27-Jun-2017

Darden Restaurants, Inc. (DRI)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Darden fiscal 2017 fourth quarter earnings call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] This conference is being recorded. If you have any objections, please disconnect at this time.

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

Kevin Kalicak

Senior Director, Corporate Analysis & Investor Relations, Darden Restaurants, Inc.

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

As a reminder, comments made during this call will include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. Those risks are described in the company's press release, which was distributed this morning and in 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 include certain non-GAAP measurements, and reconciliations of those measurements are included in the presentation.

We plan to release fiscal 2018 first quarter earnings on September 26 before the market opens, followed by a conference call. This morning, Gene will share some brief remarks about our quarterly performance and business highlights, Rick will provide more detail on our financial results from both the fourth quarter and the full year before providing our outlook for fiscal 2018. And Gene will have some closing remarks before we open the call for your questions.

During today's call, references to Darden's same-restaurant sales for the fourth quarter and fiscal 2017 do not include Cheddar's Scratch Kitchen. Now, I'll turn the call over to Gene.

Eugene I. Lee

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

Thanks, Kevin, and good morning, everyone. We had another strong quarter. Total sales from continuing operations were $1.93 billion, an increase of 8.1%. Same-restaurant sales grew 3.3%, outperforming the industry benchmarks, excluding Darden, by 480 basis points. Adjusted operating income grew 10% and adjusted diluted net earnings per share were $1.18, an increase of 7.3% from last year's adjusted diluted net earnings per share.

The momentum we're experienced as a result of our back to basics operating philosophy. Our focus on food, service and atmosphere drives our simplification efforts. These efforts continue to enable us to improve execution in our restaurants and strengthen team member engagement, as evidenced by our industry leading retention rates.

The fact that our guest satisfaction scores are at all-time highs, while we are growing guest count, is a clear indication that we're improving operationally. Olive Garden's momentum continued during the quarter. Same-restaurant sales grew 4.4%, outperforming the industry benchmarks, excluding Darden, by 590 basis points. This was Olive Garden's 11th consecutive quarter of same-restaurant sales growth, driven by our focus on flawless execution, which led to all-time high guest satisfaction scores, compelling promotional offers like our giant stuffed pastas that resonated with our guests and our strong ToGo performance, which grew 16%.

The numerous investments the Olive Garden team has made over time, such as our remodels and bar refreshes, new kitchen equipment and the technology platform behind Olive Garden ToGo continues to pay off. The team is making meaningful strategic decisions for both our guests and our team members win. LongHorn Steakhouse's same-restaurant sales grew 3.5%, the 17th consecutive quarter of growth, outperforming the industry benchmarks, excluding Darden, by 500 basis points.

We are seeing the brand's long-term strategy to begin to pay-off. The team continues to focus on improving the quality of the guest experience by investing in food quality and service execution, simplifying operations and leveraging our unique culture to increase team member engagement. These efforts drove increased guest count of 2.1% during the quarter and our guest feedback has never been better.

Turning to Cheddar's. We closed the acquisition on April 24, and same-restaurant sales were up 1.3% for the five weeks that we own the brand. I continue to be impressed with Ian Baines and his team. They're focused on the right things to drive the business. We are well underway integrating Cheddar's into the Darden platform so they can benefit from our competitive advantages, while ensuring the restaurant teams maintain their high levels of in-restaurant execution.

Although it's a complicated process, everything is progressing as planned. The integration includes bringing Cheddar's onto our proprietary POS system, which is the backbone of our platform, and that will take approximately a year to complete.

Once this foundational element is finished, we'll be able to introduce our productivity tools, which we expect to help further improve performance. Cheddar's is an exciting addition to our portfolio, which we will believe will add significant value to Darden over the long-term.

Now I'll turn it over to Rick.

Ricardo Cardenas

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

Thanks, Gene, and good morning, everyone. As Gene mentioned, total sales for the fourth quarter increased 1.8%. This included $63 million in sales from five weeks of Cheddar's operations. Fourth quarter reported diluted net earnings per share from continuing operations were $0.99 and were negatively impacted by $0.19 related to a non-cash accounting charge of $0.10 from the early settlement of a portion of our pension plan commitments and $0.09 of Cheddar's transaction and integration expenses.

After adjusting for these items, earnings per share growth was 7.3% to $1.18, driven by strong same-restaurant sales growth of 3.3% and an additional $0.01 contribution from Cheddar's operating results. We also paid out over $70 million in dividends and repurchased approximately $15 million in stock this quarter.

Looking at the P&L. Food and beverage was favorable 10 basis points with commodities inflation essentially flat this quarter. Restaurant labor was unfavorable 10 basis points as continued wage pressures slightly offset productivity gains.

Restaurant expense was unfavorable 20 basis points due to incremental pre-opening expense related to seven more new restaurants opened in the fourth quarter of fiscal 2017 versus the fourth quarter of fiscal 2016.

Sales leverage, primarily at Olive Garden, resulted in marketing expense being favorable to last year by 20 basis points and G&A was unfavorable 10 basis points to last year due to greater incentive compensation expense as a result of our strong fourth quarter performance.

This all resulted in EBIT margin expansion of 10 basis points above last year and adjusted absolute EBIT dollar growth of 9.9%. Our 23.3% effective tax rate in the quarter was 270 basis points higher than last year's rate, which was aided by one-time tax benefits. This difference in effective rate along with incremental interest from our new debt issuance resulted in adjusted EAT growth of 5.8%.

Turning to our operating segments. Olive Garden, LongHorn and Fine Dining, all posted segment profit margin expansion versus last year. While segment profit margin for the other business was 150 basis points below last year due to incremental pre-opening costs for three more openings in last year, temporary closures at Seasons 52 and Yard House and the addition of Cheddar's to the segment altering the segment profit margin mix.

Fiscal 2017 marked another great year of progress as our brand continued leveraging the power of Darden's competitive advantages. Total sales grew 3.4% to approximately $7.2 billion. Same-restaurant sales growth of 1.8% exceeded the industry by over 400 basis points.

