

Seeking Alpha^α

Transcripts

Darden Restaurants, Inc. (DRI) Q4 2024 Earnings Call Transcript

Jun. 20, 2024 12:49 PM ET | Darden Restaurants, Inc. (DRI) Stock

**SA Transcripts**

147.52K Followers

Q4: 2024-06-20 Earnings Summary

[Play Call](#)[Press Release](#)EPS of \$2.65 **beats by \$0.04** | Revenue of \$2.96B (6.80% Y/Y) **misses by \$14.32M**

Darden Restaurants, Inc. (NYSE:[DRI](#)) Q4 2024 Earnings Conference Call June 20, 2024 8:30 AM ET

Company Participants

Courtney Aquilla - Investor Relations

Rick Cardenas - President and Chief Executive Officer

Raj Vennam - Senior Vice President and Chief Financial Officer

Conference Call Participants

Brian Harbour - Morgan Stanley
Lauren Silberman - Deutsche Bank
Eric Gonzalez - KeyBanc Capital Markets
Andrew Charles - TD Cowen
David Tarantino - Baird
Jim Salera - Stephens
Sara Senatore - Bank of America
Jeffrey Bernstein - Barclays
David Palmer - Evercore ISI
Dennis Geiger - UBS
Peter Saleh - BTIG
Jeff Farmer - Gordon Haskett
Jon Tower - Citi
Chris O'Cull - Stifel
Danilo Gargiulo - Bernstein
Andy Barish - Jefferies
Brian Vaccaro - Raymond James
Jake Bartlett - Truist Securities
Gregory Francfort - Guggenheim Securities
Andrew Strelzick - BMO Capital Markets

Operator

Welcome to the Darden Fiscal Year 2024 Fourth Quarter Earnings Call. Your lines have been placed on listen-only mode until the question-and-answer session. [Operator Instructions] This conference is being recorded. If you have any objections, please disconnect at this time.

I'll now turn the call over to Mr. Courtney Aquilla. Thank you. You may begin.

Courtney Aquilla

Thank you, Darrell. Good morning, everyone, and thank you for participating on today's call. Joining me today are Rick Cardenas, Darden's President and CEO; and Raj Vennam, CFO.

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

Today's discussion and presentation include non-GAAP measurements and reconciliations of these measurements are included in the presentation. Looking ahead, we plan to release fiscal 2025 first quarter earnings on Thursday, September 19th before the market opens followed by a conference call.

During today's call any reference to pre-COVID when discussing fourth quarter performance is a comparison to the fourth quarter of fiscal 2019 and any reference to annual pre-COVID performance is the trailing 12-months ending February of fiscal year 2020. Additionally, all references to industry results during today's call refer to Black Box Intelligence's casual dining benchmark, excluding Darden's casual dining brands.

During our fiscal fourth quarter, industry same restaurant sales decreased 0.8% and industry same restaurant guest counts decreased 3.5%. And during our full fiscal year 2024, industry same restaurant sales decreased 1.4% and industry same restaurant guest counts decreased 4.7%.

This morning Rick will share some brief remarks recapping the fiscal year. Raj will provide details on the fourth quarter and full-year financial results and share our fiscal 2025 financial outlook. And then Rick will close with some final comments.

Now I will turn it over to Rick.

Rick Cardenas

Thank you, Courtney. Before I begin, I would like to thank Kevin Kalicak for his leadership of Investor Relations for close to 10 years. As many of you know, Kevin has moved to Lead Finance for Olive Garden. We are excited for his new opportunity and equally excited to have Courtney transition into leading investor relations. I'm confident you will find Courtney a worthy successor. Thank you, Kevin, and good morning, everyone.

I'm proud of our ability to stay disciplined and control what we can control. This continued focus enabled us to have a strong year in what became an increasingly weaker consumer environment, especially for consumers below the median household income. For the full-year, we grew total sales by 8.6% to \$11.4 billion, delivered adjusted diluted net earnings per share of \$8.88, an increase of 11%, exceeding the high-end of the EPS range we provided at the beginning of the fiscal year, despite the challenging sales environment that emerged in the back half of the year.

We opened 53 new restaurants in 24 states, eight of which were reopenings, and acquired and completed the integration of Ruth's Chris Steak House. Throughout the year, we strengthened and defended our four competitive advantages, and our restaurants remained focused on being brilliant with the basics. This has enabled us to successfully navigate whatever comes our way, including the increased discounting and marketing pressure we've seen recently. And when evaluating our performance within the context of our long-term framework of 10% to 15% total shareholder return as measured by EPS growth plus dividend yield, we delivered a TSR of 14.2% for fiscal 2024, which is near the high-end of our target.

And as I said, our teams are focused on controlling what they can control. One of the ways we do that is by having well-trained, tenured team members. Our manager and team member retention is at or above pre-COVID levels, and our teams are benefiting from this staffing consistency, which helps create great guest experiences. We also provide our teams with training programs that not only enhance their skill sets, but build on the unique culture of our brands, further strengthening engagement.

For example, LongHorn recently completed their seventh steak master series. Over the course of two months, thousands of culinary team members competed in this highly engaging grilling competition and training program for the Right to be Crown Champion and received the \$15,000 grand prize. Congratulations to this year's champion, Jacob Montgomery from the LongHorn Steak House in Cape Coral, Florida.

Beyond providing strong labor and cost management, our operators are ensuring their teams remain focused on being brilliant with the basics, which is driving record guest satisfaction. Several of our brands reach all new time highs for overall guest satisfaction for the full fiscal year, including Olive Garden, Cheddar's Scratch Kitchen, Yard House, Season's 52, and Bahama Breeze. Additionally, within the casual dining segment of technomics industry tracking tool, LongHorn ended the fiscal year ranked number one for food, service, atmosphere, and overall perceptions, as well as brand fit and loyalty.

Now let me provide a final update on the integration of Ruth's Chris Steak House. During the quarter, we completed the transition of all company-owned restaurants onto both our proprietary point of sale and labor management systems, which were the final major changes for the restaurants. We also acquired a single franchise location in Destin, Florida during the quarter. Thanks to the hard work and collaboration between the Ruth's Chris team and our integration team, we closed on the acquisition and completed the integration during the same fiscal year. This included onboarding 5,000 new team members with no turnover among our nine directors of operations.

We also achieved the expected synergies, resulting in EPS accretion of \$0.10. Integration is not easy, and I'm particularly proud of the focus the restaurant teams maintained on the guest and team member experience throughout the process. Overall, I'm pleased with our performance for the fiscal year. We successfully navigated a challenging environment and our proven strategy combined with the strength of our business ensures we are well positioned regardless of the operating environment.

As we begin fiscal 2025, we remain focused on managing our business for the long-term by executing our strategy that drives growth and long-term shareholder value. We have also taken steps to further position Darden and our brands for future growth and success through several leadership changes. We are fortunate to have a deep bench of talent and these changes are designed to allow two of our most seasoned presidents to devote more time to developing our newest brand presidents.

After nine years of leading LongHorn Steak House to record performance, Todd Burrowes has transitioned to a new role as President of Business Development. Todd now has responsibility for our new restaurant development and facilities team, our international and franchising business, and Ruth's Chris, our newest brand. Reporting to Todd are Mark Braun, Senior Vice President of Development; Brad Smith, President of International and Franchising; and Rick Jenkins, President of Ruth's Chris, who previously led operations for the brand.

