

# Darden Restaurants, Inc. (DRI) Q4 2026 Earnings Call Transcript

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## Q4: 2026-06-25 Earnings Summary

Insights



EPS of \$3.66 **beats** by \$0.02 | Revenue of \$3.72B (13.67% Y/Y) **misses** by \$10.32M

Darden Restaurants, Inc. ([DRI](#)) Q4 2026 Earnings Call June 25, 2026 8:30 AM EDT

### Company Participants

Courtney Aquilla - Vice President of Finance & Investor Relations

Ricardo Cardenas - CEO, President & Director

Rajesh Vennam - Senior VP & CFO

### Conference Call Participants

Lauren Silberman - Deutsche Bank AG, Research Division  
Gregory Francfort - Guggenheim Securities, LLC, Research Division  
Christopher Carril - KeyBanc Capital Markets Inc., Research Division  
Andrew Charles - TD Cowen, Research Division  
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division  
David Palmer - Evercore ISI Institutional Equities, Research Division  
Sara Senatore - BofA Securities, Research Division  
Brian Harbour - Morgan Stanley, Research Division  
Jon Tower - Citigroup Inc., Research Division  
Dennis Geiger - UBS Investment Bank, Research Division  
Andrew North - Robert W. Baird & Co. Incorporated, Research Division  
James Salera - Stephens Inc., Research Division  
Peter Saleh - BTIG, LLC, Research Division  
Jacob Aiken-Phillips - Melius Research LLC  
Andrew Strelzik - BMO Capital Markets Equity Research  
John Ivankoe - JPMorgan Chase & Co, Research Division  
James Sanderson - Northcoast Research Partners, LLC  
Brian Vaccaro - Raymond James & Associates, Inc., Research Division  
Jeffrey Bernstein - Barclays Bank PLC, Research Division

## **Presentation**

### **Operator**

Greetings, and welcome to the Darden Fiscal Year 2026 Fourth Quarter Earnings Call. [Operator Instructions] This conference is being recorded. If you have any objections, you may disconnect at this time.

I will now turn the call over to Ms. Courtney Aquilla. Thank you. You may begin.

### **Courtney Aquilla**

*Vice President of Finance & Investor Relations*

Thank you, Kevin. Good morning, and thank you for participating on today's call. Joining me 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. A supplemental materials presentation containing information shared on today's call is available on the Financials tab in the Investors section of our website at [darden.com](https://www.darden.com).

Today's discussion includes certain non-GAAP measurements and reconciliations of these measurements are included in the presentation. Looking ahead, we plan to release fiscal 2027 first quarter earnings on Thursday, September 24, before the market opens, followed by a conference call.

During today's call, all references to industry results refer to the Black Box Intelligence casual dining benchmark, excluding Darden. Black Box Intelligence updated its benchmarks in early May following changes to the underlying brand set. This restatement had an outsized impact on the casual dining benchmarks. The change moved the average benchmarks up by 150 basis points for same-restaurant sales and 25 basis points for same-restaurant guest counts. Incorporating this restatement, average same-restaurant sales for the industry increased 1.4% and average same-restaurant guest counts decreased 1.8% during our fourth quarter.

This morning, we will share some brief remarks on the quarter and full year as well as the details of our financial results, discuss the power of Darden's portfolio and share our fiscal 2027 financial outlook.

Now I'll turn the call over to Rick.

**Ricardo Cardenas**

*CEO, President & Director*

Thank you, Courtney. Good morning, everyone. The fourth quarter was a strong finish to an excellent year, one in which we significantly outperformed the industry. Our restaurant teams continued to execute at a high level and their commitment to operational excellence helped each of our brands deliver positive same-restaurant sales for the quarter.

We know guests choose the brands they trust for key occasions. Several of our brands enjoyed record performance on Mother's Day, including the highest ever traffic day at Olive Garden and LongHorn Steakhouse, and our guest satisfaction results continue to be at or near all-time highs.

It was an especially strong year for our 3 largest brands, Olive Garden, LongHorn and Yard House. Olive Garden met our heightened expectations for the year, delivering 4% same-restaurant sales growth, which is above the high end of Garden's long-term framework. LongHorn delivered same-restaurant sales growth of over 7% for the year, reflecting their focus on food quality and execution. They ended the year by conducting their ninth annual Steak Master Series. Congratulations to Jesse Montalva from the LongHorn Steakhouse in Riverview, Florida, who claimed the championship trophy.

Yard House grew total sales by \$95 million compared to last year, driven in part by same-restaurant sales growth of 5.6% for the year. Performance of Olive Garden, LongHorn and Yard House this year is extremely impressive, marking the fifth consecutive year that all 3 brands have delivered positive same-restaurant sales. With our focus on growing our brands, we opened 71 new restaurants during the fiscal year, 6 more than initially planned at the beginning of the year, and our development team has built a strong pipeline of sites to support new restaurant growth. Raj will share more details about our growth plans in his remarks.

Additionally, our newest international franchising partners in Spain and India opened their first locations during the year, and our new partner in Canada plans to open their first new restaurant next week. Our franchising and international team has helped our new partners open restaurants more quickly, and they are on pace to open the most international locations in a single year in fiscal '27.

Fiscal '26 marks our 31st year as a publicly traded company, and Darden has achieved an average annualized total shareholder return of 10% or greater for any 10 fiscal year period when considering Darden's stock price appreciation plus dividend yield. This morning, I want to focus my comments on how we are able to do this and what gives me confidence for the future.

Full-service dining is a variety-seeking category, and we have a collection of brands that give us reach across multiple dining occasions, guest demographics, price points, geographies and cuisine types, while reducing reliance on any one brand, consumer segment, region or cuisine. Our brands play distinct and valuable roles. Olive Garden and LongHorn are the 2 most dominant brands in our portfolio with strong guest relevance and additional room for growth. Yard House, Cheddar's Scratch Kitchen and Chuy's are incredibly popular brands with significant runway for growth. And Ruth's Chris Steak House, The Capital Grille, Eddie V's and Seasons 52 are differentiated brands with strong positions in their respective categories and should have balanced growth over time.

Our portfolio creates the scale that enables our brands to benefit from our strategic platform. We have a shared operations philosophy anchored in foodservice and atmosphere, enabled by the best people in the industry. And our 4 competitive advantages allow our brands to compete more effectively and provide even greater value for their guests.

