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Darden Restaurants, Inc. (DRI)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Darden Restaurants, Inc. Q3 Fiscal Year 2025 Earnings Call. At this time, all participants are in listen-only mode. [Operator Instructions] A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It's now my pleasure to introduce your host, Courtney Aquilla, Senior Director of Finance and Investor Relations. Please go ahead Courtney.

Courtney Aquilla

Senior Director-Finance & Investor Relations, Darden Restaurants, Inc.

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 can cause actual results to differ materially from our expectations and projections. Those risks are described in the company's press release, which was distributed this morning and in its filings with the Securities and Exchange Commission. We are simultaneously broadcasting a presentation during this call, which is posted in the Investor Relations section of our website at darden.com.

Today's discussion and presentation include certain non-GAAP measurements, and reconciliations of these measurements are included in the presentation. Looking ahead, we plan to release fiscal 2025 fourth quarter earnings on Friday, June 20 before the market opens, followed by a conference call. During today's call, all reference to industry results refer to Black Box Intelligence casual dining average benchmark excluding Darden. During the fiscal third quarter, average same-restaurant sales for the industry grew 0.9% and average same-restaurant guest counts decreased 1.2%. Additionally, due to a significant divergence between average and median results, we are sharing that the median same-restaurant sales for the industry decreased 2.3% and median same-restaurant guest counts decreased 4.2%. This represents the largest disparity between average and median observed in recent years.

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, Courtney, and good morning everyone. Overall, I am pleased with our performance this quarter and proud of how our teams managed their business and controlled what they could control. Raj will share specifics, but when you exclude weather impacts which were even greater than last year's challenging weather, same-restaurant sales at all four of our segments were positive. Our ability to deliver profitable sales growth in this challenging environment is a testament to the strength of our business model and adherence to our proven strategy, which is anchored in our four competitive advantages and our restaurant team's commitment to being brilliant with the basics. Several of our brands set sales records during the Christmas and New Year's holidays, as well as on Valentine's Day, which reinforces the strength of our portfolio and the guest loyalty our teams work so hard to earn.

During the quarter, Olive Garden launched an updated menu featuring Fan Favorites, Steak Gorgonzola Alfredo and Stuffed Chicken Marsala, the two most requested entrées that Olive Garden fans asked to bring back. In

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January, Olive Garden's marketing featured the return of these favorites, along with Four-Cheese Manicotti for just $12.99, plus a Three-Meat Manicotti for a limited time. During the six weeks Fan Favorites was on air, Olive Garden's base traffic and sales trends improved significantly. They also experienced high levels of social media engagement while preference for both items was strong and grew throughout the duration of the offer.

The Olive Garden team continues to use news to appeal to core guests as well as value seekers in this environment. For the first time since before COVID, they are bringing back their signature Buy One, Take One limited time offer. With a price starting at $14.99, guests choose from seven entrées for their dining experience and then take a second entrée home. This has historically been a high-traffic driving promotion for Olive Garden. Their eClub members are enjoying early access to this offer this week, and it will be available to everyone starting on Monday.

In the first week of February, Olive Garden completed their rollout of Uber Direct, making delivery available in all restaurants except the six locations that cannot offer curbside ToGo. Our partnership with Uber Direct strengthens Olive Garden's ability to value their guest time by bringing their favorite dishes directly to their doorstep using Olive Garden's online ordering platform and leveraging Uber's delivery network. Additionally, delivery provides Olive Garden with a meaningful sales building opportunity over time. Without any marketing support during the quarter, the volume of delivery orders grew week to week while maintaining a higher check average than curbside pickup orders.

In the fourth quarter, the Olive Garden team started to drive awareness of delivery with modest digital activity and will fully leverage their earned and owned channels to target their biggest fans. This will ensure a smooth transition for the newly launched restaurants and establish a baseline from which they will measure future marketing efforts. They are targeting that end of this fiscal year for a more expansive awareness building campaign, including TV advertising, with a compelling and memorable offer partially funded by Uber. We are pleased with the success of the rollout of Uber Direct at Olive Garden.

We heard from the operators how seamless it was, and just this week, we began to pilot at Cheddar's Scratch Kitchen. The Cheddar's team is currently testing it in 10 locations with a plan to deploy it more broadly across their system. At LongHorn Steakhouse, strict adherence to their strategy rooted in quality, simplicity, and culture continues to drive their momentum. The restaurant team's focused on execution to ensure every item they serve meets their high quality standards. This includes having industry-leading specifications and ensuring they perfectly season and grill every steak served to their guests. This level of focus continues to pay off, resulting in an all-time high Steaks Grilled Correctly score in the third quarter.

LongHorn's people bring their strategy to life in their restaurants, and the Grill Master Legend's program is an excellent example of the intersection of quality and culture. The program celebrates extraordinary team members who have grilled more than 1 million steaks over the course of their career, which typically takes more than 20 years to accomplish. Longhorn leadership recognizes these legends with a surprise party in their restaurant that includes their family, friends, and loyal guests. During the third quarter, they inducted five more Grill Masters into this exclusive club, bringing the total to 30. To further build on their leadership and food quality, Longhorn is bringing back Grilled Lamb Chops and Fire-Grilled Corn during the fourth quarter. These two guest favorites along with last year's viral sensation Parmesan Crusted Lamb Chops will be featured for a limited time.

Successfully opening new restaurants is a key part of our ability to create value for our shareholders and help our brands reach their potential. Working with our development team, we are testing new, smaller prototypes for some of our brands. These prototypes help lower construction costs and enable the brands to build out their new

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restaurant pipelines by considering sites that would have been too small in the past, ultimately accelerating new restaurant openings.

During the quarter, Yard House and Cheddar's, both opened these prototypes and they are performing at or above expectations. Each one is roughly 20% smaller and cost approximately 15% less to build than their legacy restaurant prototype. They also preserve the essence of the brand. For example, while it's significantly smaller, the new Yard House prototype still features their full menu and offers 90 different beers on tap.

Now, let me provide a quick update on Chuy's. The planning phase of the integration is complete and the actual work is underway. On Monday, Chuy's will convert to our human resources platform, which includes our people management systems, payroll, and benefits. Our platform streamlines key day-to-day activities which improves efficiency and allows managers to spend more time focused on running their restaurant. The next major milestone will be supply chain transitions that will take place in phases beginning in June, followed by the point-of-sale transition starting in late summer. Integration is never easy, and I am proud of how the entire Chuy's team has remained focused on executing at a high level while adapting to change.