Todd is well suited to lead this work. He brings an operator's perspective to new restaurant development and our growing franchise business. Further, Todd was with LongHorn when we acquired Ruth's Hospitality 17 years ago, and he will be a valuable leader and resource for Rick as the Ruth's Chris team continues to acclimate to Darden.

Todd's replacement at LongHorn is Laura Williamson. Laura is well respected across LongHorn, having served as their finance leader for nine years. She will report to me. We also named three new brand Presidents within our specialty restaurant group, who will report directly to John Martin, who continues to serve as President of the Specialty Restaurant Group; Bryan Clements, the Former Head of Operations at Olive Garden, is now President of Yard House; Falon Farrell, who led operations for Eddie V's, has been named President of the Capital Grill in Eddie V's; and Mark Cooper, who led finance for the Special Restaurant Group, is now President of Seasons 52 and Bahama Breeze.

I'm excited about these changes and confident we have the right leaders in place to drive future growth. I'm also proud that three of our seven brand presidents began their careers as hourly team members at our restaurants and the average tenure of all of our brand presidents is 27 years.

Now I'll turn it over to Raj.

Raj Vennam

Thank you, Rick, and good morning, everyone. Fiscal 2024 was another strong year for Darden, and I am proud of the results our teams achieved. Despite sales results that were weaker than we anticipated, earnings exceeded our initial expectations for the year. Strong cost management by our teams and easing commodities and labor inflation drove this earnings outperformance.

Now looking at the fourth quarter, we generated \$3 billion of total sales, 6.8% higher than last year, driven by the addition of 80 company-owned Ruth's Chris Steak House restaurants and 37 net new restaurants from our legacy brands. Our same restaurant sales were flat for the quarter, outpacing the industry by 80 basis points and same restaurant guest counts exceeded the industry by 130 basis points.

Throughout the quarter our casual dining brands maintained their relative share of guest visits. Olive Garden guest count growth was near the top quartile of the industry and Long Horn Stake House was at the top decile of the industry. This is impressive when you consider the increased levels of discounting and promotional activity by some competitors within casual dining.

Our same restaurant guest count or performance to the industry exceeded our same restaurant sales out performance due to our lower levels of pricing relative to the industry this quarter. Adjusted diluted net earnings per share from continuing operations increased 2.7% to \$2.65. We generated \$523 million in adjusted EBITDA and returned \$254 million to shareholders through \$156 million in dividends and \$97 million of share repurchases.

Turning to the fourth quarter P&L, compared to last year, food and beverage expenses were 20 basis points better as commodities inflation was better-than-expected at approximately 2%. Seafood deflation this quarter helped partially offset mid-single-digit beef and produce inflation. Restaurant labor was 10 basis points better, driven by productivity improvements and favorability and other benefits, which more than offset the impact of pricing below labor inflation, which was approximately 4%.

Restaurant expenses were 10 basis points better than last year driven by strong cost management and lower pre-opening expenses. Marketing expense was 1.3% of sales, consistent with our expectations and 20 basis points higher than last year. This all resulted in restaurant-level EBITDA improving 20 basis points to 20.9%.

Adjusted G&A expenses were 40 basis points lower and the total expense was slightly favorable to our previous guidance. This was driven by ongoing synergies from the integration of Ruth's Chris and favorable mark-to-market expense on our deferred compensation. Due to the way we hedge mark-to-market expense, this favorability is largely offset on the tax line.

Interest expense increased 40 basis points due to the financing expenses related to the Ruth's Chris acquisition. Our adjusted effective tax rate for the quarter was 13.4%, 40 basis points higher, driven by the mark-to-market hedge impact I referenced earlier. And we generated \$318 million in adjusted earnings from continuing operations, which was 10.8% of sales.

Looking at our segments for the quarter, Olive Garden increased total sales 0.7%, driven by new restaurant growth partially offset by negative same restaurant sales of 1.5%. While Olive Garden same restaurant sales were below the industry, same restaurant guest counts outperformed the industry benchmark by 60 basis points. This dynamic was due to our decision to minimize pricing.

For the quarter, Olive Garden pricing was approximately 1%. Olive Garden segment profit margin of 22.8% continues to be industry leading. At LongHorn, total sales increased 7.2%, driven by same restaurant sales growth of 4% and new restaurant growth. LongHorn same restaurant sales outperformed the industry by 480 basis points.

Segment profit margin of 19.1% was 50 basis points above last year. Strong cost management, including improved labor productivity drove LongHorn's margin growth this quarter as pricing was below inflation. Total sales at the fine dining segment increased with the addition of Ruth's Chris company-owned restaurants. And despite negative same restaurant sales at Capital Grille and Eddie V's, the fine dining segment's profit margin expanded in the fourth quarter, driven by improvement in our cost base.

The other business segment sales increased with the addition of Ruth's Chris franchise and managed location revenue. This was partially offset by combined negative same restaurant sales of 1.1% for the brands in the other segment. Segment profit margin of 17.4% was 160 basis points better than last year, driven by the sales leverage from the additional royalty revenue.

As we look at our annual results for fiscal 2024, we had same restaurant sales growth of 1.6%, outperforming the industry in same restaurant sales and traffic by about 300 basis points. And this is on top of 500 basis points of outperformance in traffic last year. We delivered \$1.8 billion in adjusted EBITDA from continuing operations. This is an increase of over 50%, compared to five years ago. Additionally, we returned \$1.1 billion to shareholders with \$628 million in dividends and \$454 million in share repurchases.

Looking at our fiscal 2024 full-year P&L, we had restaurant-level EBITDA growth of 120 basis points driven by strong cost management by our teams and pricing leverage. This favorability was partially offset by increased depreciation and amortization expense and the impairment expense related to eight permanent closures that occurred during the year. This resulted in operating income margin that was 50 basis points higher than last year.

Additional financing expenses primarily related to the Ruth's Chris acquisition drove adjusted interest expense 40 basis points higher than last year. This all resulted in adjusted earnings from continuing operations of 9.4% flat to last year.

Looking at our performance since 2019 relative to our long-term framework, we generated annualized EAT growth of 8% and cash returns of 3.7%, culminating in total shareholder returns of 11.7% as measured by EPS growth plus dividend yield. This is well within our targeted range despite the issuance of 9 million shares of common stock in fiscal 2020 and other business disruptions from COVID.

A strong operating model generates significant and durable cash flows. Since 2019, we have delivered 9% annualized adjusted EBITDA growth. Our balance sheet at the end of fiscal 2024 is well positioned with adjusted debt to EBITDAR at 1.9 times. This is below our targeted range of 2 times to 2.5 times, even with the additional debt related to Ruth's Chris acquisition.

Now turning to our financial outlook for fiscal 2025, we expect total sales of \$11.8 billion to \$11.9 billion, driven by same restaurant sales growth of 1% to 2% and 45 to 50 gross new restaurants. Capital spending of \$550 million to \$600 million, total inflation of approximately 3%, which includes commodities inflation of approximately 2% and labor inflation of approximately 4%. An annual effective tax rate of approximately 13% and approximately 119 million diluted average shares outstanding for the year. All of this results in diluted net earnings per share between \$9.40 and \$9.60.

Finally, our board approved a 7% increase to our regular quarterly dividend to \$1.40 per share, implying an annual dividend of \$5.60. And with that, I'll turn it back to Rick.