One of these competitive advantages, the power of our scale, is demonstrated in our supply chain and technology stack, which enable our brands to deliver stronger performance than they could do on their own. For example, we source directly from producers and have our own dedicated food distribution network. This creates cost advantages for our brands and ensures an uninterrupted supply to our restaurants.

Our proprietary POS system serves as the nerve center of our integrated restaurant technology ecosystem. Applications, including payroll, guest forecasting, labor management and much more provide key data, improve operations and make our restaurant managers' jobs easier so they can spend more time focused on their guests and their team members. Our scale also helps from a marketing perspective. Across all our brands, we use digital marketing in a targeted, cost-effective way to build brand equity and support incremental sales. Our smaller brands benefit from the learnings generated from our larger brands. And because of our platform, they can tailor sophisticated media plans to their specific business needs.

Another one of our advantages, our extensive data and insights ensures we continually meet our guest expectations and allows us to identify opportunities to improve the guest experience and drive incremental sales through continuous menu innovation across our brands. Olive Garden's new lighter portions menu is a good example, as is their new protein-forward Calabrian Steak & Shrimp Bucatini that has quickly become a guest favorite.

Data and insights have also grounded all the great work Yard House has done on menu optimization. The new burger, pizza and taco platforms they have rolled out over the past 3 years are easier to execute and receive higher guest satisfaction scores.

Rigorous strategic planning is another one of our advantages. Planning at the Darden enterprise level determines each brand's strategic role to ensure we have the right portfolio of brands, we align strategies and coordinate operations to maximize our portfolio's value, and we capture available synergies across our brands. At the brand level, the strategic planning process helps us identify each brand's distinct advantages and cultivate differentiated positioning, develop a deep understanding of each brand's guests and competitive landscape and ensure our brands adhere to their strategy so they compete effectively and grow share.

We put significant emphasis on this work, and the teams of our acquired brands consistently share that they have even greater clarity about the essence of their brand because of the time and level of rigor involved. The 5-year business plans our brands completed last year are also an important part of this process. And our teams continue to execute against those plans to drive shareholder value.

Of course, our brands and our platform only matter because of our final advantage, the people who bring them to life every day. Our founder, Bill Darden, said, "The greatest edge we have on our competitors is the quality of our employees reflected each day in the job they do." And that is still true today. We have outstanding teams across our 2,200 restaurants backed by our incredible restaurant support center teams.

We have built a compelling employment proposition that is evidenced by our industry-leading retention. And to preserve this advantage, we leverage our unique ability to provide robust development opportunities given the breadth of our portfolio. Across operations in the restaurant support center, we can provide opportunities in brand-specific roles, shared support functions and restaurants across the country. This gives us the ability to move proven talent across brands and support new restaurant growth and gives us multiple options to develop high potential talent.

One of the most powerful things about Darden is our ability to change our team members' lives. We give people the opportunity to grow and progress regardless of their first role with us. Many of our senior leaders, including me, began as hourly team members. That's why I'm extremely proud that we promoted 1,375 hourly team members into management roles in fiscal '26.

Darden has a tremendous track record of success, and it reflects the strength of our brands, the discipline of our strategy and the quality of our teams. With the right brands, strategy and teams in place, I am confident we are well positioned to continue growing the business and creating long-term shareholder value.

In closing, I want to thank our over 200,000 team members for everything they do. I'm proud of the engagement across our teams and the impressive retention levels that help drive our success. I look forward to connecting with many of you during our General Manager and Managing Partner conferences over the next 6 months.

Now I'll turn it over to Raj.

**Rajesh Vennam**

*Senior VP & CFO*

Thank you, Rick, and good morning, everyone. We delivered a strong fourth quarter to close out a great year with total sales exceeding our expectations and annual earnings above the midpoint of our initial guidance. Results for the year reflect stronger-than-expected same-restaurant sales and faster new restaurant openings despite significant macro pressures, including beef inflation that was higher than expected for the year.

Throughout the year, we remained focused on what was within our control, balancing investments in the business with a measured approach to pricing -- approach to inflation. Stronger-than-expected sales allowed us to fund targeted investment to support growth and maintain pricing discipline by only partially offsetting elevated commodity costs, preserving our ability to provide strong value to our guests. That balance is reflected in our fourth quarter performance, where margin expansion came through in line with our expectations.

In the fourth quarter, we generated \$3.7 billion of total sales, 13.7% higher than last year. This was driven by same-restaurant sales growth of 4.6% with positive traffic growth, the addition of 43 net new restaurants, which includes the permanent closure of 15 Bahama Breeze locations and the benefit of the 14th fiscal week. Same-restaurant sales and same-restaurant guest counts each exceeded the industry benchmark by over 300 basis points for the quarter. Adjusted diluted net earnings per share from continuing operations increased 22.8% to \$3.66. This includes a \$0.25 contribution from the extra fiscal week. We generated \$678 million of adjusted EBITDA and returned \$310 million to shareholders through \$172 million in dividends and \$138 million of share repurchases.

Turning to the fourth quarter P&L compared to last year, food and beverage expenses were flat as commodity inflation of approximately 3% and unfavorable mix was fully offset by pricing. Restaurant labor was 40 basis points lower, driven by productivity improvements and sales leverage even with total labor inflation of 3.2%. Restaurant expenses were flat. Marketing expenses were 10 basis points lower due to sales leverage. We had incremental marketing activity in the quarter that was funded by cost savings. This all resulted in restaurant-level EBITDA for the quarter, improving 50 basis points to 22.1%, consistent with our expectations. Adjusted G&A expenses were flat. Adjusted depreciation and amortization was 30 basis points lower due to sales leverage from the extra fiscal week. And our adjusted effective tax rate for the quarter was 12.8%.

In total, our adjusted earnings from continuing operations were \$422 million, which was 11.3% of sales. In the fourth quarter, on a 13-week basis, all of our segments grew total sales and segment profit margin, driven by positive same-restaurant sales. Olive Garden increased total sales for the quarter by 11.4%, with 7.5% from the extra fiscal week, the addition of 14 net new restaurants and same-restaurant sales growth of 2.4%. Traffic was positive, outpacing the industry by 200 basis points. The lighter portion section of the menu created an 80 basis point mix headwind to check. On a 2-year basis, Olive Garden same-restaurant sales increased 9.3%, demonstrating continued strong performance as they lapped high-growth quarter last year. Olive Garden continues to have industry-leading segment profit margin, delivering 24.3% for the quarter, which is 50 basis points higher than last year. This includes approximately 50 basis points of margin investment related to the addition of lighter portion section to the menu.

