Darden Restaurants, Inc. (DRI) CEO Gene Lee on Q1 2020 Results - Earnings Call Transcript

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Press Release SEC *10-Q* *Slides*

EPS of $1.38 beats by $0.02 | Revenue of $2.13B (3.52% Y/Y) beats by $0.3M

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Darden Restaurants, Inc. (NYSE:DRI) Q1 2020 Earnings Conference Call September 18, 2019 8:30 AM ET

Company Participants

Kevin Kalicak - Vice President, Investor Relations & Corporate Analysis

Gene Lee - Chief Executive Officer

Rick Cardenas - Chief Financial Officer

Conference Call Participants

Matt DiFrisco - Guggenheim Securities

David Tarantino - Robert W. Baird

Joshua Long - Piper Jaffray

Brett Levy - MKM Partners

John Ivankoe - JPMorgan

Andrew Strelzik - BMO Capital Markets

Stephen Anderson - Maxim

Dennis Geiger - UBS

Eric Gonzalez - KeyBanc Capital Markets

John Glass - Morgan Stanley

Jake Bartlett - SunTrust

Chris O'Cull - Stifel

Peter Saleh - BTIG

Jeffrey Bernstein - Barclays

Operator

Thank you for standing by. We now welcome you to Darden Restaurants First Quarter Earnings Conference Call. At this time, all participants are in listen-only mode and we will have question-and-answer session. [Operator Instructions] Please take note that we'll only take one question and one follow-up.

Now, let me hand the call over to your host, Kevin Kalicak. You may begin.

Kevin Kalicak

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

As a reminder, comments made during this call will include forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. Those risks are described in the company's press release, which was distributed this morning and in its filings with the Securities and Exchange Commission. We are simultaneously broadcasting a presentation during this call, which is posted in the Investor Relations section of our website at darden.com.

Today's discussion and presentation include certain non-GAAP measurements and reconciliations of these measurements are included in the presentation. We plan to release fiscal 2020 second quarter earnings on December 19 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 from the first quarter.

As a reminder, all references to the industry benchmark during today's call refer to estimated Knapp-Track excluding Darden, specifically, Olive Garden and LongHorn. During our first fiscal quarter, industry total sales growth was flat, industry same-restaurant sales declined 1.2% and industry same-restaurant guest counts decreased 3.3%.

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

Gene Lee

Thank you, Kevin, and good morning, everyone. As you've seen from our press release this morning, we had a solid quarter. Total sales from continuing operations were $2.1 billion, an increase of 3.5%. Same-restaurant sales increased 0.9% and diluted net earnings per share were $1.38.

Comparable same-restaurant sales for the industry continued to weaken during the quarter as the industry once again faced tougher comparisons. However, the industry comping negative is surprising considering unemployment remains at all-time low and there continues to be strong wage growth, which historically has been a positive for the industry.

I'm particularly pleased with the performance of Olive Garden and LongHorn Steakhouse, given the industry performance and their difficult comparisons over the first quarter of last year. We remain focused on our back-to-basics operating philosophy and leveraging our four competitive advantages. And I'm pleased, we continued to take share and protect our margins.

Turning to brand highlights for the quarter. Olive Garden had strong quarter, which resulted in its 20th consecutive quarter same-restaurant sales growth. Total sales grew 3.6%, driven by same-restaurant sales growth of 2.2% and 1.4% growth in new restaurants.

Olive Garden same-restaurant sales gap to the industry was 340 basis points this quarter, representing the largest gap to the industry since the first quarter of fiscal 2019. And on a two-year basis Olive Garden grew total sales by nearly 10%, outperforming the industry benchmark by 840 basis points.

Olive Garden's results were driven by the team's ongoing focus on flawless execution, everyday value, and convenience. Guest satisfaction ratings remain impressive, and catering delivery metrics reflect the highest intent to recommend within the brand giving us confidence that our teams are delivering great experiences inside and outside the four walls of our restaurants.

The Olive Garden team made a strategic decision to change the order of their first quarter promotions. This was necessary to separate their two strongest value promotions; Buy One Take One, and Never Ending Pasta Bowl to more evenly deliver the value messaging throughout the year. While this change along with associated media shifts and weakening industry trends resulted in lower traffic than last year, it was the right strategic decision for the long term.

Recognizing the strength of Buy One Take One promotion, Olive Garden added $5 take-home entrées to the Everyday value lineup, which was supported with national advertising to drive awareness. It has been met with strong guest demand, and it will be a catalyst to continue to grow the off-premise business.

Everyday value was also strengthened with the introduction of a new weekday lunch menu with 21 options under $10, including guest favorites like Chicken Parmigiana and items from the Taste of the Mediterranean menu like Chicken Margarita. This initiative was supported by integrated marketing and resulted in stronger weekday lunch traffic and guest preference.

Finally, the Olive Garden team remains focused on their off-premise capabilities to meet their guests' needs for convenience. A key part of that focus has been optimizing the digital sales channel for both mobile and desktop. During the quarter, digital sales grew by more than 30% and represented approximately 40% of to go sales.

