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Brinker International, Inc. (EAT) Q3 2024 Earnings Call Transcript

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Q3: 2024-04-30 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$1.24 **beats by \$0.09** | Revenue of \$1.12B (3.43% Y/Y) **misses by \$1.42M**Brinker International, Inc. (NYSE:[EAT](#)) Q3 2024 Earnings Conference Call April 30, 2024 10:00 AM ET

Company Participants

Mika Ware - VP, Finance, IR & Restaurant Development

Kevin Hochman - President, CEO & Director

Joseph Taylor - EVP & CFO

Conference Call Participants

Christopher O'Cull - Stifel, Nicolaus & Company

Jeffrey Farmer - Gordon Haskett

David Palmer - Evercore ISI

Katherine Griffin - Bank of America Merrill Lynch

Andrew Strelzik - BMO Capital Markets

Karen Holthouse - Citigroup

Brian Vaccaro - Raymond James & Associates

Operator

Good day, and welcome to the Brinker International's Q3 FY'24 Earnings Call. [Operator Instructions]. It is now my pleasure to turn the floor over to your host, Mika Ware, Vice President of Finance and Investor Relations. Ma'am, the floor is yours.

Mika Ware

Thank you, Holly, and good morning, everyone, and thank you for joining us. Here with me today are Kevin Hochman, our Chief Executive Officer and President; and Joe Taylor, our Chief Financial Officer.

Results for our third quarter were released earlier this morning and are available on our website at brinker.com. As usual, Kevin and Joe will first make prepared comments related to our strategic initiatives and operating performance. Then we will open the call for your questions.

Before beginning our comments, I would like to remind everyone of our safe harbor regarding forward-looking statements. During our call, management may discuss certain items which are not based entirely on historical facts. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

All such statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more completely described in this morning's press release and the company's filings with the SEC. And of course, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations.

And with that said, I will turn the call over to Kevin.

Kevin Hochman

Thanks, Mika, and good morning, everyone. Thank you for joining us as we share results from another quarter of strong progress. The last time we spoke in January, the industry was experiencing challenging weather. We were pleased to see our business immediately bounce back and perform well in February and March.

And Chili's, with Chili's beating the industry sales by more than 7% and traffic by nearly 4% for the entire quarter. These strong results are driven by the strategy we've been working on for almost 2 years now to improve the guest and team member experience while launching profitable and sustainable traffic driving initiatives. And what's very encouraging from the Q3 results is that in February, when we weren't on TV, we continued to outperform the industry and again in March when we effectively left increased media from last year.

Our traffic driving initiatives combined with real operational improvements are creating tailwinds for the business. I'm so proud of our operators for their focus on the guest experience and the progress they're making. Our main KPI dine-in guest with a problem, where dine-in GWAP dropped to 3.3% this quarter, which is our lowest on record since we began tracking the metric.

I want to recognize our 12 operations regional Vice Presidents who have been leading this work from the front. They delivered another quarter of industry-leading manager turnover as well as significant progress on hourly turnover. We know we still have work to do to make sure we deliver consistently great food and hospitality to every guest, as well as to continue to make our team members' jobs easier, more fun and more rewarding.

Those areas will remain a focus for us during the fourth quarter and into next fiscal year. We are encouraged by the progress but we are also motivated by the opportunity ahead of us to raise our bar on the team member and guest experiences to get to that top tertile of casual dining restaurant performance.

Next, I'd like to talk about progress on our menu and marketing. Let's start with the burger segment, which has both new product news as well as important simplification initiatives hitting the restaurants now. Just yesterday, we launched a new burger, the big smasher. It's nearly 0.5 pound burger with thousand island dressing, lettuce, cheese, pickles and red onions on our delicious brioche bun.

This new burger lives on our regular menu, but for a limited time will be available for \$10.99 on 3 For Me as we bring fresh news to our Everyday Value platform.

To drive awareness and incremental traffic, we have a fresh way to talk about Chili's unbeatable value. Our social media team has been watching the conversation that the consumer is frustrated by fast food prices. Through a series of hard-hitting and entertaining ads, we tap into that insight and use fast food as a foil to demonstrate Chili's superior value, and those ads literally have started yesterday.

I'm also excited about two simplification initiatives that have been bundled for our restaurant teams with the big smasher launch. The first one is eliminating our secret sauce burger off our value menu which helps us manage 3 For Me mix and remove a soft SKU from the pantry.