At LongHorn, total sales increased 21.9%, driven by same-restaurant sales growth of 9.5% and the addition of 27 net new restaurants and 8% from the extra fiscal week. LongHorn continues to increase market share with strong and sustained sales growth, exceeding the industry's same-restaurant sales benchmark by 810 basis points this quarter. Over the past 3 years, LongHorn has grown same-restaurant sales by more than 20%, resulting in average unit volumes of \$5.6 million.

Segment profit margin for the quarter was 21.2%, 110 basis points above last year. Total sales for the Fine Dining segment increased 10.9%, driven by 6.6% from the extra fiscal week, positive same-restaurant sales of 1.9% and the addition of 6 net new restaurants. Segment profit margin was 20 basis points lower than last year. The inclusion of Memorial Day in the quarter is a significant drag on the segment profit margin for Fine Dining as it's traditionally a low volume week for this segment. On a 13-week basis, segment profit margin for Fine Dining was actually 20 basis points higher than last year.



Total sales for the Other Business segment increased 9.8% with 7.7% from the extra fiscal week and positive same-restaurant sales of 4.6%, which was partially offset by the permanent closure of Bahama Breeze restaurants. Positive sales momentum and continued productivity improvements contributed to a 17.9% segment profit margin for the Other Business segment, 40 basis points higher than last year.

As we look at our annual results for fiscal 2026, we had same-restaurant sales growth of 4.5%, exceeding our expectations and outperforming the industry. Total sales increased 9.4%, surpassing \$13 billion for the first time in Darden's history. Adjusted diluted net earnings per share from continuing operations increased 11.4% to \$10.64. We delivered \$2.2 billion in adjusted EBITDA from continuing operations, driven by strong sales growth. And we returned \$1.4 billion to shareholders with \$693 million in dividends and \$675 million of share repurchases.

Looking at our fiscal 2026 full year P&L, restaurant-level EBITDA compressed 20 basis points caused by the significant headwind of elevated commodity costs and our deliberate approach to not fully price for these costs. This unfavorability was fully offset by the sales leverage on G&A and depreciation and amortization expenses, resulting in earnings after-tax margin that was flat to last year.

Stepping back, our performance reflects the strength and durability of our business model. At the core of our model is a portfolio of differentiated brands supported by disciplined execution and a focus on delivering value to the guest, which allows us to generate balanced and sustainable growth over time. Our 5-year plan reflects this with all of our segments contributing to sales growth. Olive Garden will continue to grow as a steady and balanced contributor, while the rest of our segments are expected to grow faster and play an increasingly meaningful role in driving incremental growth.

Over the past 7 years, our portfolio has become more balanced and more diversified. In fiscal 2019, Olive Garden represented 50% of sales and 55% of segment profit. By fiscal 2026, that mix has shifted to 42% of sales and 47% of segment profit. This change reflects the success of our portfolio strategy with roughly half of the shift driven by consistent growth at LongHorn and the other half from the rest of the brands in the portfolio, including acquisitions.

Importantly, Olive Garden remains a strong and steady contributor, while a broader set of brands now play a larger role in driving sales and earnings growth for Darden. We expect new restaurant growth across Darden to remain within the 3% to 4% range over time, which is consistent with our long-term framework. Olive Garden would trend towards the lower end of that range, LongHorn toward the higher end and our smaller brands growing at or above that range as they expand their footprint with Fine Dining continuing to grow opportunistically. We believe this mix shift over time can support a more diversified and resilient growth profile.

Another important element of the model is our approach to pricing. While we have the ability to price, we have consistently taken a measured approach, pricing below inflation over time to preserve our value proposition and support traffic. This discipline helps us maintain guest relevance, support long-term traffic growth and strengthen the durability of the business across different operating environments.

Looking at our performance since fiscal '19 relative to our long-term framework, we generated earnings after tax growth of 7.5% and cash returns of 4.2%. This resulted in total shareholder returns of 11.7% as measured by EPS growth plus dividend yield. Our strong operating model generates significant and durable cash flows. Since fiscal 2019, we have delivered 9% annualized adjusted EBITDA growth. This also reflects balanced execution across each component of the framework and a total shareholder return that is within our target range despite the issuance of 9 million shares of common stock in fiscal '20 and other business disruptions from COVID.

Our consistent cash generation is expected to provide more than sufficient capacity each year to fund the core requirements of the business, including maintenance capital to sustain our existing asset base, continued growth of our dividend and investment in new restaurant development. The remaining cash flow is generally returned to shareholders through share repurchases, while preserving our financial flexibility and maintaining a strong balance sheet. Our adjusted debt-to-EBITDAR at the end of fiscal 2026 of 2.1x is within our targeted range of 2 to 2.5x and consistent with maintaining an investment-grade credit profile.

Now turning to our financial outlook for fiscal 2027. We expect total sales of \$13.6 billion to \$13.75 billion, driven by same-restaurant sales growth of 2.5% to 3.5%, 75 to 80 gross new restaurant openings and 11 Bahama Breeze conversions during the year. Capital spending of approximately \$875 million, total inflation of approximately 3%, which includes commodities inflation of approximately 3% and labor inflation of approximately 3.5%, an annual effective tax rate of approximately 13.5% and approximately 114 million diluted average shares outstanding for the year. All of this results in EBITDA of \$2.26 billion to \$2.29 billion and diluted net earnings per share between \$11.10 and \$11.35. Additionally, our Board approved an 8% increase to our regular quarterly dividend to \$1.62 per share, implying an annual dividend of \$6.48.

In closing, we delivered a strong year supported by continued sales momentum. Over the last 5 fiscal years, we have consistently delivered earnings at or above the midpoint of our initial guidance, demonstrating our ability to deliver on our commitments. That consistency reflects the strength and resilience of our teams and their focus on controlling what we can control as we navigate changing environments. Together, these factors give us confidence in our ability to continue delivering consistent growth and long-term shareholder returns.

With that, we'll take your questions.

## **Question-and-Answer Session**

### **Operator**

[Operator Instructions] Our first question today is coming from Lauren Silberman from Deutsche Bank.