All segments posted positive segment profit margin growth after adjusting for the impact of increased rent from the real estate transaction. Adjusted diluted net earnings per share grew 14%, and we returned over $0.5 billion to shareholders in the form of approximately $280 million in dividends and $230 million in share repurchases at an average price of approximately $63 per share.

Our average diluted share count for the year was 126 million, and we ended the year with approximately 126.9 million diluted shares outstanding. In addition to meaningful sales and earnings growth at our legacy brands, we've further increased our scale with the Cheddar's acquisition.

Cheddar's has broad guest appeal and is ranked number one in value and casual dining. In addition to being number one in value, Cheddar's also ranks first in both food and beverage and atmosphere ratings, leading to the highest intent to return and intent to recommend ratings in casual dining.

Cheddar's is a strong performer with same-restaurant sales for full 2017 Darden's fiscal calendar of positive 0.3%, outperforming the industry by over 300 basis points. Restaurant sales volumes averaged $4.5 million and the average of the top and bottom quartile, each are within plus or minus 25% of this $4.5 million.

Average restaurant level EBITDA of 17% is compelling and essentially all restaurants have positive cash flows. With over $600 million in sales, $70 million in EBITDA and given their current footprint, Cheddar's will make a significant contribution to Darden's growth.

As we further progress with the integration of Cheddar's, we've gained more confidence in our initial synergy estimates. We now expect run rate synergies of $22 million to $27 million to be fully realized by the end of fiscal

2019, up from the $20 million to $25 million we previously indicated. We've included a couple of additional slides at the back of this presentation providing supplemental information regarding Cheddar's.

Turning to fiscal 2018, as we announced last quarter, we will discontinue disclosing our monthly same-restaurant sales results beginning with our next earnings release. This change is due to the significant variability in month-to-month sales results due to weather, promotional calendar and holiday shifts, among other things that generally result throughout the quarter.

For fiscal 2018, we anticipate total sales growth of 11.5% to 13%, driven by same-restaurant sales growth of between 1% and 2%, 35 to 40 new restaurants, including Cheddar's, with roughly one-third opening in the first half of the year and the remaining two-thirds in the back half and the full year impact of Cheddar's sales. We also continue to expect approximately $0.12 of accretion related to Cheddar's. Capital spending between $400 million and $450 million, including Cheddar's, total inflation of approximately 2% comprised of between 0% and 1% commodities inflation and between 3% and 4% of total labor inflation, an annual effective tax rate of roughly 26% and approximately 127 million diluted average shares outstanding for the year, all resulting in adjusted diluted net earnings per share of between $4.38 and $4.50.

This morning, we also announced that our board approved a 12.5% increase to our regular quarterly dividend to $0.63 per share, which results in a dividend yield of 2.9% based on fiscal 2018's beginning share price.

And with that, I'll turn it over to Gene for some closing remarks.

Eugene I. Lee

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

Thanks, Rick. Looking back at fiscal 2017, I'm proud of the progress we made towards achieving our mission, which is to be financially successful through great people, consistently delivering outstanding food, drinks and service and an inviting atmosphere, making every guest loyal.

Our results demonstrate that the execution of our strategy is working. We continue to build guest loyalty and take market share by executing against our back-to-basics operating philosophy, and we continue to strengthen and leverage Darden's four competitive advantages to enable sales growth and expand margins across the portfolio.

Ultimately, it's our more than 175,000 team members who bring out life – bring to life our strategy and fulfill our mission. The teams in our restaurants and our restaurant support center are engaged and focused on the right priorities, and I'm proud of what we've accomplished this past year. And so I want to close by saying thank you to all of them, especially our newest team members from Cheddar's.

We recognize there's more work to be done, but I'm confident that we have the right people in place, and we will continue to win by building loyalty, one restaurant, one shift, one guest at a time.

And with that, we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question is from Matthew DiFrisco of Guggenheim. Sir, your line is open.

Matthew DiFrisco
Analyst, Guggenheim Securities LLC

Q

Thank you. My question is with respect to OG To Go and the delivery business in general for your portfolio. I guess, how do you see the building of it sort of now as we get into or cycling some of the bigger growth rates from the year ago. Does it continue to expand its reach? And is delivery something now that is going to propel the off-premise sales further?

And then I don't know if you gave it, but can you just tell us what percent does Cheddar's do and how much of an opportunity given its strong value proposition would off-premise sales be also or the meal at home occasion similar to what you've executed with Olive Garden? Thank you.

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

A

Good morning, Matt. Well that's a lot of question in there. Let me just answer the Cheddar's. I'm going to go backwards. And Cheddar's is about 4% to 5% takeout. It's something that, again, I think the consumer is demanding and so therefore, we're going to use some of our learnings from Olive Garden and pass that along to that management team and hopefully that will be a driver of that business going into the future.

Let's go to Olive Garden. Takeout remains strong, we've got a three year comp of about 58%. We're about 12.5% total sales. The consumer is still demanding convenience. And if you step back and say okay, where do we make the strategic choices? It was three to four years ago, that's say we were going to bet on the consumer wanting more convenience in their dining experiences and we built a strategy to go after that.

I don't believe that the consumer is going to back off at all. And the consumer is going to continue to demand this from us and we'll continue to meet them – meet that demand. And I foresee growth continuing. We think the upside still is on our catering, our large party delivery. I'm not going to get into specifics about that, but we believe that we've got a product that is differentiated compared to our competitive set. And we think there's some big upside growth there.

Lastly, on the third-party delivery, just as we were last quarter, we were in test with multiple purveyors delivering our product. We're trying to see how this whole thing plays out. But I think that the majority of our focus in Olive Garden is still large party delivery and large party takeout. I think that's where our competitive advantage is.

Operator: Thank you. Next we have Brian Bittner of Oppenheimer.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Rick, first question is for you, just on the EPS guidance for 2018. Are you assuming any of the $22 million to $27 million of synergies close at all into 2018, or are we going to assume that all goes into 2019?

