

Darden Restaurants, Inc. NYSE:DRI

FQ4 2016 Earnings Call Transcripts

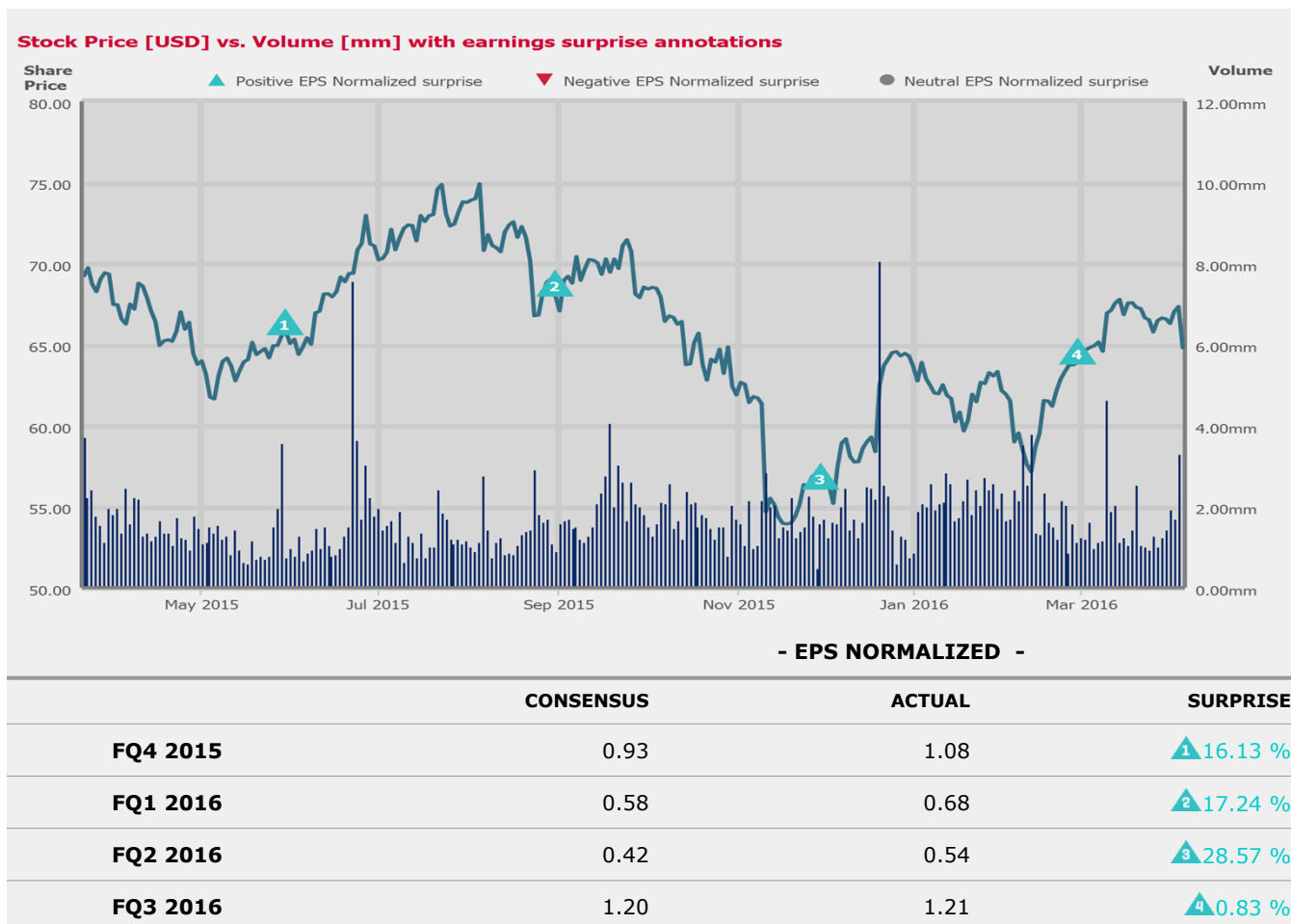
Thursday, June 30, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-			-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.09	1.10	▲0.92	0.83	3.51	3.53	▲0.57	3.99
Revenue (mm)	1817.58	1790.20	▼(1.51 %)	1747.48	6959.10	6933.50	▼(0.37 %)	7226.50

Currency: USD

Consensus as of Jun-29-2016 1:00 PM GMT



Call Participants

EXECUTIVES

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Chief Executive Officer, President
and Director

Kevin Kalicak

Ricardo Cardenas

Chief Financial Officer and Senior
Vice President

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Stephen Anderson

Maxim Group LLC, Research
Division

William Joseph Sherrill

Stephens Inc., Research Division

Presentation

Operator

Welcome to the Darden Fiscal 2016 Fourth 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, Maddie. 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 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, and a reconciliation of these measurements is included in the presentation. We plan to release fiscal 2017 first quarter earnings on October 4, before the market opens, followed by a conference call.

This morning, Gene will share some brief remarks about quarterly performance and brand highlights. Rick will then provide more detail on our financial results from the fourth quarter and share our outlook for fiscal 2017, and Gene will have some closing remarks before we open the call for your questions.

Before we begin, I want to point out that just as we did last quarter, we reported same-restaurant sales on both a fiscal and comparable calendar basis. This morning, we will refer to the comparable calendar comps during our remarks, unless otherwise noted. Additionally, sales and earnings comparisons versus last year will exclude the impact of the 53rd week in the fourth quarter of fiscal 2015, unless otherwise noted.

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. Thanks for joining us. We had a strong quarter with each of our brand significantly outperforming the industry benchmarks as we continue to focus on improving our execution. Same-restaurant sales grew 2.6% with positive same-restaurant sales at each of our brands. It was a volatile quarter as a result of multiple holiday and calendar shifts, including Easter, Memorial Day and spring break vacations, which we believe negatively impacted comps across the industry.

Olive Garden had another great quarter and concluded a year in which we served more than 220 million guests. The Olive Garden brand is extremely relevant, the business is strong and our strategy continues to deliver results as evidenced by our ongoing momentum. In Q4, same-restaurant sales grew 2.4%, outperforming the industry benchmarks, excluding Darden, by more than 440 basis points in both sales and traffic. This was our seventh consecutive quarter same-restaurant sales growth and fourth consecutive quarter of positive same-restaurant guest counts.

Three key drivers of this performance include: first, further simplification of our operational processes and procedures, leading to improved execution in our restaurants; second, culinary innovation that builds on the brand equities and flavor profiles that our loyal guests enjoy most, as seen with our successful Italian pot pies, Mediterranean fresh and lasagna lover promotions; and finally, continued growth of our successful OG To Go platform. To Go sales were up 19% year-over-year with a 2-year growth rate

over 40%. For the year, OG To Go sales represented 10.8% of total sales, an increase of 140 basis points versus last year. Additionally, we had the best Mother's Day in Olive Garden history, which further demonstrates the brand's relevance and its broad appeal as a destination for family celebrating time together.

