

Darden Restaurants, Inc. NYSE:DRI

FQ2 2017 Earnings Call Transcripts

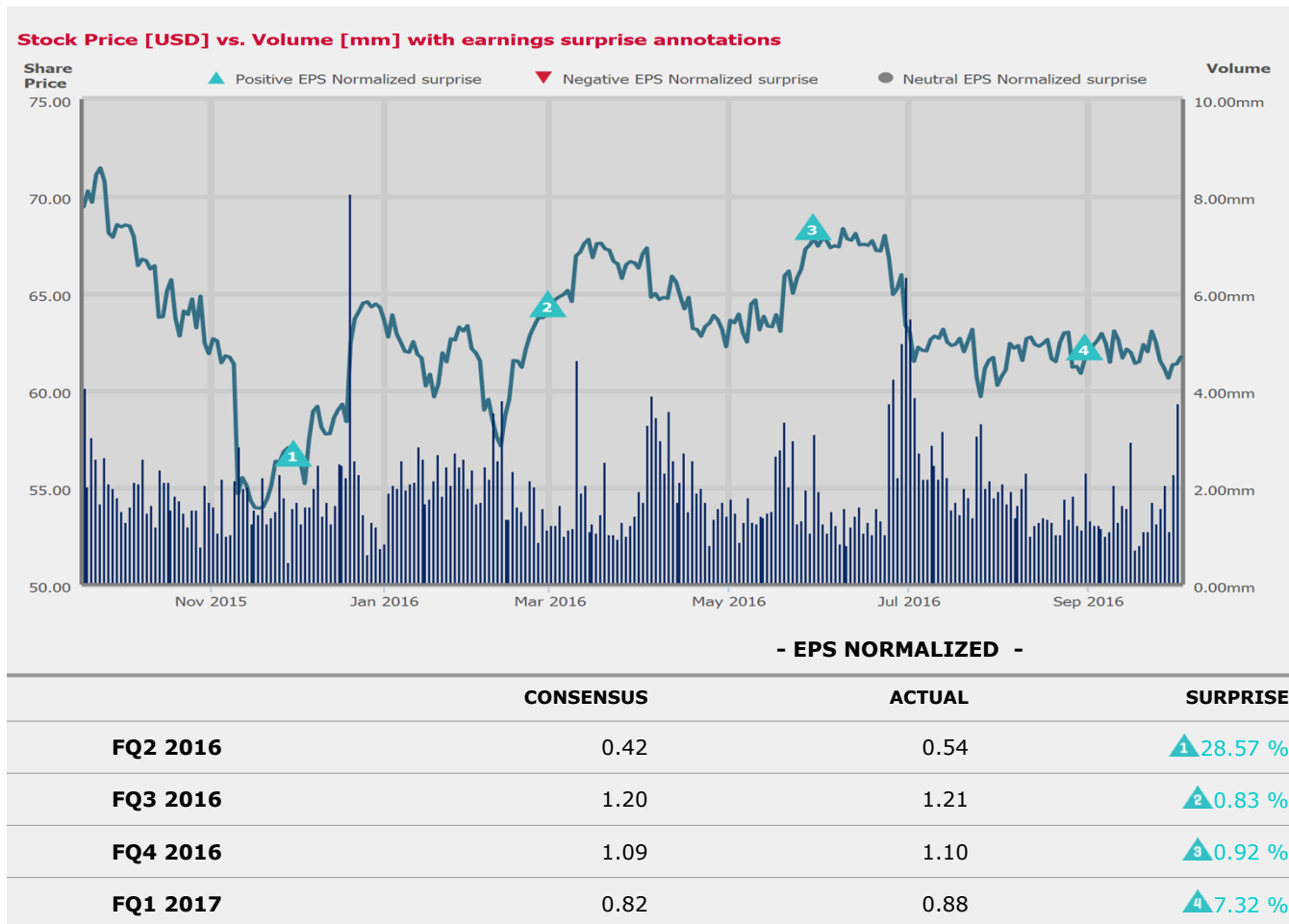
Tuesday, December 20, 2016 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.64	0.64	0.00	1.28	3.93	4.31
Revenue (mm)	1648.60	1642.50	(0.37 %)	1877.72	7094.89	7370.12

Currency: USD

Consensus as of Dec-20-2016 1:21 PM GMT



Call Participants

EXECUTIVES

Eugene I. Lee

Chief Executive Officer, President
and Director

Kevin Kalicak

Ricardo Cardenas

Chief Financial Officer and Senior
Vice President

ANALYSTS

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BMO Capital Markets Equity
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Stephanie Ng

Will Slabaugh

Stephens Inc., Research Division

Presentation

Operator

Good day, everyone. Welcome to the Darden Fiscal 2017 Second Quarter Earnings Call. [Operator Instructions] This conference is being recorded. If you have any objections, please disconnect at this time.

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

Kevin Kalicak

Thank you, Tori. Good morning, and welcome, everyone. With me today is Gene Lee, Darden's CEO; and Rick Cardenas, CFO.

As a reminder, comments made during this call will include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to the 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 earlier today, 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 www.darden.com.

Today's discussion and presentation includes certain non-GAAP measurements. Reconciliations of these measurements are included in the presentation in the Investor Relations section of our website under Non-GAAP Reporting. We plan to release fiscal 2017 third quarter earnings on March 28, 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 then provide more detail on our financial results from the second quarter before we open the call for your questions.

Now I'll turn the call over to Gene.

Eugene I. Lee

Chief Executive Officer, President and Director

Thank you, Kevin, and good morning, everyone. We appreciate you joining us today as we get ready to head into the holidays. We'll keep our remarks brief so we can get to your questions.

We had another good quarter. Total sales from continuing operations were \$1.64 billion, an increase of 2.1%. Same-restaurant sales grew 1.7%, outperforming the industry benchmarks, excluding Darden, by 450 basis points. And diluted net earnings per share were \$0.64, an increase of 18.5% from last year's adjusted diluted net earnings per share.

Our intense focus on food, service and atmosphere drove our performance once again this quarter. Additionally, at the Darden level, we continue to concentrate on our 4 competitive advantages: one, leveraging our significant scale to create cost advantages; two, using our extensive data and insights to better understand our guests and to effectively communicate with them; three, ensuring our brands systematically go through our rigorous strategic planning process; and four, cultivating our results-oriented people culture to enable growth. Our approach continues to be effective, and we believe we still have opportunity to improve in all aspects of our business.