### **Lauren Silberman**

*Deutsche Bank AG, Research Division*

Congratulations on the year. I wanted to just ask about the overall consumer environment. Obviously, a lot going on. So any color you can give on cadence of comps as you move through the quarter? Anything you're willing to say on June, any impact from like the rising gas prices, thoughts there?

### **Ricardo Cardenas**

*CEO, President & Director*

Lauren, thanks for the feedback on the quarter and the year. In regards to consumer, we really haven't seen a whole lot of change based on what we've been saying for the last couple of quarters. Consumer spending remains pretty resilient. Overall, the mood with consumers is still a little cautious. But as we've said a couple of times before, the weaker consumer sentiment hasn't necessarily translated into reduced spending.

A little bit different this quarter, our casual brands saw an increase in visits year-over-year from all income groups, including the bottom quintile. Some of that might have been tax refunds, but they did see some increase year-over-year from all income groups. We did see a little softness in guests under 35 but we're going to continue to control what we control, as Raj said.

In regards to the cadence across the quarter, it was pretty consistent. Our same-restaurant sales across the quarters by month were fairly consistent. And in the 2-year stack, it's almost the exact same number. So we felt pretty good about where we were. Not necessarily going to comment on the quarter-to-date so far. It's only 3 weeks. And it's a little choppy because of our 53rd week and shifting calendar. So we're not going to comment on that right now.

**Lauren Silberman**

*Deutsche Bank AG, Research Division*

Understood. And any thoughts, I guess, more broadly in terms of how we should be thinking about the cadence of comp or EPS growth throughout fiscal '27?

**Rajesh Vennam**

*Senior VP & CFO*

Yes, Lauren, I think I would say, as we get -- look at the year, I would expect that because of some of the cost situation we're in, in terms of year-over-year, we would expect that first quarter, that would be kind of low to mid-single-digit EPS growth and then the rest of the quarter is fairly balanced on a 52-week basis from a growth perspective. It's really a function of some of the factors that are impacting year-over-year, specifically in the first quarter because that's when we expect to have the highest commodities inflation. I think we're expecting roughly 4% in the first quarter. And then there are some other near-term costs that are just more onetime in nature that will have a little bit more pressure on the first quarter. But for the full year, for the rest of the quarter should be fairly even.

**Operator**

Our next question today is coming from Gregory Francfort from Guggenheim Partners.

**Gregory Francfort**

*Guggenheim Securities, LLC, Research Division*

I just wanted to ask maybe a little bit about LongHorn's comp performance. I mean just - it keeps putting up really good numbers. And what do you think is driving that? And I guess how much of what's driving that can be applied to the other brands? I think the 5-year outlook has you guys maybe moving some of the portion investments into the other brands. But is there anything else that's going on there that you think is a big part of the business and that can or cannot be taken over to the other brands you have?

**Ricardo Cardenas**

*CEO, President & Director*

Greg, thanks for the great feedback on LongHorn, too. So LongHorn had a 9.5% comp. What a great quarter. And Laura and her team are doing an excellent job driving that business. A lot of that has been things that we've been doing for years. As we mentioned, we've made investments in food quality probably for the last 10 years, several -- and those investments continue to pay off. Service is improving. The guests know they're getting high-quality steaks when they come to LongHorn. Our steaks cooked correctly scores are at highest ever levels. And they get a great value. And it doesn't hurt that there's a high beef inflation in the market. And so the relative value looks a little bit better for LongHorn.

So -- and then specifically in Q4, we use a little social media that we do all the time, but we had a post that went very viral, and that was their tease on bringing back lamb. And so they do lamb usually in Q4. Their guests have been asking about it all year. All they did was tease and say, what you're looking for is coming. And then they sold more lamb -- we bought more lamb this year than last year, and we sold out in half the time. So it was a strong performance.

There are things that we can learn at LongHorn that take to other brands, but LongHorn has learned things from other brands to take to LongHorn. So not all of our brands are going to do a 9 comp every quarter, but we've got a framework and a portfolio of brands that will let us meet that framework and hopefully exceed it every once in a while. But we'll continue to learn.

LongHorn, as you mentioned, has multiple sizes of most of their steaks. Olive Garden has a little bit on that. Protein is a little bit more important and Olive Garden just introduced in a year a pretty protein-forward dish and we might see some more kind of protein communication at Olive Garden. But LongHorn is just doing a great job right now, and we're going to keep them going.

## **Operator**

Next question is coming from Chris Carril from KeyBanc Capital Markets.

## **Christopher Carril**

*KeyBanc Capital Markets Inc., Research Division*

So just on the commodity basket guidance of 3%, can you expand a little bit more on that and touch on some of the specific drivers, specifically beef? And then I think you mentioned, Raj, 4% inflation in the 1Q. So any more on the cadence of commodity inflation expectations, that would be great.

## **Rajesh Vennam**

*Senior VP & CFO*

Yes, Chris, I'd just say from a commodities perspective, as you look at the fiscal '27, one of the things that you're going to see -- we expect to see in the first quarter primarily is beef is going to be somewhere in that mid- to high single digit because we're wrapping on pretty low inflation a year ago. We started to experience significantly higher inflation for beef and starting in the second quarter last year. And for the full year, we ended up in the close to 12-ish percent for beef on the fiscal 2026.

As we look at '27, we expect beef to be in the low single digits for the full year. In fact, we would expect somewhat deflation in the second quarter. So for the first half, I think we signaled low single-digit inflation, but that includes mid to high in the first quarter and basically slight deflation in the second quarter.

As far as other items, one of the things I know a lot of you are looking at is the chicken. We do a contract. And actually, what happens for us is over time, we are actually doing well -- our contracts help protect us from the volatility in the market. So we have been able to have much more stable pricing. And if you look at the last 3 years, our costs on chicken have been fairly flat, whereas there's been a roughly 5% annual inflation in the broader market.

And so those are some of the big drivers, I'd say. I think seafood is still -- we expect seafood to be high single digits in the front half, but normalize as we get to the back half.

## **Operator**

Our next question today is coming from Andrew Charles from TD Cowen.

### **Andrew Charles**

*TD Cowen, Research Division*

I'm curious if the same-store sales guidance embeds expansion delivery either via more brands adopting first-party or perhaps brands with first-party adopting third party.