The second simplification is the removal of the double lunch burger which eliminated the skinny burger patty SKU. We replaced this with a lunch burger that features our existing 7.5-ounce patty SKU. This move gives the guests more meat, it slightly lowers our food cost and it simplifies operations. And now instead of having to manage inventory and cook two different burger patty specs, operators are perfecting burger execution with one product so they're consistently great for every guest.

Another initiative we continue to be encouraged by is the strength of our advertising and its ability to drive traffic. I want to recognize George Felix, our Chili's Chief Marketing Officer, for recently being named at 2024 Nation's Restaurant News Power List.

The award recognizes George's consumer-centric leadership of our advertising and our innovation, as well as the work he and his team are leading to increase the relevance of Chili's. In addition to our national advertising efforts, the team continues to find ways for Chili's to show up in unexpected ways and reach new audiences.

Our recent NASCAR sponsorship is a great example. NASCAR fans are Chili's fans and sponsoring popular driver Corey LaJoie's car during the Daytona 500 complete with every one of our general managers' names running on with Corey on the car's hood was a big win for our team in Corey's NASCAR fan base.

While the marketing team drives traffic into our restaurants, our operations team continues to raise the bar in bringing guests back. This week is part of our fiscal '25 planning season. We're meeting with our Vice President of Operations to finalize our strategic priorities and choose the fiscal '25 obsession goal. Based on what I've seen over the past 2 years, when this powerful team gets after it, I have complete confidence we'll move the needle on whatever they set their focus on.

To close, it's been a great year so far. The ongoing momentum in our business encourages us that our strategy is working and the investments we're making are strengthening the core business, setting us up for long-term sustainable growth.

Before I hand the call over, I wanted to say a big thank you to Joe Taylor, as this will be last earnings call as Brinker's Chief Financial Officer. And we have something here, I'm going to go a little off script here. We have something here at Brinker called above-the-line recognition. We do that for people that go above and beyond that drive our strategy and our priorities. And so just bear with me for 30 seconds, but Joe has been with us for over 20 years. So he deserves this.

So cheers to you, Joe Taylor, for making every guest count and being accountable. Joe, thank you for your nearly 25 years of leadership and service to this company, for your guidance and patience as I learned this business and for grooming such a strong leader in Mika, as she takes over the reins in June.

Today, we have a stronger financial position with an incredibly talented finance organization, and thanks to your leadership, Brinker's best days are ahead of us. Cheers to you, Joe Taylor, for leaving a legacy of impact on our business, and on a card here that says, "You've helped bring back guests, engage team members, grow sales and increase profits, and we all stand and clap for Joe." So, I know many of you on the call have worked with Joe for many years, and I just thought it was important to do it in front of all of you. So thank you for giving me the 30 seconds.

And with that, I'm going to turn it over to Joe.

Joseph Taylor

Well, thank you, Kevin, and I appreciate the comments. And so great to have the last call be such a good call, too.

So good morning to everyone. The results reported in this morning's press release reflect the continued positive progression of our brand's performance and further solidify our belief in the long-term sustainability of our strategy. This quarter included solid year-over-year top line growth, comp sales well above industry averages and nicely improved restaurant operating margin.

In terms of the specific results for the third quarter of fiscal 2024, Brinker reported total revenues of \$1.120 billion with consolidated comp sales of positive 3.3%. Our adjusted diluted EPS for the quarter was \$1.24. Both brands reported top line sales growth with Chili's comps coming in at positive 3.5% for the quarter, with price partially offset by negative mix in traffic.

A particular note, Chili's delivered positive dine-in traffic for the quarter. Our continued move to deemphasize virtual brands and redirect dollars to better support our core operations negatively impacted Chili's traffic by approximately 2.5% for the quarter.

In addition, weather had an estimated 1.1% negative impact. Maggiano's reported 1.7% comp sales, driven by positive price and mix, partially offset by negative traffic. Dominique and his team are making great progress in developing the guest experience and menu offerings that are focused on improving traffic and mix, particularly in the dining room. We look forward to sharing more details in future calls.

Now turning to margins. The third quarter saw another meaningful expansion of restaurant operating margin, primarily driven by top line growth and an improved year-over-year food and beverage cost environment. Restaurant operating margin for the quarter was 14.2%, an 80 basis point improvement year-over-year.