Overall, off-premise sales grew 12%, representing 14% of total sales. Olive Garden remains a truly iconic and broadly appealing brand and the team is doing an excellent job of focusing on this strategy and competing effectively.

LongHorn Steakhouse had a strong quarter as well. Total sales grew 4.6%, driven by 2% growth from new restaurants and same-restaurant sales growth of 2.6%, the 26th consecutive quarter of same-restaurant sales growth.

On a two-year basis, LongHorn grew total sales by 11%, outperforming the industry benchmark by 940 basis points. The LongHorn team remains focused on their long-term strategy of investing in the quality of the guest experience, simplifying operations to drive execution, and leveraging their unique culture to increase team member engagement.

During the quarter, the LongHorn team ran two successful menu promotions; Grill Master Favorite and Fire Crafted Flavors, which were supported by their award-winning You Can't Fake Steak advertising campaign. They also supported these promotions by reinforcing their quality story through multiple guest touch points.

The team also continued to focus on ensuring the to go experience equals their in-restaurant experience for guests who choose this convenience. The team simplified the online ordering process, which significantly reduced the order time.

During the quarter, digital sales grew almost 50% and represented more than one-third of total to go sales. Additionally, they have now completed a dedicated to go area in more than half of their restaurants. These actions led to continued improvement in guest satisfaction scores for order accuracy and timeliness and helped to drive to go sales growth nearly 12%.

Finally, LongHorn's industry-leading retention rates continue to even get better despite the tight labor market. Team member turnover during the quarter was 68% compared to approximately 120% for casual dining, and management turnover during the quarter was 13% compared to approximately 36% for casual dining. We know that engaged team members provide better guest experiences, and the LongHorn team's ongoing focus on retention and culture building is a key driver of the strong business performance.

Cheddar's Scratch Kitchen total sales decreased 2%, driven by same-restaurant sales decline of 5.4%, and partially offset by sales growth from new restaurants of 3.4%. The trend change was driven by reduced marketing efforts and overall industry softness in the quarter.

In addition, the same-restaurant sales decline continued to be more pronounced in the former franchise locations. These restaurants experienced significant disruption during the quarter as they were the last restaurants to complete the kitchen transformation project.

While it's disappointing to see the sales trend decline, the Cheddar's team made significant progress against their priorities during the quarter. At the beginning of the new fiscal year, they established three new strategic priorities; create a people focused results-oriented culture, reduce friction in the guest experience, and build a brand people talk about with the goal of building on the progress they made last year repairing [ph] fundamental elements of the business and improving the sales trajectory.

During the quarter, the Cheddar's team continued to see improvements in both the manager and team member turnover trends as they implemented initiatives that led to higher retention levels.

Overall, staffing levels for both the manager and team members improved during the quarter. Because of the progress made this quarter in staffing and intention, the Cheddar's team was able to better execute operational improvements designed to enhance the guest experience.

For example, they implemented standard that significantly upgraded their abilities to successfully serve large parties. With these and other improvements, they saw a better guest experience results compared to last year across all key metrics.

Near the end of the quarter, Cheddar's introduced the new menu with more price diversity within categories and they launched their Quick Pick Lunch Combos starting at $5.99. These combos are generating strong preference at lunch and have led to higher value and intend to return ratings compared to last year.

I recognized there's still a lot of work to do, but the progress the Cheddar's team has made operationally and their improved HR metrics are encouraging. Now that they feel they're moving in the right direction from an operation and staffing perspective, they will begin to increase their working media spend.

Cheddar's has the highest guest frequency of any Darden brand and this investment is intended to build upon the strong position, improve brand awareness and drive trial. They will be leveraging Darden resources and best practices to implement the media plan.

Finally, during the quarter, we acquired four previously franchise restaurant locations in Texas, and I'm pleased to say that each of these four restaurants is performing at a very high level.

In closing, I’m pleased with the progress our teams made executing against the strategic initiatives. Our strategy is working, allowing us to continue to grow sales, increased market share, improve margins and invest in our people and brands, all while continuing to return capital to our shareholders.

Of course, none of this would be possible of having the best people in the business, so I want to take this opportunity to thank you our 185,000 team members who continued to create memorable dining experiences for our guests.

Now, I'll turn it over to Rick.

Rick Cardenas

Thank you, Gene, and good morning, everyone. We had another good quarter with total sales growth of 3.5%, driven by 2.6% growth from the addition of 40 net new restaurants and same-restaurant sales growth of 0.9%.

First quarter diluted net earnings per share from continuing operations were $1.38, an increase of 3% from last year's diluted net earnings per share. We paid $108 million in dividends and repurchased $95 million in shares, returning over $200 million to shareholders this quarter.

Before I get into the detailed results from this quarter, I want to mention that we adopted the new accounting standard for leases at the beginning of this fiscal year. Consistent with the expectation discussed on last quarter's call, we estimate that this will negatively impact EPS by approximately $0.05 in fiscal 2020. However, the more meaningful impact was to our balance sheet, as you saw from this morning's press release.