Every day, we work in pursuit of our shared purpose to nourish and delight everyone we serve. One of the ways we do this for our team members and their families is through our Next Course Scholarship program. Recently, the Darden Foundation awarded 98 post-secondary education scholarships worth $3,000 each to the children of Darden team members. This is the third year of the program, and over that time, we have awarded nearly 300 scholarships, helping team members and their families across the country.

To wrap up, I'm proud of the focus and commitment our teams continue to display. On behalf of our leadership team and the board of directors, I want to thank all of our team members for everything you do to nourish and delight our guests and each other.

Now I will turn it over to Raj.

Rajesh Vennam

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

Thank you Rick, and good morning everyone. Third quarter earnings results were in line with our expectations even though the top line was impacted by unfavorable weather. The quarter started with a negative gap to the industry average in December but turned positive in January and February with both months exceeding the industry benchmark by well over 100 basis points. Winter weather and Thanksgiving holiday shift into the third quarter negatively impacted same-restaurant sales for the quarter by approximately 100 basis points and 90 basis points, respectively. As a reminder, Thanksgiving shift helped our fine dining brands and negatively impacted casual dining.

After adjusting for these impacts, our same-restaurant sales were 2.6% for the quarter, a sequential improvement from prior quarters. For the first three weeks of the fourth quarter, we're seeing further improvement in our sales trends. Overall, our teams continue to do a great job managing the business through the volatility created by weather. In the third quarter, we generated $3.2 billion of total sales, 6% higher than last year, driven by same restaurant sales growth of 0.7%, the acquisition of 103 Chuy's restaurants and the addition of 40 net new restaurants. Both our same-restaurant sales and same-restaurant guest counts for the quarter were in the top quartile of the industry.

Adjusted diluted net earnings per share from continuing operations of $2.80 were 6.9% higher than last year. We generated $559 million of adjusted EBITDA and returned $217 million to our shareholders by paying $164 million

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in dividends and $53 million in share repurchases. Now, looking at our adjusted margin analysis compared to last year, food and beverage expenses were 70 basis points lower driven by pricing leverage as commodities inflation was less than 0.5% with almost all categories better than our expectations. Restaurant labor was flat with productivity improvements fully offsetting the impact of pricing below total labor inflation of approximately 3.5%.

Restaurant expenses were 20 basis points higher, driven by the brand mix with the addition of Chuy's. Marketing expenses were 10 basis points higher consistent with our plan. Our restaurant level EBITDA of 21.1% for the quarter was 50 basis points higher than last year. Adjusted G&A expenses as a percent of sales were flat to last year. Interest expense increased 20 basis points driven by the financing expenses related to the Chuy's acquisition. And our adjusted effective tax rate for the quarter was 13.4%. In total, our adjusted earnings from continuing operations were $330 million which was 10.5% of sales.

In the third quarter, all of our segments grew total sales and segment profit margin. Total sales for Olive Garden increased by 1.5% driven by same-restaurant sales growth of 0.6%. Olive garden's gap to the industry benchmarks increased significantly, following the launch of Fan Favorites limited time offer outperforming the industry benchmarks by 180 basis points in January and 240 basis points in February. They're maintaining their momentum through the first three weeks of March. Olive Garden continues to have strong segment profit margin, delivering 23% for the quarter, which is 50 basis points higher than last year.

At LongHorn, total sales increased 5.1%, driven by same-restaurant sales growth of 2.6% and the addition of 14 net new restaurants. LongHorn same-restaurant sales growth adjusted for the Thanksgiving shift and weather was 5%, a strong performance in what is traditionally their highest volume quarter. Through the first three weeks of March, LongHorn has seen strong traffic and same-restaurant sales growth, further increasing their positive gap to the industry. Segment profit margin for the third quarter was 19.4%, 70 basis points above last year.

Total sales at Fine Dining segment increased 3.3% though the same-restaurant sales were negative 0.8% for the quarter. Thanksgiving is a busy day for our fine dining brands, and the shift of the holiday from the second quarter last year into the third quarter this year led to a positive sales impact that was mostly offset by the negative weather impacts during the quarter. Adjusted for holiday shift and weather impacts, Fine Dining same-restaurant sales decreased approximately 1% which continues the sequential improvement from prior quarters. Fine Dining segment profit margin of 22.3% improved 50 basis points from last year. The Other Business segment sales increased 20.2%, primarily driven by the acquisition of Chuy's. Segment profit margin of 15.4% was 50 basis points better than last year.

Turning to our financial outlook for fiscal 2025, we've updated two items in our guidance to reflect our year-to-date results and expectations for the fourth quarter. We now expect 118.3 million diluted average shares outstanding for the year and adjusted diluted net earnings per share of $9.45 to $9.52 which excludes approximately $47 million of pre-tax transaction and integration related costs. All other items remain unchanged. For the fourth quarter specifically, our annual outlook implies total sales of $3.23 billion to $3.26 billion, same-restaurant sales growth above 3%, and adjusted diluted net earnings per share between $2.88 and $2.95.

Now looking forward into [ph] fiscal (00:16:29) 2026, we wanted to provide our thoughts on a few items. First, we plan to open between 60 and 65 new restaurants. We expect to spend between $375 million to $400 million of capital for new restaurants, and $300 million to $325 million of capital related to ongoing restaurant maintenance, refresh and technology. We anticipate an effective tax rate between 13% and 13.5% for fiscal 2026. And finally, fiscal 2026 will include a 53rd week, contributing approximately $0.20 in additional diluted net earnings per share.

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In closing, I want to commend our teams for their outstanding efforts in serving our guests. Their dedication is reflected in the strong financial results we delivered. We remain confident in our strategy and the strength of our business model, which continues to drive our success. 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 is coming from Jon Tower from Citi. Your line is now live.

Jon Tower
Analyst, Citigroup Global Markets, Inc.
Q

Great. Thanks for taking the question. And I'm just curious – I appreciate all the color in the quarter-to-date across the brands. I'm curious if you could maybe speak to whether you believe that the improvement you're seeing is more related to your own brands or the industry. And specifically, you mentioned on the last earnings call that you'd started to see improvement in visits and guests making between $50,000 to $100,000 a year. I'm just curious how that played out in your fiscal third quarter and perhaps what's happening quarter-to-date to the extent you can provide some color.

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

Hey, Jon. Quarter-to-date, I'm really pleased with the performance of our brands. Olive Garden and LongHorn have continued to perform well. And the rest of our brands are continuing to improve their performance. Without commenting directly on what's going on with the rest of the industry, it's only three weeks into our quarter, but we feel pretty good about where we are, and that's reflected in our guidance of above 3% same-restaurant sales growth for Darden.