All of Darden's strong momentum continued during the quarter. Same-restaurant sales grew 2.6%, outperforming the industry benchmarks, excluding Darden, by 540 basis points. This was our ninth consecutive quarter of same-restaurant sales growth at Olive Garden.

Looking at the key drivers of this performance, it was really 3 things. First, the operations team, led by Dan Kiernan, continued to improve restaurant-level execution. We're committed to improving the service experience and still have more opportunity on that front. However, we did achieve all-time high scores for both overall guest satisfaction as well as server attentiveness during the quarter.

Next, we continue to see solid growth in our OG To Go platform. To Go sales grew 21% compared to the same period last year and more than 50% on a 3-year basis. During the quarter, we added the Create Your Own Pasta station to our To Go catering menu, enhancing the convenience of To Go by providing a customizable off-premise dining experience. The exciting thing about To Go is that our operations excellence team continues to learn more and more about how to meet our guests' growing needs for convenience. And finally, our promotional and core menu strategies continue to work together to create value for our guests. During the quarter, we had 2 strong value promotions. Buy 1 Take 1, which capitalizes on the consumers' need for convenience by allowing them to buy 1 entrée and take a second entrée home to prepare later; and Never Ending Pasta Bowl. Both of these leverage brand equities and were supported by integrated marketing highlighted by our Olive Garden highly anticipated Pasta Pass. In honor of the 21st anniversary of the Never Ending Pasta Bowl, we made 21,000 Pasta Passes available, and all of them were claimed online in less than 1 second. The passion demonstrated by our guests who got a Pasta Pass and the disappointment by those who did not reinforced the strength and relevance of the Olive Garden brand.

LongHorn Steakhouse's same-restaurant sales grew by 0.1%, the 15th consecutive quarter of growth, outperforming the industry benchmarks, excluding Darden, by 290 basis points. Our focus at LongHorn remains on improving the guest experience. We are doing this primarily by making strategic investments in quality and simplifying operations to improve restaurant execution, and we're seeing positive results. Our research shows strong improvement in LongHorn's ability to provide value through high-quality food and service. And that's important because value is the #1 driver of guest intent to return. Additionally, LongHorn has refined a new restaurant opening process. We're very pleased with the results we've seen in the new restaurants opened over the past 9 months, and it gives us greater confidence about future openings. The team at LongHorn is engaged and focused on the right priorities. We are making long-term strategic choices to position the brand to compete effectively in the future.

I want to close by acknowledging that the holidays are the busiest time of the year for our restaurant teams as they create memorable experiences for our guests. On behalf of our management team and the Board of Directors, I want to thank our team members for all you do to help our guests celebrate this time of year with family and friends and for making our company successful. We continue to get better every day, and I'm excited about the new calendar year ahead.

And with that, I'll turn it over to Rick to discuss our results in more detail.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Thank you, Gene, and happy holidays, everyone. As Gene mentioned, we had another good quarter with diluted net earnings per share from continuing operations of \$0.64, an increase of 18.5% from last year's adjusted earnings per share. Included in this \$0.64 is \$0.01 of unfavorability from market-based compensation due to the significant appreciation in the stock market that was not perfectly hedged. This market-based comp impact is reflected in 3 parts of our P&L: restaurant labor, G&A and income taxes. So I will provide more detail in our margin analysis.

We continue to return cash to shareholders this quarter, paying out approximately \$70 million in dividends and repurchasing roughly 300,000 shares of stock totaling around \$19 million.

Turning to our margin analysis. We had sales leverage from our positive same-restaurant sales of 1.7%. We also continue to realize cost savings throughout the P&L and are on track to meet our \$30 million of net cost savings in fiscal 2017.

Now in addition to these sales leverage and cost saves I just talked about, we also had favorable food and beverage expenses due to commodities deflation of approximately 1.3%; 20 basis points of unfavorability in restaurant labor, of which 10 points was related to the market-based compensation expense; unfavorable restaurant expenses of 130 basis points, all related to the incremental rent expense and other taxes resulting from real estate transactions last year. G&A was unfavorable as we lap the \$13 million favorable legal settlement in the second quarter of fiscal 2016, and we had roughly 20 basis points of unfavorability related to market-based compensation this quarter. Excluding these impacts, G&A would

have been favorable 60 basis points to last year. Depreciation and interest were favorable, as expected, related to the real estate transactions. The impairment line was favorable due to impairments last year of 3 restaurants, totaling approximately \$7.7 million. And finally, we still expect our annual effective tax rate to range between 26% and 27% for fiscal 2017. However, this quarter's rate was lower than the annual expectation due to tax favorability related to the market-based compensation impact.

Turning to segment performance. As a reminder, due to the real estate transactions last year, segment profit includes incremental rent and other tax expense of \$21 million for the quarter. The benefits of lower depreciation and interest savings are not recognized in segment profit. Going forward, we do not expect incremental impacts in future quarters as it is now more than 12 months since the spin-off of Four Corners.

Olive Garden's segment profit of 16.8% was 80 basis points lower than last year for the quarter as additional rent drove 170 basis points of margin unfavorability versus last year. Excluding this incremental rent, Olive Garden's segment profit margin was 90 basis points higher than last year.

LongHorn Steakhouse segment profit of 14.4% was 60 basis points lower than last year for the quarter, with additional rent expense driving 120 basis points of unfavorability. Adjusting for the incremental rent, segment profit margin increased 60 basis points for LongHorn.

Segment profit margin of 18.2% was flat to last year in our Fine Dining segment, while our Other Business segment profit grew margin 60 basis points on a year-over-year basis, even with additional rent headwinds of 50 basis points of margin unfavorability versus last year. Excluding this incremental rent, segment profit at our Other Business would have been 110 basis points higher than last year.

Finally, as we reported this morning, we reaffirmed our fiscal 2017 outlook for earnings per diluted share of \$3.87 to \$3.97 and our same-restaurant sales growth outlook of between 1% to 2%. Additionally, our total ad inflation estimate of between 1.5% to 2% remains the same. However, this inflation expectation now assumes commodity costs are flat to last year and that labor inflation is approximately 3.5%. I am proud of the work that our teams continue to do to strengthen our performance and drive shareholder value. This continued progress gives us confidence in our expectations for the remainder of our fiscal year. And with that, we'll open up the call for questions.