This quarter, we also updated our segment reporting. Beginning in fiscal 2020, our calculation of segment profit now excludes non-cash real estate related expenses and fiscal 2019 has been restated for comparability. This change allows for more consistent evaluation of our business across segments and fiscal periods.

Now turning to our detailed margin results. Food and beverage costs were flat to last year, as pricing of 2% and continued cost savings initiatives offset commodity inflation of approximately 1.5% and continued investments. I'm impressed with restaurant labor being flat to last year, particularly in light of same-restaurant sales growth of 0.9%. Total labor inflation of 4% was offset by pricing, check mix and productivity improvements in new and existing restaurants.

Restaurant expense was unfavorable 10 basis points due to deleverage, as our comp sales growth was below inflation. As a result, restaurant level EBITDA margin of 18.1% was 10 basis points unfavorable to last year. General and administrative expense was 50 basis points lower than last year and favorable mark-to-market expense, which is generally offset in the tax line, lower management incentive expense and sales leverage.

Our Q1 effective tax rate of 9.8% was slightly below the range in our annual guidance. We still anticipate our effective tax rate to be between 10% and 11% for the fiscal year. Overall, I'm pleased with our performance this quarter and impressed with our strong EAT margin of 8.1%.

Turning to our segment performance. Olive Garden grew sales and profit in the quarter, driven by positive same-restaurant sales and net new restaurant growth. Segment profit margin increased 40 basis points, by leveraging the same-restaurant sales growth and managing cost-effectively. LongHorn also grew sales and profit in the quarter, driven by positive same-restaurant sales and net new restaurant growth.

Segment profit margin decreased slightly, due to elevated beef inflation and continued investments during the quarter. Fine Dining grew sales and profit in the quarter as well, driven by a positive same-restaurant sales and net new restaurant growth. Segment profit margin decreased because of higher pre-opening expense and inefficiencies related to three new restaurants.

Sales for our Other Business segment grew 1.8%, driven by net new restaurants. Both segment profit dollars and margin decreased this quarter due to margin deleverage from negative same-restaurant sales growth in the quarter.

As you saw in the press release, we reiterated all aspects of our fiscal 2020 outlook. Looking ahead at our second quarter performance, there are two things I would like to address before we open up the call for questions. Both of which are contemplated in our annual guidance.

First, the timing of the Thanksgiving holiday this year, relative to last, is shifting from the second quarter, into the third quarter. Since we are closed in the majority of our restaurants on this day, this shift should positively impact Darden's second quarter same-restaurant sales, by approximately 80 to 100 basis points with a corresponding offset in the third quarter.

Second, given a prolonged media coverage and the storms duration, Hurricane Dorian had a meaningful impact on the first two weeks of our fiscal second quarter. We are currently estimating a drag of 20 to 30 basis points to same-restaurant sales in the second quarter.

And with that, we'll take your questions.

Question-and-Answer Session

Operator

Thank you. We'll now begin the question-and-answer session. [Operator Instructions] Our first question is from Matt DiFrisco from Guggenheim Securities. Your line is open, sir.

Matt DiFrisco

Thank you. My question is with respect to the Cheddar's, I guess, lagging in difference between Olive Garden and LongHorn. Would you attribute that mostly, it sounds like to the marketing spend? Can you sort of bracket or compare how much pullbacks of marketing spend there was versus last year in either terms of dollars or in terms of weeks of support, so we could get a better understanding of that?

Gene Lee

I'm not -- we're not going to get that granular with our spending in Cheddar's. I would just say that we now have enough transactional data to look at some things in Cheddar's we haven't had the opportunity to do before.

And one of the big insights is that our frequency in Cheddar's is higher than any other Darden brand. And we married that up with some of the research that we were doing, and we recognized that our awareness for this brand is extremely low.

And our primary advertising had been more driven towards a frequency play. And we decided, once we have this insight during the quarter, we were pulling -- we pulled back from that type of activity, and now we're going go out and we're going to test and learn and understand how to best increase our awareness in markets.

We also recognize the fact that it's going to be more important than ever in this environment to continue to build out our markets, develop our -- become more efficient in those markets from a media standpoint, and I would say more -- use more traditional media to increase our awareness to drive this business.

And so, it was a really good quarter from that -- from an insight standpoint for us to really recognize, and we decided we were going to change direction and that's where we pulled back a little bit of the media spend during the quarter.

Matt DiFrisco

Okay. And then, I guess, is there something different to the menu that may be triggered a change in frequency to the heavy, heavy user from the past, or is it the change in ownership that they noticed or something like that?

Gene Lee

No, it's just the fact that we actually now have the transactional data to be able to analyze and have that insight. That's why it's so important when we do an acquisition for us to put our systems in, so that we can get the data and then do our analysis.

Matt DiFrisco

Understood. Thank you.

Operator

Thank you. Our next question is from David Tarantino from Baird. Sir, your line is open.

David Tarantino

Hi. Good morning. Gene, I just wanted to talk to about the industry trends that you're seeing. It seems like your analysis in the prepared remarks that this was a little surprising that we've seen such soft trends, especially in the most recent months. So just curious to get your thoughts on why you think that's happening? And secondly, do you think you need to adjust any of your marketing or promotional strategies to the new environment so to speak? Thanks.