Olive Garden remains laser-focused on driving frequency of our loyal guests, while delivering great experiences, and our guests are responding positively. Our innovation pipeline is strong and we still have meaningful operations improvements to capture.

LongHorn Steakhouse maintained its solid top line momentum and once again delivered strong profit growth. Same-restaurant sales grew 2.2%, the 13th consecutive quarter of growth, outperforming the industry benchmarks, excluding Darden, by more than 400 basis points. And same-restaurant traffic was well above the industry average. We will continue to invest in food quality to enhance the overall perceived value of the dining experience and have multiple in-restaurant tests underway.

Additionally, LongHorn continues to simplify operations to strengthen in-restaurant execution and deliver great guest experiences. This focus on operational excellence is augmented by compelling, non-price-pointed promotions, like our big bold steaks and LongHorn favorites that reinforce our steak expertise.

Looking at our specialty restaurants. All 5 businesses continued to deliver solid results that included positive same-restaurant sales growth at each, led by Seasons 52 at 5% and Bahama Breeze at 4.7%.

Seasons 52 had another strong quarter. We continue to execute our strategy at a very high level and are impressed with what the team has been able to achieve throughout the year. Seasons 52 is an on-trend concept, giving guests the opportunity to enjoy handcrafted cuisine that is healthful without sacrificing the taste or style. We look forward to building on the momentum we have created as we rebuild the pipeline for value-creating new restaurants.

Yard House represents a significant growth opportunity for us. And during the quarter, we named Mike Kneidinger president. I'm excited to have Mike lead the Yard House team, and he is supported by an extremely strong team. Mike did a tremendous job leading Bahama Breeze, delivering same-restaurant sales growth of 3.5% annually over the past 3 years, and I'm confident he will build on the momentum at Yard House.

All of our specialty restaurants continue to perform well and are differentiated and well positioned to grow market share into the future. Overall, I'm pleased with the results we achieved this quarter.

And now I'll turn it over to Rick to discuss those in more detail.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Thank you, Gene, and good morning, everyone. Darden's fourth quarter diluted net earnings per share from continuing operations were \$1.10, both on a reported and adjusted basis. They were 8.9% higher than last year's adjusted diluted net earnings per share. As a reminder, last year was a 14-week fiscal quarter. The 8.9% growth assumes a 13-week quarter last year. Additionally, this quarter we paid out over \$63 million in dividends and repurchased approximately \$45 million in Darden stock.

Key drivers of this quarter's growth included: positive same-restaurant sales of 1.7% on a fiscal basis, continued progress achieving our cost-savings initiatives throughout the P&L, a favorable commodities environment resulting in approximately 1% deflation in food and beverage expense, and depreciation and interest expense savings related to the real estate transactions. These results were partially offset by 170 basis points of incremental rent and other taxes related to the real estate transactions. Excluding the additional rent expense and other taxes, restaurant expenses would have been favorable by approximately 20 basis points. And while our adjusted tax rate was in line with the expectations we shared last quarter, tax expense as a percent of sales was 80 basis points unfavorable to last year, driven by tax timing.

Turning to segment performance. As a reminder, fiscal 2016 segment profit includes the incremental rent and other tax expense associated with the real estate transactions, whereas fiscal 2015 did not include

these costs. In total, these costs were \$30 million for the quarter. The benefits of lower depreciation and interest savings, which were \$27 million, are not recognized in segment profit.

Olive Garden's segment profit margin of 19.3% was 100 basis points lower than last year for the quarter as additional rent drove 230 basis points of margin unfavorability versus last year. Excluding the incremental rent, Olive Garden segment profit margin was 130 basis points higher than last year.

LongHorn Steakhouse grew segment profit margin by 120 basis points for the quarter to 19%. Excluding the incremental rent, segment profit increased 250 basis points at LongHorn. Our Fine Dining and Other Business segment profit margins were essentially flat on a year-over-year basis at 20.1% and 18.9%, respectively, with our Other Business segment impacted by additional rents.

We are pleased with the progress each of our segments has made improving profitability. They are leveraging their sales growth and continuing to improve the guest experience, while taking advantage of Darden's scale and working closely with our support teams to identify and capture cost savings.

Finally, as we announced this morning, our board declared a \$0.56 per share quarterly dividend, a 12% increase from last quarter's dividend. We were able to spin off our real estate into a separate, publicly traded company and still increase our quarterly dividend above our pre-spin quarterly dividend. And our spin-off of real estate assets to Four Corners created additional growth for our shareholders, as the current combined dividend of the 2 companies is now 23% higher than the Darden dividend before the spin-off of Four Corners this past November.

Fiscal 2016 was a year of significant progress at Darden. We achieved 4.4% total sales growth on a 52-week basis; 3.3% same-restaurant sales growth; and 38% growth in adjusted diluted net earnings per share. In addition to meaningful sales and adjusted earnings per share growth, we profitably grew our market share, exceeding the industry benchmark for same-restaurant sales by over 400 basis points; increased adjusted operating margins by over 200 basis points; leveraged our scale, further optimizing our supply chain and managing costs, resulting in \$95 million in annual cost-savings, which exceeded our initial targets; and returned more than \$450 million to shareholders through dividends and share repurchases.

Importantly, we also executed our real estate strategy by completing a tax-free spin-off of select real estate assets and restaurant assets into a new public company, Four Corners Property Trust. This transaction advanced our commitment to deliver value to our shareholders while improving our capital structure and reducing debt.

Using proceeds from this transaction and from the sale leasebacks of our restaurant support center and 64 restaurants plus cash on hand, we paid down \$1 billion in debt during the quarter -- during the year. This reduction in debt significantly improved our leverage, resulting in a return to investment-grade credit status from all 3 credit rating agencies. Overall, we're excited -- we're executing a value-creating business model to generate significant and durable cash flow that will fund growth and return capital to shareholders.

Now looking forward to fiscal 2017. We anticipate total sales growth of 1.7% to 2.7%, which includes: same-restaurant sales growth of 1% to 2% and 24 to 28 new units, capital spending of between \$310 million to \$350 million, cost savings of approximately \$30 million, total inflation between 1.5% and 2%, and a net -- and an annual effective tax rate between 26% and 27%, and approximately 128.5 million diluted average shares outstanding for the year, all resulting in earnings per diluted share between \$3.80 and \$3.90.

We anticipate first quarter earnings per share to have the highest growth on a percentage basis as we expect commodities deflation in the first quarter of fiscal 2017, while we forecast commodities inflation in subsequent quarters.