As it relates to the consumer between $50,000 and $100,000, it's not growing quite as much as it was before, but it's still growing when you adjust for weather. Outside of – across all income groups, adjusting for weather, the only income group that was negative across our casual brands was below $50,000. All of the other things were positive when you adjust out that bad weather this quarter.

Jon Tower
Analyst, Citigroup Global Markets, Inc.
Q

Great. Thanks for taking the question.

Operator: Thank you. Next question is coming from David Palmer from Evercore ISI. Your line is now live.

David Palmer
Analyst, Evercore ISI
Q

Thanks. Just a follow-up on that. To what degree do you think there was a flu impact in the quarter? But then separately, when it comes to casual dining, one of the things we're noticing is it's holding up remarkably well given what we're seeing in other segments within restaurants. I don't know if you're noticing that in your own insights work and thinking about reasons for that. I mean, it – I'm not sure we can make too much sense of it. And then lastly, I just wanted to ask you about your plans on M&A. Are they shifting now that you're further along with Ruth's and seeing what's happening with perhaps some valuations elsewhere? Thank you.

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

A

Hey, David. Let me see if I got all three parts of that question. Flu impact, we don't really necessarily do a lot of work on checking on whether – I mean, I'm sorry, temperature for people [indiscernible] (00:20:31) temperature in the community climate stuff. So, I can't tell you if flu had a big impact or not. Maybe it did. That said, I think our bigger impact was weather versus prior year. When you think about consumers in casual dining and what's been going on, I think they're – we have seen that casuals dining is holding up a little bit better than maybe some other segment. And dining out continues to be the number one category where consumers tend to treat themselves and splurge, and you actually treat yourself and splurge a little bit more in casual dining and fine dining than you do in other segments. So, maybe that's what it is. We're going to continue to focus on providing an excellent experience and deliver value to our guests that choose to dine with us, and especially the ones that come into our restaurants.

And in M&A, we're just on the process of starting the Chuy's integration work. And as we always say, we'll continue to talk to our board to figure out what the best uses of our capital are, but we want to continue to focus on integrating Chuy's.

David Palmer
Analyst, Evercore ISI

Q

Thank you.

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

Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thanks for taking a question. Maybe a quick one on the Uber partnership. I think you mentioned at the end of the fiscal year you'd be launching a more expansive awareness campaign that included TV advertising. I know you said it'd be partially funded by Uber. But can you level set our expectations on whether we should expect a meaningful uptick in advertising spend? And regarding Uber's contributions, I'm sure you don't want to give specifics, but I was wondering how long that subsidy will last.

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

A

Eric, I will say, we're spending – we're funding more of the total spend for that advertising than Uber is, but Uber is funding quite a bit of it. I wouldn't say it's hugely meaningful impact on advertising for the quarter. It's really the last couple of weeks of the quarter, and we expect it to last just a few weeks. And then we'll continue to see what we're going to do going forward. And everything that I just told you is contemplated in our guidance for the quarter. And Raj will probably talk about the marketing spend in total for the quarter.

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

A

Yeah. Eric, I think we're still going to fall within that 10 to 20 basis points for marketing spend like we talked about in terms of year-over-year growth.

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Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.
Q

Is there anything you could tell us about 2026 and the implications there?

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

I think we're still early for 2026. I think what we said, if you go back to the comments we made along the way with respect to marketing over time, we would expect it to grow, but at a measured pace, because we're going to be very deliberate and we're going to just make sure that as we invest in marketing, that's actually getting a return on investment. And we feel like we have over the last year and a half, two years even further improved our analytics around it and the effectiveness of media. So maybe sometimes we may not need to spend as much dollars to get the same impact because we're further – we're continuing to get better at more efficient and effective media.

Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Thank you.

Operator: Thank you. Next question is coming from Brian Bittner from Oppenheimer. Your line is now live.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.
Q

Thanks. Good morning. Raj, as it relates to the EPS guidance for fourth quarter, the range implied, I think based on our math, it seems to imply a flattish operating margin. So, is that correct? And if so, it just seems a tad conservative with the comp sales being over 3%. So, can you unpack the operating margins in the fourth quarter for us a little bit more?

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

Sure, Brian. So, it's a great question. Let me start by really pointing out the biggest dynamic shift. What's – the big dynamic here is that Q4, our inflation, overall inflation is going to be – we expect it to be about 3%. If you look at the first three quarters, our overall inflation was in the low 2s. It was basically 2% to 2.2% range. So, this is a big step up in that. Part of it's just a function of what we're rapping on. But our pricing is still below 3%. So, we actually have this different dynamic. So, yes, that's really the big driver. And your interpretation is right, in terms of operating profit, not growing materially year-over-year.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.
Q

Okay. And just, my follow-up is on Olive Garden delivery. Last time you spoke with us, you talked about delivery mixing is about a 1.5% of sales in the initial pilot units. Of course, that was with no marketing support. Now you have delivery fully rolled out across your asset base. Can you update us on any additional learnings and/or surprises, particularly now that you have some digital marketing support, some awareness around the channel? Just any incremental update on that would be awesome. Thanks.

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

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Yeah, Brian. I'm going to start by saying it's still early in our delivery kind of lifespan, very early. But we're really pleased with our pilot and the rollout. And as I said, I think on the prepared remarks, in the initial pilot restaurants, the number of orders kind of week-to-week grew and are now about double what they were per week when we started.

And our restaurants that weren't in the pilot, all the restaurants – other restaurants are following that same pattern. And now at the end of the third quarter, our pilot restaurants were running around 2.5% of sales in delivery. And the other restaurants were following that same pattern. Then we started doing a little bit of marketing, just sending some communication to our eClubs and that communication didn't give an offer. It just said, hey, do you – almost like, do you know Olive Garden delivers. And we saw some pretty good response there. And so, our non-pilot restaurants, the other restaurants kind of came up that curve a little bit faster, and they're pretty close to what the pilot restaurants are.

So, we feel really good about the communication and where we're going on delivery itself. And I will also repeat that the operators have said it's very seamless for them. Because of the way we piloted or we partnered with Uber, it's essentially our curbside ToGo for the operators with someone else picking up the food, and that's an Uber person instead of – an Uber driver instead of the guest. So, it's pretty seamless for our operators. We feel really good about it.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you.

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

Sara H. Senatore
Analyst, BofA Securities, Inc.