Our food and beverage expense was favorable 170 basis points as compared to last year's third quarter driven by higher price and menu mix. Labor expense as a percent of company sales was favorable 20 basis points compared to prior year. Top line growth offset wage rate inflation of approximately 3.7%.

We continue to invest in the business during the quarter, reflected by an increase in restaurant expense of 120 basis points versus prior year. An increase in advertising and greater levels of R&M spend were the two largest additions to this component of ROM. The improved operating performance also positively impacted the cash flow for the quarter. Third quarter EBITDA was \$122 million, bringing our year-to-date level up 31% to \$302 million.

Our significantly improved cash flow generation gives us more flexibility to reinvest in our brands while also reducing leverage to strengthen our balance sheet and manage borrowing costs. For the quarter, we recorded approximately \$50 million of capital expenditures, with a focus on capital improvements to existing restaurants, updating IT systems, reimages at both brands and new restaurant development.

We opened two new restaurants during the quarter, both of which are off to great starts, averaging more than \$100,000 in weekly sales, nicely above Chili's brand average. These, along with our new openings earlier in the fiscal year, continue to demonstrate good guest appetite for Chili's coming to their specific market.

We further repaid \$85 million of revolving credit outstandings during the quarter. Our funded debt-to-EBITDA ratio improved to 1.95x at quarter end. In this morning's press release, we updated specific pieces of our previously provided annual guidance.

Brinker's annual total revenues for the current fiscal year are now expected to be in the range of \$4.330 billion and \$4.350 billion. Capital expenditures are currently on pace to be between \$185 million to \$195 million for the fiscal year. And our estimate for annual adjusted earnings per share has increased to a range of \$3.80 to an even \$4.

In close, our third quarter was successful from not just a financial perspective but also demonstrate our ability to leverage improved restaurant operations, broad-based marketing and excellent value across a variety of price points to consistently outperform the casual dining sector.

I would note the first period of our fourth quarter, which ends tomorrow, is shaping up as a very strong continuation of these themes. We are carrying excellent momentum into the last quarter of our fiscal year and intend to leverage this operating performance and the plans being developed for fiscal year '25.

I genuinely believe there are exciting times ahead for our team members and our guests that will translate to excellent results for our brand. And with our comments now complete, I will turn the call back to Holly to moderate questions that you might have. Holly, take it away.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question for today is from Chris O'Cull with Stifel.

Christopher O'Cull

Joe, congratulations and best wishes on the next chapter.

Joseph Taylor

Thank you. Thank you.

Christopher O'Cull

Kevin, I know Chili's has seen its unaided brand awareness levels improve. But do you have the data at this point to know what consumer groups are starting to recall the brand more often?

Kevin Hochman

Yes. We don't have that level of data. We do know that we're growing in all income demographics right now. So when you look at across all income profiles, they're all spending more at Chili's. So we feel really good about that. From an advertising standpoint, we continue to see good progress on unaided awareness. The bigger thing this quarter that we were excited about is we had our highest level of what's called buzz that we've seen basically since we started tracking this, that's when we ask guests just through a third-party name a brand that you've heard good things about in the past few weeks in dining, they're saying Chili's more often than they ever have.

So that's very encouraging that people are thinking of us in a good light. I think a big part of it is what's happening with the dialogue on value that I think you're hearing from some of our competitors. And we're showing up really strong at a superior value, complete meal. We're delivering a better experience than I think we ever have.

And I think that's why you're seeing all income demographics grow because I think everybody wants great value and great service. So that's what I can tell you right now. I think we're going to learn more as we continue to tokenize our data, and we're going to get better data to understand more specifics, but that's what I can share right now.

Christopher O'Cull

Okay. And then the new ad campaign clearly draws a direct comparison of the 3 For Me to the fast food offerings. And based on this morning's conference call, it sounds like McDonald's may be more aggressive with national value platforms or promotions in the coming months. Do you think the 3 For Me is going to be sufficient as a value message to drive traffic? Or will you be able to utilize other means like maybe digital to be more targeted with consumers, with deals? Or do you think that's something that you may need to look at?

Kevin Hochman

Well, I think the answer is yes. So I think we got to start with just making sure -- TV will still be the #1 driver of immediate building of awareness. And I think most marketers know that. And so we need to continue to stay on TV. We need to continue to keep that message fresh.

So what we launched yesterday, which was much harder hitting value messaging. We're using fast food as a foil mainly because everybody is familiar with the fast food experience and the pricing. And so it's an easy foil to use for them to give you relative value.