### **Ricardo Cardenas**

*CEO, President & Director*

In regards to delivery, right now, we're still focused on the brands that have first-party delivery, Olive Garden, Cheddar's and Yard House. Chuy's already has third party. In regards to third-party delivery, there -- as we've mentioned many times, there's a few things that we don't like about third-party delivery, that model, but some have been solved. Others, we'd have to see addressed before we get into that. And I'll give you some examples, price transparency for our consumers so they know exactly what their entree costs in our restaurant versus getting it delivered, control of the data and tips for our employees. Those are just 3 things. We've got others.

And with the acquisition of Chuy's, we have greater insight into the third-party model and how that can impact restaurant sales, both positively and negatively. So right now, we continue to focus on that first party in the restaurants that we have and the brands we have with Uber Direct. But if third-party is ever going to be part of our business model, it must be sustainable for us in the long term. And our guidance does not contemplate any third-party delivery.

### **Andrew Charles**

*TD Cowen, Research Division*

That's helpful. And then my follow-up was just around marketing spend. Similar to what we saw in the fourth quarter, should we expect another year in '27 of increased activity, but less of an increase in costs as you find efficiencies?

### **Rajesh Vennam**

*Senior VP & CFO*

Yes. I think -- so from a marketing perspective, we are -- we expect to make some investment even with some cost saves, most of the cost saves we received this year, next year, I think there's probably another \$5 million, \$6 million of cost saves. But we expect marketing expense to go up roughly 10 basis points. It will be -- from a dollars perspective, think of it as about a \$25 million investment year-over-year, and that's contemplated in the guidance.

## **Operator**

Our next question today is coming from Danilo Gargiulo from Bernstein.

## **Danilo Gargiulo**

*Bernstein Institutional Services LLC, Research Division*

First of all, at a very high level, I was wondering if you can give us some puts and takes of your guidance and perhaps where you have the highest conviction and where instead you're monitoring a little bit more closely? And what will take you to the higher end of the guidance, what will take you to the low end of the guidance for '27?

## **Rajesh Vennam**

*Senior VP & CFO*

Yes, Danilo. So let's start with our guidance of 2.5% to 3.5% for the year, which implies flat to positive traffic with check in the mid- to high 2% range. So that as a starting point, you think about -- we're looking out 12 months. There are a lot of factors that can impact what can happen with the traffic. But we expect our pricing to be closer to inflation. So I mentioned that we expect our total inflation to be approximately 3%. Our pricing should be fairly close to that, and our check would be in that mid- to high 2s. And so that is the background.

As we think about the puts and takes, there's obviously the broader macro that plays into that range. And if the macro ends up being much better, we'll end up in the higher end. And then there are initiatives that our brands have. That is -- again, I want to -- I don't want to harp on it for too long, but the reality is the portfolio of brands is a huge advantage when you think about planning and forecasting ahead and how we can pull different levers within -- across our portfolio to get to our commitments. And so broadly speaking, those are the things.



One thing I want to point out that I think might have been -- may not be as clear is we have a pretty big step-up in growth. So if you think about the fact that we're -- we're guiding to 75 to 80 gross openings. Last year, we opened 71. But then you also have -- in addition to that 75 to 80 gross openings, we also have 11 Bahama Breeze conversions. So when you add those 2 up, it's really from a development perspective and from a preopening perspective, we're actually going to have roughly 20 more openings year-over-year. So that will lead to some incremental preopening costs.

And so when you take all that into consideration, that's roughly a \$0.15 -- \$15 million impact on our profit and a \$0.10 EPS drag on the year. And this is really growth costs, right, which are because there's a step change in the number of openings, and it includes the preopening costs and some year 1 inefficiencies. And so when you actually look at that and still see that even with that headwind, our guidance implies EAT margin flat to positive. And if you add that back, I would actually put EAT margin 10-plus basis points expanding. So those are really the big components of how we're thinking about for the full year.

**Danilo Gargiulo**

*Bernstein Institutional Services LLC, Research Division*

Great. And actually, you went on my follow-up question, which was on development, but more from an international standpoint. And I see that it's quite interesting that you're highlighting also in your presentation the relevance of international within your strategic planning. So I'm wondering if you can maybe help us understand when will we see the highest in the next 2 to 3 years, when will we see the highest impact coming from the international expansion? And maybe if you can give us some sort of boundaries from EAT standpoint of the contribution that we could be expanding -- that we could be expecting from an expansion in international markets.

**Ricardo Cardenas**

*CEO, President & Director*

Danilo, just remember that our international expansion is franchising. So while it's not the same as opening an existing restaurant for us. We do get a good percentage of the sales from that. The EAT should grow as we continue to add franchise restaurants. But we're talking single-digit pennies a year, a low end of that a year because you're talking 20 restaurants, 25 restaurants maybe in a good year for openings. But it's a significant business for us. And Brad Smith and his team are doing a great job finding partners.

I would say, as I said in my prepared remarks, this will be the most international openings we've ever had at Darden. And we would expect to keep doing that every year for the next few years, and then we'll continue to find new partners. When we signed these last 3 deals, we signed them in June of last year. So basically a year ago, we signed 40 restaurants in part of India, 40 restaurants in Spain and 30 restaurants in Canada. And we had never signed a development deal for a country and opened it within 12 months. And all 3 of them pretty much are going to open within 12 months. And we have more openings in those countries already coming.

So we feel really good about where we are, but it's not going to be a monster driver of EAT growth. It will be a driver of EPS, but pretty small, but it's still positive.

### **Operator**

Our next question today is coming from David Palmer from Evercore ISI.

### **David Palmer**

*Evercore ISI Institutional Equities, Research Division*

Congratulations on your year. I wanted to ask you about -- on the same-store sales guidance for fiscal '27 and 2.5% to 3.5%, how are you generally thinking about that for Olive Garden? Is it safe to say you're thinking slightly below, but still positive? And if so, how should -- how are you thinking about restaurant level margin for that brand this year, especially with what you're doing with the small plates, it seems like you're leaning in there. And do you think you can keep those margins stable this year? And I have a quick follow-up.

### **Rajesh Vennam**

*Senior VP & CFO*

Yes, David, great question. I'll start by saying, first of all, thank you for acknowledging. We did have a great year. So we're excited and happy about it. From a -- you can imagine when we look at the portfolio, and we're saying 2.5% to 3.5%, you would expect -- we would expect Olive Garden to be closer to the lower end of that for the year. But that -- we still expect Olive Garden to have decent growth and especially considering where the industry would be.