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

Yeah, Brian, thanks. We assume low single-digit millions is going to flow into 2018 and the rest of it will be in 2019.

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

Okay. And then Gene, just on the restaurant traffic, I mean your brands have been outperforming the industry nicely for a while, but the inflection in your own traffic this quarter was really interesting to see in the release. Can you just put a little more color to what you think actually drove that upswing in traffic, both at Olive Garden and LongHorn?

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

Well, I think there's a couple of things. Let's not forget that we had a later Easter this year, so we did have a calendar benefit in the quarter, difficult for us to quantify, because this was – this isn't like holiday moving from one week to the other. So we did have some benefit with the calendar. But I believe the real driver of this is the strategic choices that we continue to make.

We continue to under-price inflation, which results in under-pricing our competitors. And I believe that we're now three years into improving our operations every single day. Don't underestimate how simplifying our business has helped us improve execution.

When we look at both Olive Garden and LongHorn, where they were three years ago operationally to where we are today, these businesses are much simpler on a trajectory to continue to get even more simpler. And we believe that's the key to our guest count growth is better execution through simplicity.

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

All right. Thanks, guys.

Operator: Thank you. Next we have Sara Senatore of Bernstein. Ma'am your line is open.

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

Hi. Thank you very much. Just a couple of questions about the top line, please. The first is just on the comp guidance 1% to 2%. When you look at what you did this year, above that and kind of the momentum you are bringing into the start of the year, I was just curious if that's I mean – if using that guidance is – reflects just kind of long-term view? What the portfolio should comp or if there's something else to it in terms of your outlook?

And then I guess the second question on this top line. When I look at your core brands, as I think of them Olive Garden and LongHorn, they certainly seem to be outperforming the rest of the portfolio, and so including Cheddar's, although admittedly that might have had an impact from the transition. But I guess I was just curious, do you still see or can you still articulate kind of the rationale for portfolio? And do you think that when you look at Cheddar's, is there an opportunity to accelerate that top-line? Maybe a little more detail than what you're able to give us last quarter? Thanks.

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

A

All right. So let me start with the first question. I think when we think about our comp guidance and we're forecasting into the future and pretty far out in the future at this point in time when we're giving you yearly number and there're just lot of unknowns. Our plan is to under-price inflation again with a goal of increasing market share. So we're going to rely less on check average to get same-restaurant sales growth. And so we look that far out, we're thinking that 1% to 2% is a good place to start.

It has nothing to do with how we feel about our current trends. We're just trying to forecast out for 12-months. So we feel that's a prudent guidance at this point in time, with everything that we know. And as we get closer towards the end of the year, as we have in the past, we'll continue to update that guidance.

As far as the portfolio and the rest of our brands, a couple of comments. Later Easter hurts Fine Dining and so capital growth was impacted by that. When I look at – I look at the rest of our brands, the returns on invested capital, the profit margins in those brands are really strong.

If we try to measure every brand up against Olive Garden, from a return standpoint, that's just not possible. I mean, Olive Garden is a once-in-a-lifetime restaurant brand. Look at our performance throughout the quarter, Yard House with 8.3 or $8.3 million average unit volumes. Same-restaurant sales are going to always going to be hard to get as we continue to add new units and build that out. It's an incredible brand. We want to own that.

Bahama Breeze has had seven years of same-restaurant sales growth. 1.4% in the quarter. Bahama Breeze was hurt significantly as some other competitors were with the weather in the northeast and losing – we lose a lot of our debt capacity which in some of our restaurants in northeast is 30% capacity. And so I also think when we look at – how we think about this, and we look at our advantages of scale and data and insights, these brands add to that and they're getting incredible leverage off the Darden platform. These are great brands and they provide us a lot of growth and a lot of opportunities.

As far as accelerating Cheddar's growth, I think we'll have to wait and see and understand is what are their human resource capabilities? We'll be able to find sites for them? It's just a matter of when do they have the human resources to be able to ramp up growth? And we need to really spend the next 12 to 18 months focusing on integration. This is our fourth one. We understand the importance of getting the integration correct, and then try to grow once we've done that.

So our focus here in the next 18 months is to get this integration, completed correctly and build human resource capabilities, so we can grow this brand. This is a powerful brand. It's doing 6,300 guests a week. There's no one out there in casual dining doing that kind of volume. This is exciting for us.

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

Q

Thanks. Very helpful.

Operator: Thank you. Next we have Brett Levy of Deutsche Bank. Sir, your line is open.

Brett Levy
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. Can you share a little bit on your views across the casual – across the competitive landscape between promotional, regional and also what you're seeing on labor? And also what kind of impacts do you think Amazon's move into Whole Foods can have either directly or indirectly on the restaurant industry? Thank you.

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

A

Good morning, Brett. I would say a couple of comments on the industry. I still say there's pockets where there's some real strength, there's some pockets where there is some weakness. We're still seeing an upscale some real weakness in Houston. We're seeing real weakness in New York City, which has had a little bit of an impact on Capital Grille. But overall, I haven't seen a whole lot of change in the competitive landscape. The consumer, in our view is, not as a reactionary to short-term incentives to come in and eat. They're looking for everyday value and that's something that we continue to promote.

If you look at our promotions, they've been actually a little bit higher priced than they have been historically. We're using other ways to get at the value consumer. So I have nothing new to report on the environment. Again, if you look at the indexes, because of the calendar – a little bit because of the calendar swing, you had some more strength in our fourth quarter versus where we were in our third quarter.

Labor, we continue to see some pretty good inflationary pressure. We're thrilled that we're able to think – or actually improve our retention rates right now. Our team members are staying with us. They're engaged, but there is some inflation. There is 3% to 4% wage inflation in our labor number right now. We're able to offset some of that with our productivity enhancements. But labor continues to be something that we're focused on.