Rick Cardenas

Thanks, Raj. All of us at Darden continue to work together in pursuit of our higher purpose to nourish and delight everyone we serve, our guests, team members, and communities. During the year, we had the privilege of serving 420 million guests, more than 1 million per day, providing great food and drinks with attentive service in an engaging atmosphere. We also promoted 1,100 hourly team members into our manager and training program and promoted nearly 300 managers to general manager or managing partner positions.

And we continue to invest in our team members with programs like Fast Fluency, which provides the opportunity to learn English for free, and our next course scholarship program that, through the Darden Foundation, has awarded 200 scholarships worth \$3,000 each over the past two years to children of our team members. We also remain committed to nourishing and delighting the communities we serve through our ongoing efforts to fight hunger.

As part of our Harvest Food Donation Program, our restaurants donated 4.5 million meals to local food banks in fiscal 2024. We also continued our successful partnership with Feeding America with another \$2 million donation from the Darden Foundation that helped provide mobile food trucks to 10 more Feeding America food banks, bringing the total to 45 trucks provided over the last four years.

To wrap up, I want to thank our team members in our restaurants and our support center for their outstanding efforts throughout the year. Their disciplined approach in executing our strategy is what enables us to succeed, regardless of the operating environment.

Now I will take your questions.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of Brian Harbour with Morgan Stanley. Please proceed with your questions.

Brian Harbour

Yes, thank you. Good morning, guys. Maybe first just on your sales outlook for the year. Could you comment on how you see kind of the different brands feeding into that? And you obviously have very different kind of comparisons as we think about the start of the year versus the end of the year. Presumably there's kind of some pickup in Olive Garden. How do you think about the drivers of that?

Raj Vennam

Hey, Brian, this is Raj. Good morning. So let's just start with the guidance at a high level from a sales outlook, right, before we get into the brand level. So when we take a look at the upcoming year, we look at the information that's out there and where the macro is expected to be. And as you all know, most economists are expecting weakening GDP growth. So that's taken into consideration. Then we're also taking into consideration what we're cycling through, right? We started to see a little bit more weakness in the back half of this fiscal year, so we're taking that into consideration as we look at next year.

So when we look at how we built this estimate and guidance, we are -- we expect underlying traffic trends to gradually improve throughout the year. And so that's really how we built it. I don't want to get into the exact details on the brands, but at a blended level, we're thinking 1% to 2% same restaurant sales growth for the full year. And as I said, gradual improvement through the year on the underlying trends.

And then there's just one callout is Thanksgiving shifts out of Q2 into Q3. So Q2 print might look better than the underlying trends, and Q3 will be the opposite. So that's typically about somewhere around 80 to 100 basis points impact on sales in the quarter, positive for Q2, negative for Q3. And so all that said, in this current environment, there's more variability around our sales guide, but we have higher levels of confidence in our earnings outlook. And so, that's kind of where we are.

Brian Harbour

Okay. Thank you. And maybe could you just comment on your pricing thoughts at this point within that? Is there anything we should keep in mind with respect to timing? Is there perhaps some that you would delay in an effort to keep it more modest at the start of the year?

Raj Vennam

Yes, Brian, the good news on pricing is we've actually kept pricing very modest over the last five years, right? So we do expect pricing for this year to be more in line with inflation, so in that 2.5% to 3% range probably. But as we think about how that's going to be spread, we expect it to be more consistent quarter-to-quarter. Now, there may be a 10, 20 basis points movement between quarters.

But if you look at over the last five years, we've only priced a lot and that gives us some flexibility and we've talked about that before. So we've underpriced about 20% over the last five years, compared to where the overall CPI is, which I think was close to 23% on the same five-year basis and then full services at 28% and underpriced grocery as well.

So we feel like we've done a lot of work on keeping prices low and we're going to continue to do that. And as you saw that in the fourth quarter too, we talked about Olive Garden closer to 1% pricing in the fourth quarter.

Brian Harbour

Sounds good. Thank you.

Operator

Thank you. Our next questions come from the line of Lauren Silberman with Deutsche Bank. Please proceed with your questions.

Lauren Silberman

Great. Thank you. Just first on your approach to marketing. So Olive Garden comps have been weak over the past couple of quarters. Some share losses quarter understand on a traffic basis. You outperformed. But as you think about your approach to marketing and promos, how does that influence your decision to increase marketing and what are you expecting for fiscal '25?

Rick Cardenas

Yes, Lauren. In regards to marketing, we've said in the past that we'd probably tick it up a couple of tenths a year and that's probably what we'll do in fiscal '25. But we're going to continue to focus in our marketing efforts on our filters, which we've talked about many times. And we're not going to do things to buy sales, even with the increasing discounting our competitors are doing. Our best way to drive sales is our focus on a back to basics operating philosophy and our guests telling others what a great value they have when they come to our restaurants. And just remember, we do have levers to pull. We do have more marketing to pull if we want to, but our focus is on profitable sales growth.

Lauren Silberman

Great. Thank you for that. And just a follow-up on the consumer environment. Is this mostly related to the low-income consumer? Just what are you seeing across the middle income, high income, across the breadth of your brands? Thanks so much.

Rick Cardenas

Yes, Lauren. It is mostly at the income -- at the consumer below the median household income, which is about \$75,000. Consumers are generally concerned about inflation, and they're becoming more concerned about the job market. And what we're seeing are some behavior shifts that we had already started to see. So for Q4, transactions from households below -- with incomes below the median were lower than last year. So -- and that's more pronounced with consumers below \$50,000 in income. And these impacts were even greater in our fine dining brands. So that's why you saw fine dining had a little bit more negative comp than others.

But at the same time, our guests aren't managing their check like we've seen in prior quarters. And so, we continue to tell you what this means for our brands. Operators that deliver their brand promise and value will continue to appeal to consumers despite economic challenges, and that's what we're focused on doing. We're focusing on giving the consumers that are coming to our restaurants and spending their hard-earned money a great value and a great experience and have them tell others to come back.

Lauren Silberman

Thank you very much.

Operator

Thank you. Our next questions come from the line of Eric Gonzalez with KeyBanc Capital Markets. Please proceed with your questions.

Eric Gonzalez

Hi. Thanks for the question. I think I just heard you say that your guests aren't managing the check the way you've seen in prior quarters. Can you make a comment on why you think that's the case?

Raj Vennam

Hey, Eric. So yes, we did. So if you think back to what we said earlier in the fiscal year, we were seeing a big negative mix on the check and we talked about that, especially both at casual brands and fine dining. And last quarter, we said we started to see some moderation. And as we look at this year, this quarter, if we look at Olive Garden and LongHorn, basically the mix was flat. So basically, there was no negative mix at all, which is a significant improvement.

And then when you look at fine dining, we saw some moderation in Q3 and that continues to moderate into Q4. I think we're now down into the 80 basis points, 90 basis points range in the negative mix versus the 200 or so that we were seeing a couple of quarters ago. So we're just starting to see the ones that come to us are not managing the check as much as they used to.

Eric Gonzalez

Okay. And then just maybe on the guidance, there was a fairly wide gap in comp performance between Olive Garden and LongHorn this quarter. You have that 1% to 2% guidance for next year. If you're not willing to break it out by brand in terms of guidance, but maybe you can comment on whether you'd expect that performance gap to widen or stays as wide as it is, or do you think it's going to converge in FY '20 cuts?