Question and Answer

Operator

[Operator Instructions] First question is from Brian Bittner of Oppenheimer Securities.

Brian John Bittner

Oppenheimer & Co. Inc., Research Division

KNAPP-TRACK, the industry trend actually got a little bit worse sequentially from your first quarter, but returns at Olive Garden for you guys actually accelerated sequentially. And I really have 2 questions on that. First question, is it the industry trend really being held down by the bottom half of the players within that trend? Is that kind of what you're seeing? And the second question is, what really drove your widening gap versus net this quarter versus just a quarter ago? Was a lot of it the incrementality from that 20% growth in To Go? Or is there something else going on?

Eugene I. Lee

Chief Executive Officer, President and Director

Brian, we got a lot on tacking that question there, and we had a little bit trouble at hearing you. Let me see if I can get to it. Now I think when you look at KNAPP throughout the quarter, there's a lot of noise in that number. We had some holiday shifts. You also had a major hurricane in that period, which affected brands differently. And so we look from October and November, there was just, I think, a point just in Halloween switching there. Veterans Day messed around a little bit with sales in November moving from midweek to the weekend. And so I think that created a lot of noise in the quarter. I wouldn't get too hung up on the month-to-month there. As far as the overall -- when you look at the overall indexes, I think you had a -- you were asking about, is it really the bottom 25% that's dragging that down? And I think there's something to that. I mean, I -- we obviously don't have visibility into everybody that's in that index and what the distribution looks like, but I keep coming back to when -- what I believe are the really well-positioned concepts that are out there that are executing at a high level. They continue to grow market share. And so that's what pivots us back to -- we just really got to be focused on what we can control and we work off that core operating philosophy of food, service and atmosphere. And if we're not focused on 1 of those 3 things, other than our competitive advantages at the Darden level, then we're not working on the right stuff. And we're just focused on trying to make our guests happy, and right now, that's working for us.

Brian John Bittner

Oppenheimer & Co. Inc., Research Division

Okay. So I'm sorry you couldn't hear me. The second question I had on that was the To Go growth, the biggest driver. You saw the widening gap versus the industry, or was there something else that you could point to?

Eugene I. Lee

Chief Executive Officer, President and Director

I think we happily saw some great momentum with takeout, but we also saw some good in-restaurant momentum. I think our 2 promotions in Olive Garden that we ran during the quarter, Never Ending Pasta Bowl and Buy One, Take One, are very, very strong value promotions, and they're tough for our competitors to really go against. And we had a lot of great publicity around the Pasta Pass, and a lot of people were excited about that promotion. So I think it's twofold. I think we had a good quarter in takeout. The business continues to grow. But I think we had a good quarter in-restaurant also with our strong value promotions.

Operator

Next question is from David Tarantino of Robert Baird.

David E. Tarantino

WWW.SPCAPITALIQ.COM

Robert W. Baird & Co. Incorporated, Research Division

Gene, I was just wondering if you could share your thoughts on the overall industry outlook post the election. And I know you may not want to comment on trends you're seeing quarter-to-date, but is there any signs of strengthening or optimism that you're seeing related to the outcome in the election?

Eugene I. Lee

Chief Executive Officer, President and Director

No, David. I'm not going to comment on what's happening in the third quarter. I would say, as I think about this, the new administration's pro-growth policies, if they're implemented, should be good for us and our consumers. I mean, we're watching closely, but there's a lot of time between talk and action and how that's going to impact us long term, but we're -- I'd like to say we're somewhat hopeful that these pro-growth policies will help. But what's happening in Washington is not going to change what we're focused on. And we believe in our strategic -- the strategic choices we've made here at Darden, and this should enable our brands to consistently outperform our competitors going forward.

David E. Tarantino

Robert W. Baird & Co. Incorporated, Research Division

Great. That's helpful. And then just one question about the current quarter. This is an usually challenging comparison that you're cycling. Is that the way you're looking at it? Is this a tough comparison? Or I guess, how would you frame up sort of the current quarter and the puts and takes on that?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, David. I think it's fair to say this is a difficult quarter we had. We had a little bit less-than-normal winter last year, so we had some favorable winter throughout the season. December was very, very mild and didn't have a lot of weather impact last year. So it's a -- we had a lot of momentum in the quarter last year. We also had a lot of calendar noise. We had the 52, 53. I mean, we -- and there was other things going on. I would say that, right now, I think holidays are slight negative in the quarter, but my counsel to everybody listening would be weather is going to be what weather is going to be and that really has no impact long term on the momentum or the overall value of our company. And if it snows on a Saturday, it snows on a Saturday, but it's not going to snow next year on a Saturday. And so I'm not getting all worried about things that we can't control. And I'm trying to get the organization just to stay focused on creating great dining experiences. And I believe if we do that and keep our 150,000 team members focused on that, we'll continue to grow our business.

Operator

Next question is from Will Slabaugh of Stephens.

Will Slabaugh

Stephens Inc., Research Division

Just want to ask on LongHorn. On the check there, in particular, so that's been a little bit soft in terms of growth the past few quarters, and then this quarter was slightly negative. Curious if you could talk a little bit more about the value that you're pushing in the restaurant and if we should think about that check remaining in the flattish to down range going forward and then what you think that eventually might mean for traffic.

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, good observation, Will. I mean, we -- we're doing some different things with our merchandising on the tables, which is having a little impact -- a little bit of a negative impact on add-on sales. We believe that we may have too much activity, too much -- too many things on the table that is not really enhancing the overall dining experience, so we had some negative mix at different times during the quarter. We've got little less price in there with 1.5, I believe, price. We've just been trying to -- part of our strategic --

the strategic choice in LongHorn is to try to simplify. We believe that business has gotten -- over the years has gotten too complicated. It is -- for it to work, it needs to be a high food cost, low labor cost model and so simplification is a big part of it. We believe that we'll continue to try to underprice a little bit in LongHorn, as we are in Olive Garden, but I'm not overly concerned right now with a little bit of movement in negative mix as we try to get -- try to undo some of the things I think that were -- weren't done for the right reasons for the brand in the past.

Operator

The next question is from John Glass of Morgan Stanley.