Q

Great. Thank you very much. Just I guess two questions, one sort of a follow-up. The first is if you could just talk about bringing back the Buy One, Take One, is that a response to something you're seeing in the operating competitive environment or – I think in the past, recently you've talked about just kind of increasing the pace of news. So, just trying to understand if things have changed and that's what's prompted that.

And then my second question is actually – maybe not a follow-up. It's about the new prototypes for some of these other businesses. I know you said that they were performing above plan. But are the volumes consistent with the standard larger prototypes? Just as we think about accelerating unit growth, does that translate into a consistent level of accelerating revenue growth? Thanks.

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

A

Yeah, Sara. I would say, for Buy One, Take One, when we eliminated promotions, what we said was we want to eliminate promotions that were at a deep discount, that were hard to execute, that added new menu items and did all of those other things that made it really more challenging for our restaurants. And when we brought back the Never Ending Pasta Bowl, we brought it back in a little bit of different construct. We had a little bit of different price point on it than we had before. So, it wasn't a deep discount. It still was brand building because it was talking about abundance, which is one of Olive Garden's advantages. And it wasn't a bunch of new items. So, it was items that we already have on our menu. And we just gave consumers a reason to come in and that – we kind of

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took that forward to Buy One, Take One, which has been historically our second-best traffic driving promotion. So, it fits all of our filters, where in the past, Buy One, Take One didn't. It was at a deep discount. We added new items to do that. And so, this time we're bringing back Buy One, Take One with really core menu items as the Buy One and our $6 take home items as the Take One at a price point that's not at a huge discount, but it's at a limited time, which is what we want our guests to want to come in.

So, as we were doing all of our core menu advertising, that was great to build the brand but in an environment that guests want a reason to come in more quickly, that's where the kind of limited time came. So, nothing dramatically has changed in our strategy and it really wasn't because of things going at the market place. We just believe that this is the right way to communicate our brand at a – that fits all of our filters. And in another interesting way, it gets people to remember that we've got this $6 take home. It just so happens that you get it free on the Buy One, Take One, but it kind of gives people thoughts in the future on the take home.

In regards to the new prototypes, again really early. When we open those prototypes, when they open the restaurants, they're doing significant traffic and significant sales. So we know that they can do the same kind of sales and traffic that an existing restaurant does. So it's not the size of the restaurant that will do anything. So these restaurants are opening very strongly, and partly because – for example, at Yard House, we have almost the same number of tables in this Yard House as we do in others. We just have a fewer seats because some of those Yard Houses have a lot of eight top booths that don't really get utilized very well and they take up a lot of space. So if we eliminate some of the eight top booths and make them even six tops or four tops, that are bigger four tops, we still get rough – almost the same number of tables, but with fewer seats, and the seats weren't being utilized before. It still has a big bar. It still has 90 beers on tap and still has a kitchen that's a little smaller because of some things that we did in kitchen design. So we feel really good about the prototypes and their sales driving ability.

Sara H. Senatore
Analyst, BofA Securities, Inc.
Q

Oh, thank you. Very helpful insights. Appreciate it.

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
Q

Yeah. Thanks. Good morning, guys. The Olive Garden kind of sales momentum you talked about, his – Rick, I mean, you cited the Uber mix for some of the pilot stores. But is that a material part of it yet for the overall system or would you attribute it more to just some of the menu news so far? I mean, how would you kind of characterize what has driven Olive Garden in recent months?

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

Yeah. Brian, I would characterize it more about the menu news than the delivery, especially in the quarter, because our delivery rollout started January, ended in February. So it wasn't even in most of restaurants in December. And Olive Garden had a pretty strong December. So we believe it's more based on the menu and bringing back those two Fan Favorites with an addition of Manicotti at a starting up price point. The two Fan Favorites were very well received and continue to grow preference as I mentioned. Now I will also say in delivery, as I mentioned, the pilot restaurants ended the quarter around 2.5% of sales and delivery, and the other restaurants got pretty close to that as we jumped in the marketing. But that didn't happen until Q4.

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Brian Harbour
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. Thanks. Raj, can you talk a little bit more about inflation and just – I guess I was surprised. It's sort of on the food side that was still favorable in the quarter. We have seen some items move back up. But what specifically is driving in the fourth quarter? How does that kind of shape how you think about as we enter 2026? I know you're not going to talk about that yet, but – and are you seeing pretty stable labor inflation? Do you think that that could perhaps ease a bit or where are we on that front?

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

So, Brian, the biggest dynamic within inflation, as you kind of alluded to earlier was the commodities shift. So if we look at our – the year first three quarters, I'd say chicken and seafood were basically slightly deflationary. And Q4, they're both expected to be inflationary. And in fact, our supply chain team has done a great job of locking in great contracts. We're still buying well below market on chicken. And our contract is actually double-digit percentage, better than the market. And so that's what's caused a little bit of a disconnect between what you're seeing in the market and what you're seeing at the Darden level inflation.

Now as we look at – labor has actually been fairly steady. The last two quarters has been in the 3.5%, which is actually a significant improvement from where we were or going back couple of years, right? So it's come down a lot. It's been more stable in that mid 3s. And if you think back to before COVID for multiple years, our labor inflation was in that range, 3% to mid-3%. So I would say we're happy to see that it has stabilized in that range. So I wouldn't say we would expect it to get a lot better or a lot worse at this point, but it's a place we know how to operate with. It's at a level that we've operated before. And it's too early to comment on fiscal 2026 commodities. We'll share more in June.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you.

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

Dennis Geiger
Analyst, UBS Securities LLC
Q

Great. Thanks, guys. Rick, I wanted to ask a little bit more on value at Olive Garden and specifically maybe the customer value scores for the brand. If you've seen any kind of notable uptick just in recent months, as you've kind of leaned in on some attractive price points on new items, et cetera, anything to highlight there, especially in the environment that we're in.

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

Yeah. Dennis, value at Olive Garden has had a general kind of rise over time, and it's been gradually continuing to uptick. It's not like it took a step change when we added the Manicotti at $12.99 starting at. It didn't have a step change, but it did – we are continuing to see value scores improve. But remember, value isn't all about price. It's about the experience you get in the restaurant. And our value scores have been growing throughout this time even with pricing at a higher rate, which was because inflation was higher. That's because we continue to operate

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better in our restaurants. Guests are seeing more value in the unlimited first course. And the more we tell people about it, the more we give them their unlimited first course, the higher our value ratings get.

Dennis Geiger
Analyst, UBS Securities LLC
Q

That's helpful. And then just on Uber, just anything on incrementality, recognizing it's very early days, but have you kind of observed anything or have any additional thoughts maybe on what incrementality may look like even though it's early? Thank you.