Raj Vennam

Eric, the way we are looking at it is most brands are going to be within the range we provide it. We are providing a 1% to 2%. I'm not going to get into the comments about the range between Olive Garden and LongHorn specifically, but when we look at 1% to 2%, we expect most brands to be in that range. And obviously, Olive Garden being over 50% of the portfolio, they'll have -- they weigh the Darden average too. And if you look back at last year, fiscal '24, we delivered 1.6% in same restaurant sales for Darden, and Olive Garden was right on top at 1.6%. So we'll see how this plays out, but we don't want to comment on Olive Garden versus LongHorn specifically.

Eric Gonzalez

Very good. Thank you so much.

Operator

Thank you. Our next questions come from the line of Andrew Charles with TD Cowan. Please proceed with your questions.

Andrew Charles

Great, thanks. Rick, the question is on Olive Garden. You called out multiple levers at your disposal to help properly go traffic beyond marketing. Can you expand more on those opportunities? Is it menu innovation? Is it the to-go business, the catering business? Just to welcome more thoughts on how to sustain the traffic gap versus the industry?

Rick Cardenas

Hey, Andrew. Yes to all. Now, remember, Raj said we did exceed industry benchmarks. Olive Garden has taken much lower pricing than Darden over the year and the industries over the years. And we're really proud of their team. We're really proud of Dan and the team and what they've done. You know, they're going to continue to focus their marketing on their key equity of never-ending, craveable, abundant Italian food, specifically focusing on ensuring every guest is offered a refill with their first course. That's something that's not provided in other competitors. So that refill is a pretty big part of what we do and a big part of their value equation.

But we're also going to continue to innovate over in our menu. What you see right now on television if you haven't is our Create Your Own pasta at \$12.99. You know, consumers in more challenging times are looking for more price certainty, and that is an amazing value to create your own pasta at \$12.99 with unlimited first course. And we'll continue to focus our marketing efforts there. And we have digital marketing that we can pull as well. So without getting into all the details, we do have levers to pull, but I want to remind everybody we're focused on profitable sales growth, not just buying sales to show a top line number. And we've been very consistent over the years with that. That profitable sales growth is what matters and Raj talked about our EBITDA growth over the last five years, how strong it was. And so we'll continue to focus there.

Andrew Charles

Okay, great. And my final question is about the Ruth's acquisition for franchisee. Curious if this leaves you open-minded for more franchise acquisitions in 2025 or if this one was perhaps more one-off?

Rick Cardenas

Yes, let me start by saying the franchisees at Ruth's Chris are really valued partners to us. And our focus was on integrating our company on restaurants into Darden. You know, this one restaurant franchise was an opportunistic purchase. So, you know, we're going to continue as is and speak with our franchisees if they want to speak with us, but right now we're going to continue to focus on making sure our team gets acclimated to the systems that we've implemented. And so it's not necessarily a change in strategy. It was an opportunistic purchase for us.

Andrew Charles

Very good. Thank you.

Operator

Thank you. Our next questions come from the line of David Tarantino with Baird. Please proceed with your questions.

David Tarantino

Hi. Good morning. Raj, I just wanted to come back to the guidance for the year. And I think you mentioned that you have assumed that you expect underlying traffic to improve as the year moves on. So I just wanted to ask if you could elaborate on what factors you think will drive that improvement? Is it mostly just comparisons related or are you thinking there's something inside the business that will improve on a sequential basis as the year moves on?

Raj Vennam

David, it's primarily driven by the comparables, but the underlying trends have held up pretty well. I mean, even if you look at our fourth quarter that we just came off, month-to-month underlying trends were actually held up pretty steady, and it was an improvement from Q3. And you know, we talked about what we're seeing on the check side, that's also a positive sign. So we think there is, you know, just as we cycle through some of the weakness, that should help us gradually get better through the year.

David Tarantino

Got it. And then, Rick, on Olive Garden, I guess a question I would have is on the advertising approach, do you see an opportunity to better highlight the value you're already offering? Not necessarily provide a new discount or something different than what you're adding, but it seems like that brand has a great value proposition. I'm just wondering if you think there's an opportunity to emphasize that a bit more in the advertising?

Rick Cardenas

Yes, David and that's exactly what we're doing right now. You know, on TV right now, we've got our Create Your Own Pasta at \$12.99 with the price point on the television. And, you know, we do believe that Olive Garden has a great everyday value. And so what we -- the things that we can do to continue to highlight that versus discounting is what we'll continue to do.

David Tarantino

Great. Thank you.

Operator

Thank you. Our next questions come from the line of Jim Salera with Stephens. Please proceed with your questions.

Jim Salera

Hi guys, good morning. Thanks for taking our question. Can you just give us some of the puts and takes on the 3% inflation guide for 2025, particularly what you're thinking around the food basket and labor?

Raj Vennam

Yes, Jim. So this is Raj. So on the food basket, we're basically assuming commodities to be around 2%. I think the biggest driver within the food basket is beef. We still expect beef to be in the mid-single-digits. And then we actually expect low-single-digit deflation in chicken. And then pretty much all other categories are probably going to be in that low-single-digit inflation. And so that's how we're getting to commodities being around 2%.

From a labor perspective, we are actually expecting labor to be more like a 4% overall. So if you think about where we've been and what the hourly wage inflation is expected to be closer to 4% and then total labor to be around 4%. So those are the two big things. And then from all other restaurant expenses are probably going to be more in that 2.5% to 3%. And that's how we're getting to that overall being closer to 3%.

Jim Salera

Okay, great. Thanks for the detail on that. And then if I could maybe try to tie that to the consumer. You mentioned earlier one of the concerns or chief concerns for the consumer is just kind of overall inflation. If we see inflation maybe come in at the lower end of your expectations. Is it possible that, that could also provide better-than-expected lift on the comp side, given that consumers maybe feel a little bit better about how far their dollar goes? Just trying to think of kind of the catalyst path for the consumer into 2025, what might make the results from the consumer be better than what you're anticipating?

Rick Cardenas

Yes, Jim, The consumer is really focused on what price they're paying in everywhere, not just in restaurants. And if you think about the cost that they have on the non-discretionary costs, they've been growing faster than wages for quite a few years, and that eats into discretionary spending. So if inflation in the non-discretionary gets better, that may give them a little bit more discretionary. And if you're considering food at the grocery store or food a non-discretionary, then yes, that should help. But we'd like to see some lower inflation in things like things that people have to buy. Rent, utilities, child care, all of those things would help on the non-discretionary side, help discretionary spend.

Jim Salera

That's great. Thanks for the color, guys. I'll hop back in the queue.

Operator

Thank you. Our next questions come from the line of Sara Senatore with Bank of America. Please proceed with your questions.

Sara Senatore

Great, thank you. I guess, I wanted one clarification and then a question, please. The clarification is just, you mentioned pricing, like 1% in Olive Garden and pricing below inflation, but your food margins were better than we had expected. So I just wanted to understand like what the dynamic might have been across brands, whether there was any mix. I mean, presumably all of them actually some of the best food margins. So if you could just help me unpack that a little bit. And then I do have a question about the demand environment.

Raj Vennam

Yes, Sara. Good morning. So when we look at the fourth quarter, yes, our pricing was across Darden was below inflation. I think our pricing was closer to 2.5, inflation was around 3. So there is a board. I think the delta was almost 70 basis points. But that, again, goes back to the testament of our teams and our ability to manage through different cycles, right, through different environments. We've talked about how in a slow growth environment, we should see costs get better, but also we should see our own -- the controllables be even more -- come in even better. So ultimately, it's just a testament to our teams, how well they manage the business, with the focus on getting to the returns we need to get for the business.