Casual dining is actually a different occasion than fast food. People are trying to have an hour out of their day where they're having a better experience and they're getting weighted on. And it's a little bit of a different occasion. But when you can deliver all that service levels and do it at a more attractive price point with superior value and better food, that gets very exciting for the guests.

So that's the -- that's kind of the intent behind that campaign. And we think that's going to keep our value fresh. And then we're going to bring value news to that lineup. So I think you're referring to the big smasher burger that we talked about earlier. That is almost a half pound meat, fully dressed burger, comes with unlimited chips and salsa, unlimited drink and fries for \$10.99.

That's pretty much unbeatable, I think, in fast food and in casual dining, and we're going to continue to drive that with some new news. And then we have a new chicken sandwich that we kind of just reengineered to make both easier to make and make it juicier for the -- and more delicious for the guest, and we'll plan to amortize that in late summer as a way to continue to bring news to 3 For Me.

So that's kind of point 1, is like I think we got to continue to drive. The #1 driver of awareness is going to be TV, and we need to keep that messaging fresh and we need to keep bringing some innovation into that. Number 2, to your point was, can we get after more customized offers? That's exactly what we're trying to do with our CRM program.

So we finished the back 18-month tokenization, which we talked about last quarter. Now we're building out our database going forward with new tokens. So what that means is a new guest that comes in or a guest that has come in most recently, we start our building -- we're building out their behavior profiles and then we're matching it up with the previous 18 months of tokenized data.

We're able to do that in restaurants that have the Ziosk platform. We're -- and about 2/3 of our restaurants now have Ziosk. We expect to finish that rollout by the end of this fiscal, so the next 2 months. And so then we'll have all of our restaurants getting future tokenized data, so we can build out these profiles. The deeper these profiles get and the more guests we have with deeper profiles, the easier it's going to be to customize offers. And sometimes, it might just be communication based on what we learn about their behavior.

So I couldn't agree more. I think that's a pretty awesome tool to have 9 million to 10 million guests with a full profile that we're able to market to at a relatively minimal cost versus paid advertising. And I think you're going to see more of that as the quarters go on.

Operator

Your next question for today is from Jeff Farmer with Gordon Haskett.

Jeffrey Farmer

Definitely a big congratulations to Joe. You will be missed. As it relates to the question, so your bottom line outperformance continues to outpace your top line outperformance. I'm just curious if you could point to maybe a couple of drivers that are responsible for that greater-than-expected profit flow-through you've seen over the last couple of quarters?

Joseph Taylor

Yes. A couple of things, Jeff. First, I think the top line is one of the first drivers I would point to. It creates some nice leveragability as you work your way down through the middle of the P&L, both within the restaurant operating margin and then against some of the items as you move further down. So it is definitely contributing that top line growth to the flow-through. But throughout the P&L, I think we've just become better operators, basically returning back to the good operators I think we had really pre-COVID, labor, despite being able to invest hours into the process is getting more efficient.

And when you see those turnover levels come down to the levels that are coming, the muscle memory being built with that helps us just run more efficient operations. So even with the -- even in this last quarter, you saw some leveragability, if you want to think of it in that -- on our hourly side of the equation. We have restaurants that can maintain higher volumes while using the same amounts of labor they've been using.

You obviously hit tipping points as you kind of move up those volume scales and at different points, you add some labor into the equation. But there's capacity against the existing labor model within the system that we're starting to see come to fruition, too.

So there's any number of different areas, too, that we've just gotten more efficient and productive and working our way through. When you've seen some inflation levels start to normalize back to more traditional levels are -- I think I mentioned in my script that our hourly wage inflation this last quarter was about 3.7%.

So that's down nicely from the 5% to 6% we have been running in the year -- a couple of years before that and getting back closer to that more normal 3%, 4% range that we kind of view as more typical inflation. So those are a couple of the bigger things that I would highlight for you.

Jeffrey Farmer

All helpful. And then one follow-up to that. So anything that you can share as it relates to how the big smasher burger performed in test. And then in terms of additional upgrades we might see on the burger platform in coming months?

Kevin Hochman

Yes. We did not test the big smasher like in a formal market test, we tested it for operations to make sure we knew how to make it and we could do a lot of them fast. So we don't have any data to share with you on that. What I can tell you is we're incredibly encouraged by the buzz that we're hearing from the PR that you guys are probably seeing in social media.