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

Yeah, Dennis. You said it's early, and I'm going to continue to say that it's still early. But we've been seeing about 40% to 50% incrementality and that's without significant awareness advertising. And I will say this is contemplated in our guidance. But it's somewhere 40% to 50%.

Dennis Geiger
Analyst, UBS Securities LLC
Q

Great. Thanks, Rick.

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

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

Hi. Good morning. Raj, I was hoping you could tell us what Darden's exposure to potential tariffs might be. I guess how would you frame up that exposure? And if you are exposed on some ingredients, do you have a plan to address that if the tariffs actually go into place?

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

Sure, David. So tariff – obviously, tariff is top of mind here. So as we think about the situation with tariffs, is still very fluid, right? I mean, obviously, we're still trying to figure out how this is going to play out. But I think for us as we look at our cost basket, today, as we look at our cost basket, about 80% is actually domestic source. So there's really only 20% that's imported. Of that, there is a portion that we could switch easily to domestic. It's just a function of the price being better we're going outside. But as we look at our situation even for the stuff we import, we're not the importer of record. So pretty much all products are negotiable, right? So we'd be working with our suppliers. So our supply chain team is working on strategies to kind of mitigate risk, whether it's through, initially obviously in the near term, inventory management, but in the longer term, alternate sourcing methods and just really also further negotiations with vendors and kind of really trying to figure out how to deal with it. But hopefully, that gives you an idea of the maximum level of exposure.

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

Perfect. Thank you.

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

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Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Rick, I was just wondering if you can give some bigger picture perspective. I mean, there's been concerns that the inclement weather and the holiday shifts the last few months maybe masked a slowdown in underlying consumer spending which I don't think would surprise too many people with consumer confidence falling. And historically, that's closely correlated to restaurant sales. But to the contrary, I think it's encouraging to hear you noted continued improvement in March. I'm just wondering broadly for yourselves or the industry, why do you think that is? It seems like there's lots of noise, lots of headlines in DC and otherwise that would have been a headwind for the industry. And I think most were bracing for that type of commentary from you guys. So just wondering why you think trends have actually gotten better more broadly. And then I had one follow-up.

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

A

Yeah. Jeff, I think the consumer – we see and hear the same thing you hear and see that consumers are feeling a little less optimistic. That said, as we kind of come out of the third quarter into the fourth quarter and we gave you our expectation for Q4, people even if they say they're feeling less optimistic, we haven't seen a huge correlation between that and dining out. So, changes in consumer sentiment haven't necessarily translated to material changes in consumer spending. So I think as long as incomes are going up and outpacing inflation, I think they're likely to keep spending. Now where they spend is where they feel like they're going to get a great value for their dollar and get a great experience, and consumers always have said for quite a bit that dining out is the number one category where they treat themselves and splurge. So if they're feeling a little bit restless, maybe they go out and splurge.

So we're going to continue to focus on providing an excellent experience and deliver value for these guests that choose to dine with us. So we did see, as I said, a little bit more pullback in guests with incomes below $50,000. So there is a consumer out there that's feeling a little bit. But I think more of our third quarter was weather related than anything else.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Understood. And then just on the Fine Dining segment, once again well ahead of expectation. Do you see that coming from any particular brand or what does that tell you about the high end and corporate consumer spending relative to the other income brackets? Is there anything unusual to note there or is that just a rebound, perhaps on the higher income?

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

A

Yeah, Jeff, I think it's really – I'll start by saying we were actually to some extent positively surprised by the impact – by the Fine Dining performance during the third quarter. But what we saw was consumers were willing to buy up during the holiday season at fine dining. Across all our brands, we saw that. But we do see – we are seeing more persistent check management post holidays, so I guess we're not ready to claim victory yet on fine dining. It's still soft.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Thank you.

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

Tyler Prause
Analyst, Stephens, Inc.

Q

Hi. This is Tyler Prause on for Jim. Thanks for taking our questions. A bit of follow-up to Eric's question. I was going to see if you could talk higher level about how the marketing program might be different than say pre-COVID times. Any color about change in mix regarding linear TV, connected TV, social media or influencer marketing would be helpful.

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

A

Hey, Tyler. Our marketing today is very different than it was the pre-COVID times. I'll start with the biggest one which is our marketing as a percent of sales is much lower. And it's now more focused on things that help build the brand where in the past, especially at Olive Garden, our marketing was a lot more about creating a new item, telling people about that item and then it being gone six or seven weeks later, which made it really challenging in our restaurants having to train that, having to – and our supply chain team having to go find that product and buy that product, and having to make sure that we have the right amount of product. So it's a lot more complicated than it is today. Today, our promotions are more likely than not a menu item we already have.

Actually, I don't think we've had any promotional items that aren't something that's in our pantry already in the last couple of years. So it's stuff that's either on our core menu or it's things that we've had in the past. And now what we've done is inject a little bit of, hey, come in because some of this is for a limited time and that just gives people a little bit more motivation.

In regards to mix, as Olive Garden continues to learn more and all of our brands learn more about digital, we're seeing a little bit – slightly more mix in digital at Olive Garden. Again, TV is still the biggest driver. But we've been testing things like connected television and other things there. So, I wouldn't say mix is dramatically changed. And then finally social. We have a really great social media team. But we make sure that most of it or all of it is really viral things, not things that we go out and purchase. And so our guests really help us in the marketing and the viral nature of what we do.

Tyler Prause
Analyst, Stephens, Inc.

Q

Great. That's super helpful. And just one kind of follow-up to the tariff question. Again, very early, but could you add any incremental color about your exposure to kitchen equipment sourcing or building material exposure will be helpful.

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

A

Yeah, I would say, the building materials, our teams did some preliminary work. It's actually pretty consistent with what you heard from, I think, the National Association of Home Builders that said somewhere around – low-to-mid-single-digit impact on the overall cost to build. But from a kitchen equipment, right now, we don't – that's part of the overall build equipment because some of that – but there are – like I said there's a lot of unknowns. So, we don't see that being a double-digit impact, let me put it that way.

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Tyler Prause
Analyst, Stephens, Inc.
Q

Thank you.

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

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Hi. Thanks. Congrats on the recent performance. If I could just start with the same-store sales guide for the fourth quarter above 3%. Is that where you're currently running and you assume current trends hold or are you embedding any change in comp as Olive Garden launches Buy One, Take One, I think, delivery and then just given the compares to the rest of the quarter?