And the way to think about it from a margin perspective is I just talked about how in Q4 they actually had a 50 basis point increase in segment profit margin even with the headwind of the lighter portion investment of 50 basis points. As we look at the full year for next year, I would expect their margins to be flat to positive. So we don't expect the margins to go backwards. They've done a great job of managing costs in the rest of the P&L to be able to fund investments. And that's really what's great about Olive Garden. This is an engine that has been fueling growth for Darden through the cash generation that it does. And so it plays a big role in helping Darden portfolio be as successful as it's been.

**David Palmer**

*Evercore ISI Institutional Equities, Research Division*

Yes. Now just a follow-up on Olive Garden. There's been a lot of things happening with that brand. You guys have had -- maybe with LongHorn, there's initiatives, but we don't see them as much. I mean with Olive Garden, they have been highly visible initiatives, small plates, you've leaned in with delivery. What are you kind of leaning into into fiscal '27? I'm sure you don't want to be doing much worse than the exit rate comp in the mid-2s going into this year. What's the team going to be really focusing on? What would be the story of '27 for that brand?

**Ricardo Cardenas**

*CEO, President & Director*

Yes. David, Raj kind of mentioned, the story of the brand a little bit is their comps are going to be somewhere in the 2.5% to 3.5% range, but probably closer to the bottom, and we're okay with that. We think that that's a good place for Olive Garden to be as long as they continue to make investments for the long term, so they can be running those comps for the next 20 years instead of doing something for 1.5 years.

Marketing, Olive Garden is a brand that's well positioned to leverage news to drive traffic, and they're continuing to work on some news, and you see that. LongHorn is a little less about using news to drive traffic, but Olive Garden is using news to drive traffic. And one of the ways we do that is we've got several initiatives to continue appealing to core guests and Olive Garden's core guests were the fastest-growing part of Olive Garden in the last quarter, and that's important to us. But we're going to continue to follow our marketing filters, and you'll see some of that stuff over the next year. But remember, it's got to be simple to execute, can't be at a deep discount, and it's going to elevate brand equity.

But at the end of the day, Olive Garden is about profitable sales growth, and Raj has mentioned that we're going to be somewhere in the flat to positive segment profit for Olive Garden, even with the growth. So without getting into too many competitive things, you'll see some things at Olive Garden that you may have seen years ago or some people that may have never seen. And so I think it's important to know that we're not going to just sit back and let Olive Garden do nothing and have a very low comp. We're going to have -- make sure they're doing the right things for Olive Garden in the long term and to help the other brands in the long term as well. So you should see some things this year that you may not have seen before or may haven't seen in a while.

## **Operator**

Next question today is coming from Sara Senatore from Bank of America.

### **Sara Senatore**

*BofA Securities, Research Division*

I have a quick question and then -- about guidance and then a question about the quarter. But for the guidance, I just was wondering about the CapEx outlook. It looks like a bigger jump than the number of new units. Is that related to the -- I'm sorry, the conversions? Or is there something else going on there? Just trying to understand if it has to do with maybe the shift in where your unit growth is coming from or more to do with the Bahama Breeze conversions.

### **Rajesh Vennam**

*Senior VP & CFO*

Yes, Sara, let me start by breaking down the CapEx a little bit and then talk about the new units. That is where you're seeing the biggest increase. But if you look at the guidance of \$875 million, roughly \$25 million is related to the conversions. So then we're talking about \$850 million. Close to \$350 million is maintenance/IT investments. So it's basically maintaining our buildings, technology investments, all of that and roughly \$500 million is related to new unit growth.

So we talked about opening 75 to 80 this year, but we're also talked about trying to get into that 3% to 4% and building the pipeline for next year. So there is a pretty strong pipeline for next year and some of those costs come into this year. So that's really part of the reason why we're ending up where we are ending up. But it's -- trust us, we have a pretty strong filter for how we spend capital here at Darden. And we hold our brands and our development team to a pretty high standard and our returns on new restaurants have been stellar. So we feel like this is a good use of capital.

**Sara Senatore**

*BofA Securities, Research Division*

And then I wanted to go back to the comment about seeing some growth from -- in spending from lower income consumers. I think that cohort has been declining in terms of traffic in prior quarters. I know you mentioned refunds, but is there anything -- was the -- as you think about kind of what brought them in, was it smaller portions? Did that play a role because it's, obviously, also a smaller price point?

I guess as you think about maybe value messaging perhaps more broadly, if anything changed in the quarter. We had heard that perhaps the Italian category maybe was a little bit more promotional or more focused on value. So I'm just trying to kind of reconcile all of what I think I know about the industry, but maybe isn't the case.

**Ricardo Cardenas**

*CEO, President & Director*

I think you've said all the things, right? So there could be a lot of different things. I do believe that the tax refunds were a little bit of that. I'm not saying that that's the only reason. I think there are other reasons. The Italian category being more promotional, I'm not sure I necessarily saw that. I think Olive Garden did what they did the year before, but maybe others did.

But again, we have a big portfolio. So we said the entire casual dining -- all of casual dining did pretty well across all the cohorts. It's just that the bottom quintile was positive year-over-year where the past they weren't. So that's why we wanted to highlight that. And we'll see if there's more reasons, but it's still early to determine exactly what the reasons were, but we feel pretty good about it.

**Operator**

Our next question today is coming from Brian Harbour from Morgan Stanley.

**Brian Harbour***Morgan Stanley, Research Division*

I guess like 3% commodity inflation seems pretty good in this environment where some things are really moving around a lot. I guess is this sort of a prime example of where your scale really benefits things? And I guess, sort of the distribution model you have, does that kind of reduce some of the cost versus what you might otherwise see or what some peers might see in this sort of environment?

**Rajesh Vennam***Senior VP & CFO*

Yes, absolutely. We've talked about the benefit of scale. And I think Rick actually in his prepared remarks, specifically talked about the benefit of having our own distribution network and owning our own inventory and actually working directly with our suppliers and the scale benefit is meaningful, especially helps us -- protects us from a lot of volatility. And we're going to get -- because we can guarantee certain volumes, and that helps the suppliers feel good about committing to certain prices.

So -- and I don't want to take away from our supply chain team, does a great job. I mean they have done excellent job outperforming the market by mid- to high single-digit percentage points in multiple years. So that's -- a part of it is how good our team is at negotiating and getting great deals for Darden. But the scale is really a factor, absolutely.