And lastly, the question on Amazon, the only way Amazon in our world right now is through Amazon Prime delivery. We have a test going with them. We'll continue to partner with them and see if we can make that work. We constantly sit around here thinking about how does Amazon have an impact on our business.

Our research tells us that guest still want to come to restaurants. Believe it or not, millennials still want to come to restaurants. I know you all don't think millennials go to casual dining restaurants, but 30% of all of our guests are millennials versus 24% of the population. So we over indexed.

Cheddar's really over indexes with millennials as does Olive Garden. People still want to come to restaurants and have that experience, and we just got to provide them the right experience and the right value. And I think that's what we're doing at all our brands today and that's why we continue to win.

Brett Levy
Analyst, Deutsche Bank Securities, Inc.

Q

Just a one follow-up on that, on the indirect side. Do you feel that as we're starting to see the narrowing of the CPI gap, if this leads to a little bit more of a promotional cadence at the grocers and they're not actually going to push price up, do you think that there is any risk to what could happen at the restaurant level margins? Thanks.

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

A

No, I mean, I haven't been a believer in that philosophy from the get-go that the deflation in the grocery stores has impacted the restaurant business. I mean, we just haven't seen that correlation. When we look at the industry data, we have a few grocery people in our ranks now that know a little bit about that business. I'm just not a believer in that thought.

And so I think it's imperative for us to keep our value equation in line with what the consumers' expectation is. And if you look – if you go back and look at Olive Garden's menu today, I mean four years ago, we didn't have $9.99 price point. I think we have a soup, salad and breadsticks. Today, we have all day Cucina Mia at $9.99. We have Lunch Duo starting at $6.99. We have the Early Dinner Duo started at $8.99. If you look at the face of our lunch menu and you don't see a whole lot over $9.99. And I think we got to continue to find ways to take cost out of the business so that we can keep our value equation in line with what the consumer wants.

Operator: Thank you. Next we have David Tarantino of Baird. Sir, your line is open.

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

Q

Hi. Good morning. Just first, a clarification question, Gene, on that last point. Did you mention the level of pricing that you have embedded in your guidance for this year, the one that you present comp guidance?

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

A

Hey, David, it's Rick. What we've said in the past and we'll just reiterate here, as we expect to take pricing in between 1% to 2% a year, we usually try to get on the low end of that range and probably the same thing next year. So...

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

Q

Great, that's helpful.

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

A

...between 1% to 2%, probably the lower end of that?

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

Q

Perfect, that's helpful. And then I guess my question is about Cheddar's and Gene and Rick, you shared some additional metrics and I was just wondering kind of what your thoughts are on your ability to grow the volumes or the average unit volumes at Cheddar's, given how strong the traffic trends already are? Do you have capacity to grow and where do you think those can go over time?

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

A

Well I think that's a very good question, David. And these – Cheddar's is underpenetrated in its markets today. And they've historically been really concerned about cannibalization. We don't believe that's the right thought process. We believe in relative market share as a way to drive overall profitability. So we will continue – as we grow this, we think we're going to backfill markets to gain some efficiencies and so I don't know whether the play here is to see average unit volumes go up or is it really on the total sales play and to improve overall profitability with better relative market share inside the market.

Now with that said, top quartile restaurants are at $7.5 million – so $5.5 million – sorry, $5.5 million. And so as you think about, there is capacity. But I'm not going to be afraid of cannibalization. I mean, for me, it's the same argument. We had 500 Olive Gardens, we were doing – our average unit volumes were higher, but our total sales were a lot less.

And I think about this as total sales for the brand and overall total profitability and I would urge everybody not to focus on what the average unit volumes are. My guess is, as a system, they're going to come down over time because we don't need a new investment to do $4.5 million to get a great return on invested capital.

And so we'll continue to build these things out just as we did with Olive Garden, the volumes had to come down to get to almost $4 billion in sales.

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

Q

Great. That's helpful. Thank you.

Operator: Thank you. Next we have John Glass of Morgan Stanley. Sir, your line is open.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Rick, first, if I could just go to your guidance that you provided for 2018. If you backed out the equation from Cheddar's, its mid-single digit EPS growth number, I understand taxes are going to be higher and there's a few other – and the shares are higher. Is that all there is – I mean, inflation looks benign. Is there going to be more G&A investment required next year? Is there another piece I guess that I'm missing?

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

A

John, you're not missing anything else. One of the things is we are going to be pricing below our inflationary impacts. And so we're doing this for the long run. As Gene mentioned, we're going to deleverage Darden's advantages, leverage Darden's scale, the price below inflation and our competition to grow market share over time.

So next year, yeah, we'll be in the higher single digits without Cheddar's. But I don't you can look at it just without Cheddar's. One of the reasons we bought Cheddar's is to continue to grow. And so, using – taking Cheddar's out of the mix probably isn't the way to look at it. That said, yes, without Cheddar's, we're closer to high single digits.

And share count is a lot higher than you guys would have had in your models for a couple of reasons. One, as you saw, we ended the year with 127 million shares roughly. Even though our average share count for the year was 126 million. And so one of the things that's happening to us next year is the change in stock comp accounting is going to add another 0.5 million shares to our share count will be offset by our share buyback.

So that's why our share count is higher than what your models say. We'll continue to be opportunistic in our share repurchase, but we have between $100 million and $200 million in share repurchase in the plan next year.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks. That's helpful. And then on Cheddar's, you talked about POS integration and that takes a year, is that largely going to be a cost benefit you'll be able to manage their P&Ls better with that information or is that a sales driving tool? I guess, asked another way, what I'm driving at is, what are the tools you can bring to Cheddar's to drive better comps? I know you said it's not an AUV game, but at the same time better comps get better margins and this is a brand that's under-comping your other brands. How do you bridge that if you desire to drive higher comps? How do you do that? Is that a POS item or what are the levers you can...

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

A

The POS is the backbone, John. It really gives us the data and insights that we need to end up driving the business long-term. The productivity tools, labor, food cost management, all those – what I call the productivity tools will be added after we get the POS system, and we have to install the POS system to do that.