Gene Lee

Yeah. Good morning, David. As I said in my prepared remarks, the backdrop appears to be very strong for the consumer. We have good wage growth. We have strong employment. Historically, that's been really good for us.

As we look at the data and we when look at behaviors, when we look at confidence I have -- I personally believe that there's some uncertainty entering into the consumer, and it's impacting their confidence.

How long? I've got to believe there with all the media attention around what's happening, how long does this continue -- this environment continue? So, there's nothing structural that we see that's changed out there other than there appears to be a little bit more uncertainty today than there was in the future.

As far as what do we need to do? We need to continue to create compelling guest experiences and come up with -- and reinforce our value propositions. I do think that we have to think about how we're going to market in our smaller brands and how do we advertise those brands in different channels and become more effective and compete more effectively? I think that's an important change that we need to make in the upcoming quarters.

I think we have the luxury of being patient and test and learn and really make great long-term decisions as we try to figure out how to support those brands and compete more effectively in this marketplace. We're pleased that we're heading into Never Ending Pasta Bowl in Olive Garden, it's a great promotion for us. We had a lot of buzz around our Pasta Pass this year. And so, I think it's a good promotion going into this time of year and where the consumer's at.

David Tarantino

And maybe just a follow-up Gene, does the current environment, or what you've seen recently make you think differently about the degree of difficulty in hitting your comp guidance for the year? I know you have maybe lesser fiscal [ph] comparisons coming up. And how should we think about the middle of the comp guidance or the upper end of the comp guidance relative to where you were three months ago?

Gene Lee

Well, I guess, we reiterated our guidance today. We believe our same restaurant sales for the year will be somewhere between 1% and 2%.

David Tarantino

Great. Thank you.

Operator

Thank you. Our next question is from Will Slabaugh from Stephens. Your line is open.

Unidentified Analyst

Hey, guys. This is actually Neal [ph] on for Will. Thanks for taking the question. Just quick one here. Wondering if you can give any insights into commodity costs? You spoke to some elevated beef costs there. Just wondering how you're feeling about this going forward, whether you’ve seen any effects from African swine fever?

Ricardo Cardenas

Thanks, Neal. This is Rick. We were about 1.5% inflation in the first quarter, which is around where we expected it to be. We have seen a little bit of elevation in beef, but the boards are coming back down and are a little bit more in our favor. So, we still expect our inflation to be where we thought at the beginning of this fiscal year.

As a result, or as an answer to your African Swine Flu question, we still haven't seen a very big impact in African Swine Flu. As we mentioned in the last call, pork is really only about 2% of our sales. So, it's a relatively small impact. And we haven't seen the downstream impacts of pork prices yet.

Unidentified Analyst

Perfect. Thank you.

Operator

Thank you. Next question is from Joshua Long from Piper Jaffray. Your line is open.

Joshua Long

Great. Thank you for taking my question. I wanted to circle back to the trends you've seen here lately and maybe any sort of regional variations, or any regional variations you've seen across the system? And then, also, in terms of your initiatives and kind of the underlying trends you've seen, any sort of differences in the weekday, weekend trends? You've got some very strong lunch offerings in there, but didn't know if that was may be moving the needle like you expected or may be ahead of expectations?

Gene Lee

No. I really don't have a lot to add to your question. We’ve really not seen much from a geographic standpoint and there's really been no trend change to any of the weekday, weekday night, weekday lunch or a weekend business. I would say that, the trends have weakened in all areas of the business.

Joshua Long

Great. Thanks. And then one follow-up, if I may, in terms of your work on the To Go business, the strength there is still very promising. Any sort of learnings you've had as you stuck with this and worked on the fulfillment internally, versus the thought process of working with external partners? I know, you're always testing and always learning. But curious on what you're seeing there, if there's any update.

Gene Lee

I think, the biggest thing our teams are doing is, they’re taking friction out of the process. And, I think, we're getting -- it’s like anything else, repetition is a great thing. You continued to get better and better with it, as you do more business.

So, I think LongHorn has made tremendous progress. We've seen their scores go up, their satisfaction scores go up. Olive Garden has really honed in on this process. They continue to find ways. Very, very impressed with the digital growth in both of those businesses.

We think that's something to continue to look at. So to me, it's really about making that experience as compelling as we possibly can with great value, right. I think, it's -- and that's been our strategy is, to make sure that we have strong value on the off premise and not have the consumer be willing to come pick it up, versus it being delivered.

Joshua Long

Great. Thank you.

Operator

Thank you. Our next question is from Brett Levy from MKM Partners. Your line is open.

Brett Levy

Good morning. Thanks for taking the call, gentlemen. If we could just hone in a little bit more, I'm going to ask the consumer question a different way and hopefully get some sentiment of a different answer. When you think about…

Gene Lee

We could try.

Brett Levy

I'll try. When you think about the consumers right now, are you seeing any changes in how they're using you? Obviously, take-home is further building out your off premise, but are you seeing any changes in terms of full price value add-ons, size of parties, something like that? Thank you.