John Stephenson Glass

Morgan Stanley, Research Division

Rick, 2 questions for you. First, just on postelection, a lot of proposed changes around taxation. Can you frame up how you think about it, first, just from a corporate income tax benefit? You've got a lower rate because you benefit from some deductions. How do you think about how your rate might end up in a lower corporate tax rate environment? How do you frame that up? And how do you think about things more broadly? Maybe there's CapEx depreciation that's accelerating. Does that benefit businesses like yours? And would that incent you to build more restaurants because of that? Have you spent more time postelection thinking about the possible tax implications and how that may change the way you think about capital allocation?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, we've thought about this for quite a bit. But I will say, just in tax reform and other things, we've been working with members of Congress for many years on tax reform over time. We look forward to continuing to work with the new Congress and the new administration on those things. We do have an advantage on some of those items, but we'll continue to work with them to find out what the best solution is for everybody. The -- we'll continue to apply the appropriate discipline on our capital spending and ensure that the capital provides a positive return above our cost of capital. So whatever that tax rate is, we'll take into account with our growth in the future.

John Stephenson Glass

Morgan Stanley, Research Division

Okay. And then just on G&A, I appreciate it was lower year-on-year because last year's was high, but it's lower than it was in previous years -- previous quarters. Is this the right run rate current quarter G&A? Or was there something unusually low about this quarter relative to, say, the last couple of quarters on G&A?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, I wouldn't say there's anything unusual. I would say we continue to find cost savings throughout our P&L. As we've mentioned, we've got \$30 million this year, \$165 million or so over a 3-year period, and a lot of that is in the G&A line. Just remember, this is a -- this is our lowest-volume quarter, so G&A's usually a little higher there. But we were, I think I said about, 60 basis points better in G&A had we not had the legal settlement last year that was favorable. I would just say continue to think about our G&A more along the lines of the run rates that we've had over prior year as we continue to get our cost saves.

John Stephenson Glass

Morgan Stanley, Research Division

Okay. As a percentage of sales, is that how you're looking at it or dollars?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, we look at it as a percent of sales. But I would tell you that a Q1 G&A dollar number isn't that different from a Q2 G&A dollar number, which is, in fact, different from Q3. So -- but I would say if you focus on G&A as a percent of sales year-over-year, you'll probably get close.

Operator

The next question is from Matthew DiFrisco of Guggenheim Securities.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

I just had one bookkeeping question and a follow-up question also. With respect to the growth and the openings, I guess, the 24, 28 new store restaurants and even the CapEx budget of \$310 million to \$350 million does seem like it's heavily back-end weighted. Was that in your initial guidance? Is there any concern that some of those stores could potentially fall into FY '18?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, Matt. We still expect to open the 24 to 28 restaurants that we said at the beginning of the year. Based on weather and other things and timings of openings, generally, a lot of them happen towards the very end of the year, but we still expect to open our 24 to 28.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

Okay. And then sort of a longer-term question also. I mean, you guys have done a great job, obviously. You always compare yourselves to Malcolm Knapp's group, but it seems like you've led the pack there or you're finding other ways to drive business. You've improved the customer service, and you've seen it in your scores. You've seen your out-comping the Knapp peer group. Does that sort of change the longer-term vision of maybe the growth rate of these brands? Are you thinking that the 24 to 28, if we see this demand and the superior demand trends continue, would that manifest itself in greater square footage growth? Or do you think you're just also expanding the capacity of the existing 800 stores and we would see probably more capital use towards enhancing and modernizing those stores on an ongoing basis to drive better comps and greater leverage?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, Matt. I'll talk about a couple things in that question. One, I'll point you back to our long-term framework for new unit growth, 2% to 3% a year. We expect to be this year at the low end of that. But as we move forward and we start building our pipeline, we expect to move closer to the middle or the high end of that range. We also continue to invest in our restaurants. As we've talked about with Olive Garden and remodels, we're adding capacity in some of these remodels. We'll continue to find ways to invest appropriate capital to grow our business, whether that's adding more restaurants than we have in our long-term framework or getting to the top end of that range or adding more remodels. The other thing is we still expect all of our restaurant brands to grow. So we believe in all of our brands. Every brand in our portfolio has growth opportunities for them, and so we'll continue to see openings in all of our brands.

Operator

Next question is from Brett Levy of Deutsche Bank.

Brett Saul Levy

Deutsche Bank AG, Research Division

I guess I'll just follow up on the capital side. Can you provide us a little bit more clarity and updates on your remodel and renovation pipeline, how many you've seen completed, what kind of returns you're seeing? And how should we be thinking about the remainder of this year and into next year on the number of projects?

Eugene I. Lee

Chief Executive Officer, President and Director

Brett, it's Gene. We've got 23 full ones to complete in fiscal '17. We've got 25% of the 160 approximate bar refreshes complete, and we will have those done by the end of '17. The remodels to date are getting us about 3.5% traffic growth. So we're still very pleased with what we're doing there. And we're -- as far as I know, and Dave George is sitting right next to me here saying, "We're on track to get these done this year." So I have not been told otherwise, so let's assume they get done.

Operator

Next question is from David Palmer of RBC Capital.

David Palmer

RBC Capital Markets, LLC, Research Division

Away from To Go, when you compare Olive Garden's performance versus the casual dining peer set, where are you seeing the relative strength? And you can slice it in different ways, but I'm thinking about the dayparts that people say are weak for casual dining like lunch or even on a demographics basis, people talk about millennials not using chains like they used to. And I've heard Olive Garden might be doing relatively better there. But any data points would be helpful about how you think you're outperforming.

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, David. Good question. A couple of things. We're actually seeing strength at lunch, and we're seeing strength on the weekend. Actually, the only place where -- and it's not weak. It's just not growing as fast as the other segments is Monday through Thursday dinnertime. So we believe we have a little bit of an opportunity there, but I think we've done some pretty good things at lunch to increase our value perception. You look at our lunch menu today, there's really only 4 price points on the front of it: \$6.99, \$7.99, \$8.99, \$9.99. And so values -- every time I go for lunch, I'm just -- I can't believe the value that you can get there, you can get at Olive Garden for lunch. I think it's fantastic. I'd also say that we got some geographic areas that are performing really well for us. California, the Pacific Northwest, Mountain, continue to perform above the system average. We got good presence out there. So I think that's where we're seeing Olive Garden out-performance.

Operator

Next question is from Karen Holthouse of Goldman Sachs.