As a reminder, in December, we shared our framework for value creation, including a 7% to 10% earnings after-tax growth and a 10% to 15% of total shareholder returns calculated as EPS growth plus dividend yield. The metrics for our fiscal 2017 outlook are within the long-term targets we shared this past

December, with the exception of new restaurant growth. We are working diligently to build the pipeline of new restaurants for future growth.

And with that, I'll turn it over to Gene.

Eugene I. Lee

Chief Executive Officer, President and Director

Thanks, Rick. As I think about fiscal 2016, I'm extremely proud of the progress we made in pursuit of our mission, which is to be financially successful through great people, consistently delivering outstanding food, drinks and service in an inviting atmosphere, making every guest loyal. Our results reinforce that our strategy is working as our restaurants and team members continue to build guest loyalty by relentlessly focusing on our back-to-basics operating philosophy, which is rooted in culinary innovation and execution, attentive service, engaging atmospheres and integrated marketing.

Finally, we continue to leverage our 4 competitive advantages that we see as keys to unlocking sales growth and expanding margins. They are the significant scale of our company, the breadth and depth of our data and consumer insights, our commitment to rigorous, strategic planning and our results-oriented people culture. It's that last competitive advantage, our people, that truly sets our company apart. Together, we've accomplished a great deal over the past 2 years, and we've done it by getting a little better each day. It may sound simple, but it's hard to consistently deliver a outstanding guest experiences day in and day out. It only happens because of our 150,000 outstanding team members across our company.

So let me close by thanking each of them. We know we got a lot more work to do, but I'm confident our team is up to the challenge.

Now we'll take your questions.

Question and Answer

Operator

[Operator Instructions] We have our first question. It is coming from Brett Levy of Deutsche Bank.

Brett Saul Levy

Deutsche Bank AG, Research Division

Obviously, another quarter of a nice job on the labor line. Can you do us a favor and talk a little bit through what your thoughts are and how you're managing labor? What you can do on -- given all of the scarcity that's out there? How you're looking at inflation? And also, have you had an opportunity to assess what kind of impact the changes to overtime will have to your labor line and the way you're approaching business?

Eugene I. Lee

Chief Executive Officer, President and Director

Brett, a couple of things. Let me deal -- the first -- the last point first, which is the labor impact. That will have no impact on our organization. Let me talk about labor. Labor is something that we continue to focus on, but we're focusing on it in a different way. And we're focusing it on a really -- when we think about menu development, how our menus are constructed and how that leads to processes and procedures in the kitchen. And we just -- we continue to focus on simplification on -- in all aspects of what I would call the production process or the manufacturing process of producing our menu items. Our teams are doing a great job of simplifying the processes and thinking about how products that we have are adding to the menu or we have on the menu impact the production process. And so we've taken products off the menu that are complex. We've simplified processes and procedures, which has allowed us to improve the overall productivity in the back of the house. Obviously, the front of the house is an area where it's kind of off-limits. We have our beliefs in what it takes to execute out front, and we're focused on back of the house. We've also got a lot of energy around making sure that we have the appropriate labor in the restaurant at the right times. One of the things that we do with our P&L reviews at the end of each quarter is we sit down and we really look at, what's the productivity of our restaurants before we have guests in there and then after we don't have guests in there. And we've been able to take a lot of hours out by making some adjustments there. So we feel like we're improving the guest experience. We're working on productivity with -- in the back of the house with the design of our menus and processes and procedures. I'll close by saying and maybe preempt some other questions on labor is that, labor market is tight, and it continues to be tight in a lot of -- in specific markets, which is driving a little bit more inflation. But as I've said many times on this call, I'd prefer to operate in an environment where labor is tight. I think that will lead to demand into the future.

Brett Saul Levy

Deutsche Bank AG, Research Division

Would you be able to quantify what your wage rate inflation is or what you're seeing in terms of turnover?

Eugene I. Lee

Chief Executive Officer, President and Director

We're seeing 2.5% to 3.5% wage inflation, depending on where we are and in which brand and which part of the country. We've not seen a major tick up in any of our turnover. Actually, our turnover remains strong. We believe in our employment proposition. We're continuing to look at that, and we're -- we provide our employees a tremendous opportunity for advancement. And so the industry is seeing a pretty good tick up in turnover, but we're not seeing it in our Darden brands.

Operator

Our next question is coming from Brian Bittner of Oppenheimer and Co.

Brian J. Bittner

WWW.SPCAPITALIQ.COM

Oppenheimer & Co. Inc., Research Division

Question about the outlook for 2017. On the comp front, your 1% to 2% guidance is not the same as your 1% to 3% normalized outlook, I guess, at the mid point, it's a little below. It's a little below what your trend was in May and for the fourth quarter. So what's driving just a slight, slight bit more caution there? Is it the current environment? Or is it the fact that your lapping some pretty outsized comps? If you could just talk about how you constructed the comp outlook, I'd appreciate it

Eugene I. Lee

Chief Executive Officer, President and Director

Yes. Brian, I think that -- what's involved in our outlook guidance of 1% to 2% is we're giving guidance for a very long period of time, over the next 12 months. And based on all the things that we know today and all that we don't know about the next 12 months, we think 1% to 2% is a prudent guide. That would indicate that it's still significant outperformance over the industry. And so we believe that's the appropriate guidance at this point in time with all the knowledge that we have.

Brian J. Bittner

Oppenheimer & Co. Inc., Research Division

That makes a lot of sense, and it's pretty solid. On the EPS front, what -- why are you guys guiding to a little higher share count year-over-year when you're also saying you're going to buy back a couple hundred -- or \$100 million to \$200 million of stock? Is there that much dilution going on with stock-based compensation? Or what's going on there?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, Brian, this is Rick. A couple of things. There's just a lot of assumptions and factors that make up our share count, including dilution, as you mentioned: option exercises; new equity grants, which really aren't that different than last year; and share price, so the assumptions that we make for share price and the timing of our buybacks. So we thought it was more -- most prudent to just give you a share count number that we're using for our EPS, which we haven't done in the past.

Operator

Our next question is coming from Will Slabaugh of Stephens Inc.

William Joseph Sherrill

Stephens Inc., Research Division

This is actually Billy on for Will this morning. Was interested to hear what you're seeing from the consumer across your brand portfolio. Are you seeing different trends at some of your higher-end dining relative to the lower end? And what you think, from your perspective, is driving that behavior? Clearly, we've heard many companies allude to a recent shift in consumer behavior. But you have you, at Darden, have seen anything discernible or at least worth noting?