Gene Lee

No, Brett. No, we haven't seen any change at all. And -- when I look at the quarter -- let me put it back to look at the quarter. Let's think about what Olive Garden has done in the last two years. Even though the industry has weakened, I'm incredibly impressed that we've grown our business approximately 10% at Olive Garden with two-year comp that I think is extremely impressive.

And so the industry and a lot of the comments that I made today about the industry decelerating, I look at our two large brands; I think they're competing very effectively. The gaps are very, very strong to the industry.

So, I think we have a way to compete very effectively with these two brands and I'm excited. And yes, we watch the industry and we give you some insight to it, but our job and our leaders' jobs are to find a way to compete effectively in any environment and I think that's what our teams have done really well in this first quarter.

Brett Levy

Thank you.

Operator

Our next question is from John Ivankoe from JPMorgan. Your line is open.

John Ivankoe

Yes. Hi. Thank you. It's also just an industry question for you Gene. Obviously, Knapp all-store traffic has actually been negative and what I think you said to a previous question is a relatively strong underlying consumer environment, especially in terms of some of topline trending. Where do you see -- that consumer actually going? I mean where -- if that consumer is working and that consumer has higher income, where is that consumer currently dining -- whether it's in the house or out of the house is kind of the first question?

Secondly, do you see independence -- being great cycle as we are as potentially taking care versus chains? And what would you look out to maybe a shake that some supply growth that's been added in the space over the last several years?

And then the final point, I think, you kind of you mentioned a few times more value at Olive Garden and in Cheddar's. Is there any thought of bringing back couponing and doing other things that are going to be direct call to action for the consumer for you to maintain traffic and what you described earlier as any industry environment?

Gene Lee

John, you get the award for most questions inside a one question.

John Ivankoe

It's all related. I think you can do it in one paragraph.

Gene Lee

I got independence, I got discount. What was the first?

John Ivankoe

The first one was…

Gene Lee

Where are people are going. John we are definitely seeing some strength in limited service both fast casual and quick-serve, there's no doubt about that. And you think about there is good income growth on the lower end of the curve and those folks seem to be trading or dining out a little bit more frequently. And I don't know where people are trading out of in casual when you look at a 10-year period, that's been a big question. I'm not sure we've had -- we as an industry, you have an answer. Again, we focused on our brands and we seem to be getting more than our fair share.

The data that we're looking at is saying that large chains are still taking more share and they're taking that share from independence. Where you see independence and small regional change are in really what I would call the better, better trade areas, the higher income trade areas, where they are having an impact and I think performing well.

But I think on a national scale, when you look at it, independence are still donating share and large brands continue to do better and take share from both smaller probably a little bit older brands and independents.

As far as discounting, we're going to continue to use, whatever levers we can use to grow our business. When you look at -- when we look at incentives, we don't look at just as one piece. We have to look at our overall advertising program. What is going on from a television standpoint, what's going on from a digital and online, what are we doing from an incentive standpoint. We have multiple ways to put incentives out there. And so we have a lot of leverage that we can pull over time depending on the environment. And we will use those appropriately to drive our business in a profitable way.

The one thing that, I think that we are proud of, and I'm very proud of our teams is that we continue to drive our business, while protecting our margins. And we continue to invest in our business, invest in quality, invest in food, invest in portion size, invest in our people, and we're able to do that in a way that has protected our margins. And as Rick talked about, our plus 8% EBIT margins are incredibly impressive in this environment. And so when we think about incentives, we think about it holistically and all that we're doing to build our brands over the long-term.

John Ivankoe

That's great, very helpful, excellent answer.

Operator

Thank you. Our next question is from Andrew Strelzik from BMO Capital Markets. Your line is open.

Andrew Strelzik

Hey, good morning. Thanks for taking the question. Over the last couple of months, we've been hearing a lot more about delivery take rates coming down, being renegotiated lower. Wondering if that changes your perspective on the liability of delivery for Darden at all, especially as you've kind of highlighted some of the changes on the digital side and the willingness given the numbers that you cited for customers to engage with the brands digitally, if your thoughts are evolving at all on delivery?

Gene Lee

No. We haven't -- we really haven't -- have any -- thoughts haven't evolved at all. We will acknowledge that the cost burden does appear to be shifting from the company to the consumer, and we are going to watch that closely. But I think -- I have a lot of concerns about that. This is still -- we're still -- it's all about value and how much of the overall experience are you willing to dedicate towards convenience?

And so it's something to watch. It's definitely a shift that we internally predicted that would happen. And we'll watch it, but I want to pivot back to what I said earlier, our job is to create a compelling off-premise experience right now that -- with so much value that consumer is willing to come and get it. That seems to be working for us and we're going to continue to focus on that.

Andrew Strelzik

If I could just follow-up on the value piece then just quickly. The Olive Garden price was about 2% for the quarter. Was that what the underlying price was? Not that it's a huge deviation from where you've been prior, but should be thinking about a little bit more price broadly at Olive Garden going forward?