Sara Senatore

Okay, and those controllables sit even in the cog line?

Raj Vennam

There is some, yes.

Sara Senatore

Okay, got it. Thank you. And then the question on demand is, to some of the earlier comments you've made, perhaps the demand environment is softer-than-expected in so far as the issue with your comps is you're still taking share, but I'm interpreting it to mean perhaps versus where we expected, given the low-income consumer primarily, I think. I'm trying to, I guess, ask when you think about where that expectation was when you acquired Ruth and kind of doubled down on fine dining, had you anticipated something more robust or there was always an expectation of normalization and even in that context the acquisition makes sense.

Rick Cardenas

Hey, Sara. This is Rick. When we acquired Ruth's, we think about an acquisition over a long, long period of time. We're not as worried about the next quarter or the quarter after the acquisition. Now, would we have liked the consumer at the below-median income to continue to go to fine dining? Absolutely, but any time we make an acquisition, there could be a chance that it's because we're going into a slowdown and maybe there's a little bit of a better opportunity for price discovery there. So, I would never read into when we make an acquisition into a certain category or not.

Remember, we have criteria for our M&A and Ruth's met every one of that criteria, and we were able to agree on our price. So that's why it happened at the time it happened. And generally, that's when any of our M&A will happen, as long as we find the brands that meet the criteria and we get price discovery and we agree on a price and we'll do that deal, we're not worried about the environment that we're going into or that we're coming out of because these are long, long-term investments for us.

Sara Senatore

That makes sense. Thank you.

Operator

Thank you. Our next questions come from the line of Jeffrey Bernstein with Barclays. Please proceed with your questions.

Jeffrey Bernstein

Great. Thank you. Rick, my first question is just on the weakening conditions you mentioned in the back half, it does seem like within your portfolio, at least, Olive Garden was hit harder, and I guess relative to the industry as well, which I think is contrary to past economic slowdowns when most people look at Olive Garden as the more defensive value brand. So I'm just wondering, as you take a step back, what do you think has changed this go-around? How much of it is maybe internally what you're doing versus maybe what the competition is doing and if you can give any sequential color on the trends through the quarter or into June just to kind of get a sense of how we're starting fiscal '25, that would be great. And then I had one follow-up.

Rick Cardenas

Sure, Jeff. I'm not going to talk about the trends into fiscal '25 where we are. And I think Raj had mentioned that the quarterly -- fourth quarter, we were pretty consistent month-over-month, month to month to month. So -- but I will say for Olive Garden, in prior slowdowns, Olive Garden outperformed. They outperformed at the same restaurant sales and at that time they were taking more pricing than everybody else. We outperformed this quarter in traffic and we've continued to outperform the industry in traffic for the last many years and we only took 1% pricing. What I would tell you is that if we would have taken the pricing that the industry took in the third quarter or in the fourth quarter, I'm sorry, Olive Garden would have been positive and would have performed even more. And so this is a long game for us.

The other thing that we aren't -- that we're not pulling are things that everybody or not everybody, but people used to pull in slowdowns, couponing, deep discounting and all those other things and we're not doing that even at a time that our competitors have ramped up discounting, deep discounting on television and, you know, Olive Garden still outperformed in traffic, didn't outperform in comp sales, but as I said, we only took 1% pricing. And so we're really, really proud of that and we'll continue to do that. And maybe that's why we didn't outperform on the sales side, but we did continue to outperform on the traffic side. And I just want to say their gap in fiscal Q4 was 60 basis points in traffic, and their two-year gap is 530 basis points in traffic. So we feel pretty good with where they are.

Jeffrey Bernstein

Absolutely. And then my follow-up, Raj, as you think about, well, as you're setting up a guidance for fiscal '25, you mentioned how in fiscal '24, you beat your initial EPS guidance despite seemingly falling short on the initial fiscal '24 comp guidance and as you look at '25 wondering as we enter the year it seems like maybe if there was a risk that it's the same scenario where I mean just looking at the fourth quarter your comps were below the fiscal '25 guide. So what leverage do you have on the margin and earnings side to maybe beat the comps -- if the comps would again fall short as we move through fiscal '25? It would seem like you don't have as much opportunity with inflation easing as maybe you had this past year. So how do you think about the outlook for fiscal '25 if the comps were to fall short? Thank you.

Raj Vennam

Hey, Jeff. So I don't want to get into the exact details, but let me say a high level and talk about how we think about philosophically, right? If the environment is such that the sales continue to be weaker, that also implies the demand is weaker and the inflation should be a little bit better. So let's start with that. And in fact, if you look at last year, that was part of the reason we were able to exceed the earnings guidance even with the sales off. That's not all of it, but that's partial.

The other part of it is how we manage through the -- through how our teams manage through the cycle. So as I said earlier, our restaurant teams and our teams at the support center work very hard to kind of, you know, have these targets and we work towards them and we're always trying to get better. And there's just even more push on that when things are a little bit softer on the top line. So that's kind of how I talk about it. I don't want to get into the specifics because, you know, this is a big business. It's very complex. There are a lot of nuances. There's a lot of -- but there's a lot that goes in to get to where we need to get to. And we feel, I think if you just look back, it shows that we have the ability to get there to a different base.

Jeffrey Bernstein

Understood. Thanks, Raj.

Operator

Thank you. Our next questions come from the line of David Palmer with Evercore ISI. Please proceed with your questions.

David Palmer

Thanks. Good morning. Olive Garden's strategy has been to sort of set itself up as a well-positioned everyday value and a strong consumer service. Do you see the consumer recognizing this? Like are the consumer satisfaction scores at Olive Garden doing as well versus the peer group in Italian as say LongHorn or Texas Roadhouse are doing in stake?

Rick Cardenas

Yes, David, I won't comment on how they're doing versus their competition, but I can tell you as Olive Garden, both internally and externally, their value ratings have increased over this last year. And they're pretty close to the top end of the value and overall in the measures we look at. I also mentioned they were kind of at the highest levels of guest satisfaction in this fiscal year. But again, they continue in all of our brands. Most of our brands -- I think all of our brands were at or above their value perceptions externally versus last year?

David Palmer

Yes. I guess, I'm wondering why you think the traffic share gains are not stronger. Is it just simply the consumer awareness of the value that's at Olive Garden? Or is it perhaps something about the Italian category, such as the ease of trading down to at-home posts a little easier we're seeing very strong growth in, for instance, Rayo's Sauces lately. So we're seeing scratch cooking really picking up in at-home, we're not seeing a strong stake demand at-home. So I'm wondering if there's sort of an interaction index with at-home trade down that's stronger in the Italian category. Do you have any thoughts on that?

Rick Cardenas

Well, there may be interaction trade down to at-home because of the median income consumer, it's not necessarily the Italian. But I can tell you where we compete in the full service base, Olive Garden was at 75th percentile in their traffic. So -- and again, when you're comparing how they're doing in full service. And then we're putting in this at-home, everybody is dealing with the at-home as well, not just Italian.

And then finally, the competitors had ramped up very deep discounting and while we had -- we didn't see that actually impacting Olive Garden or our other brands, because the trends kind of stayed similar. What we did see, interestingly, is a little bit of a shift from QSR to some of those competitors. And so that might be where they're trying to take some share from. But we did see that and that lifted the industry index in some of those -- and maybe one of those competitors, which is a big part of the index. So there's a little bit of a nuance in how the index works, especially when you're taking share from another category -- another part of the index.