Also, ToGo productivity will increase because we'll be able to do online ordering. And so we know from doing these in the past, we've got to get the POS system and then we can plug them into the rest of the Darden productivity tools to help run the business. We look at under-comping our business. That's still beating the industry by 300 basis points. We're still doing 6,400, 6,300 guests a week. There's still a lot for us to learn on what's the right balance between guest counts and price, and what's – we have to really layout what the long-term strategy is to maximize the brand.

I wouldn't be concerned about the comp level at this point. This thing is powerful. We're probably six to nine months away from fully realizing everything we have with this brand and what's the best strategy going forward.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

Operator: Thank you. Next we have Will Slabaugh of Stephens. Sir, your line's open.

Will Slabaugh
Analyst, Stephens, Inc.

Q

Yeah, thanks, guys. I had a question on real estate as it pertains to Cheddar's and then more broadly if you would, it seems that with Cheddar's large AUVs and industry low ticket, the foot traffic has been pretty impressive, which implies you need to be dead on with the site selection. So, as I look at the total store count in your slide deck for Cheddar's, it looks like it's only grown a handful of net stores over the past few years. So, I wonder if you could talk about the company's history there, and how you feel about your ability to continue to find the right site that can put up those types of volumes?

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

A

Yes. Sites aren't a problem, okay. We can find the sites. We could get Cheddar's 30 sites tomorrow, I mean with our systems and what we have. And if you look at the Cheddar's footprint, it reminds me a lot of like a Texas Roadhouse footprint, where they're in second and third tier suburban type areas. I mean, those sites are a lot easier to get than – and trying to get a Yard House site. So sites aren't the problem here.

When you look at their history, they had a rapid growth period where they outran or outgrew the human resources. I keep coming back to this. And we continue to learn this lesson sometimes the hard way and we learned it with seasons, we outgrow our human resources and we pay the price for that.

Before Cheddar's can grow, we need to ensure that they're culturally strong, with a strong bench of general managers who can run these high volume complicated restaurants. And it's going to be a purely when management tells us that they have the human resources to go, we will stock the pipeline and they can open as many restaurants as they have the human resources to do.

I'm committed to not force this management team to get out ahead of itself. I've learned this lesson over the last 20 years, too many times. I'm not going to learn it again. We're going to only open restaurants that we have great management to open these restaurants. And they're – at this point in time, they're still recovering from that fast growth phase. Ian has only been in for a little around two years and he is incredibly focused on building that.

Now can we use some of our resources in our vast pool of restaurants to go over and maybe help them? Yes. But you still have cultural challenges. People have to understand that Cheddar's culture before they can go in and run one of these businesses. We can't just transform from one of our other restaurants to say, hey, go run this 6,500 guest count restaurant that's got a much lower check average and different employment base, and so work to be done here, but sites will not be a problem at all. I mean, right now, I'm holding back our Chief Development Officer to say, we have people. We'll let you know.

Will Slabaugh
Analyst, Stephens, Inc.

Q

Great, that's helpful. And one quick follow-up if I could, have you given the average check most recently for Cheddar's?

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

A

Yeah, Will, it's about [ph] $1,350 (40:13)

Will Slabaugh
Analyst, Stephens, Inc.

Q

Great. Thank you.

Operator: Thank you. Next we have Gregory Francfort of Bank of America. Sir, your line is open.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch

Q

Hey, just maybe one quick housekeeping one. One the 35 to 40 openings, how many of those are going to be Cheddar's this year?

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

A

Yeah, Greg, it's going to be 4 to 5 this coming up year.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch
Q

Got it. Okay. And then just on the margins, on 2% overall inflation, I guess, does that mean that if you comp above 2%, there's margin upside, if you comp below 2%, there's margin downside? I guess my question asked in another way is, are there more cost savings opportunities you guys have to drive additional margin upside from here, and I guess where will those programs to be focused?

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

Yeah, Greg, it's not as simple as they're comping above 2% or below 2% because we do have some cost saves that we have identified, but we're not going to announce how much they are because normally when we talk about cost saves, we say this is going to be the net P&L impact of them. What we're doing now with our cost saves is we're going to continue to invest in pricing below our inflation and pricing below our competition. So that's one of the investments that we're doing with these cost saves. We're also going to invest in quality, enhancing quality like we've done with LongHorn and Olive Garden, continue with these investments to drive market share in the future.

That said, what we have mentioned in our long-term framework in the past is we still expect to be within our long-term framework of EBIT expansion year-over-year. So our long-term framework is 10 basis points to 40 basis points. We expect to be in that even with pricing at the below inflation line.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch
Q

Great. And maybe if I can sneak one last one in. Just on the technology platform changes, or not the changes, but the changes you're putting in the Cheddar's. I guess what are the competitive advantages around the technology you have and I guess how do those show up operationally in the stores?

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

Yeah, Greg, I can tell you about a lot of competitive advantages, but let me start with the backbone, which is our POS. Because we own and operate our own POS and we develop all of those things, we can pull all of the data and keep all of the data and match that to check level information, match that to demographic information, match that to even operational information.

So we're able to find out who the best people to run a shift are based on all of the data that we have. And an ancillary benefit of moving them to our backbone is we don't have to pay for the POS. I mean that's something that we've developed over time and it's – now it's spread across Cheddar's as well.

So I can probably name many when we if any – on a one-on-one call, we can talk about them. We've talked about them before. I'll give you a couple more, labor management. When we put them on our labor management system, it's not just a scheduling tool, it's a management tool. How do you manage labor? How do manage in and out times? How do you manage breaks, et cetera? And those are things that we've built over time that other people try to copy and it's hard to do.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch
Q

Got it. Thank you.

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

A

Sure.

Operator: Thank you. Next we have David Palmer of RBC Capital Markets. Sir, your line is open.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Thank you. First, a follow-up on ToGo. It looks like you're approaching 600,000 per restaurant in ToGo. Are you still thinking you will get to the 1 million or maybe that's changing? And how important do you think delivery is going to be for you to get there?