Rick Cardenas

Andrew, this is Rick. The price was 2.2%, I believe in the first quarter and that's just due to timing of pricing year-over-year. We still expect our price to be below 2%, which is our long-term goal to keep pricing below our inflation and below our competitors to increase our value perception in the marketplace, while still making great investments. So, yes, this was just a little bit of a timing anomaly for the quarter.

Andrew Strelzik

Great. Thank you very much.

Operator

Thank you. Our next question is from Stephen Anderson from Maxim. Your line is open.

Stephen Anderson

Yes. Good morning. I would actually want to ask about the test you have underway for your rewards programs to see a multi-concept. As I recall, it's about 7% of your storage, you're testing that out right now. I wanted to ask about how the test is progressing? And whether you are ready to roll that out to additional locations, or potentially entire system? Thank you.

Rick Cardenas

Hey, Stephen, this is Rick again. Thanks for the question. As you said, yes, we have our loyalty program in about 7% of our restaurants and that -- across the nation. We're still monitoring that test. As we have said quite a few times, this is going to take a long time to understand the frequency driving nature of the loyalty program and how much we'd have to provide discounts to our most loyal consumers to come to us, versus other incentives for them to come.

The test is going okay. It's going well, but we're not ready to pull the trigger on adding more restaurants. We're going nationally. And when we do, I am sure all of you will be to first to know. But, right now, we're kind of holding steady on our test. The fact that it's still out there, tells you that it's not going well, but we want to just make sure that it's the right thing to do in the long run, as part of what Gene says, our overall strategy of how do we market to our consumers.

Stephen Anderson

Yes. Thank you.

Operator

Thank you. [Operator Instructions] Also, please limit your question to one question and one follow-up. Thank you. Our next question is from Dennis Geiger from UBS. Your line is open.

Dennis Geiger

Great. Thank you. Just wanted to ask about mix, and I guess specifically on Olive Garden, is the impact that you saw in the quarter was roughly in line with expectation prior to the quarter? And then, more importantly, just looking out over the next few quarters, anything that would make you think the mix contribution could remain above kind of a long-term steady state? I guess if you could just kind of highlight some of the mix considerations this year, some of the puts and takes, thinking about incentives, trade-up promos, catering delivery or catering off-premise, et cetera. Thanks.

Rick Cardenas

Yes. Two things, I think, that will probably drive mix maybe a little bit above our target will be continued growth in catering and catering delivery and the addition of the $5 Take Homes. Those two things probably are going to drive that mix slightly above our long-term expectations. The $5 Take Home is a great value offering and it's something that we think is a real catalyst to continue to drive the off premise business, which should have a little bit more of a positive mix than what we want to try to do for a long-term.

Dennis Geiger

Great. Thank you.

Operator

Our next question is from Eric Gonzalez from KeyBanc Capital Markets. Your line is open.

Eric Gonzalez

Hey. Good morning. Thanks for taking the question. I think in the first quarter you benefited from a few extra weeks of the Buy One Take One as you pull that forward. But I think you said in your comment that it was a drag on traffic due to media shift. So I was wondering if you can maybe clarify what you meant there.

And I know you had the hurricane impact, but perhaps you can quantify what the impact of not having those extra weeks of the Buy One Take One in the early part of the second quarter? Thanks.

Rick Cardenas

No. We're not going to talk about the second quarter impact. And we shifted some media; we moved things around, which is always going to move our comparisons somewhat. But I'll go back to my statement; this was something we think strategically needed to be done. And -- again, I would also add this also always shifts in our media spending, as we -- it's the only way you can really discern what is working and what is not working and what -- and where to put more weight against, whether it's promotion or lunch or value is that you have to change the media spend to learn.

And so we shifted a little bit inside the quarter. I wouldn't get caught up in that I point back to a great two-year stack great our performance in the industry. We made a strategic -- a big strategic choice to separate the two value promotions that gives us more balance in our value messaging throughout the year, which is really important. Let's not get hung up on a week-to-week media shifts.

Eric Gonzalez

If I could maybe sneak in a follow-up there. On the $5 take-home and the Buy One Take One are similar type of -- they are sort of similar programs, are you moving away from Buy One Take One next year or is that something that's on the table?

Gene Lee

No, I think they're similar, but different. And so there are different types of value offering and our team will continue to reenergize Buy One Take One, it's an important part of our value proposition. And if it's done right, it will continue to support the $5 take-home. It shouldn't be a cannibalistic thing. It should -- it really should support it and move it after you run Buy One Take One that should be the springboard for a $5 take-home for the rest of the year and you can reenergize the promotion each year. So, that's how we're thinking about that. So, it should be additive not -- it shouldn't be dilutive at all.

Eric Gonzalez

That's helpful. Thanks.

Operator

Our next question is from John Glass from Morgan Stanley. Your line is open.

John Glass

Thanks. Thanks very much. First just on the other brands and the continued softness there. I think you commented last quarter that there is increased competition. So, maybe what we're seeing here is just more of that. But can you talk about how you think about -- what it's a breakthrough strategy to help market those brands better if you can achieve them national advertising scale of those brands?