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

Hey, Lauren. So, quarter-to-date, we're actually running in line with what we guided for the fourth quarter. So, we said greater than 3% and we're running ahead of 3%. I don't think I want to get into much more than, but thanks for your comments.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Okay, fair. And then on LongHorn, the steakhouse category has been very strong for a while now. Are you seeing any changes in underlying demand for the category, changes in consumer behavior? Mentioned quarter-to-date outperformance gaps in the industry has accelerated. What do you think is driving that? Thank you.

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

Yeah. Lauren, I would say that the investments LongHorn has made over time in food quality continues to pay off. We haven't really seen a big change, a dramatic change in transactions or traffic or anything else in our steakhouse category. I would say that Q3 was a lot more driven by weather than anything else. And actually, for LongHorn, their Thanksgiving shift was a bigger impact than it would have been for Olive Garden or other brands. So, if you look at – if you adjust all of those things out, Thanksgiving, weather – really, Thanksgiving year-over-year, weather year-over-year, LongHorn's same-restaurant sales were within about 100 basis points of where they were last year in Q3 versus Q2. So, we feel pretty good about where they are. And as Raj mentioned, our guide for Q4 has positive – up at least 3%. And we're ahead – we're at that – in that range in the first three weeks of the quarter, and LongHorn is a big part of that.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thank you very much.

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

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC
Q

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Thank you. Rick, can you give us some comments on improvements of speed of service that you were mentioning a couple of quarters ago as a potential traffic unlock? And where are you in the journey? And can you give examples of maybe new opportunities that you have identified for which you just need some change management to inflect positively? Thank you.

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

Yeah, Danilo. All of this is change management, to be honest with you, because it's changing the way people do things that they've been doing for years. And as I said previously, the speed of service opportunities vary by brand. So, each brand is approaching it in a different way that makes most sense for them, including brands in fine dining, because that's going to be a very different tactic than casual dining. But this will be a long-term initiative for us. So, if you want to use the analogy, we're in the first inning but we're seeing some improvement, and we feel really good about that. But this was a long-term challenge that happened over the long term in casual dining and full service restaurants. And we think it's going to be a long term to improve, because, again, we have to convince 200,000 people in our brands and primarily the teams in the front of the house that maybe they have to do some things slightly differently than they have been for many, many years.

So, change management is going to take us a while. But we feel good about the initial progress and we think we'll continue to gain progress. We're not attributing any of our traffic yet to any improvement in pace of meal or speed, but we think over the long term, it's really going to be for guests to want to come back to dine that maybe don't think they can go to a casual dining restaurant because it takes a little bit too long. It's a little less about the throughput, except for the weekends.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC
Q

Excellent. Thank you. And then, speaking of progress, it was a very successful rollout of Uber Direct and now you're considering Cheddar's. So, strategically, what parameters are you considering to select which brands may eventually potentially partner with Uber? And again, strategically, what would you need to see in order to potentially consider the Uber platform as a marketplace as opposed to just partnering through Uber Direct? Thank you.

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

Sure, Danilo. As we said, we did move over to Cheddar's on delivery. We look for brands that have food that can travel and they travel well. They are already doing a pretty good job with their on-time and accurate ToGo for curbside. And that brands that it won't be a very different experience than what they would get in restaurant. And so, that's how we think about which brands make sense for the delivery piece. And actually, another way to think about it is what brands have a higher percentage of sales in regular ToGo, because if you've got a pretty low ToGo as a percent of sales, it's probably not – doesn't make as much sense to do delivery.

As you – the second question on the pilot or on what would get us to think about third party, I'd say we're focused right now in first party because it solves the major issues that we have with third party. And if the issues that we have with third party, which we've been pretty clear about what they are, can be solved, that would make us think more about being on the third-party platforms too. But we like the Uber Direct platform the way we have it, and it's doing a really good job for us, and it's not causing a lot of challenges for our restaurants.

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Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Thank you.

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

Peter Saleh
Analyst, BTIG LLC

Q

Great. Thank you. I just wanted to come back to the Uber Eats conversation. You mentioned 40% to 50% incrementality. And I recognize it's still early, but can you comment on these customers, are they spending more, are they spending less? Is it the same? Just trying to understand their behavior given the incrementality that you're seeing. And then I have a quick follow-up as well.

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

A

Yeah, Peter. I want to make sure everybody knows, because when people say Uber Eats, some people might start going to the Uber platform. It's Uber Direct. You have to come to Olive Garden. So, it is a delivery, but it is through Uber coming through our website. On the guest, again, still too early. I'll keep saying that. But the delivery guests are pretty similar to normal ToGo guest. They're younger, they're higher income than our dining guests. There's very little overlap between our dine-in guests and our delivery guests. So, these are incremental occasions for people and maybe occasions for people that wouldn't normally come to Olive Garden. And as it relates to sales, the total check is about 20% higher than a typical ToGo check. And that does not include the delivery fee. So, the food and beverage on delivery is about 20% higher than the food and beverage on a ToGo order. And the last thing on that is about 12% of our sales from delivery are for large party kind of catering items like pans of lasagna or trays of fettuccine alfredo.

Peter Saleh
Analyst, BTIG LLC

Q

Great. That's very helpful. And then just on the labor side, just curious if you can comment a little bit on availability, if you've seen any changes in availability and – the ability to hire new team members recently. Has anything changed on that front? Thanks.

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

A

Nothing's changed on that front. We've got a great employment proposition and people want to come to work for us. So nothing's really changed yet.

Peter Saleh
Analyst, BTIG LLC

Q

Thank you very much.

Operator: Thank you. Next question today is coming from Jeff Farmer from Gordon Haskett. Your line is now live.

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Jeff Farmer
Analyst, Gordon Haskett Research Advisors
Q

Thank you. At the beginning of the call, you did point out that rather large divergence between the average segment same-store sales and guest counts versus sort of the median same-store sales and guest counts. I'm just curious what your read through is on the divergence and what's causing that pretty outsized divergence.

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

Hey, Jeff. So, if you look at what's happened, it's really driven by an outlier. I think there's just – I think you probably all know what we're referring to. But it seems like when you actually look at historically over the last – at least the three or four years going back, the median and average were pretty close. They were, call it, within 50 basis points at best. And then it started to diverge in the fiscal second quarter and it was even more in the third quarter. But we're not – we don't exclude anything, right? So, when we talk about benchmark, we're still referencing the average. But that's really, you call it, 1 or 2 brands causing that.

Jeff Farmer
Analyst, Gordon Haskett Research Advisors
Q

Okay.