Eugene I. Lee

Chief Executive Officer, President and Director

No, I think the way I would talk about consumer behavior is the guest continues to look for value. And affordability is only one component of that value, but it's not really enough to drive sustainable traffic growth. And so obviously, in an Olive Garden, we serve a lot of different guests to get the 5,000 guests a week and each guest is looking for something different. But whenever we find something that the consumer really believes has got value, that's where the consumer goes. And so -- and that's not always the lowest price point or the thing that's discounted the most. We still see a lot of guests in LongHorn just gravitate towards a great filet because it's a great value. We saw a high preference in Olive Garden with seafood lasagna, which caught us a little bit by surprise, but it was the best value in the offering that

we had. And so I believe the guest continues to look for value, and the value equation is not always just what's in the numerator. When you think about -- when we think about our brands, all the way from Olive Garden to Capital Grille, obviously, price plays a lot more importance in creating that value in an Olive Garden. Where in Capital Grille, it's much more about how we make you feel that creates the value in that experience. And so we think about it and go along that line in between Olive Garden and Capital Grille. We're looking for that real value differentiator that will drive traffic. And sometimes, it's affordability and price; and sometimes, it's more some of the other attributes. And we keep pulling on all the attributes, not just one. And we continue to make improvements in quality, we continue to make improvements in service. That's why we focus so much on execution. We believe at the end of the day, we got to execute at that we call the 9 square feet, at that table in every one of our restaurants, one table at a time. That really drives the most value to the consumer. Overall, their behavior continues to be the same. We see them still using the full menu. We've got good interesting appetizers, they're buying them. If we've got good, interesting desserts, they're buying them. And so it's compelling for us to keep coming up with great culinary innovation that make people want to buy our products.

William Joseph Sherrill

Stephens Inc., Research Division

Got it. That's actually very helpful. And then one real quick follow-up if I could with regards to the off-premise and To Go sales. A, what do you think has been the biggest contribution from the company's part in driving the growth and the guests kind of assimilating to that platform? And then second, would you, by chance, be willing to kind of break out what you believe the contribution from that, the online sales were to this quarter's comp?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, let me address the first part of that question. I think we identified, 4 or 5 years ago, that the needs data convenience was going to continue to grow, and that's the one thing that consumer was telling us. And the insights was that, "We don't have enough time to do all the things that we want to do. We want you to make this more convenient for us." And so we built a platform that enabled us to do that. We've been able to market it effectively. We've been able to deliver it in different ways, whether it's through a traditional to-go experience, whether it's through an online ordering experience, whether it's through bulk. And now with this delivery and catering that we're doing, we're just giving the consumer another access point to act -- to get what they want, which is something that's convenient, that's high quality and a great value. And that's why, I think, take out's working. We've got a brand that's meeting the consumer where the consumer wants to be met. Do we have on the percentage?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

20%.

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, about 20% of our business today is online, and that continues to grow each quarter.

Operator

Our next question is coming from Matt DiFrisco of Guggenheim Securities.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

Before I get to my question, I just wondered, could you elaborate a little bit more on what you consider online? Is that an online reservation? Or are you saying that 20% of the people are actually paying online and ordering?

Eugene I. Lee

Chief Executive Officer, President and Director

No, 20% of the people ordering takeout online.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

Okay. 20% of people [indiscernible]

Eugene I. Lee

Chief Executive Officer, President and Director

That's a big point of focus for us because the more we convert, we have -- number one, we have a higher check. But operationally, it's much easier when we get that order online.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

And how much is online in aggregate right now?

Eugene I. Lee

Chief Executive Officer, President and Director

20%.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

No, overall, how much of your business at Olive Garden is takeout? 20%?

Eugene I. Lee

Chief Executive Officer, President and Director

No, no, no. 10.8%.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

Got it. And then 20% of that 10.8% is online?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes.

Matthew James DiFrisco

Guggenheim Securities, LLC, Research Division

Understood. Okay, my question's with -- as far as the gap to your KNAPP peers, you accelerated and even widened that toward the end of the quarter in what appears to be the month of May. I know obviously, you're calendar. KNAPP has a different period somewhat, so maybe it's not a perfect science. But both brands seem to have accelerated in the back half of your fiscal quarter. I wondered if you could elaborate on maybe some of the promotional activity or something that you saw competitively that really lit it up in the back half of the quarter. And my follow-up question would be, you did comment that the commodity environment suggests that the EPS in the first half of fiscal '17 would probably drive greater earnings growth. Is that the same for the same-store sales front as far as what we saw in the month of May? Are we carrying faster, greater momentum? I'm looking at the compares. It would suggest, probably, that the first half also will be a comp stronger period than the back half?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, Matt. Let me deal with the second part of your question. We're not going to comment on sales trends in June, and I wouldn't -- I don't think you should make that leap. I think you should look at the same restaurant sales as 1 [ph] to 2 [ph]. It's pretty flat throughout the year. It's based on what we know right now. And as far as May goes, I -- you are correct. We did accelerate against the industry in May. I think that we focused a lot on Mother's Day, in and around Mother's Day, which gave us a great boost. As I said, Olive Garden had a record Mother's Day. LongHorn had a -- every one of our brands had a record Mother's Day and the days around Mother's Day, as we really focused in them. We think that drove a lot of the activity in the month. We are -- we really like focusing on these days, both from a communications standpoint but from also from an operational standpoint. When you look at a Mother's Day in both OG and LongHorn, it's just about how many guests you can get through and execute perfectly throughout the day. And so I think we were active, both digitally and other promotional activity, and we executed extremely well. We also got a big bump in catering and delivery for Mother's Day in OG, which was a strong bump. So I think it's -- it was -- our teams did a great job. We capitalized on the volume when the volume was there.

Operator

Our next question is coming from David Palmer of RBC Capital.

David Palmer

RBC Capital Markets, LLC, Research Division

If you were to audit the sales drivers at Olive Garden for '16 through renovation, LTOs, the value platforms, To Go, what were the biggest drivers in your opinion for the year, whether you'd want to put numbers on it or not? And how do you think about contributors going into '17? Do you have a sense about how -- how differently the sales drivers will shape up this next fiscal year?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes. I think there's a few. First, I want to start with -- I think we're executing better. And I know sometimes we want to look for some other things. But I want to pivot back to -- I think Dave George and Dan Kirgan and the team at Olive Garden have just done a great job improving the day-to-day executions. So I think that's been the #1 sales driver. And as I said in my comments, we think we still have meaningful improvement to make there. Second, we think To Go has been a great sales driver. This has been a leader in what we've been doing. We think we're exposing more guests to Olive Garden. It's been a terrific sales driver. We've done great culinary innovation. We've hit some really big products. Our pot pies were a big hit. Our culinary tour was a big -- our Create Your Own Tour of Italy has been a big hit. Ziosk has been a sales driver. So it's been a good lever that we don't think that we've fully hit our full stride with that. We've still got some room there. And then remodels have been a solid sales driver, outperforming the base by almost 4% in traffic, between 3% and 4% traffic. So I feel like there's multiple levers, but I want to wrap that back around with our maniacal focus on trying to execute better at the restaurant. We, as a team, and me, especially, believe that is the key driver of winning in this business. It's that interaction between a server and the guest. If we don't win there, all the other things aren't as -- I don't want to say they're meaningless, but they're close. We've got to execute at a very high level. And congratulations to all the Olive Garden people who are listening out there. You did a great, great job.