And does delivery makes sense in some -- we talk about delivery holistically, do you like delivery or not. But does it make sense in some brands, may be some of these smaller brands, it's worth giving a try given that they don't have that scale and delivery through the aggregator sort of provide scale that they don't otherwise have?

Gene Lee

Well, it's an interesting concept John. As you think about the smaller brands, we've been reluctant to really add a lot of marketing costs to these businesses. They are unique; they've got great strong value propositions. But I think in this environment, I think we finally come to grips with that we're probably going to have to spend a little bit more money and become -- and try to find which channels in the digital environment can work best for them.

I think there's not one channel that would work across all our small brands. And so each of them are so unique, we have to figure out what's the best way to talk to the consumer. As far as off-premise, our third-party delivery for the smaller brands, I really don't see that as upside. We do have one of our tests in the majority of the Yard House's. We are using a provider.

Just think about where Yard House is located. It's embedded in a lifestyle center with no parking and so it's more difficult even for the last-mile provider to get in there and pick up the food. So, it's not a big part of the business. So, I don't really think about that as a way to grow the business. I think that, we need to make really good long-term decisions. We've been able to protect our margins in these businesses. We've got to continue to innovate and make them attractive.

We also have to recognize -- there's a lot of volatility in these businesses. And it goes back to -- if you open an another restaurant that looks like you are in the same development. It's going to have a one year impact on the comps. And we have that once in a while. These are great brands.

We're going to, obviously, try to compete a little differently as we go forward. I wouldn't look for a big change here in the next couple of quarters because we're going to test and learn and we're going to do it responsively. These are strong business models and I'm not going to put the brands on sale to get a headline number. We're going to protect the overall business for the long-term.

John Glass

Thank you. I'm sorry to belabor the value point on Olive Garden. I just want to make sure I understand this correctly. You spent last year reducing some of the couponing or discounting and reserving that value power if you needed in the future.

Are you now suggesting you need that today, or is this still, it's in the reserve, but you are not really changing your view on increased value promotions in 2020 as it stands today?

Gene Lee

I mean as it stands today, I think, our position is exactly the same as it was the past couple of quarters that Olive Garden continues to perform extremely well, in over 300 basis points gap to the industry.

We'll continue to look at each promotion, and what kind of support that promotion needs, depending what we're doing from a television standpoint. I do think that the analyst community and investor community is looking at things too much in isolation. And you don't have the whole picture of what's happening from overall media spend.

And because we run a TBI or a TBI test, you read into a situation that things must be bad. I think that's not the way to look -- to analyze our business. It's just one of many levers that we have to pull to support our business. And right now I think, we're looking at the Olive Garden business as being competing extremely well in the environment.

John Glass

Great. That’s very helpful. Thank you.

Operator

Thank you. Our next question is from Jake Bartlett from SunTrust. Your line is open.

Jake Bartlett

Great. Thanks for taking the question. My question was about Cheddar's. And I'm wondering where you think you are now in the integration of the business, the turnaround of operations, the improvements and in the context of your acquisition and strategy going forward? Do you feel like you're in a position now, where you might get more active on acquisitions?

Gene Lee

Well, that's a two-part question. I think where are we on Cheddar's? I think today, I'm more optimistic than I've ever been. I think, as I acknowledge in my opening comments there’s still a ton of work to do there.

This is a high volume complex operation that has some operational challenges that aren't systemic. Where we have strong leadership and great human resource metrics, we're running great businesses.

We have to stabilize some of these other businesses and start with getting that right General Manager in place, managing partner and then building a great team. So, I think that, I'm very encouraged; the HR metrics are really starting to improve. I'm encouraged that our operation metrics are improving. I'm encouraged that our controls are better today than ever. I'm encouraged that our restaurant is staffed. And I'm encouraged with the new insight that we've really uncovered that we've got a real awareness problem. And an awareness problem is with people within 10 miles of our restaurants. So I'm encouraged that we can solve that. But we're going to solve these problems for the long-term.

We’re going to build a strong foundation and we're going to do it right. This represents less than 8% of our overall business and I'm really resolute in the fact that I want to fix this and fix it right for the long-term. I think this is still a huge opportunity. And as much urgency as I'm putting behind it, I'm more concerned about doing it right.

As far as M&A activity, I use a standard statement. But the management and the board are going to continue to look at opportunities to add to our portfolio when it's appropriate. And I really have no further comment on that at this point in time.

Jake Bartlett

Got it. And I had a follow-up question on your level of incentives and your approach to incentives. And your traffic has been negative the last two quarters at Olive Garden, obviously, outperforming the space significantly.

As you look at that, are you focused more on the outperformance or your absolute level? And I'm kind of wondering how long you're going to -- you would kind of tolerate negative traffic versus kind of trying to insert more incentives to try to drive that positive?

Gene Lee

Yeah. First of all, let's look at the magnitude of the negative traffic. I mean half of the negative traffic that we reported last month is just due to catering delivery. And that piece of the off premise business grows -- we're not giving ourselves any guest counts for that. We're not doing that for multiple reasons. And we could go ahead and change our methodology and have positive traffic if we chose to do that.