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

Yeah. Jeff, I just want to add one thing to that. Whenever we talk about the benchmarks, we talk about the benchmarks excluding Darden. So, in times that Darden was way outperforming, you would have seen that kind of same divergence if we included just the total benchmark with Darden in it. So, it's not like it's just one brand that can ever do it. We've been able to do that. We've done that too many times. But we always exclude Darden brands in the benchmark.

Jeff Farmer
Analyst, Gordon Haskett Research Advisors
Q

Okay. That's helpful. And then just one unrelated question. You touched on it. But consumer confidence diving, falling, however you want to sort of phrase it and you pointed to a casual dining consumer that doesn't seem to be too impacted yet. So, from my perspective, that's fairly surprising in the context of basically 20 years of segment precedent. So, given that sort of more resilient casual dining consumer than you might expect in sort of an increasingly challenging consumer backdrop, what do you think is driving that demand resilience beyond a consumer just wanting to get out of their house? What is driving that demand resilience from your perspective?

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

I'll start by saying, the correlations of consumer confidence and spending is really more since COVID. So, things may have changed after COVID, where people are saying, I'm still going to go out to eat, no matter what. Now again, incomes are still rising compared to inflation and so we're also seeing some of the core items that people have to buy coming down. So, if you think about what we said in the past, where housing was expensive, food and insurance and gas, those items are starting to come down, especially gas, food and housing. So, it's giving people a little bit more disposable income, and they may be choosing to spend it on dining out versus buying a good. So, right now, we're still feeling okay about it. Now that could change, but we still think that consumers want

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to splurge on something and they splurge on things that they get a great value for and they get a great experience on. But again, it doesn't mean that that won't change in the future.

Operator: Thank you. Next question is coming from Chris O'Cull from Stifel, your line is now live.

Patrick Johnson
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Good morning, guys. This is Patrick on for Chris. Rick, I know you mentioned last quarter, you plan to begin rolling out, piloting a new POS system. I was just curious if you could give a bit more color maybe on the timeline, brand priorities around that, and just any new capabilities that may be putting into the quiver.

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

A

Yeah. Patrick, the POS pilot is going is out now. We went into one restaurant at Olive Garden. We're in the second restaurant at Olive Garden. So, we're only in two. If you think about how much POS does for a restaurant and how much our POS does compared to others, we -our POS is really kind of the heartbeat of the restaurant. And so, there's a lot of things that we have, little bugs here, we work in and out.

And so, Olive Garden was the first brand. We're working on integrating the Uber Direct piece to that, because that was late in the game. So, we can continue to roll it out at Olive Garden. And the next brand that will get the new POS is Chuy's, so that we don't have to give them our old POS and then the new POS. So, Chuy's will be next. And then some of the benefits of it is, it's really some of them are kind of here where the code that the old POS was written in was so old, you have to train people on how to use that code to actually make the change to the POS and now this is a much more current code. It's easier to make changes. It actually can work on any platform. So the hardware can be a tablet. It could be kind of normal POS terminals, you name it. It'll be easier to maintain. So, there's a lot of benefits of it.

And I will tell you this, that when we put it into the first restaurant at Olive Garden, even though for the first few days, it was running a little slower as we worked out a couple of kinks. And we went to the servers and said we're going to go ahead and we can take this POS back out and put the old one back in. They all said no. And so that tells you how much better it is for them. And so, we'll continue to make the little tweaks that we need to make to make it work and find all the little bugs. That takes a while. But we plan on having it start in Chuy's towards the later end of the summer, and we'll have it in more Olive Gardens before then.

Patrick Johnson
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Appreciate that color. Thanks, guys.

Operator: Thank you. Next question is coming from John Ivankoe from JPMorgan. Your line is now live.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Two questions if I can. First, as we're increasingly in personalized digital marketing, does it make sense for the brands to kind of subtly introduce some promotions? I'm going to use the word discounting, but some call to action for specific customers that can only be used by that specific customer, is kind of the point. And I don't know if you want to bring the sub $50,000 household customer back specifically, but maybe something

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targeted to them or other types of customer cohorts that you think you have opportunity. So that's the first question.

And then secondly, and I think it's related, Olive Garden margins have gotten to be very strong. I mean, certainly if we were to go back, Rick, 5, 10, 20 years ago, probably stronger than we thought they would be. So, what's really the fair earning concept level margin for the Olive Garden business? I mean, if sales dictated, I mean would you take it all the way to 2025, for example, or does it make sense to start to think about reinvesting in the customer and employee experience to drive profitability more through volumes? Thanks so much.

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

A

Yeah. So, John, thanks for the questions. On the personalized digital marketing, we can do a lot with digital, and a lot on the marketing front. Sometimes we don't even need to give an offer for specific customers. We have a pretty good way to determine what normal customer usage patterns are. And as they kind of start slipping from that usage pattern, we just send them a reminder of our brand, and they come back, so we will continue to work on that. Now, if we ever get to a point where we want to do some of those just to test them, maybe we will, but we haven't really gone back to telling everybody about some of our great offers, and that's what this Buy One, Take One is doing. But again, we don't rule anything out. We just don't want to get back to the days of just doing a discount for everybody.

On the Olive Garden margins, yes, they're strong. They were up. I think it was about 50 basis points this quarter, and they are much stronger than they were a few years back. But I want to kind of couch that and saying that a lot of the margin was not necessarily things that guests see. We streamline our menu over the years. We made it a heck of a lot easier for our teams to execute, and that helped become much more effective in labor. We continued. Even during that time, John, we invested a lot in our food by adding 50% more chicken, we've improved the Alfredo, all of the things that we've done. And we believe we'll continue to do that. I never say never. I don't think that Olive Garden will get to a 25% margin. We're more likely to do things to help continue to improve affordability to drive more sales and focus on sales building versus margin building. It just so happens that sometimes our margins go up a little bit. But we'll continue to invest to keep our margins at a more reasonable level than going way up. With that said, if we find things that the guests don't see and we can take those costs out, we'll continue to do that, but we'll likely put some of that back in so that the guests – to things that guests see so that they get an even better value.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

That's perfect. Thank you.

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

Gregory Francfort
Analyst, Guggenheim Securities LLC

Q

Hey. Thanks for the question. I had a follow-up to Sara's question just on the smaller box format at Cheddar's and Yard House. You used to open up, I think, 5 to 10 stores a year at those brands a few years ago. You're opening up only a couple. Do you think you can get back there? And is that something that could happen in the next couple years? And do you think that changes the unit growth algorithm at all? Just some thoughts on that. Thanks.