David Palmer

Great. Thank you very much.

Operator

Our next questions come from the line of Dennis Geiger with UBS. Please proceed with your questions.

Dennis Geiger

Great. Thanks, guys. Just wondering if you could speak to the development environment a bit more. It seems like consistent expectations as it relates to new builds. But anything you're seeing there sort of on timing, thinking about build cost, et cetera?

Rick Cardenas

Yes, Dennis. I will -- let me start by saying that the new restaurant projection we have for next year is within our long-term framework. So while it's lower than we like it to be, it's still within our long-term framework. And recall, the new restaurants also include M&A. So we bought about 80 restaurants from Ruth's Chris that were part of last year. Now that's not impacting this year, but it is part of our framework construction costs are still quite a bit higher than they were before COVID, but the levels are normalizing more and it's still taking a little longer to get construction starts. We're just trying to figure out ways to improve our process to potentially get starts moving a little bit faster. And maybe there is some things that we can do to help municipalities with kind of working on permitting and other things,

But we feel pretty good about our pipeline for next year. We'd like to see it higher for the years after, but we're not going to just build restaurants and put a number out there that we don't think that we can hit, and we feel pretty good about where we are. And again, Raj showed you where we were for the last five years in our new unit growth. It was almost 3%. It was 2.9%, which is at the high-end of our framework. So we don't necessarily think year-to-year, we think long-term.

Dennis Geiger

Thanks, Rick. And one more, just curious if you could comment a little more on sort of what your expectation is for the industry promotional environment for the year. Is what we're seeing sustainable? Can it increase? I know there's 1 million factors that go into this. But just given your perspective, would love any thoughts on what over the next three quarters or so, what the industry environment on promo discounting, et cetera, looks like in your opinion? Thank you.

Rick Cardenas

Yes, Dennis, I think my perspective is -- we like what we're doing better, right? We don't think that we think that everyday low value and continue to focus on our core equities is more sustainable than deep discounting to try to drive people in. Others can do that, and we'll continue to play this long game. And over time, you have to keep wrapping on that. If you do a deep discount and it stays the same way, you have to do even more the next year, you have to do more television. And we just think we'd rather do more great food, more great service, and let's wrap that. And so again, I can't comment on what other people think is sustainable or not. We just think our business, the way we do it is more sustainable.

Dennis Geiger

Thank you.

Operator

Thank you. Our next questions come from the line of Peter Saleh with BTIG. Please proceed with your question.

Peter Saleh

Great, thanks. Raj, I wanted to ask on the flat mix, which I think you mentioned was a pretty meaningful improvement from what you've seen in the past couple of quarters. Can you just give us a little bit more detail on what's driving this? Is this alcohol mix improving entrees consumers trading up to more expensive entree, the appetizers. And is there any way to dissect this by income cohort? Are you seeing more improvement from the lower income, higher income, anything you can glean there?

Raj Vennam

Hey Peter. Yes, just to start, that was specifically at Olive Garden and LongHorn. And so when we look at -- and it's different for both brands. So when you look at LongHorn the mix was driven by some add-ons, increased add-ons. They had a great -- they also had a new Lamb Entree that actually was that did really well. There was parmesan crusting, people wanted to get more of that. So there were things like that were helpful with the mix.

What we -- alcohol is kind of fairly stabilized. So it's not necessarily a headwind anymore. And so that's probably helping but when you look at Olive Garden, the same thing where people are not -- we're not seeing as much trade down within the -- whether it's the entree trade down or not getting add-ons. So just in general, more stabilization and so maybe this is -- the guest that's coming in today is not managing the check as much. And so that's different from maybe some of the guests that were coming in earlier in the fiscal year.

Peter Saleh

Great. Thank you very much.

Operator

Thank you. Our next questions come from the line of Jeff Farmer with Gordon Haskett. Please proceed with your questions.

Jeff Farmer

Great. Good morning and thank you. Just a couple of quick follow-ups. With the 1% to 2% FY '25 same-store sales guidance, you pointed to the 2.5% to 3% menu pricing. But can you give us a little bit of color as it relates to both traffic and mix assumptions for FY '25 guidance?

Raj Vennam

Yes, I think it's fair to assume that our check is probably going to be in that range of 2.5% to 3%. So you can back into the implied traffic. So we do expect the mix to be fairly flat.

Jeff Farmer

Okay. And then I might have missed it, but G&A dollars in FY '25, did you provide that guidance?

Raj Vennam

You did not miss it. We haven't talked about it. The G&A for this year, we should be closer to \$450 million for fiscal '21, it should be closer to \$450 million. And I think that's going to be spread fairly evenly from second to the fourth quarter, with the first quarter to be \$20 million higher than those three quarters. It's just typical that we have a little bit more in the first half.

Jeff Farmer

All right. Appreciate it. Thank you.

Raj Vennam

Yes.

Operator

Thank you. Our next questions come from the line of Jon Tower with Citi. Please proceed with your questions.

Jon Tower

Great, thanks. I appreciate you taking. Going to the cost side of the equation, it was pretty impressive even with the comp that you put up in the fourth quarter, how you were able to manage labor and the other op expense line very well. And I'm just curious if you could dig into how you expect those lines to play out in fiscal '24 or better said, do you think a lot of the management that you're able to put in across labor as well as the other OpEx can carry forward into fiscal '25 kind of offsetting some of that inflation that you're seeing.

Raj Vennam

Hi, John, so if you look at the drivers this year, we talked about improved productivity. That was -- a part of that was also driven by lower turnover. And so there may be a few quarters where we'll still get a little bit of that benefit, but as we look to next year, I would expect -- we would expect COGS to be better because commodities inflation is likely going to be, as I said, closer to that 2% and then pricing being a little bit more, you should get some leverage on that line.

We do expect to continue to look at other OpEx, right? That's one of the things non-guest-facing cost is where we spend a lot of time looking at how do we continue to get better. And that's the power of the platform. That's the power of having this big multiple brands and being able to learn from each other. And the last piece is, there is some continuing synergies from Ruth's acquisition that we talked about. We got about half this year. We're going to get the rest next year. So those are all different drivers of how we get that margin growth.

Jon Tower

Got it. Thank you. And I know a lot has been talked about today on the marketing side. So I'm just curious, one more, I guess, on the topic. In terms of the way that you're speaking to the consumer, I know you're using traditional television as a primary means to communicate Olive Garden's message. But I'm just curious if you could dig into what you're doing on social and how you might be changing the brand's perception on those platforms or even in traditional media, are you going after different day parts in terms of where you're advertising even platforms where you're advertising through linear media. Maybe just more information there would be great.

Rick Cardenas

Yes, John. For several years, we've been building our internal digital media capabilities, and we've done -- Olive Garden is the only one on television. Everybody else does spend marketing and it's in digital. And we've been testing things like connected television. We've been testing other things to help drive our traffic. And because we've been testing this allows us to kind of move them into other brands to see how they work. We do a lot of test and learn -- and so we don't expect our media to grow significantly year-over-year because we think we're more efficient with the tests that we do. And so as we continue to do that, we know what the right times to put messages out there.