I think that when we look at traffic and we look at the overall business, there are going to be times that there's traffic available to you and it's worth driving. There are other times when you look at the business, and you say, I'm okay with losing 10, or 15, 20 guests a week and being able to protect our business model.

And so, I don't think you can just have, let's do everything we can to grow traffic, or let's do everything we can to protect our business model. I think it all has to be done in balance. And I think our management teams and this leadership team have done an outstanding job over the last four years of really balancing these efforts.

Jake Bartlett

Great. Thanks for taking the question.

Operator

Thank you. [Operator Instructions] Our next question is from Chris O'Cull from Stifel. Your line is open.

Chris O'Cull

Thanks. Good morning. First just a point of clarification and a question. Is the $5 Take Home entrée promotion considered a new off premise transaction, or is it just an add-on to the dining check? And then, Gene, can you provide some more detail about how

Cheddar's plans to broaden reach with its advertising? And when we might start to see that investment?

Gene Lee

Yeah. The $5 Take Home is an off premise transaction. And as far as Cheddar's goes, I mean, we're out there testing and learning with different digital vehicles to see and other traditional media to see what we can -- what kind of awareness we can generate with that. So we're out there at a small scale and we'll continue to increase that scale as we learn.

Chris O'Cull

Okay, great. Thanks.

Operator

Our next question is from Peter Saleh from BTIG. Your line is open.

Peter Saleh

Great. Thanks. Gene, just a couple of questions on Cheddar's, can we just go back and talk about the guest satisfaction scores, may be direction that you're seeing there? Are those improving, or have those kind of started to go backwards?

And then on the turnover at Cheddar's both manager and the crew level, are those -- how far are those off of Darden's average? How much more work is yet to be done there? Thanks.

Gene Lee

Good question, Peter. Guest satisfaction scores are increasing across the board as we've improved management, employee staffing and there is still opportunity there and I would say that the virgins, the differential between the better operating stores and the one for challenges is still too great and we've got to close that gap down.

As far as turnover, the metrics are still outside Darden norms, but they are inside industry norms for the first time, which is I think is a really good trend. And it's going to take us a while to get them -- hopefully get them to Darden norms, but they are on their way and again inside industry trends at this point in time.

Peter Saleh

Thank you.

Operator

Thank you. Our next question is from Jeffrey Bernstein from Barclays. Your line is open.

Jeffrey Bernstein

Great. Thank you very much. One clarification first. Gene, in your prepared remarks, you mentioned the industry comps continued to weaken and then you did mention -- I'm just trying to gauge whether you think it’s older to tough compare because I think that was what you mention initially as a rationale or whether you do see that there is some sort of change in the consumer behavior, because when you look at past couple of quarters, it seems like the two-year trend on comp and traffic seems relatively stable. So, maybe you're looking at broader industry data that we don't get a chance to see more holistically or whether you think it's again more just the two-year comp compare being more difficult or where there's actual change in the consumer?

Gene Lee

Well, I think that, I think it's a combination of both. I think that's what I was trying to allude to in the comment was that, the industry was facing some tougher comparison, but I think you all talked about that is that overall industry comparisons were little bit more difficult.

But I think, what I was trying to get at is, we were surprised that it went all the way to negative. We thought that our view was to the industry would stay positive in this environment. It may not -- the growth rate would've come back just like, if you look at GDP growth, it's still strong, but it has decelerated. So, we were just I think a little surprised that the industry went all the way back to negative.

Jeffrey Bernstein

Understood. And then just want to talk about Cheddar's, I'm just wondering things like the under-the-hood metrics are getting better and you seem excited about the opportunity longer term. I was just wondering whether frustration on the sales in the short-term might lead you to delay when you would otherwise ramp-up the new unit growth which seem like that was the big opportunity over time, I'm just wondering whether that timeframe might have changed or have been pushed back at all?

Gene Lee

Only the timeframe has changed. I think we've been pretty consistent with our talking point around that is the biggest thing for a new unit ramp-up growth would be human resources and I'm not so sure that I haven't said that we won that battle yet. And so, every time you open a new restaurant, you make that investment, you got to have a great managing partner. And I don't think that we're there at that point yet that we can ramp-up growth. We're still doing five or six a year, which is the right number at this point in time. And I want -- I really want to see the management depth continue to build.

And then when you get to that point that's when you can start to ramp-up growth. But I don't think that's -- we haven't given a timeline to that and I'm going to give a timeline today. I'm focused on really, really getting great managing partners in these restaurants. And I know when we do that our likelihood of success increases dramatically.

Jeffrey Bernstein

Thank you.

Operator

Thank you. No more questions at this time. Let me now hand the call over to Kevin Kalicak.

Kevin Kalicak

Thank you, Ray. That concludes our call. I want to remind you all that we plan to release second quarter results on Thursday, December 19th before the market opens with conference call to follow. Thank you all for participating in today's call.

Operator

Thank you. That concludes today's conference. Thank you for participating. You may now disconnect.