I think that both the value discussion has amped up. For example, yesterday, during our launch, in the morning, we were the #1 trending topic on Twitter, the Chili's 3 For Me smasher burger. So I mean, that gets very exciting that we know we're on a topic that is very top of mind for guests, and we have incredible value proposition that we're bringing additional news to in a flavor profile that I think most customers are used to, but in a much bigger burger format.

So we're very encouraged by that. We think we have the exact right item at the exact right time at the exact right price point with a loaded marketing plan to get after it over the next 5 weeks. So we expect big things from the big smasher, and then the important thing is we got to continue to bring news to the value platform as well as continue to manage the mix on value. And one of the things I'm most proud of is when you look at our 3 For Me mix with all the what you're seeing with the economy and the macro and the consumer, our 3 For Me mix has only increased 0.5 point. I mean it's been very modest, and that's why you're seeing such incredible gains on the bottom line from the earlier question, when you look at our margins, right?

So we're able to manage that mix really effectively with proper menu merchandising, taking items off as we bring items on. And that seems to be having the right impact on traffic while creating sustainable growth and expanding margins.

Operator

Your next question is from David Palmer with Evercore ISI.

David Palmer

It's John calling in for David. We're just curious on labor expense in the quarter despite all the investments going into the company, you leveraged labor in the quarter with units per dollar up only 2.5% year-over-year. How should we think about labor costs going forward?

Mika Ware

John, it's Mika. So one major reason that we were able to leverage our labor is we have now lapped that initial investment where we had all those incremental hours in. So now that is built into the base. So really, it's just about that wage rate pressure that is now starting to come down a little bit.

And then as Joe said, our turnover continues to improve. And so our team members are a lot more productive. So all those different dynamics including the PPA are helping us to leverage our labor cost. And we'll continue to do that into the fourth quarter. So I think you'll see some similar improvements year-over-year in the fourth quarter.

Operator

Your next question for today is from Brian Vaccaro with Raymond James.

Brian Vaccaro

Joe, congrats on your career. It's been a real pleasure working with you over the years. I just wanted to follow up on an earlier question, maybe to kick it off just sort of a quick follow-up. But given how important muscle memory and having the right teams in place is, would you be willing to level set sort of where your hourly and also store manager turnover is currently running?

Mika Ware

Yes. So actually, our manager turnover on a rolling 3 month is right around, I believe, 5%. And then the hourly number, which I'm getting to has -- is only 2% above the industry at this point. So the rolling 3 is at just about 25%, almost 26%.

Brian Vaccaro

Great. And my other question I wanted to ask about is just Chili's comp outperformance, that has sustained outperforming the industry despite the industry -- the software industry backdrop. Could you just put some more context on how Chili's gap to the industry trended through the quarter -- through the quarter and in March specifically when you started to lap the initial return to TV advertising last year?

And you've also talked about seeing these longer tail periods when you're off air, perhaps maybe tie in what's driving those longer tails, and how that plays into your thinking about sustaining market share gains through calendar '24?

Kevin Hochman

Yes. So Brian, so the sales gap by month was we were at 6.8% in January, and that was advertising -- that was not rolling advertising. In February, we had no advertising either this year or the previous year, and we were 8.5% gapping the industry. And then in March, we were at 6.6% gapping versus the industry.

Brian Vaccaro

Okay, that's very helpful. And I guess on those tails, Kevin, maybe just refresh us on what's driving the longer tails, if you will, maybe the snowball effect. I imagine it's the improvements in the guest experience you've made, reduced guests with a problem, et cetera. But maybe just if you could elaborate a little bit on that.

Kevin Hochman

Yes. We're seeing better lifts with the advertising, and we're seeing longer tails meaning as we turn the advertising off. We continue to see gapping versus the industry to the positive for Chili's. We think it's just a continued simplification in the restaurants, and you talk to the managers about the changes that we're making quarter after quarter. These are essentially continuing to be their ideas that we're rolling out. The most recent ones have been with the burger launch and the new chicken sandwich launch.

So on chicken sandwiches, I'll give you a great example is we're not pounding the chicken anymore. That is like one of the worst jobs ever in the restaurant is to sit there and pound raw chicken. And we actually found the chicken sandwich is juicier and more tasty when you don't pound it.

And then the second thing we did was we moved the sandwich build off of the fry zone, which is where we freshly bread and we freshly fried that fillet, that zone used to actually have to make the sandwich now we actually have it being built where the burgers are being built, and that takes a lot of pressure off the fry zone so that they're willing to make a whole lot more fried chicken sandwiches. That's a big win.