Operator

Our next question is coming from David Tarantino of Baird.

David E. Tarantino

Robert W. Baird & Co. Incorporated, Research Division

I have a question about the 2017 margin guidance. It looks like you're assuming margin improvement in line with your long-run targets. But I think you also should be seeing some carryover benefits and new benefits from some of the cost savings that you've achieved. So my question is, is there something offsetting the cost-savings from an investment perspective that's preventing the margin expansion from being above the range you normally would expect going forward?

Ricardo Cardenas*Chief Financial Officer and Senior Vice President*

Yes, David. There's a couple of thing. I would say, one, we have the second half of the real estate that we have to wrap on. So real estate primarily offsets the \$30 million of cost saves that we talked about for next year. And if we get cost savings greater than that, we're going to continue to reinvest in our business to drive sales growth. So while we're still in our long-term framework, again, the real estate transaction and the rents, et cetera, are offsetting our cost saves.

David E. Tarantino*Robert W. Baird & Co. Incorporated, Research Division*

Great. That's helpful. And then one more clarification on the guidance. On the comps outlook, are you -- what's the -- can you give us a sense of what the breakdown in the comps might look like from a check and traffic standpoint? Or at least what you're assuming at this stage?

Ricardo Cardenas*Chief Financial Officer and Senior Vice President*

Yes. What we're assuming, David is, we're going to be at the low end of our 1% to 2% pricing in next year. And so we do assume some traffic growth in our guidance.

Operator

Our next question is coming from John Glass of Morgan Stanley.

John S. Glass*Morgan Stanley, Research Division*

I wanted to go back to the 1% to 2% outlook for next year as well. It is a little lower than your 1% to 3%. One, what is your assumption on the industry? Is this is just an industry-generated slower? So maybe you could be more explicit about that. And I think you've been a little more restrained around pricing. Do you think price value is becoming a bigger issue in the industry and that's why you're being more restrained on that as well?

Eugene I. Lee*Chief Executive Officer, President and Director*

Yes, John, I think it's -- that's a great question. We are -- as Rick said, we're right now at the lower end on a pricing thinking, is that we're going to be in the 1% kind of range, depending on the business. But we definitely think Olive Garden can't be more than 1% in the current environment. We're looking at an industry last year that was down 1 3 [ph] but trending -- I'm sorry, that was the quarter. We're looking at an industry that's down closer to almost 2% or high 1s percent. We're working off that number. And so we're looking at a meaningful outperformance with minimal price as we continue to try to improve the value offerings in our businesses. We to continue to invest. There's a lot of talk about how promotional the environment is right now. But the facts are, the industry is still charging the guest 2-plus percent more than they did last year for the experience. And we believe that '17, with what we know right now, is a year to invest, continue to invest back into the guest experience to continue to grow market share. And if we believe -- if the overall industry was to improve, then I think we think we would improve also. But based on the current trends and what's happened in the last couple of years, we think this is the right way to head into fiscal '17.

John S. Glass*Morgan Stanley, Research Division*

And just a follow-up. On LongHorn, do you think the shift in promotional activity is hurting sales there? I understand you're still outperforming, but the sales are lower and traffic is now negative. Is there -- is that shift in promotion partly to blame for that or not?

Eugene I. Lee*Chief Executive Officer, President and Director*

Well, I think that's only half the question. I think you have to go to the P&L and look at how much more money that we're making. What we're doing right now is, we, through our data and insights, we identified there were certain guests in the LongHorn system that we were losing money on. And it was obvious to us. And Rick's team did an outstanding job, and we backed off trying to attract those guests into the restaurant and saying, "If we can't make money on the guest taking up a table on a Saturday night, we're not going to push to bring them in." So there are few guests that are slipping out that were in our base last year, but they weren't profitable. I'm incredibly impressed with the margin improvement and the progress that we're making with LongHorn. The team's done an outstanding job, and I'm not as concerned about where we are from a traffic standpoint. This model is starting to get back to work the way the model was designed to work many, many years ago. And I'm super excited about the trajectory of this business, especially when I look at where the sales are and the margins.

Operator

Our next question is coming from Jason West of Cr dit Suisse.

Jason West

Cr dit Suisse AG, Research Division

A couple of questions. One, I guess, Gene, you have probably better visibility than we do on the industry trends. And now that we're at the end of June, we had been seeing some slight improvement in May for the industry as you talked about moving away from the Easter shift. Have you seen the industry kind of give that back a bit in June? Is that part of the caution that you're referring to?

Eugene I. Lee

Chief Executive Officer, President and Director

Well, I'm not -- I really don't want to comment on June. I don't -- you guys have access to different benchmarks. At this point, I want to talk about fourth quarter and fiscal '16. And we're not going to talk about what's happening in the industry in June.

Jason West

Cr dit Suisse AG, Research Division

Okay. And then a separate question. On the savings outlook, I think you said \$30 million baked into the guidance. I think the original target for '17 was \$30 million to \$40 million. And maybe there was some hope that, as you're still digging through the business lines, that you'll find the some additional savings. So would you say the \$30 million is conservative? And you're still sort of looking for other opportunities? Or have you kind of tapped out with what you can do there?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, a couple of things, Jason. One, we got a little bit more of the savings in the fourth quarter of this year. So that was \$5 million more than we had originally anticipated. That would -- that gets you to \$30 million to \$35 million. We just made the decision that we're going to invest some of those savings. So if we find over \$30 million, we're going to reinvest in our business. So we're going to continue to look for cost savings where it makes sense, where it doesn't impact the guest experience, and use those cost-savings to continue to improve the value equation at all of our brands, especially at Olive Garden. So \$30 million is where we think we are. I'm not saying it's conservative. I'm saying that's we're going to be net. And if we find more, we'll probably reinvest those.

Operator

Our next question is coming from Jeff Farmer of Wells Fargo.