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

Yeah, Greg, we'll get in a little bit more detail. But yes, we think we can get back to kind of the growth trajectory for Yard House and Cheddar's. And as we've said before, we want to get to the high end of our long-term framework and unit growth. And as Raj mentioned, our kind of rough number of units for next year, that actually is at our high end of unit growth. And that's with Olive Garden and LongHorn, keeping the same mix as they have before. So we'll see how Cheddar's continues to do in this prototype and how Yard House does, but we believe that they can get back to their more historical unit growth.

Operator: Thank you. Next question is coming from Jim Sanderson from Northcoast Research. Your line is now live.

James Jon Sanderson
Analyst, Northcoast Research Partners LLC
Q

Hey, thanks for the question. I wanted to go back to the quarter performance sales mix for the $12.99 price point given the addition of the Manicotti LTO that I think competed with some of the premium priced LTOs you also introduced. Wanting to see how that impacted sales mix.

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

Hey, Jim. The $12.99 was actually pretty low mix compared to the higher priced items. I would say it was in the low single-digit percent of sales.

James Jon Sanderson
Analyst, Northcoast Research Partners LLC
Q

Okay. So that went down a bit. I think it was around 10% in the past. So you had the consumer shift up a little bit. Is that the right way to look at it?

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

To be clear – I'm sorry you were talking about the CYO $12.99 compared to the Manicotti $12.99. So the CYO did – yeah, it's still staying in that 9% to 10% range, yeah.

James Jon Sanderson
Analyst, Northcoast Research Partners LLC
Q

All right. And then on the $14.99 promotion, could you remind us how that's comparing to what was in the marketplace last year and what gives you confidence that that $14.99 is the right price point for that promotion?

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

Yeah, last year, Jim, we weren't promoting anything with limited time or a price point. We were – I believe at the time, we were doing equity advertising, potentially sauces [indiscernible] (01:07:12), so we were talking about our sauces. And so there was no promotion last year. That was kind of, get off the couch, come into our restaurant promotion.

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James Jon Sanderson
Analyst, Northcoast Research Partners LLC

Q

All right. Thank you very much.

Operator: Thank you. Next question is coming from Brian Vaccaro from Raymond James. Your line is now live.

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

Q

Hi. Thanks, and good morning. Just wanted to piggyback on Jeff's question, just about the average versus median performance. And I guess if we can, if we could set aside the impact of the big outlier, do you think we're also seeing a broader widening between the winners, and losers in the category? And if so, I'm curious what you'd attribute that to. I'm kind of just thinking about the question of, are the benefits of consistently delivering a good experience sort of snowballing with the consumer, or is there any evidence that the underperforming players are cutting even deeper and sort of on that kind of negative feedback loop? Or maybe there's something to mention on sort of the chains versus independents front. And I had a quick follow-up.

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

A

Sure, Brian. Let me try to get as much as I can from there. So starting with just the chains first. I think we've always said that the chains that execute well continue to win. And I think no matter what the environment is, it comes down to the operational execution more so than anything else. Clearly, sometimes a great marketing and promotion will help drive near term, but over time, the winners have to have to be able to execute in the four walls. And so there is a – yeah, there is a bifurcation. Some brands are executing really well. We would say our brands do a great job with that. And so they're more in the winners' camp. And the ones that are not executing as well are the ones that are probably not winning as much, and there is probably more divergence over the last few quarters as consumers becoming even more discerning.

And then from a chains versus independents, I think the big thing is really when you look at the full service restaurant CPI and you look at the pricing of chains, you see that the chains are pricing in general less than the full service. And so I think there is – that means that the independents are pricing a lot more, and so there is probably – that would have an impact on their performance, right? And when you look at the overall data aggregate, independents are losing share to chains. And I would say part of that is probably driven by the pricing differential.

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

Q

Just back on the fiscal fourth quarter guidance as well. I understand you don't want to get too prescriptive on the March trend. But I guess as you think about the next few months, is there anything we should be mindful of, as it relates to comparisons or calendar shifts or any other context you wanted to put around kind of how you came up with the above 3%? And I understand it's a choppy, volatile environment. There's a lot of uncertainty. Maybe it's just conservatism. But just any incremental color on that fiscal fourth quarter guide? Thanks again.

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

A

I keep muting my microphone. Hey, Brian. It's Rick. The fourth quarter, when I was answering the question a couple of questions ago, I was actually talking about the third quarter year-over-year. Q4, we were running a

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Create Your Own Pasta at $13.49 last year versus Buy One, Take One this year. So I apologize for that. It still wasn't necessarily a get off the couch, because it was our normal price. And so it wasn't really as much of a driving promotion as it was just telling people that we have a great value. So the compares this year are a little bit different, where we have something that's not necessarily on the menu with a great promotion that we ran years ago. And when you think about LongHorn, they're running pretty much the same thing they ran last year. So we just think that it's what we're doing with Buy One, Take One, and delivery is part of the reason that we're going to see a little bit – above 3% comp for Q4.

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

Thanks very much.

Operator: Thank you. Next question is coming from Christine Cho from Goldman Sachs. Your line is now live.

Christine Cho
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thank you for the opportunity. So I had a quick follow-up on the Buy One, Take One deal. So could you remind us of the impact deal had on traffic or checks aside five years ago when you last ran the promotion? And if successful, would this be something you would consider on a more longer term basis or consider rolling out in some of your other brands as well? Thank you.

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

Hey, Christine. The last time we ran it was before COVID, and it was lapping against itself before. So this is promotion that we have a lot of experience with, and I will say it's just our second best guest driving promotion. So, the environment is so different now than it was then to say here's what the guest count impact was then. I don't think you can necessarily translate that to today. Another reason was because it was at a deep discount when we ran it last time versus now it's different. And would we run this another brand? This Olive Garden already has the $6 take home, so again, it doesn't really change their operations very much. And when we think about promotion, we want to make sure that it builds brand equity. Buy One, Take One builds the Olive Garden equity of abundance. It's simple to execute. Buy One, Take One is very simple to execute, because it's just the same thing we do today with a take home item, and it's not a deep discount, and this one's not. So if we did something like that at other brands, it might not fit those filters.

Christine Cho
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

Operator: Thank you. We reached end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Courtney Aquilla
Senior Director-Finance & Investor Relations, Darden Restaurants, Inc.

That concludes our call. I want to remind you that we plan to release fourth quarter results on Friday June 20 before the market opens, with the conference call to follow. Thank you so much for participating on today's call.

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Operator: Thank you. That does conclude today's teleconference and 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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