Another one that we talked about on the call earlier was the lunch burger. So lunch burger is a whole another raw beef SKU that we have to manage the inventory on literally every day, right? So you got to cook the projections and make sure you have the right amount of patties ready to projections. If you don't have the right amount, either you run out or you have too many that you might have to throw away. And so just eliminating that double patty SKU, which were two 3.6-ounce paddies, which is 7.2 ounces of beef and replacing that with a 7.5 single patty, which we already use on all of our other burgers, it's one less pain in the neck for that team member to manage inside the cooler, it's a bunch of waste that goes away because you no longer have thin patty waste and actually the guest gets a little bit more meat.

And then because we have all of our volume going into that 7.5-ounce patty, we actually save money on that from a COGS standpoint. So these are examples where it's like these little things that keep rolling out every month. It makes the restaurants so much more easy to operate. And so that's showing up in both the team member turnover metrics. And then as importantly, it's showing up with food grade scores intend to return and service levels.

So I would anticipate that momentum to continue as long as we continue to put simplifications into the business, both for the manager and the team member as well as continue to move friction for the guest, I don't know why we wouldn't continue to see those scores both for the team members and the guest experience continue to improve.

Brian Vaccaro

That's very helpful. And last one, I just I want to ask about the topic of pricing and value in the current environment. Could you level set what percentage of the sales were on some sort of value in the period and within 3 For Me, sort of the mix between the \$10.99 versus the higher tiers. And then I believe the new -- you have a new menu launching in this current quarter. What's your latest thinking on how much pricing will be in that menu at Chili's? And maybe you could help level set the cadence of Chili's pricing in the next few quarters.

Kevin Hochman

Brian, I'll take the first half, and I'll let Mika take the pricing question in the back end of your question. So our 3 For Me tier -- so I'm going to give you a couple of data points just you understand what's happening with value. Our 3 For Me tier is about 16.1% up from 15.5%, so that was that 0.5 point I was referring to earlier. That's a P100. So in other words, every 100 orders, that's how many that are being ordered. 47% of those 3 For Mes are coming in the \$10.99 tier and then more than half which 53% is coming into the \$14.99 and the \$16.99 tier.

So even though we're advertising \$10.99, more than half of the actual transactions off the value menu are coming at significantly higher price points. And then as far as a number of checks on deal, it was roughly 31% in Q2, and it's roughly 31% in Q3. So we saw a little bit of an uptick from Q1 to Q2, but it's basically been flat from Q2 to Q3.

Joseph Taylor

And Brian, as it relates to pricing, I'm going to pick that 1 up, too. So we did drop a menu yesterday that had a pricing action right around 3%. So our pricing strategy is pretty much unfolding as we've talked about over the course of really the most of the fiscal year. First and foremost, we're going to protect critical prices like our \$10.99 price point. So we think that's very effective.

Obviously, as it plays into our advertising campaigns and our ability to service a guest looking for that heightened level of value, and we're going to do everything we can to protect that as we kind of move forward. At the same time, we've been able to find opportunities throughout the menu, particularly as it relates to areas that guests may be willing to pay up a little bit more to take some price and move that in.

But as we've always said, we would start to moderate pricing as we kind of move forward, and this last action demonstrates that moderation at around 3%. Obviously, as you get into the August call, you'll get more detail from Mika as to what '25 looks like. But right now, I think we're pretty well set for the foreseeable future on what pricing actions need to be taken as we kind of move forward and they can be a little bit more judicious and plan out over the course of next fiscal year, some lower levels of pricing that makes sense since we've accomplished a lot of what we wanted to accomplish with getting our price levels and our barbell price points back to where we think they can be effective.

Brian Vaccaro

Okay. Joe, and are my notes right that, that would result in your fiscal fourth quarter pricing being somewhere in the low 7s or maybe that changed a little bit?

Joseph Taylor

I think it moved up just a little bit because we actually were able to -- this menu went out about a month earlier than we originally contemplated. So you get a little bit more effectiveness on the quarterly price points. So it's high 7s.

Mika Ware

Yes. No, it will be high 7s, almost 8. We took a little incremental price in California as well when we saw the opportunity there. So that's what bumped it up.

Operator

Your next question is from Andrew Strelzik with BMO.