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

A

We still believe we're going to get to 1 million. We have restaurants already over 1 million and takeout. And we continue to look at our processes and procedures, maybe even dedicated a little bit more space internally to be able to fulfill this demand. On the takeout – on the delivery, we're focused on – right now we're focused on large party delivery. We see the opportunity there versus moving $10 meal here, $10 meal there. We can do large party with an average check of approximately $300. That's where we need to focus and that's where we've decided the opportunity is.

Operator: Thank you. Next we have Peter Saleh of BTIG. Sir, your line is open.

Peter Saleh
Analyst, BTIG LLC

Q

Great, Thanks. Gene, I think you mentioned guest satisfaction scores at Olive Garden were an all-time high. Can we just take a step back and just remind us again, when do we see the trajectory on the guest satisfaction scores start to really improve? And what were you guys doing at the brand at that time?

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

A

Well, I mean when we saw them start to really improve was probably about 18 months ago. They were improving, but it was more of the trajectory and then since we've introduced Ziosk we've seen, that's really been the better way to measure because we're getting real feedback from a lot more guests. The key here, Peter, is simplification. We've made these restaurants easier for our managers to run and easier to execute the food.

We've brought the menus in a little bit and one of the key is as you design menus is to be able to move a lot of products, so you develop reputation, and so you focus the demand in on fewer items, you become better at delivering them and you're much faster. And simplification has been the key. And I've been saying that for three years, we're not done yet. We still think we can make these operations simpler. It's going to take a while because there are ramifications from a profitability standpoint as you simplify. The smaller the menu the less stuff you sell. But we have to try to figure that out, but I'm confident that it's the simplification of the operation that's driving guest satisfaction.

Peter Saleh
Analyst, BTIG LLC

Q

Great. And then just as a follow-up. The Cheddar's brand, does that also have the Ziosk or is that something you guys are considering? Or is that are we too early in this conversation?

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

A

It's too early in this conversation. I think that it's something that we could consider down the road, but there's no way from a technology standpoint that we could support that implementation right now. And as Rick talked about, a lot of the things that we're doing to bring Cheddar's up to speed and get on our platform means that there's other work to support our other businesses they aren't getting done this year. They're getting pushed back a little bit. And so right now, it's just a matter of technological resources. Do I think Ziosk could be a good option for Cheddar's down the road? Yes. But it's not in the immediate future. We don't have the capabilities to do that.

Peter Saleh
Analyst, BTIG LLC

Q

Great. Thank you very much.

Operator: Thank you. Next we have Jeffrey Bernstein of Barclays. Your line is open.

Jeffrey Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Two questions, the first one is just a follow-up perhaps for Rick on the fiscal 2018 guidance. I think previously, you had said prior to Cheddar's, I think you thought the total shareholder return would – that will be reasonable that you would have been within that 10% to 15% range. Now it looks like, we're talking about maybe 12% to 15% total shareholder return with Cheddar's. I'm just wondering, if there was anything that might have changed in recent months or whether it's just conservatism that now we're not kind of at or above the high-end with that $0.12 accretion and then one follow-up.

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

A

Yeah, Jeff, thanks for the question. Let's start with what we said our long-term guidance is. Our long-term framework is 10% to 15% total shareholder return. We did say that's over the long run and there will be years, it will be above that and below that. That said, the biggest reason that our TSR, the way we're talking about it, the implied TSR is at 11.9% to 15%, which is what our guidance would imply, is because our share count is diluting because of stock comp and other things.

If you go and you look at kind of our guidance in the way we've implied our sales growth and our margin expansion, you can back into an EAT growth that is above our long-term framework. And so remember, EAT growth is part of that TSR and EAT growth is above our long-term framework, if you do the math, you can figure that out. The only reason that we have TSR kind of at the lower end or within our framework is because the share count dilution that we have for one year.

One more point on share count, every year, our share count is declined year-over-year at the end of the year. The only reason it's changing next year is because we bought most of our shares early this year. We're assuming that we're going to buy them evenly throughout next year and because of the change in accounting rules for stock comp, that automatically adds close to 0.5 million shares at the beginning of the year which will be there for the whole year.

Jeffrey Bernstein
Analyst, Barclays Capital, Inc.
Q

Understood and appreciate that.

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

Sure.

Jeffrey Bernstein
Analyst, Barclays Capital, Inc.
Q

Second point was just – question maybe more for Gene. Just looking back to the last quarter or two, you had mentioned when you think about the industry that you would characterize the consumer as stable. I was wondering – I think you said you really don't see much change in the promotional activity, I'm assuming that means you still think the consumer is stable.

But the widening gap versus the industry, I mean, I'm wondering I think you've given some color as to how you think that's happening, but maybe if you could just talk about the buckets of the industry. I get the feeling bar and grill is sitting in the bottom quartile and you guys seemed to be sitting at the top quartile. But just wondering what you think perhaps their biggest issue is that you guys are avoiding. Did you see that the widening gap, but just can only imagine the width of the gap if you guys are as high as you are?

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

Yeah. Jeff, the only thing I'll say, I'm not going to comment on what I think our competitors are doing. I would say that we have some large competitors out there that are donating significant share. And we're stealing – I would say, we're stealing that share. Because I think that we've got more a compelling offer.

Olive Garden is really after that value consumer, LongHorn is pivoted. I think appropriately and put a lot of the quality back into the product and that seems to be resonating with their guests. And so I know it's not fancy or sexy, but it really comes down to just pure execution. And those who continue to execute at the highest level, continue to win and you've got to have a promise that consumer wants.

And I think that's what we're focused and we've delivered against that. And I go back to – I think our team members are more engaged than ever. I think our value is stronger than ever, and I think that our guest experiences continue to improve and all our research tells us that.