Jeffrey D. Farmer

Wells Fargo Securities, LLC, Research Division

Just a follow-up on share repurchase and free cash flow. A couple of different questions there. So delivered a second year of almost \$600 million in free cash in '16. And I'm just curious why you were not more aggressive with putting some of that to work in terms of share repurchase.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes. A couple of things, Jeff. One is, we've given you the long-term framework of \$100 million to \$200 of share repurchase. We've have \$500 million of share repurchase that the board has authorized. We have \$315 million left in that. We'll continue to find opportunities and work with our board to understand the best uses of our cash going forward. But the share repurchase we have is within our long-term framework.

Jeffrey D. Farmer

Wells Fargo Securities, LLC, Research Division

Okay. And then just to sort to beat a horse on this one. So FY '17, similar setup. You guys are going to raise your CapEx by about \$100 million, but still about \$0.5 billion in free cash. So it's still -- it seems like a similar nice problem to have. You're just throwing off a ton of free cash. So again, I would be curious about the repurchase. But then also, you just alluded to this, the best uses. What else is out there? What are you guys considering other than potentially modestly accelerating unit growth, remodels, returning cash to shareholders through the form of repo. What else is the board thinking about?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes, this is Gene. We're constantly in constant communication with our board about what's the best thing for us to do as we move forward. We're looking -- we'll continue to look at all the alternatives available to us with our excess cash, our capital structure. And we'll continue to make the prudent decisions to invest in the business long term. And we'll evaluate what the opportunities are every quarter. We just finished our year-end board meeting, and we'll get back together in September. And we'll evaluate the opportunities that are available to us at that time. You alluded to this as a -- this is a good opportunity for us. And we'll continue to evaluate and make the right decisions. But at this point in time, we have no further comments.

Jeffrey D. Farmer

Wells Fargo Securities, LLC, Research Division

Okay, just one other technical questions. So certain shareholders exiting the company over the last several months. And I was just curious if that, in any way, tied your hand from a regulatory standpoint in terms of being more aggressive with share repurchase.

Eugene I. Lee

Chief Executive Officer, President and Director

No.

Operator

Our next question is coming from Chris O'Cull of KeyBanc.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Gene, many restaurants are talking about retooling or changing their value platforms or message because they believe their -- that their message is stale. But do you feel Olive Garden needs altering or enhance its everyday value platform at all?

Eugene I. Lee

Chief Executive Officer, President and Director

Well, I think what we need to focus in on Olive Garden, without talking too much directly to our competitors right now, is continuing to expand the offerings between \$10 and \$15. We've got the \$9.99 platform, which really anchors ourselves at dinner. We have the \$6.99 at lunch, but we're looking for different ways to deliver value somewhere in that \$10 to \$15 range to give the consumer just a few more options. And we think we have the innovation to do that, and so we'll continue to focus on that. But back to a statement I made earlier. I'm just -- we're just as focused on other components of value than we are just on price. And Dave and the team are really working on other ways to provide value for the guests. So let me give you an example of that. The one thing about an Olive Garden where we see the value perceptions go down is how long the people have to wait to come into our restaurant. So what can we do while they're on a wait to improve that process? If we're starting to play with and test a few things. And if we do it correctly, we actually improve the overall value experience without changing anything else on the menu or pricing. And so we've got to continue to focus on the other components of value, where we talk about other components in the numerator and just not focus on what's on the denominator or the value equation. And so we do need to work at certain price points, but we do need to execute some of those other variables.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Okay, fair enough. And then, Rick, you mentioned commodity inflation after the first quarter. Is that based on known contract prices or just your anticipation the commodities will start inflate again?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes. So Chris, we've got about 60% of our coverage for the first half of the year. So we're keeping open in some places. But it's -- we're just making the forecast that commodities are going to increase in the back half of the year.

Eugene I. Lee

Chief Executive Officer, President and Director

Inflation [indiscernible]

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, on inflation [indiscernible] commodities, right. So it depends on when you buy as well. So we've got just slight commodity inflation in the back of the year.

Christopher Thomas O'Cull

KeyBanc Capital Markets Inc., Research Division

Is beef a part of that contract you already have for the...

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Beef? Is beef part of the contract? Yes, we've got -- we're pretty open in the back half of the year on beef. So we've got, as I said, 60% of our total commodities covered in the first half, but 45% of that is beef.

Operator

Our next question is coming from Jeff Bernstein of Barclays.

Jeffrey Andrew Bernstein

Barclays PLC, Research Division

Great. Just 2 questions: One, following up on the balance sheet discussion before and specifically, around maybe leverage. It does seem like the industry is ramping up often with the help, I guess, from franchising or should I say, refranchising, which is contrary to Darden, which has been paying down, I

think you mentioned, \$1 billion this year. But post the real estate spin and you've got the upgrade to the investment grade. So I'm just wondering, maybe you can give an outlook on both fronts, both debt, maybe your target debt levels and the potential for any refranchising. I think in the past, you'd mention maybe LongHorn opportunity. But just wondering how you think about that leverage opportunity relative to the conservative level today.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Sure, Jeff. As we've said before, our first priority is to maintain our investment-grade profile and we just -- we're upgraded by all 3 agencies in the fourth quarter. We think that's great news. Our targeted debt coverage is 2x to 2.5x adjusted debt to adjusted EBITDAR. And right now, we're at the very low end of that range. And we continue to say we're going to be within that range. To be within that range and we'll continue to demonstrate sound fiscal policy. We're not going to talk much about franchising going forward but just to 2 to 2.5 is where we expect to be.

Jeffrey Andrew Bernstein

Barclays PLC, Research Division

Got you. And then just the comment you guys made on the, I think on the unit growth. I guess that, that was where you're going to fall short potentially in fiscal '17. I see in the slides you breakout unit growth by brand in terms of expectation. So I'm just wondering if you can offer a little color, again, being below your target level. I mean, it seems like Olive Garden and LongHorn are the 2 brands that are still carrying it in '17. Whereas, the other brands that are all doing quite well, there's very modest growth. So I'm wondering, your outlook for Olive Garden perhaps, in future years, whether that's a number that goes up or whether you would expect some of the other brands to start to ramp things up based on their strong performance.

Eugene I. Lee

Chief Executive Officer, President and Director

Yes. Good question, Jeff. When you turn the development pipeline on -- off, it's pretty difficult to turn it back on. And so we're in the process of turning the development pipeline back on. It's easier and your results come quicker in your casual dining brands, your Olive Garden, your LongHorns. Our specialty brands, it's a longer lead time from a development standpoint. And so we would look for the smaller brands to actually pick up and make up that differential in the gap. We need Yard House to grow at 8% to 10%. We need Seasons to grow at 5% to 8% into the future. We're very pleased with what's going on with Breeze. We need them to -- we're making some commitments there. I would just say, this is just the function of the lead time of the specialty brands and the kind of property that we need. We're working diligently. We've got the whole development function working on getting us in, making sure that we're in range in fiscal '18.

