Olive Garden guests. We've learned a lot from Olive Garden. How they do off-premise, how they do other sales building initiatives, to be able to move those things over to Cheddar's and have some really good learning from our other brands.

Stephen Anderson
Analyst, Maxim Group LLC

Q

All right. Thank you.

Operator: Thank you. Our next question comes from Andrew Strelzik with BMO Capital Markets. You may go ahead.

Andrew Strelzik
Analyst, BMO Capital Markets (United States)

Q

Hey, good morning. My question is on the Other Business segment margins. You talked about, the comps being negative in the quarter, but at the same time you were able to almost hold the margins flat in the segment. So, my question is, was there anything anomalous in the quarter that helped the margins there?

Are we at the point now where we could start to see those margins expand, understanding kind of some of the dynamics that have been going on at Cheddar's and the other brands? And do you actually need comps to turn positive in aggregate for the segment to start to see the margin expansion there? Thanks.

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

A

Well, a couple of things I'll mentioned. One, we're showing, as we mentioned, better cost management. I mean, if you think about Cheddar's, for example, those productivity enhancement tools that Gene talked about, labor productivity, food waste. We're seeing those results in – on their P&L, and that's helping their margins.

We've got a lot of improvement in margin at Yard House. So, even though we've had negative same-restaurant sales in those brands – I'll give you an example for Cheddar's. Cheddar's has had a negative guest count but their productivity is getting better. And you don't normally see that when guest counts are down productivity improves. But we're seeing that right now in Cheddar's.

So, we don't – we would love to see all of our brands positive in same-restaurant sales. But we react when we have to, if same-restaurant sales are negative to find even more cost enhancements and find margin improvements if we can. That said, when all of those plans are positive, we would anticipate margin enhancements in those – in the others segment.

Andrew Strelzik
Analyst, BMO Capital Markets (United States)

Q

Great. Thank you very much.

Operator: Thank you. Our next question comes from Brian Vaccaro with Raymond James. You may go ahead.

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

Q

Thank you and good morning. I just wanted to quickly circle back on turnover which seems to be a very important piece of improving [ph] ops since – out (00:59:03) over the last few years along with the benefits you mentioned, Rick, of lower hiring and training costs. But could you just provide an update on manager turnover at each brand and how that compares to 12 to 18 months ago? And then, I have a quick follow-up.

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

A

Yeah, I'm not going to get into the individual brands, but I would just say our management turnover is actually lower today than it was 12 months ago. And I mean, to me, I think that's the key we focus on management turnover. What we're really focused on is [ph] GM and P (00:59:35) turnover, and that's less than 10% in our system.

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

Q

Okay, fair enough. And then, on the LongHorn segment margins, the expansion [Technical Difficulty] (00:59:50) a bit there despite [Technical Difficulty] (00:59:54) Can you unpack some of the puts and takes there for that segment?

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

A

Can you repeat? I'm sorry, can you repeat that? You kind of – you broke up a little bit.

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

Q

[ph] The – kind of about the LongHorn (01:00:05) year-on-year expansion in those margins [Technical Difficulty] (01:00:13) despite comps [ph] or (01:00:15) rating. So, just wanted to [Technical Difficulty] (01:00:17) puts and takes.

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

A

Okay. I think your question is LongHorn's segment margin in the third quarter was kind of moderate even with comps expanding. Let me give you a little unpacking there. We don't necessarily get in the detail. But as we've mentioned, inflation ticked up in the third quarter which we expected that to happen. A lot of that was in beef and a lot of that impacted LongHorn. So, their cost of sales as a percentage was unfavorable more than the entire company's was unfavorable. So, the company, I believe, it was – I said it was 10 basis points. LongHorn was worst than that. On the labor side, their labor was not as favorable as the company.

So, those two things offset and so they just had slight margin expansion. But they've also made significant investments in food that we've been talking about over the last couple of years. They've made significant investments in their food and this menu mix issue – issue isn't the right word – but this menu mixed impact that we're seeing at LongHorn, they're selling a lot more their higher end steaks which have a higher cost of sales. , if you think about a bone steak, it's a higher cost of sales as a percentage as a sirloin, and they're moving towards those because they've made significant investments in those.

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

Q

All right. Very helpful. Thank you.

Operator: Thank you. Our next question comes from Jon Tower with Wells Fargo. You may go ahead.

Jon Tower
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. Just across the industry, we're seeing growth of loyalty and rewards program are playing a more prominent role in sales growth for a number of other players. So, given the strength across your portfolio today, it doesn't appear that you need this in place. But I'm curious to learn where the company is with respect to a cross-brand loyalty program and if there's one in place, what the current stats look like? And perhaps the usage and what would keep it from becoming more a prominent role in sales for the company?

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

A

Hey, Jon. First of all, we do have a test in place right now. It's in less than 10% of our restaurants and it's been in place for well over a year. We've talked a lot about what we would expect to see out of loyalty programs and what we would want to see from them. It is a cross-brand program today, but we have been very clear that we want to make sure that a loyalty program drives profitable same-restaurant sales growth.

We see a driving same-restaurant sales growth, but we want to make sure the discounts or whatever we provide, or whatever incentive we provide our consumer to join that program is helpful. We do believe that there are some benefits in the data that we get, but we have more data in other sources. So, we're still researching it, we're still testing it. And if – once we believe that it's the right thing to do, we will roll it out, if we ever believe it's the right thing to do.

Jon Tower
Analyst, Wells Fargo Securities LLC

Q

And you have the systems in place that allow to plug in pretty much overnight across the brands?

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

A

Yes. We – I mean, the system – the way we build our systems, if it works in one restaurant, it will work in any brand we have. And right now, they have – they are in place. What we don't have are things like an app for loyalty which we're not even using that today. So, if we ever go full blown with loyalty, we'll just have to update our apps and move forward from there.

Jon Tower
Analyst, Wells Fargo Securities LLC

Q

Awesome. Thank you.

Operator: Thank you. At this time, there are no further questions. I would like to turn the call back over to Mr. Kevin Kalicak for any closing remarks.

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

Great. Thanks, Sue. This concludes our call and I'd like to remind you that we plan to release fourth quarter results on Thursday, June 20 before the market opens, with a conference call to follow. Thanks for participating in today's call.

Operator: Thank you. This does conclude today's conference. All participants may disconnect.