Karen Holthouse

Goldman Sachs Group Inc., Research Division

Just one quick one on wage inflation, where guidance came up a little bit versus last quarter's range. I'm just curious if that's something where a particular region is driving it or if it's more broad based. And then how do we think about sort of cadence through the year? Is that 3.5 pretty similar quarter-to-quarter, something that's ramping into year-end?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, Karen. Another really good question. I mean, labor is under some pressure. I would say the labor environment is -- we're operating in a low unemployment situation. And in that environment, we're going to continue to see wage increases. Now this is different, as you might have alluded in your question, this is different parts of the country, depending on the overall economic environment. So we have parts of our -- in our operations and where the -- in that geographic area, unemployment is extremely low, well below the national average, and we're seeing a lot of wage inflation. And we've adjusted our practices to ensure that our management teams at the store level have the tools and the flexibility they need to be able to pay their people appropriately based on the environment in which they're operating. I would say that, historically, these types of environments, we've operated in them before, have turned out to be

great for our business. And so I'm optimistic that this wage inflation that we're seeing is going to turn into discretionary income and some of it's going to end up back in our restaurants.

Karen Holthouse

Goldman Sachs Group Inc., Research Division

And then the cadence in the year?

Eugene I. Lee

Chief Executive Officer, President and Director

I think it's increasing a little bit as the year goes on, but it's de minimis, but we are seeing more and more pressure. The environment continues to get better out there from an employment standpoint.

Operator

Next question is from Chris O'Cull of KeyBanc.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Gene, the past few years, it looks like off-premise sales growth has stepped up in the fiscal third quarter. Is there a seasonal post around catering sales?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, Chris. Obviously, the more penetrated we get around the holidays, the better off we're going to be. And even Thanksgiving and -- I mean, yes, that second quarter. But I mean, there's around certain times of the year, convenience becomes more important. Valentine's Day, believe it or not, is the largest -- I mean, it's the biggest takeout day of the year for Olive Garden.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Is there an opportunity to see off-premise growth accelerate this season as you kind of broaden the reach or the awareness of the program?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, I mean, I think -- I really don't want to get into a lot of details around that part of the business for competitive reasons, but yes, we're focused on it. We see it as an opportunity, and we hope that business continues to grow.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Is that part of the confidence you have in lapping these difficult comparisons this third quarter?

Eugene I. Lee

Chief Executive Officer, President and Director

I mean, I think you can -- yes, I think you could make that statement.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Okay, great. And then one last one, Rick. Why do you expect inflation, commodity inflation, in the back half of the fiscal year?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, Chris. We -- as we've said in the past, we forecast our inflation based on the contracts that we have and then what we have open. And we still have some parts of our inflation open or some parts of our commodities open. We're only about 70% covered for the back half of the year, so we still got 30% to go. And we assume whatever is not covered is a typical inflation. So the hope is that the inflation is in a size we have in our plans as we continue to find and continue to go out farther in coverage, but we just want to make sure that we are prudent in what we estimate.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Is there any commodity in particular that's floating in the back half that you're concerned about?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Nothing that we're concerned about, but we just have a lot of things that are floating. If -- in our presentation, we've got these covered at about 55%. Produce is the one that's the least -- that's the most covered at 80%. But there's nothing that we're super concerned about. We just like to be prudent in what we forecast for inflation.

Operator

Our next question is from Jeffrey Bernstein of Barclays.

Jeffrey Andrew Bernstein

Barclays PLC, Research Division

Two questions as well. First, just, Gene, as you think about the industry and, obviously, you have a lot of brands in your portfolio, so I think it's a pretty good proxy for broader casual dining. But most of your peers have talked about all these headwinds, confluence of factors kind of pressuring results. I think you acknowledged that the industry maybe softened a little bit. So I'm not sure whether you would say you were less vulnerable to some of these headwinds. I was wondering if maybe you could kind of prioritize for us these different headwinds in terms of how you think they're impacting the industry, whether it's the food at home, food away from home divergence that we hear more and more about or the shift from brick-and-mortar to online or political uncertainty, value bundle fatigue. And then it seems to be a lot of things that some of your peers are talking about. I was wondering, as an industry veteran, how you prioritize those potential headwinds to the industry. And then I had one follow-up.

Eugene I. Lee

Chief Executive Officer, President and Director

All right, Jeff. I mean, again, it's a lot there. I think -- when I look at the industry today, I think there's more competition for discretionary dollars than there has been in the past. Whether that is -- I think the biggest one that we really don't talk about that is -- that people -- that restaurant sales are competing with is data and other, what I would call, new necessities today, whether smartphones, whether it's your cable bill, your Netflix bill. I mean, those all have increased significantly over the years and I think that people are making choices. And I just think it's not just confined to food. I think people just -- I think we're competing and we've got to -- in the industry and mostly -- I mean, my focus at Darden is to find a way to create a reason for people to want to come spend money with us. And I think we have to continue to innovate from a culinary standpoint. We've got to do a better job from a service standpoint, and we got to create environments that people want to come to. Because they have more choices. I think if you read a lot of Malcolm's -- as he talks about the reallocation nation, I think there's a lot of truth to how he's describing the situation in the industry. And people are feeling better. And when they feel better, they're spending on bigger home good items. So that's having an impact. Then as I look at -- as I look out over the overall industry and I look at people that -- brands that continue to create value from the real value players, all the way up to mid, all the way up to the higher end, if you're doing a good job and you've managed it over the years, I think, conservatively, I think you're doing pretty well today.

Jeffrey Andrew Bernstein

Barclays PLC, Research Division

Got it. And then just a comment you made earlier in terms of -- well, I think we can see the sequential trends in terms of menu pricing, but it seems like there's some easing at both core brands at least in recent months. I'm just wondering if that's a conscious decision. Or maybe how should we think about that outlook going forward and your ability to protect the margin if pricing continues to slow down to that maybe 1% range?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, Jeff. This is Rick. Our pricing for the year, we still expect to be at the low end of the 1% to 2%. And as you did say, we've had some deceleration in pricing. That's more because we took pricing multiple times last year versus the really onetime this year. As you think about our advantages that Gene has talked about so often and scale being one of them and driving cost out of our business, we use that to reinvest and one of the ways that we reinvest is by pricing, we hope, below our competition in the long run. So whatever happens with inflation or other things, we still expect to focus on keeping pricing at the lower end to maintain and accelerate our value proposition, and we are -- we're continuing to fight for that as long as we can.