Jeffrey Andrew Bernstein

Barclays PLC, Research Division

Understood. And just to clarify the comment earlier about May comps, seeing an improvement. I think you said a big focus on Mother's Day and otherwise. Was there any shift from a Memorial Day perspective? I know, you had said earlier in the call that maybe there was some few different shifts, and in the end, that hurt you guys. So I was wondering Memorial Day specifically in May might have helped.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes. Memorial Day, for the fiscal and the calendar really kind of offset each other. So Memorial Day wasn't really that big of an impact for us.

Operator

Our next question is coming from Karen Holthouse of Goldman Sachs.

Karen Holthouse*Goldman Sachs Group Inc., Research Division*

So another question on the labor line. If you look at -- it seems like your labor -- or your wage inflation outlook has ticked up a little bit from how you were talking about that, taking then price down a little bit. Cost cuts are slowing. Would the expectation be that you can still leverage the labor line on an overall basis? Or is it something where we might actually see a little bit of deleverage this year?

Eugene I. Lee*Chief Executive Officer, President and Director*

Yes, Karen. I think that we're going to -- probably not going to see a whole lot of leverage there unless we get outside our sales range. I think that we'll continue to search for our productivity enhancements in the back of the house through our processes and procedures. And we'll continue to manage wage rates effectively. We're also going to continue to evaluate, how do we improve our overall employment proposition so that we have other ways to attract employees, not just through paying them more in a salary. So overall, I think we're looking at this right now to try to hold labor flat throughout the year.

Operator

Our next question is coming from Andy Barish of Jefferies.

Andrew M. Barish*Jefferies LLC, Research Division*

Just 2 quick ones on any daypart commentary or differences, particularly in the Olive Garden business. And then also on Olive Garden, where you stand for fiscal '17 remodels, both as you look at the bars as well as the full remodels?

Eugene I. Lee*Chief Executive Officer, President and Director*

Yes, we're seeing no difference in dayparts, Andy. There's a -- in Olive Garden, there's a little bit of fluctuation depending on what we're doing and what we did the year before. But overall, we look at -- when you really look at it on a trailing trend, there's not a lot of noise there. As far as remodels, we're going to do 62 full remodels in '17, and we've got 155 planned bar refreshes. And to just remind everybody, that's when we go in and we take these bars that don't have very comfortable seating and we put in very comfortable seating. We add TVs. And basically, we turn these bar areas that aren't very productive today into productive dining seats and we're seeing a very small lift. It's a \$20,000 to \$25,000 investment and it's more than paying for itself. And it's just -- when we go in and do the full remodel and the bar is done, that just means the bar is done and we don't have to touch it.

Operator

Our next question is coming from Sara Senatore of Bernstein.

Sara H. Senatore*Sanford C. Bernstein & Co., LLC., Research Division*

Just a couple of follow-up questions, the first on LongHorn. I think you had been saying now for a couple of quarters that it's a very deliberate decision to try to look at the -- who's profitable in your customer base. But that I think in part, you had thought that as you may be -- as some of those less-profitable customers leave, it makes room for more profitable customers, the higher-margin customers who are not turned away by the lines or the -- at-capacity restaurants. But I guess given the traffic is negative, is it going to take a while for that to happen? Because it seems like the less-profitable customers are leaving but you're not getting -- you're not bringing in some of these more-profitable customers that I've thought you had in mind would sort of fill the gap. So I guess, I'm just trying to understand the dynamic over the next couple of quarters, when that might happen. So that's a long, long question. And then, I do have another follow-up on Olive Garden, please.

Eugene I. Lee*Chief Executive Officer, President and Director*

Okay. When we think about LongHorn, first -- let's start -- we're still, from a guest count basis, still 200 basis points above the industry. So we're still taking market share from a guest comp standpoint. And I think that's, in itself, very impressive when you look at the rest of the competitive set. We're continuing to make improvements that are going to take quality improvements, that are going to take time to show through to the guest. We've done some things when the price of beef was increasing, that I think hurt the business. But just by changing and we're going back to them tomorrow, doesn't mean a guest is going to come the next day. It's going to take time for our guests to come through and experience -- have a different experience and grow the business. And so when I look at this business -- and this is the one that I'm personally the most familiar with. This is a business that has been underperforming from a profitability standpoint and has been run a little differently over the years than, I think, it should've been run, and now we're running it back. This has never been a great -- a business that needed a lot of -- high guest counts to achieve its profitability. These are small boxes that are designed to put out a strong, profitable return, and then when that business -- building gets full, you build another building 4 miles down the road. And you look at the -- you look at how this business is really set up in Atlanta, where we have 45 restaurants, there's no one -- in dining, casual dining that comes close to having the kind of penetration we have with the strategy that we put in place there. And so we are back to building smaller restaurants and focused on ensuring that we're getting the right profitability from those units. We are going to make strategic choices to improve the overall quality of the expense. It's going to take time for those things to get into the consumer, for the consumer to see those and then start improving their frequency. We're reaching other guests that we weren't reaching because of our advertising and how we're talking about the brand. And so I'm really confident, directionally with where we're going and this business is contributing now at a much more -- at a level that's, I think, appropriate, where it has under contributed. Even though it was growing sales all these quarters, it wasn't making any money.

Sara H. Senatore*Sanford C. Bernstein & Co., LLC., Research Division*

And then just on Olive Garden, you had mentioned meaningful operations improvements you can still capture. Can you talk about what that looks like? And is that more about top line or efficiency around the cost line? Just as I think about all that you've done so far, there's been a lot of -- a tremendous amount of change it feels like at Olive Garden. So I'm just trying to understand maybe what's left in terms of a driver of the business going forward.

Eugene I. Lee*Chief Executive Officer, President and Director*

Yes, when I think about meeting -- if I think about it in a few -- on a few different dimensions. But first, I think that we still break down too many times in Olive Garden, where the -- where somewhere in the service experience, we have a deficiency, whether it's the timing wasn't right, the server didn't get to the table at the right time, the food didn't come out right. When you're talking about the number of guests that we serve, improving that by 1% or 2% has a significant impact on improving our same-restaurant sales. And so we think about just consistently delivering a better experience, I think the #1 opportunity for us. We still got room to improve on production and menu simplification. Some of the recipes they -- are still complex, and Dave and the team are thinking about it every day. How do I make that less complex to be able to deliver that to the consumer? There's labor productivity opportunities. We still -- in a system the size of Olive Garden, we can see in our own data, we have opportunities for certain restaurants to improve productivity. Sometimes -- and what the team has done a really good job was, they just haven't gone to the lower-volume restaurants. Some of the time, the opportunity that -- the most opportunity we have is in our higher-volume restaurants. And so they're developing ways to analyze and really discern, where are my real opportunities to improve productivity? There's some controllable costs and management of controllable costs that still -- we have people that don't perform at the same level of others, so there's executional opportunity there. And then lastly, we still think we can execute To Go better. And we think it's that -- that's a huge opportunity for us. As well as we're doing, we believe there's an opportunity to improve that even further.