**Brian Harbour***Morgan Stanley, Research Division*

Raj, your comment about more preopening and a little bit of kind of margin inefficiency from new units. I mean, I guess it doesn't sound like that's necessarily onetime. And I mean, in future years, if you still saw a little bit of acceleration in unit growth, I assume that's not necessarily something that goes away. Or were you suggesting that that was more just related to the conversions this year, and so therefore, it's not something you'd have in future years?

**Rajesh Vennam***Senior VP & CFO*

Yes, John (sic) [ Brian ], great point. Yes. So if you look at what I was suggesting is we're opening -- we're stepping up basically because of conversions, it ends up being a 20-unit step-up roughly. Whereas when you look at year-over-year from now to next year, even if you assume mid- to high percent of that target range we have for units, it will not be as big of a step-up. So this is one -- this will be in the P&L, but year-over-year, you won't have the same headwind.

## **Operator**

Our next question today is coming from Jon Tower from Citi.

## **Jon Tower**

*Citigroup Inc., Research Division*

Maybe just starting on Olive Garden. I know we've talked a lot about it, but right now, you're featuring smaller plates and now they're part of the menu core. And it looks like protein is becoming a bigger piece of the menu at Olive Garden. I think at the moment, you're focusing on a hot honey chicken bite, at least from an appetizer standpoint. So can you speak to how you're thinking about balancing what the consumer wants against these strong margins that the brand has had historically? It seems like some of these new items or LTOs which might be more protein-centric end up costing a little bit more. So how we should think about margins longer term for that segment?

## **Ricardo Cardenas**

*CEO, President & Director*

Jon, I just want to make sure it's clear that we're -- we have the lighter portions menu, but we're not featuring anywhere. It's not like we're marketing it or doing anything, the guests are finding it as they go. So -- but in terms of the protein, yes, we have a little bit more protein on some of these items on the menu. They're still at a good margin. And as we mentioned, next year, with these investments that we made in the lighter portions and even in some of the protein, we expect our margins to be flat to positive. And we'll continue to find other ways to help fund these things. But Olive Garden is going to be, we believe, a viable brand for a very long time. And in order to do that, we have to continue to make investments. We have to continue to evolve with what the consumer is looking for, and they're looking for a little bit more protein right now. Who knows how long that will be, but they're looking for a little bit of protein right now. And we can find ways to give them that at Olive Garden and at all of our other brands.

Again, that is the value of the portfolio that we have. We're not relying on any one brand, and we're not relying on any one cuisine. And so you think about LongHorn, you think about Yard House, Cheddar's, Chuy's, very protein-centric in those brands. So -- and all of our other brands. So it's -- let's not go too far and saying Olive Garden needs to be LongHorn with protein, but they are going to have some protein on their menu. And they always do with promotions, they have some proteins. The chicken appetizer that you mentioned is doing really well for them, and we'll see how we can keep that going.

**Jon Tower**

*Citigroup Inc., Research Division*

Great. And then you did just hit on the idea of the advantages you have as a portfolio company. And I think throughout the presentation in the call today, you spoke to, frankly, the strength of scale. So I'm curious if you could kind of refresh your thoughts around the M&A environment and specifically how you see your portfolio growing over time outside of the existing brands that you have today?

**Ricardo Cardenas**

*CEO, President & Director*

Yes, Jon, I want to first start by saying that our long-term framework does not need acquisitions to help us hit that. So M&A doesn't have to be part of that framework. M&A could give topspin to that framework. We love the brands we have right now. We're focusing on the organic growth of these brands and building scale that way. If something comes up, our Board will discuss it. But right now, we work with what we have in front of us, which is the brands we have today and converting those remaining Bahama Breezes. That's not a little bit of work. That's quite some work for our teams. It's going to be very valuable to us, but we're going to focus on the brands we have until there's another brand.

**Operator**

Our next question today is coming from Dennis Geiger from UBS.

**Dennis Geiger**

*UBS Investment Bank, Research Division*



Two on Olive Garden, if I may. The first one, just on value perceptions of the brand. Any change in the scores there? I don't know if smaller plates has helped on the value side of things or some of the other initiatives you've had in place. But just any updates on where value sits if you've observed any changes there of late?

**Ricardo Cardenas**

*CEO, President & Director*

Yes. Value is still pretty strong at Olive Garden. It's always been a strong brand for value, and it still is a strong brand for value. The lighter portions have very strong value. And again, it's not like half of our guests are ordering that lighter portion. I'm not going to tell you the preference. It's not anywhere near that. But those guests that are ordering the lighter portions menu are coming back more frequently than they were before, and that frequency is continuing to build.

So we believe that in the long term, we'll get even more value with whatever we put on the menu. That is one of the biggest filters we have at Olive Garden with whatever we try to add, what is the value -- what is the value rating when we test it? Does that improve value or detract from value? And if it detracts from value, we won't put it on the menu. So we feel really good about where Olive Garden's value is.

**Dennis Geiger**

*UBS Investment Bank, Research Division*

Great. And just to slip in one on Olive Garden and the operational efforts. Just kind of the latest there, operational efforts overall speed of service. I know you've got some longer-term focused initiatives on this. But just any updates there? And I'm not sure you can find better service anywhere relative to Olive Garden, at least relative to the restaurant side of it. So I'm just curious if you think you're getting credit from the guests on the operations side of things? And maybe just what that opportunity looks like on the ops side of things for the brand in '27.

**Ricardo Cardenas**

*CEO, President & Director*

Yes, Dennis, I would agree with you. I think Olive Garden gives some of the best service in casual dining. So thanks for that. Olive Garden has made a pretty meaningful change in the last quarter in their speed. And they're focusing on it. They're doing a great job. John Wilkerson and his team of operators with Shane Elrod are doing an amazing job getting the message out to their team members on the importance of speed and what's happening. And they are seeing a very quick change in their speed. And they're seeing great feedback from their guests. Their service scores and their pace of meal scores have gone up significantly. And they still have a lot more to do, by the way.

So we believe Olive Garden can continue to move the needle on the speed along with our other brands. But Olive Garden is leading the way for Darden, and we're going to continue to learn from them and help to see what other brands can do from that.

### **Operator**

Our next question is coming from Drew North from Baird.