Andrew Strelzik

I wanted to revisit the margin conversation. And now that you've lapped some of the labor investments, lapping some of the ad investment. I know that's going to continue to go up. But the inflation environment has kind of normalized. Is there a way to think about a durable or sustainable level of restaurant margin expansion going forward? And I know several quarters ago or over time, you've kind of talked about a mid-teens 15% restaurant margin as achievable. Is your view or the visibility to that changing at all?

Joseph Taylor

Yes. I think -- so a couple of things there. One is 15%, visible, yes, it is, very much so from a quarterly standpoint. You have to remember, we have -- traditionally, you have higher ROM levels in your third and fourth quarter. So the 14.2% is nice to get over the 14% hurdle for that third quarter, and we have our sights ahead of us on how we can continue to move that forward in the fourth quarter.

I think you'll see some nice continued moves up on the ROM side of the equation. I think on a go-forward basis, what we've talked about is an ability to leverage top line growth into steady, but kind of that 20, 30, 40 basis point increase in annual margins as you go forward.

So in essence, they'll play out a little differently in every quarter based on some of the seasonality and some of the volumes there. But we do envision an upward trajectory as you kind of go both year-over-year and the different quarters and obviously, the annual level kind of in that 20 to 40 basis points range.

Andrew Strelzik

Okay. Great. And my second question, I was just hoping you could remind us kind of the virtual brand help you're expecting in the fourth quarter from a traffic perspective? And then just more broadly, as it relates to off-premise, if you could just touch on what you're seeing there, the split of the business, how that's evolving?

Mika Ware

Okay. So the virtual brand headwind will be similar into the fourth quarter. It's going to stay around that 2% to 2.5%. And then as far as the off-premise goes, that is about 26%, 27% for Chili's and about half of that still is third-party delivery versus to go.

Operator

Your next question for today is from Jon Tower with Citi.

Karen Holthouse

It's actually Karen, on for John today. Just two for me. One, I'm not asking for fiscal '25 guidance, I know we're going to have to wait a quarter for that. But is there anything you would sort of call out in terms of sort of chunkiness or unique items in 2024 we would want to consider kind of thinking about fitting '24 and '25 into that longer-term algorithm you've laid out?

Joseph Taylor

Karen, really no. I think we're pretty much in around the railroads and continue to run the railroads at a faster pace kind of mode right now. So I don't anticipate -- obviously, at year-end, there's always review of various sundry accruals. You want to make sure your insurance positioning is correct. You can obviously have adjustments to items like incentive compensation, things of that nature that kind of play out.

Those are typical year-end reviews, but there's nothing that I really view as systemic that needs any kind of major change to it.

Karen Holthouse

And then about a little bit since we've talked about some of the kind of future product simplifications and improvements and one point I think talked about [indiscernible] as a 2025 initiative with the burger kind of in the rear view, is that how we should be thinking about it? Or are there other things that you're going to maybe focus on before that?

Kevin Hochman

Yes. You're thinking about that right. So right now, we've launched this new big smasher burger. Whenever we roll a new item out, we try to roll operational improvements, either simplification and/or reinforcing the right behaviors with the teams to get whatever that segment is to make it perfect.

So currently, like we've rerolled out burger fundamentals, which is the smash, the sear, and the cook time. So the big smasher uses our base 7.5-ounce burger that we use on all of our entree burgers, making sure they grill it at the right temperature, proper bun toasting and proper bun buttering, and then we have a new fry procedure we rolled out a little over a year ago to make sure our fries are hot, fresh and crispy and properly seasoned every time.

So we relaunched all of those procedures to make sure that we're making all burgers properly as we launched the big smasher. And then as part of the big smasher, we eliminated the skinny 3.6-ounce lunch patty and then roll that into the 7.5-ounce patty.

So that's the kind of burgers is the way to think about for the next, call it, 3 to 6 months is going to be our focus. And then we also rolled out a new simplified chicken sandwich, which I talked about the simplification. We'll likely put that on air in a value proposition in late summer or early fall. And then the core 4 segment that will go next after burgers will be fajitas. And our plan is that, that should come in later in Q2 of '25.

So that would be, call it, November, December timing. That is a pretty large project. Fajitas is over a \$200 million business for us. So there's huge upside, both in terms of improving the quality of the product to get some pricing power as well as some of the mix driving that we can do, like we did when we relaunched our Chicken crispers lineup.