Operator

Next question is from Sara Senatore of Bernstein.

Stephanie Ng

This is actually Stephanie Ng representing Sara Senatore. A quick follow-up question on labor. Could you comment on the DOL overtime rule and if that impacts you at all? And could you see labor pressures easing with the new administration? And how much of an impact would changes in federal regulations really have since you've already addressed it for some of your benefitees and compliance books.

Eugene I. Lee

Chief Executive Officer, President and Director

All right. Overtime regulation, whether that's implemented or not, as we've said in the past, it's not going to have a material impact on our business or the compensation levels of our managers. So there's really -- there's no story there for us. That's a nonimpact. As far as the new administration, I would say we would expect less structural pressure at the federal level, but we expect to have continued activity at the state level, which is really where the pressure has been for the last decade. And so I don't know how much the change in administration is going to have on our overall labor policies going forward. I still -- I see this as much more of a state issue.

Stephanie Ng

Okay. And a quick follow-up. You spoke earlier about the price points for lunch, but could you provide a bit more color on menu or food innovation at lunch? And also, given weakness in the biggest fast casual competitor, are you taking any traffic share from that category?

Eugene I. Lee

Chief Executive Officer, President and Director

I'll answer that back. So I don't know where -- I'm really -- we haven't been able to trace back where the share is coming from, but we've innovated at lunch, and I've talked about this in the past. I mean, the current management team, Dave, George and José and Dan, for the first time have been able to unbundle soup, salad and breadsticks effectively at lunch with a duo platform, which allowed us to get back to the \$6.99 price point. And to me, that's been the big innovation, the big breakthrough. When you look at our create your own lunch duo, which pivoted us away from having to rely totally on soup, salad and breadsticks, that to me has been the biggest innovation in Olive Garden and has really just changed the whole complexion of lunch. I mean, for \$6.99, you can get an eggplant parmesan sandwich and all the super salad that you'd want. That's an incredible value. I mean, I'm looking at the menu right now and it's

just -- you get a meatball sandwich for \$6.99, plus either a soup or a salad, and that's an all-you-can-eat option. Incredible, incredible value. We have -- we've got to continue to find ways to communicate that, and we got to continue to innovate the food platform inside that, but that's our big innovation.

Operator

Next question is from Jeff Farmer of Wells Fargo.

Jeffrey D. Farmer

Wells Fargo Securities, LLC, Research Division

Just following up on some of the labor questions. You suggested that discretionary wage rate increases are having a greater impact on labor inflation than some of the legislative wage rate increases that are out there. So with that said, is it prudent to assume that this discretionary wage rate pressure, again, driven by that very tight job market, to persist or even intensify as you guys get deeper into calendar '17 or as we move into calendar '17 and get deep into calendar '17?

Eugene I. Lee

Chief Executive Officer, President and Director

Well, there's always the chance that it could get deeper and as unemployment -- if unemployment continues to decline, but I would say that we are very well positioned to deal with that. Industry turnover continues to increase. Darden's team member turnover in the second quarter actually declined slightly. We've got a strong employment proposition that we will continue to work hard on. We believe we have a great relationship with our team members, and that's one of our competitive advantages. And so if the labor market continues to tighten, I think we're very well positioned to handle. We've been working for a year with our restaurant teams in changing the processes and procedures on how we hire, how quickly we do it. We're becoming much more technologically advanced with that. We know that's going to be a real problem. It's something that we wake up every day and we think about, is how we're going to make sure that our employment proposition remains strong and that we are going to be -- we are going to have enough team members to do what we need to do.

Jeffrey D. Farmer

Wells Fargo Securities, LLC, Research Division

That's helpful. And then an unrelated question. November consumer confidence index number jumped to 107. I think that's the highest reading in almost 10 years. So to the extent that you guys have looked at this data, if you go back and look at the last 10-plus years of your own business, have you seen your same-store sales traffic trends, whatever it might be? Is there a relationship worth discussing between your same-store sales and traffic trends versus those consumer confidence numbers? Or do you find that relationship to be relatively weak?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Relationship is relatively weak.

Operator

Next question is from Jason West of Crédit Suisse.

Jason West

Crédit Suisse AG, Research Division

A couple of questions. One, I guess, last quarter, you guys talked about one of the few areas of weakness was Texas, particularly on the higher-end brands, but I think you said Olive Garden was lagging a little bit there as well. Just wondering, with the improvement this quarter, if you saw any strength or stabilization in Texas and sort of the outlook there.

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, it's slightly better, but still lagging. I mean, there's certain parts of Texas that are more difficult. I mean, Houston, obviously, continues to struggle. Dallas is a little bit -- Dallas is fine. And so overall, Texas is a little bit of a drag, but it's better than it had been. As we're starting to lap -- basically, we're starting to lap when Texas became a problem.

Jason West

Crédit Suisse AG, Research Division

Okay, got it. And in terms of the To Go business providing such a nice uplift here, I mean, can you guys, I guess, give us an update on where mix is? I believe it's around 10%, 11% of sales. And how much of the strength there is from new platforms around catering since that's a fairly new offering? Or is this really more about the in-store To Go business just continuing to gain strength?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, To Go was 12.6% of total sales in Q2 and its all aspects. I'd go back to the insight that we're operating on, it's convenience. The consumer is demanding more and more convenience today. And one of the things that we think about here every day is how do we apply that to everything that we do. That's the biggest thing I've seen change. And when I think about decades, over the last decade, the consumers' desire for convenience has significantly increased. And I think that's what's driving the takeout in Olive Garden because we're able to meet that need, that need state through multiple channels and we -- and again, I'd go back to we have food that travels extremely well.

Operator

Next question is from Andy Barish of Jefferies.

Andrew M. Barish

Jefferies LLC, Research Division

Guys, just a quick one back on LongHorn. Can you give us an update on in terms of where you are in sort of shifting the promotional strategy? I think you were kind of moving away from the value consumer and trying to move a little bit higher price point and why that isn't showing up in the mix line as well.