Operator

Our next question is coming from Andrew Strelzik of BMO Capital Markets.

Andrew Strelzik

BMO Capital Markets Equity Research

Just a bigger picture question on To Go and delivery. We're hearing a lot of -- a number of concepts across industry talk about focusing on delivery and To Go and putting up very nice growth rates, like yourselves. So I'm wondering over the next couple of years, how you're thinking that this plays out. I mean, is this a kind of a rising-tide, lifts-all-boats type of equation, where we're giving guests something that they be looking for? And so broadly, this was going to work. Or is there something specific to Darden? And where do you think those eating occasions are coming from? Is it all coming from eating at home? Or how do you think this plays out over time?

Eugene I. Lee

Chief Executive Officer, President and Director

Yes. Good question. I do think there's an opportunity for everybody in the industry to capture this. Where we believe that Olive Garden is better situated is the kind of food that we serve. And so if you're a bar and grill, it's not like you can put 20 hamburgers in a container and send the rolls home and have them put everything together and still have a quality product. But we can send home pans of lasagna, pans of chicken parmesan. I think that style of food that we serve really lends itself to this trend that's taking place. And so I think we're -- Olive Garden, we're better situated. We're seeing To Go sales increase in LongHorn. But we don't believe -- we need to go with what the consumer wants here. But we don't believe we have a platform to really -- in LongHorn, with the style of food, to be able to push that to 20% of our overall business, where we think that it's something Olive Garden has a real capability. Third-party delivery is something that's going to need to evolve. It's going to effect the overall industry, and there are a lot of big names out there trying to figure out how they're going to -- how they're going to come up with a solution to solve this problem. And I would say, that's a stay-tuned. Because there's just a lot of activity there with the big one. But there's a lot of dollars for our company, and I won't mention any names, if they can come up with a solution to -- for us and for our casual dining and all of dining, there's some money to be made there.

Operator

Our next question is coming from Steve Anderson of Maxim Group.

Stephen Anderson

Maxim Group LLC, Research Division

Yes, so in your -- embedded in your guidance, what number are looking at for interest expense for the full year?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

For interest expense for the year? So we've got another reduction -- well, we're interested in about \$45 million, I think, for the year, which means it's \$26 million less next year than it was this year.

Operator

Our next question is coming from Joshua Long of Piper Jaffray.

Joshua C. Long

Piper Jaffray Companies, Research Division

My question was on the technology update and just really, the technology opportunity. You mentioned that Ziosk has already been a sales driver for you. So I was curious just in kind of what capacity or what inning you think you are in terms of being able to turn on those features? You haven't rolled that to the restaurants, so I'm sure you're still going through and learning how to use it. And not only from a guest

perspective, but maybe there might be an opportunity for it to help with labor management or things in the back of the house where the guest doesn't see. So just curious on where you are with that update. And kind of what the opportunities might be to layer on additional features going forward in '17 and beyond?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Sure. So we haven't wrapped yet on our implementation of Ziosk. So we still have a little bit to go and a lot more training to do to teach the servers and the teams how to use that the most effectively to improve the service experience for the guests. As we've said, the benefit of that device isn't -- we're not expecting to take labor out of the systems because of the device. We expect to continue to increase sales. We get a lot of data from our guests, many more of them are filling up the surveys, so we learn a lot more. And it actually improves the biggest pain point that a guest has, is paying at the table. So we believe that we're still early stages of getting all of the benefits from the Ziosk device that we can get as we build on other things from that device. Again, nothing in the back of the house that would be saved from that. We're thinking about looking at loyalty and how do we use loyalty with Ziosk. But we're still in the very early stages of that as well. But we're learning some things that we can use, to use that for training and other things. So still a long way to go there, but we feel really good about where we are.

Joshua C. Long

Piper Jaffray Companies, Research Division

That's helpful. How much of the system has Ziosk or maybe at Olive Garden has Ziosk right now? And if -- kind of what's the expected rollout for '17?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

At Olive Garden, 100% of the system has Ziosk. We're looking at it to see if it makes sense in other brands. But right now, Olive Garden is the brand that we're focusing most on for the Ziosk.

Operator

Our next question is coming from Jake Bartlett of SunTrust.

Jake Rowland Bartlett

SunTrust Robinson Humphrey, Inc., Research Division

The question just is on delivery. I think in the last quarter, you talked about how much it contributed to comp. So I'm wondering how much it contributed in the fourth quarter as well as maybe what we should expect in 2017?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Yes, Jake, delivery was not a very big part of our overall To Go. So we just actually launched -- rolled out catering delivery just about a week ago and seeing some pretty good results there. But again, the delivery part of our -- I'm sorry, the online catering. I'm sorry. Online catering. Seeing some good results there but delivery isn't a tremendous part of our To Go business. It's still growing.

Jake Rowland Bartlett

SunTrust Robinson Humphrey, Inc., Research Division

Got it. Actually, I meant catering.

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Catering. Okay, yes, that's what I thought. Catering is about 25% of our overall To Go, and not all of that is delivery. So when we talk about catering, it also means people can come in and get a big order and take it with them.

Jake Rowland Bartlett

SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then in 2017, I mean, is there any reason we shouldn't expect To Go to continue to grow at this rate and kind of have the similar contribution to comps?

Ricardo Cardenas

Chief Financial Officer and Senior Vice President

Well, I can say that we launched To Go online 2 years ago in July and we saw 20% increases in the first year and 20% increases in the second year. I can't tell you that we'll see 20% increases into the third year. However, we continue to improve our To Go experience, and convenience is a big driver of our To Go experience. We'll say on the catering said, the deliveries that we're doing, we're getting almost 100% of the people saying that they're going to reorder. They're going to do this again. So as that becomes bigger and bigger, it'll become a bigger and bigger part of our pie. So we would continue to expect delivery and catering and To Go to grow for us. And I think we've said in the past that we expect To Go to be, in the long run, 20% of our business.

Operator

I see no further questions at this time. I will now turn the call back over to Mr. Kevin Kalicak.

Kevin Kalicak

Thank you, Maddie. That concludes our call. I'd like to remind everyone that we expect to release our fiscal 2016 fourth quarter results on Tuesday, October 4, before the market opens -- excuse me, that's first quarter of fiscal 2017 results, with a conference call to follow. Thank you for participating in today's call.

Operator

That concludes today's conference. Thank you for your participation. You may disconnect at this time.

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