So we're very bullish on a large business that we think could get a whole lot bigger and more profitable. That is a major project because we are upgrading the protein, we're upgrading the tortilla that the Fajita is served with. We're upgrading the presentation of the vegetable bowl so that's fresher and more delicious.

So it's a pretty big undertaking. We started that project about 6 months ago. And so it's going to be over a year in the making by the time it gets to the market. But we're very, very encouraged by it. And hopefully, by the next earnings call, we'll have the test market results in to be able to share with all of you and give you a confirmation of when that's actually going along.

Operator

Next question is from Katherine Griffin with Bank of America.

Katherine Griffin

First, I wanted to ask about the mix dynamics at Chili's in the quarter? It seems like with mix a little bit less negative sequentially, the menu merchandising was successful in terms of our expectation to reverse the impact of the negative mix. But then I think you would also caution you might see some softening in the mix, given where the consumer is.

So if you could just help me understand how much of the mix in the third quarter was kind of in your control from the menu merchandising versus maybe seeing some softening in the consumer?

Joseph Taylor

Katherine, it's Joe. Thanks for the question. Actually, we're real pleased with the direction and the improvements we saw in mix once we dropped that menu. So obviously, we dropped the menu right at the end of July -- January. I'm getting -- I'm already getting ahead of myself. At the end of January, and we -- it performed how we wanted it to perform. And again, when you move merchandising around on the menus, we have a pretty good understanding of how that can be impactful.

So we saw improvements in the mix as we moved through the rest of the quarter. It's not as apparent in the quarterly numbers because again, you still had January under the old menu side of the equation. And we're continuing to see that improvement move.

So I would anticipate as we kind of move forward from here a more neutral mix kind of environment. But we're seeing the results from the steps we've taken. And then we've continued to then layer in some additional opportunities. We launched the Espresso Martini just a couple of weeks ago. That's an opportunity particularly from a weekend perspective to add some mix into the equation, and we'll continue to look at those different opportunities, how we merchandise both in the restaurant and on the menu. But we course corrected and course corrected pretty effectively.

Katherine Griffin

Okay. Great. And then just another question on restaurant margins. What -- how did commodities inflation play out in the quarter relative to your expectations? And then what are your expectations embedded in the next upcoming quarter?

Mika Ware

Katherine, actually, our commodity inflation was a little bit better than we expected. So we were basically flat in the third quarter. And then in the fourth quarter, we do expect that to tick up a little bit, probably in that 2% range.

Operator

There appear to be no further questions in queue. I would like to turn the floor over to Joe Taylor for closing remarks.

Joseph Taylor

And thanks, Holly. And this is my last time to get the mic or the speaker phone in this case. As Kevin mentioned earlier, this is my last earnings call prior to passing on the CFO position at the end of our fiscal year in late June.

So a couple of remarks, and thank you to wrap things up. First, I'm thrilled to pass the baton along to Mika, who is such a key leader for the company and brings a depth of knowledge and a passion for our business to her new position. She is very well prepared and will be terrific in the role. And next to all of our coverage analysts on the call, it has really been a pleasure working with you over the past decade, and I will continue to value the relationships developed over the years.

Thank you for your time spent getting to know us, your insights, both good and sometimes ones that were tougher to hear and for bringing a high degree of professionalism to the relationship. If your travels bring you through Dallas, don't hesitate to reach out as I'm sure there are stories we can retell, meals that can be shared and possibly even some rounds to be played. Hopefully, our paths will have the occasion to cross in the years ahead.

And lastly, it is tough to express the high degree of thankfulness I have towards my teammates, both here at the and in our restaurants that have made this such a special place for me and my family over 2 decades.

As I start my next, I particularly take with me a special appreciation for all the teammates who work tirelessly to lead and staff our restaurants each day. Our VPOs, DOs, GMs and thousands of Chili's heads and pasta heads, I assure you, you have made this past and future guests feel very special.

It has been an honor to tell the stories of your accomplishments in the call such as this over the years. Thank you for each -- all of what you do each and every day.

25 years brings many experiences, lifelong relationships and great memories that will always be part of my next ventures. It has been a true privilege and blessing to be a small part of the history of such a great company. I look forward with eagerness to watching and sharing on the many successes that are ahead for all the members of the Brinker team.

And with that, we are adjourned, and I wish you all a very good day. Thank you.

Mika Ware

Goodbye, everyone. Thank you so much.

Operator

This concludes today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

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