Eugene I. Lee

Chief Executive Officer, President and Director

Well, we've been pivoting away from the low-price steak promotions. We have not been trying to higher price points. I say we've gone to medium-type price points, but it's not like we're out there advertising porterhouses. We're out there kind of in the middle. We were doing a lot of \$10.99, \$11.99 steak promotions that we thought we had to pivot away from. I think we're only into one of those now a year. And so I would say it's more of a strategy of kind of pivoting away from these promotional periods where you have -- you're selling a \$11.99 promotional steak and you had other digital incentives out there, which you need to have out there to be competitive. We determined that there were a percentage of the guests that we were serving, we were not making money on, and we decided that we were going to try to move away from that. And I would urge everybody that's out there listening and thinking about LongHorn, is look what we've done to the overall business model over the last 18 months and what LongHorn's profitability has become. This brand, obviously, the one that I am most familiar with because I ran it for a lot of years, is a high-quality -- is a simple high-quality business, and that's the way we're going to win. And we're making the right strategic choices. I believe in it. These decisions that we're making are going to take years to pay out. But as I look at the landscape, and I look at the landscape of all of casual dining, I think there's a niche over time that LongHorn can compete in and compete extremely effectively in. And it's not going down. It's not going down and competing with the more value players. It's actually carving its -- carving a niche out a little bit above what I would call traditional casual dining. Our research is incredibly encouraging, and I am not hung up right now on what day-to-day same-restaurant sales are. I believe in the research. I believe that we've got the business model back. The business is still too complicated and we've got to simplify it so we can continue to remove some labor from the operation so that we can invest in great steaks and get them cooked right for our guests.

Operator

Next question is from Andrew Strelzik of BMO Capital Markets.

Andrew Strelzik

BMO Capital Markets Equity Research

You just touched on some of the strategies at LongHorn, but you mentioned the portion of the consumer base that focuses on value and you also mentioned wanting to be a high food cost, low labor cost model. So I'm just wondering, bigger picture, longer term, as you're thinking about reinforcing that value, it doesn't seem like service in that model really is going to play as large of a role maybe as it plays in Olive Garden. Is that the right way to think about it? And how do you really think about pulling those value levers without the price point promotions over time?

Eugene I. Lee

Chief Executive Officer, President and Director

No, I think about it a little bit differently. I think service has got to play a higher -- a more important role in LongHorn. We want to great service in Olive Garden, don't get me wrong. But if we're going to have a \$21, \$22 check average in Olive Garden -- in LongHorn, that service has got to be better than Casual Dining service. We should have the best servers in LongHorn. Because they should make more money because the check average is higher, we do a little bit more volume. We should have the best people out there on the floor. I think that we're -- when I think about LongHorn, we're still paying the price for opening 40 restaurants -- approximately 40 restaurants for a couple of years. And we are -- by slowing down and really focusing on some basics, we have -- we're making great, great improvements. And I think one area where -- since Todd's been involved, is he's been really focused on food quality and getting the food back to where he thinks it needs to be. We both agree that we may have not paid enough attention to service, and LongHorn, for years, had a unique service style that the consumer talked about. And I think that we've lost a little bit of that. And I think we're going to get back to a bit more balanced operational message, where we're going to continue to focus on food, but we want to elevate the service experience inside of LongHorn. We think there's big opportunity there.

Operator

Next question is from John Ivankoe of JPMorgan.

John W. Ivankoe

JP Morgan Chase & Co, Research Division

A couple of quick ones, if I may. Firstly, thanks for the outlook on the commodities for the second half of fiscal '17, but it does kind of beg the question of what any kind of initial indication may be for fiscal '18 as you see where commodities are relative to spots or futures, what have you, and what your overall outlook may be, if there's an early look that we could get there.

Eugene I. Lee

Chief Executive Officer, President and Director

John, thanks. We're not going to talk too much about '18 yet as we finish up this year. We're only halfway through this year. I will say we're taking coverage in '18 now. So as we still see the supply out there, we're taking coverage on some products now, which we might not have done in the past.

John W. Ivankoe

JP Morgan Chase & Co, Research Division

Well, maybe I'll -- if I can get you to answer this one. Any outlook just on steak, which I recognize is not as easy for us to see in terms of just the overall trends of steak because it's not feeder cattle or live cattle in terms of where your buy might be as the biggest category.

Eugene I. Lee

Chief Executive Officer, President and Director

John, it's Gene. For competitive reasons, I'm not going to comment on it, but I'll give you the one place that I look. I think you can go right to the CME board and look at live cattle futures and just look at a 3-year trend. And you can get a pretty good idea. Now the ratios change throughout the year -- the years, but it can give you directionally where the market is. And so I'd look at that. But I don't want to comment for competitive reasons what we're going to do on beef.

John W. Ivankoe

JP Morgan Chase & Co, Research Division

Okay, fair enough. Thought I'd ask. And then secondly, yes, there's been a lot of conversation about restaurant supply. There's been some slowing in chains, independents maybe maintaining the rates or possibly even increasing the rates. But could you just give us a view of just kind of effective real supply increases as you currently see them and what your outlook might be for calendar '17, if that's possible?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, we look at the Crest Data, which has historically been directionally the best piece of research. We're seeing the supply up slightly. It's outgrowing population. I think as long as there's capital out there, people are going to build restaurants. Whether they're good investments, who knows? Especially on the independent front. So as far as capacity, I think that I would expect capacity right now to outpace inflation as long as capital is cheap, especially driven by the independents. I would continue to look for the strong to continue to get stronger and people -- brands that aren't able to reinvest into their business could get weaker through this cycle.

Operator

Next question is from Peter Saleh of BTIG.

Peter Mokhlis Saleh

BTIG, LLC, Research Division

The comment you made a little while ago, talking about wage increases and how it could potentially translate into some incremental discretionary income, which could come back and show up in restaurant sales. Are you seeing any evidence of that and in states like California that were ahead of the curve on raising wages versus the rest of the country?

Eugene I. Lee

Chief Executive Officer, President and Director

Well, Peter, I'd hate to make that connection, that their wages are the reason why that we're seeing better performance in California. I'm not sure I can prove that out statistically. But California, Olive Garden is one of our better-performing markets. But I'm not quite ready to make that link yet.

Peter Mokhlis Saleh

BTIG, LLC, Research Division

And then on the To Go business, how are you guys thinking about delivery on single orders? Is that something you guys will consider doing later this year or into next year?