And so we just need to stay on our plan, which is to under price inflation, take cost out of the business to cover that. And win market share each and every year. And I think that's the plan we started off on three years ago and we've executed against that.

Jeffrey Bernstein
Analyst, Barclays Capital, Inc.
Q

Great. Thank you.

Operator: Thank you. Next we have David Palmer of RBC Capital Markets. Sir, your line is open.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Great. Thank you for the follow-up. Just building on Jeff's question a little bit about the grill and bar killer that could be Cheddar's. I mean I'm wondering how you're thinking about things from a trade area perspective, and I'm wondering if you're sort of pivoting a little bit in terms of where you're growing, the specialty brands were lighter than your other brands in terms of comps particularly Olive Garden, which [ph] has that to go (52:30), the retail go dark risk seems to be intensifying and mall traffic trends are already pretty bad. Cheddar's might be a way for you to grow away from those trade areas, and then maybe benefit from some of the struggles that are going on in grill and bar. Is that a little bit of a pivot as to how you're going to grow going forward particularly as the Amazon risk is upon us?

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

A

Well, I mean I think you've highlighted some strengths of the Cheddar's brand where it's not a brand that we put – historically they put in a Tier 1 trade area sit in front of a mall. These have always been a little bit off [ph] main in main (53:13) more in a second or third tier trade area in a city or town. They've been very good on what they're willing to pay for real estate.

And so I do think that this brand does skew to a lower demographic, and therefore, you're not going to really find a lot of Cheddar's and LongHorn's in the same trade area. You might – they might overlap with an Olive Garden, but we've got a different target with Cheddar's. And I think this gives us the opportunity to take advantage of real estate that some of our other brands can't utilize today.

When you look at a real estate site, you're not deciding between Cheddar's and Yard House. Those are two different – those are two totally different sites. And so I think you're right on, we can continue to use this brand differently than we've used our other brands.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Thank you.

Operator: Thank you. Next we have Andy Barish of Jefferies. Sir, your line's open.

Andrew Marc Barish
Analyst, Jefferies LLC

Q

Good morning, guys. A couple of quick margin questions, just on the labor line overall, do you still have enough productivity improvements to be able to offset that 3% to 4% inflation? And then just in terms of folding in Cheddar's for this year, are there any particular line items that differ from Darden previous Cheddar's that you would call out with the low check maybe impacting food costs or the significant amount of prep activity, fresh prep impacting labor cost, just anything we should think about from a margin perspective at Cheddar's?

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

A

Andy, first question about labor and do we have enough cost saves or enough productivity enhancements? We still believe we have productivity enhancements to help keep our labor reasonably flat year-over-year as even with the pricing a little bit below inflation, but it's still pricing. It will help us cover some of that labor.

In regards to Cheddar's and their margin, I don't want to get into too much detail on the individual margin line items, but I will tell you their EBITDA is about – restaurant level of 17%, which is essentially the way we calculate segment profit. Yes, they have a little bit more production in their restaurant because they're a Scratch Kitchen, so you would expect labor to be a little higher than what our normal brands are. You'd expect cost of sales to be a little bit lower. But if you think about their overall margins at 17%, still strong in the industry, maybe not strong compared to Olive Garden, which is hard to top and they will be in our other segment. And so because of that and because of competitive reasons we don't want to get into too much more detail about the individual line items.

Andrew Marc Barish
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Next we have Karen Holthouse of Goldman Sachs. Ma'am, your line is open.

Karen Holthouse
Analyst, Goldman Sachs & Co.

Q

Hey, thanks for taking my question. The comment earlier on the long-term framework and 10 basis points to 40 basis points of EBIT expansion and fiscal 2018 still falling within that, would that be – is that on a standalone basis prior to any mix shifts you'd want to think about for Cheddar's or an all in number thinking about fiscal 2017 to fiscal 2018?

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

A

Hey, Karen thanks. That is an all in number 10 basis points to 40 basis points includes bringing Cheddar's in and their actual decline in total margin across Darden. So without Cheddar's, the margin expansion would have been higher than what we're going to show. But we're still 10 basis points to 40 basis points with Cheddar's added to the mix.

Karen Holthouse
Analyst, Goldman Sachs & Co.

Q

And is there any sort of ballpark way to think about synergies for what would head at the store level versus G&A. I know with Yard House, they – at the time you talked about I think 60% of synergies had at the store level. Is that the right framework going forward or is there a reason to think about that differently?

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

A

It's pretty close, let's just say 50%-50%. So probably 50% of we're going to hit at the restaurant level and 50% at the G&A level. Now and not all of those synergies are going to accrue to Cheddar's. There will be some of those synergies in the G&A, for example that will accrue to the rest of the brands as well. But about 50% of our total synergies will be in G&A and about 50% restaurant level, which...

Karen Holthouse
Analyst, Goldman Sachs & Co.

Q

Great. Thank you.

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

A

...actually demonstrates the power of the Darden platform and how much we can go out and purchase at a lower rate than others. So, Cheddar's actually had a really good supply chain team, they did great purchasing and we're still able to find significant synergies bringing them into our system.

Karen Holthouse
Analyst, Goldman Sachs & Co.

Q

Great. Thank you.

Operator: Thank you. Next we have Andrew Strelzik of BMO Capital Markets. Sir, your line is open.

Andrew Strelzik
Analyst, BMO Capital Markets (United States)

Q

Hey, good morning, guys. Two questions for you. The first one, the bump in the CapEx relative to kind of how you outlined it last quarter, seems like it's more than just the bump in the development phase. So I'm wondering what else is in there, number one. And number two, from a food cost perspective, within that flat to plus one, how should we think about the cadence kind of story here? I noticed the mid-single-digit beef decline that you've got in there. So I'm wondering how to think about the cadence of that throughout the year.

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

A

Yeah. Andrew, in regards to the food cost cadence throughout the year, we talked about what our first half of the year is going to be. Our first half of the year is slightly deflationary, very slightly, maybe flat. And then the back half of the year is going to be somewhat inflationary. So, it'll just start to grow over time. And as we said in the past, we tell you what we know and then when we don't know it, we assume a normal inflationary periods. So as you get farther in the year, we're going to assume more normal inflationary period. And I completely forgot your first question, can you remind me?