We know what days and we knew all those things. So we're not necessarily going to think about ramping up a communication of a certain day part unless the brand thinks it's the right thing to do. And so they might -- we might see some brands talk about a certain day part or not. But we are using our digital that we've learned over the years and we have an internal team here that's great at what they do and we'll continue to focus on that.

Jon Tower

Thank you.

Operator

Thank you. Our next questions come from the line of Chris O'Cull with Stifel. Please proceed with your questions.

Chris O'Cull

Yes thanks. Rick, you mentioned several sales building opportunities earlier. But I was wondering if you think there are any opportunities to improve throughput during high demand peak periods at Olive Garden? I'm assuming the restaurants are still in a way during traditional peak periods like Friday and Saturday nights.

Rick Cardenas

Yes, Chris, I think not just at Olive Garden, but all our brands can do more to improve throughput in our peak periods. We can get a little bit quicker in what we do to make sure that the guest doesn't feel rush, but they don't feel like they're waiting for a lot of things. So we do think that there's opportunities and not just at Olive Garden, and if we can do that better, we should get some -- at least some traffic in that day if people were walking away. But in the long run, getting a little bit quicker, maybe better for us any day, not just on the peak periods.

Chris O'Cull

Okay. And then, Raj, Olive Garden segment margin contracted, I think, 70 basis points this quarter, while the other segments or the other segments saw some considerable year-over-year expansion. Can you help us understand what drove that pressure? And do you see other -- those factors putting pressure on Olive Garden this going into fiscal '25.

Raj Vennam

No, Chris, I think it's actually just kind of normalizing what they should have been, right? Last year, I think we had a little too high margin. I mean, to be 22.8% segment profit margin is industry leading. I mean that's just -- that's just really high. That would be aspirational for a lot of brands in this industry. So to be able to get to those levels. And frankly, it goes back to the -- our decision to not price as much, right?

And we had talked about it last year. We didn't think 23.5% segment profit was the right number. That was a little too high. And so it's really giving back a little bit of that. But we don't expect that to be like a -- as we look -- move forward, we don't expect that to be a drag going forward. It's just more of -- there were some things that needed to be normalized.

Chris O'Cull

Perfect. Thanks, guys.

Operator

Thank you. Our next questions come from the line of Danilo Gargiulo with Bernstein. Please proceed with your questions.

Danilo Gargiulo

Raj, given your focus on more profitable traffic and cost control, cost management in this environment, can you help us understand the flow-through of the marginal dollar today and how it compares with the marginal dollar flow-through back in, say, 2019?

Raj Vennam

Hey Danilo, I think the flow-through from the marginal dollar is not that different. It is actually fairly similar. It's just there are other things that are more non-variable costs that we're also looking at. So it's not -- that's how we're getting to that. But from a high level, if you look at across the portfolio, somewhere around 35% to 40% is probably the right flow-through to think about it. And I don't think that's any different from where we were before in 2019.

Danilo Gargiulo

Okay, thank you. And Rick, just from a long-term perspective, can you share maybe the rationale and timing behind these recent executive changes? And in particular, what you're expecting from your team in their newly created roles and specifically, if you can comment on kind of post promotion and kind of the role of the Chief Business Development Officer, what are you expecting out of that? Thank you.

Rick Cardenas

Yes, Danilo, as I said in the prepared remarks, these changes help set us up for future growth and developing our leaders. So if you think about Todd and John elevating their roles a little bit, Todd leading development, international and franchising and Ruth's Chris. And those all have really good synergies for Todd, right? So development in new restaurants, that's for all brands but international franchising with the percent of restaurants that Ruth's Chris has his franchise, it's actually a pretty good synergy there.

Plus, as I said, Todd, came with -- came to us from rare hospitality when we bought them. So he knows what it's like after the systems integration and how to help people assimilate more. And he'll help Rick, who's our new President, become a great President. And then finally, as I mentioned, having an operator's perspective and new restaurant development, I think, is a pretty good thing to do.

We think about how to do the turnovers better how to get -- make sure we are more planful in telling the brands when we think the restaurant is going to open. So there aren't moves and delays, so we can get those a little bit better. So that's really where Todd comes into play. And then on John's side, if you think about the specialty restaurant group with five brands and John leading all five, that was a lot. And so how do we help bring him up and bring the new president underneath John, who are all proven leaders and all have a good future here with us, while John can help them become even better brand presidents. A couple of them -- one of them is a former finance person, but he's got a great operations knowledge, and he actually was a restaurant manager many, many years ago.

But John can help Mark become a better general manager and think more about operations. You've got Falon Farrell, who's now going to be leading Capital Grille and Eddie V's. Actually, Falon started at Capital Grille as a team member, and she worked at Capital Grille for many years. And then she led training for Capital Grille, and Eddie V's. And now she -- then she led Eddie V's for quite a while in operation. So she can see how do we bring some synergies in the support center for Capital Grille and Eddie V's to help leverage those brands better, but while working for John who can continue to develop her for the future.

And then I think about Bryan Clements. Bryan, his history, he started a big bar brands years ago. He spent many years at LongHorn to understand how LongHorn and a simple operating model works and he spent time at Olive Garden, leading Olive Garden operations, and that's a big system. And how do you think about a big system when you've got Yard House who's passing 80 restaurants, and we want to continue to grow them, and he can help with more system thinking at Yard House.

So we think it's a really great move for all of them. And Laura, I didn't mention Laura is a great leader here at Darden. And she spent nine years at LongHorn. She really knows LongHorn. And she's got a great relationship with Todd. She'll be able to continue to talk to Todd and the team at LongHorn has rallied around her. So our reasoning behind that is to get people ready, while other people are basically retirement eligible. And so we want to make sure that they're here to help them progress. And you know what our retirement programs are not saying that anybody is leaving anytime soon, but this gives them a chance to develop people while they're still around.

Danilo Gargiulo

Great. Thank you.

Operator

Thank you. Our next questions come from the line of Andy Barish with Jefferies. Please proceed with your questions.

Andy Barish

Hey guys, two quick ones. Just hearing some commentary on the softer Florida market where you guys kind of over-index, any thoughts there? And then if you could give us the Olive Garden to Go mix for the fiscal year '24 versus '23? And is there -- any trends you're seeing there, any impact on maybe some of the same-store sales components, just not remembering how you guys calculate that fully?

Raj Vennam

All right. Andy, let's start with the trends themselves. So if we actually look at the last quarter, and I may have mentioned in the prior quarter, too, but Florida, Texas and California generally were a little bit weaker. We saw that not just Florida, but Texas and California. And did contribute to the top line being where it was. And so that's -- I don't know that we have a strong explanation for why one of the thoughts was maybe some of these markets that opened faster coming out of COVID might be the ones where we're seeing a little bit of softness and maybe a little bit of strength on the ones that opened a little bit later coming out of COVID but that's just a hypothesis. But that's -- the facts are, you're seeing some strength in the New England market and other things and not as much in California, Texas and Florida.

As we look at our to-go mix, -- to go mix at Olive Garden was basically at -- I think for the year, 24%, which is fairly similar to last year, not a huge -- not much change. And LongHorn is at 14% think we saw a little bit of an improvement year-over-year like 1 point or so at LongHorn on the quarter, but that's just fairly stabilized there. And I think there was another question about some mix I can't -- what was the -- was there another one, Andy, that I missed?

Andy Barish

Yes. No. Just if the to-go trend had or decline if that was impacting any of the components of same-store sales, but it doesn't sound like that.

Raj Vennam

No, it's not yes.