Eugene I. Lee

Chief Executive Officer, President and Director

We've got multiple tests going on with all the big players out there. Obviously, they want us, we want them. We just got to figure out how we make this work for both parties from a financial standpoint. Stay tuned.

Operator

Next question is from Nicole Miller of Piper.

Nicole Miller Regan

WWW.SPCAPITALIQ.COM

Piper Jaffray Companies, Research Division

Couple of questions. You talked about your organic unit growth outlook. How does the portfolio look from the positioning of adding another brand organically and/or acquiring another brand for the portfolio?

Eugene I. Lee

Chief Executive Officer, President and Director

We're -- I'm going to go back to a standard answer here, one that -- we're in continuous conversations with our board and with the rest of management in what -- I mean, evaluating all of our alternatives to achieve our business results. We're not -- I would just say that we're not in the active business of developing our own concepts today, but we'll continue to have these conversations with our board, and we'll figure out what's the right decision to build long-term shareholder value.

Nicole Miller Regan

Piper Jaffray Companies, Research Division

And just a final question. Thinking about the Specialty Restaurant Group and specifically most of them tend to be higher check, with the highest check concepts within that group. How do you think they're positioned for holiday? What do you expect, not out of your brands per se, but just broadly in terms of bookings and the spend in terms of food and alcohol, if you could?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, I mean, you're asking a forward-looking question. I really don't want to duck it, but I'm really not going to talk about what we're -- what's happening in December, what our bookings are like. We'll talk about that in March.

Operator

Next question is from Howard Penney of Hedgeye Management.

Howard W. Penney

Hedgeye Risk Management LLC

My question also was on delivery. There's a lot of talk that it is possibly the most disruptive influences on the restaurant industry in generations. I was wondering, one, if you agree with that. And two, what are the possibilities for you to participate in the delivery market [indiscernible]

Eugene I. Lee

Chief Executive Officer, President and Director

Howard, you're breaking up. I can't -- we can't hear you, Howard.

Howard W. Penney

Hedgeye Risk Management LLC

Can you hear me now?

Eugene I. Lee

Chief Executive Officer, President and Director

That's a little better.

Howard W. Penney

Hedgeye Risk Management LLC

Sorry about that. I was just wondering if you agree with the statement that delivery would be one of the most disruptive influences on the restaurant industry in this generation. And then the second question on the [indiscernible]. Would you ever consider building out your own network of [indiscernible] third party?

Eugene I. Lee

Chief Executive Officer, President and Director

All right. I'm going to repeat the question back. I think you talked about delivery being the most disruptive innovation in the industry and then us building out our own network?

Howard W. Penney

Hedgeye Risk Management LLC

Yes.

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, I agree delivery is going to be disruptive. And as we think about developing our own network, all I'd say is that those are conversations. As we think about where this is going to be in 10 years, those are conversations that we'll continue to look at. I mean, developing your own network is a couple of fronts. We can be developing our own network that can handle the one-off deliveries. We think what we're doing today around catering is kind of our own network. Then it's all the way to could you actually build a kitchen and a warehouse district and deliver in a major city out of that? So I see that disruption in a very long perspective. I mean, you got a lot of choices along that continuum. And so all I'd say is that we're aware of what the choices are, and we think a lot about the Amazon effect, as we call it around here. What would Amazon do? And so that's where we kind of get to, "Is someone going to develop a kitchen in one place and just deliver food from that kitchen?" So that would probably be the most disruptive. So I guess the answer to your question is, yes, we're thinking about it. We don't have any plans in the future, but we're fully aware of this disruption and where it could go.

Operator

Next question is from Jake Bartlett of SunTrust.

Jake Rowland Bartlett

SunTrust Robinson Humphrey, Inc., Research Division

With the prospect of wage inflation continuing to be strong or potentially increasing and commodity inflation coming in the future, how much opportunity do you have to continue to find cost savings, whether it's in labor or other areas of the business beyond the \$30 million you're looking for in '17?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, cost saves are going to be a big part of our -- how we go forward. We -- it goes right into the #1 competitive advantage I think we have, which is scale. And I've challenged the presence of the businesses and the functional leads to make sure that we are as efficient as we possibly can be from a support standpoint. And then secondarily, what -- in all our non-consumer-facing areas, have we become -- have we used our scale as much as possible to be able to drive down cost, and we've made great progress. I still believe there's work to be done there.

Operator

And our final...

Jake Rowland Bartlett

SunTrust Robinson Humphrey, Inc., Research Division

Yes, I just had one more clarification actually. On the G&A, you mentioned -- you answered to an earlier question about G&A as a percentage of sales being about right on a year-over-year basis, I guess. But I'm looking at G&A down roughly \$10 million in the second quarter from the first quarter. Is the absolute dollar level that we're seeing in the second quarter, is that the right run rate to think about? Or was there some reason why that might be lower than your kind of run rate going forward?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, Jake. Let me clarify what I said before. G&A is probably closer in the third and fourth quarter to what Q1 would have been, maybe slightly lower than that. The reason Q2 is a little lower is incentive comp. We don't usually have as big of a charge for incentive comp in Q2 based in the way our earnings growth throughout the year. So just to clarify, thanks for that question, Q3 and Q4 is more like Q1.

Operator

Final question is from Matthew DiFrisco of Guggenheim Securities.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

Just sorry if I missed it. Did you guys mention how much share repurchase you may have done in the current quarter or towards the end of the quarter, just the weighting of that \$19 million? Just because it looks like you may have more activity in the second half of the year than you have in the first half of the year.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

More activity in the second half of the year?

Jeffrey D. Farmer

Wells Fargo Securities, LLC, Research Division

Planned. Planned for the fiscal.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

No, we -- what we've said in our long-term framework in this year is we're going to be between \$100 million and \$200 million. The board did authorize some more share repurchase after the first quarter. We've only bought \$19 million worth of shares since then, and we'll continue to be opportunistic as the market gives us opportunities to buy.

Operator

At this time, speakers, no other questions on the phone. I would like to hand the call back to you.

Kevin Kalicak

All right. Thank you, Tori. That concludes our call. I want to remind you that we expect to release results for the third quarter on Tuesday, March 28, before the market opens with the conference call to follow. Thank you all for participating in today's call, and we wish everyone a safe and happy holiday season. Thank you.

Operator

Thank you, speakers. And that concludes today's conference. Thank you for joining. You may now disconnect.

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