Andrew Strelzik
Analyst, BMO Capital Markets (United States)

Q

Yeah, sure. That was on the CapEx side, it seems like the increase in the dollars relative to how you outlined it last quarter...

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

A

Yeah. The CapEx, the difference is basically Cheddar's. In the first guidance we gave back in March, we didn't have Cheddar's in the guidance and now we're including Cheddar's. So when you add their restaurants, you add their maintenance CapEx, you're talking about $40 million to $50 million and that's really the difference.

Andrew Strelzik
Analyst, BMO Capital Markets (United States)

Q

Great. Thank you very much.

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

A

Sure.

Operator: Thank you. Next is John Ivankoe of JPMorgan. Sir, your line is open.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi, thank you. A couple of questions on the industry, if I may. Firstly, have you seen any change or softness at any locations you have that are very specifically located with retail and maybe around some of the bigger retailers that have closed just wanted to get a sense how sensitive or insensitive those types of locations have been for your business?

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

A

Hey, John. I can't isolate Macy's or a J.C.Penney closing or Sears and having an impact on any of our businesses at this point in time.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

I mean you certainly can't see it in the comp. And looking at supply and demand across the industry, I mean where are we in terms of rate of change maybe. Has it been over the last 6 or 12 months and do you see that potentially changing this late in the cycle?

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

A

Well I think demand for casual is about the same. I mean we're growing a little faster than population growth. The last numbers I saw from Crest where we're seeing growth is more in the upscale. It's getting – the cycle is getting a little lengthy here and everybody that's got a little bit of money wants to be in the Steakhouse of the upscale business, so we are seeing some local growth in upscale restaurants. But that has a way of washing itself out over time.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

Yep, absolutely. And secondly, the industry does have easier comparison, that's have easier comparisons for a long time, but easier comparisons in the first half of your fiscal 2018. I mean what type of industry assumption are you making for your 1% to 2% comp in 2018?

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

A

No change to the industry. We're assuming that it's basically been doing what it's been doing the last 12 months.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

Okay. So the industry still remaining negative and you still remaining positive.

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

A

Yes.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

Okay, all right. Thank you.

Operator: Thank you. Next we have Steve Anderson of Maxim Group. Sir, your line is open.

Stephen Anderson
Analyst, Maxim Group LLC

Q

Yes, good morning. With regard to your continued – integration of the Cheddar's operation, do you contemplate buying back any of the 25 franchised restaurants during that period or is there something you might want to delay to after that 12-month back duration period and should we assume – what assumption should we make about those stores? Thanks.

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

A

Hey, Steve. It's Rick. Yeah, we're in the middle of an integration with Cheddar's and actually we're really in the middle of two integrations because Cheddar's bought their largest franchisee Greer in January. So we're really doing two. And we'd rather not have to do three.

Stephen Anderson
Analyst, Maxim Group LLC

Q

Okay.

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

A

So, we'll keep being a great franchisor to these franchisees and let us get through this integration before we start talking about what we do with the 25.

Stephen Anderson
Analyst, Maxim Group LLC

Q

All right. Thank you.

Operator: Thank you. Our last question is from Jordy Winslow of Credit Suisse. Sir, your line is open.

Jordy Winslow
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. Hi, thanks. This is Jordy on for Jason West. Just had a couple questions on Cheddar's. First on the margin profile, where do you see those store level margins potentially going over time? Is it possible in your mind that they could reach the level of Olive Garden potentially and if not, are there any structural differences between the two brands that you see that would prevent that type of convergence? And then I had one follow-up. Thanks.

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

A

Yeah, I think the way to think about Cheddar's isn't the absolute margin for each restaurant. This is a total growth story. And to me, it's about over time. Where does the brand end up with total sales and total margins? And if our goal was just to try to maximize these restaurant margins, we'd never open another restaurant.

And so, we're too early in the game to determine what we think the long-term target of these margins are. We know this is going to be a value player. We see this as a way to really put pressure on the industry and keep pricing down and we will in short-term – if we have to, we'll sacrifice margin to do that to grow this business. So give us a little bit more time to understand this business in more detail, understand as they plug into our platform, what the real opportunities are and then we'll talk about what the margin potential is later.

But if you have to remember, if you're going to try to grow a brand and make it a mass brand, you've got to have a legitimate restaurant level margin target for you to be able to keep the value equation where you want to keep it and continue to grow sales and we look at Cheddar's and we look at the returns on new restaurants even at the current margin level and we're excited. We're excited about that. We're excited about the value we'll create for our shareholders by building these restaurants and trying to maximize the margins on the existing base. It's a one-time bump for that, real shareholder value is going to come from us being able to grow this brand and get great returns on our invested capital and we believe that's a huge opportunity for us with this brand.

Jordy Winslow
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Okay, that's helpful commentary. Thanks. And then more of a clarifying question on the openings. I thought that last call you had spoken about eight Cheddar's restaurants in the pipeline for fiscal year 2018? Has something changed, going from that to four to five or is there any kind of timing difference going on with that?

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

A

Yeah, Jordy. Nothing's changed. It's really timing of fiscal year differences. When we talked about their pipeline, it was more on the calendar year basis, not necessarily a fiscal year basis and based on our fiscal years, it would equate to about four to five in fiscal 2018 for us instead of eight which was kind of calendar 2018.

Jordy Winslow
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Thank you.

Operator: Thank you. I'd now like to turn the call back to our speakers for closing remarks.

Kevin Kalicak
Senior Director, Corporate Analysis & Investor Relations, Darden Restaurants, Inc.

Thank you, Rae. That concludes our call. I'd like to remind you all that we plan to release first quarter results on Tuesday, September 26 before the market opens with the conference call to follow. Thank you for participating in today's call.

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