Andy Barish

Okay, thank you.

Raj Vennam

Yes.

Operator

Thank you. Our next questions come from the line of Brian Vaccaro with Raymond James. Please proceed with your questions.

Brian Vaccaro

Hey, thanks. And good morning. I know we're running off. So just two quick ones for me. Can you provide traffic and check for Olive Garden and LongHorn in the fourth quarter? And then, Raj, did I hear correctly blended price up 2.5% to 3% for the fiscal '25 and that seems stable. So does that suggest you've taken price recently? And could see that range as early as the first quarter?

Raj Vennam

Yes, Brian, the blended -- let me start with the later question first. Yes, the blended in the 2.5% to 3%. We have taken some pricing -- we are -- yes, typically, we take some in June, so there's some pricing. So you should start to see some of that in the quarter. For the fourth quarter, our total check growth was 2.2% at Darden level, I think Olive Garden was more like a one-third, and LongHorn was probably in the 3-ish percent, LongHorn has positive traffic. The traffic growth, I think, in the quarter was 0.8%. So in the total SRS is 4%, so the check growth was at on 3.2%.

Brian Vaccaro

Thanks very much.

Operator

Thank you. Our next questions come from the line of Jake Bartlett with Truist Securities. Please proceed with your questions.

Jake Bartlett

Great, thanks for taking the question. I want to dig in on that last question and answer a little bit more, and that's pricing at Olive Garden. Pricing decelerated to 1% in the fourth quarter. You talked about comps being similar across the brand in '25 and pretty stable pricing throughout the year. Does that imply that you're going to see a pretty big step-up in menu price at Olive Garden? Or should we expect kind of a similar, much more cautious pricing at Olive Garden throughout the whole year?

Raj Vennam

I'm sorry, I was on mute. If you look at Olive Garden's pricing for the year, fiscal year, they were actually close to mid-3s. And so that's pretty consistent, not all the way to where Darden blended was 4. So they're about 50 or 70, 80 basis points below Darden. As we think about next year, they're not going to -- we would expect them to be maybe in the 30, 40 basis points range of where Darden might end up. So I don't expect this to be as big of a gap. But we're still -- we're not talking about huge pricing actions, right? We talked about -- there is always some timing of the quarter-to-quarter. But on the year, if we think 2.5% to 3%, Olive Garden is probably closer to 2.5%

Jake Bartlett

Got it. But I think that would imply that in the near-term, you'd be taking up pricing in Olive Garden in this environment, this macro environment. I'm wondering whether you think that creates a little bit of risk to traffic even from where we started. If you can maybe answer that, but then I also just had a follow-up on the Fast Recovery Act in California, and you guys have a decent presence there, and I think we haven't gotten a lot of commentary about the impact. It seems like some pretty seismic impacts in California impact on labor, but also shift in demand maybe from limited service into casual dining. So any comment there on what you've seen over the last few months as the -- as the fast recovery actually implemented?

Rick Cardenas

Hey Jake, this is Rick. I'm going to start on the fact act with saying that our employment proposition is great in California. So we've got a great one there. On average, our team members earn well over \$20 an hour. And California only represents about 5% of our restaurants. So it's not like it's an over-index for us. We haven't seen a real impact in wages. And since the FAST Act came about, but unfortunately, we have seen many closures of fast food restaurants in that time.

And so our California performance for the quarter was still not as strong as the company, as you said. But as Raj said, we did see some softness in California, but I think that was more related to some weather there than anything else. But again, we haven't seen a whole lot of change in our wages. Our employment proposition is great in California. But we have seen some fast food restaurants, unfortunately, have to close because of the act.

Jake Bartlett

Thank you. [Technical Difficulty] can you price at Olive Garden now in this environment?

Raj Vennam

So Jake, I'll go back to the pricing actions, some of this is timing of when you take actions. Every year, there's a little bit of pricing action, right? And this year, or in fiscal '24, we did not have any pricing action until pretty late into maybe Q4, middle of Q4. So that's just already there. It's not a lot of pricing on top. Some of that is also moving to years, right, some restaurants in different markets as things change with the environment and minimum wage, we make some adjustments. But nothing crazy.

If you look at -- I mentioned earlier and in response to a different question, we have taken a lot less pricing at Olive Garden. So we're not worried about where they are. I mean if you look at over the five years, cumulatively, their CAGR is probably more in the 3.5% range when the industry is closer to 5% plus. So we feel like there's a better -- great value proposition at Olive Garden, and we try to keep prices as low as we can, and you've seen that.

Jake Bartlett

Great, thank you very much.

Operator

Thank you. Our next questions come from the line of Gregory Francfort with Guggenheim Securities. Please proceed with your questions.

Gregory Francfort

Hey, thanks for the question. My question is just -- I think it was asked on unit growth earlier in the call, and you guys were suggesting it makes sense to look at the long-term. I think you're opening up 15 to 20 or so Olive Gardens a year, which is one of the faster paces of growth we've seen in a long time. How many stores do you think Olive Garden could have on a long-term basis? You have a lot of competitors that are up at 1,200, 700 stores with a lot lower AUVs. Just sort of curious how you come up with the long-term target for Olive Garden. Thanks.

Rick Cardenas

Greg, let me start by saying every time we come up with a target for Olive Garden, we blow past it. So we haven't really talked about a target for Olive Garden for a lot of years. What we have found over the last five or 10 years is that we can open more Olive Gardens in markets that Olive Gardens are already in, where prior to that, we weren't doing that as much. Convenience is important to consumers, and we'd rather be a little closer where they live. And so we do believe there's opportunities to open Olive Gardens for the foreseeable future, and we don't think we're near the top of the Olive Garden limit yet.

Greg, did you have any other questions?

Gregory Francfort

No, no, that was it. I appreciate the perspective. Thanks.

Rick Cardenas

Thank you so much.

Operator

Thank you. Our next questions come from the line of Andrew Strelzick with BMO Capital Markets. Please proceed with your questions.

Andrew Strelzick

Hey, good morning. Thanks for taking the questions. I just had two quick ones for me. There's been a lot of discussion about the low-income consumer. I think last quarter, you said that you saw growth with the higher-end consumer at all of your segments. So I was hoping we could get an update there on how that is trending, if that's still what you're realizing. And then -- my second question is about the balance sheet, and you mentioned leverage being below the target. It's been that way for a bit now. So I'm just curious how you're thinking about what might narrow that gap or how you're thinking about leverage on the balance sheet going forward? Thanks.

Raj Vennam

Andrew, let's start with the question around the incomes. We are seeing the higher income being a little bit better, and it varies from brand to brand. And as you can imagine, when you think about a brand that grew traffic for LongHorn, for example, they actually had growth pretty much across all income segments.

But from a fine dining perspective, you're seeing growth at the higher end I wouldn't say that's just the median household. It actually has to go up north of 150 to see where we're seeing some growth. And then the pullback is mostly at the lower -- at the below middle median household income. And then the other segments are -- other income groups or cohorts are either stable or growing.

And then on the balance sheet, we always work with our Board to figure out what's the best way to kind of really position ourselves. We like the flexibility we have -- and as we've always said, we want to use our balance sheet to get productive assets over time. And so that's still -- the philosophy remains the same.

Andrew Strelzick

Great. Thank you very much.

Operator

Thank you. We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Courtney Aquilla for closing remarks.

Courtney Aquilla

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

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

Read more current DRI [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Newest  