### **Andrew North**

*Robert W. Baird & Co. Incorporated, Research Division*

A lot of mine have been asked, but maybe one on pricing. Can you walk through some of the pricing figures by brand, at least Olive Garden and LongHorn in the fourth quarter? And then how you're thinking about the cadence of pricing through 2027, either on a blended level or a little bit of perspective by brand as we think about the relationship between pricing and inflation? And then I have a follow-up.

### **Rajesh Vennam**

*Senior VP & CFO*

Sure, Drew. So from -- for a Q4, pricing was basically -- the blended pricing for Darden was 3.8%. Olive Garden was 2.8%. LongHorn was just over 5%, 5.3% or 5.4%. As we look at next year, I mentioned we expect pricing to be about 3%, which is -- we expect that to be more in line with inflation. From a quarterly cadence, we expect it to be slightly higher in the first half, higher than 3% in the first half and lower than 3% in the back half. And then I mentioned earlier already from an inflation, we expect first quarter to be the highest. And we expect Olive Garden to be lower pricing than Darden's pricing.

### **Andrew North**

*Robert W. Baird & Co. Incorporated, Research Division*

Very helpful. And then one on development. As we think about 2027 unit openings, I guess, what are you seeing in terms of development costs or inflation there? And perhaps you can give us an update on how cash-on-cash returns are coming in for new openings relative to your targets as you've ramped up growth?

**Rajesh Vennam**

*Senior VP & CFO*

Yes, Drew, the inflation is actually holding up. I would say our construction costs in total have, I would say, fairly flattened. And actually, as we are opening -- going out to bid, we're finding that the bids are coming in a little bit better than our projection, our estimate that we approved. So that's a good sign. So costs are holding up. I'm not going to say they're going down meaningfully, but they're not going up.

From a return perspective, we feel really good. Cash-on-cash is a metric that can vary depending on how you choose to invest, whether you take TI or not and you do make your own capital, that kind of stuff and use your own capital. However, when we look at it, even with all that and we look on average, our cash-on-cash is really strong. It's actually coming in ahead of our expectations. And then more importantly, when you look at the IRR and the net present value of these projects, these are significantly positive and IRR exceeding our cost of capital by multiple hundreds of basis points. So we feel really good about the growth portfolio, the performance of the new restaurants.

**Operator**

Our next question today is coming from Jim Salera from Stephens.

**James Salera**

*Stephens Inc., Research Division*

Raj, earlier you broke out the components of the comp guidance for '27 have implied flat to modestly positive traffic. We've seen a sustained period of negative traffic for the industry, but obviously sustained outperformance for your brands. Can you just kind of walk us through what your expectations are for the industry in fiscal '27 and maybe how we should think about your ability to continue to either pull guests from other brands or perhaps pull them from other occasions and just kind of walk us through that?

**Rajesh Vennam**

*Senior VP & CFO*

Yes. The way we think about it is really we focus on what we can control. We're not expecting any material change to industry performance. So our baseline assumption is industry is going to be where it's been. And then we are like trying to say what can we do to take share. And I think if you look at last year, we had positive traffic for the year in an environment when industry was negative. And we've done that for years. And like you said, there are different initiatives our brands have to drive traffic. And that's really how we look at it. It varies from brand to brand. But I don't want to get too much into the details on what exactly we do. But ultimately, the biggest and most important thing is execution and superior execution, consistent execution, which I know is the fabric of how we think about it at Darden across all our brands.

**James Salera**

*Stephens Inc., Research Division*

Great. And then a quick follow-up. Earlier to the previous question, you had given the price for Olive Garden and LongHorn in the quarter. Can you just round that out and give us the traffic as well?

**Rajesh Vennam**

*Senior VP & CFO*

Quarter. If you look at the quarter, the pricing -- I mean, the check growth was 3.3%, traffic growth was 1.3%, pricing was 3.8%. So basically about 50 basis points of mix on the quarter. And from Olive Garden sales perspective, their traffic was up 20 basis points. Their check -- I mentioned pricing was 2.8% and then they had catering that was helping by about 50 basis points. So really, if you look at catering and the traffic, that would probably be -- think of it as 70 basis points of traffic at Olive Garden and a check growth of 1.5%. Lighter portions, as I mentioned, were a headwind of 80 basis points, and then there was some negative mix of 30 basis points. From a LongHorn perspective, traffic was up 4.2% and their check was up 5.3%, basically in line with their pricing.

**Operator**

Our next question today is coming from Peter Saleh from BTIG.

**Peter Saleh**

*BTIG, LLC, Research Division*

I did want to come back to the conversation on LongHorn. The comps were the strongest we've seen in, I think, more than 3 years. Do you think there's any trade down there from fine dining or maybe any trade up? Any more details you can provide on that would be helpful. And then I have a follow-up.

**Ricardo Cardenas**

*CEO, President & Director*

Peter, yes, there's probably some trade down from fine dining. There's also some trade-in from retail is what we think is happening. But when you think about frequency in fine dining versus frequency at LongHorn, you need quite a bit of trade to make it a real big difference, but -- and the size of LongHorn versus the rest of fine dining. But yes, there's some trade, but I think it's more retail trade.

**Peter Saleh**

*BTIG, LLC, Research Division*

Got it. And then just following up on that. Are you still seeing the demand destruction of beef in retail? Is that an ongoing thing? And has that gotten better or worse? Any details on that would be helpful as well.

**Rajesh Vennam**

*Senior VP & CFO*

Yes. I think it's -- I wouldn't say it has gotten meaningfully better, Peter. I think last month, we saw was 8.5% decline in the volume for steak. So it's at retail, which is -- I think we were seeing as much as 11% at one point. So it's moderated a little bit, but still pretty high, 8.5% and it's -- retail makes up roughly half of the total beef sales, I think. So it's a pretty meaningful -- still a meaningful step down.

**Operator**

Our next question today is coming from Jacob Aiken-Phillips from Melius Research.

**Jacob Aiken-Phillips**

*Melius Research LLC*

I just wanted to ask a narrower question on beef risk management. You gave some helpful color on the cadence. But with the cattle supplies are already tight, how do you think about disruptions from screwworm and international cattle flows? And could -- is that more of a supply chain management issue? Or could it change pricing and margin framework?

**Rajesh Vennam**

*Senior VP & CFO*

Yes, Jacob, I think from -- on the screwworm front, I would say we're seeing some of the same information you're all seeing. Our perspective is that the short-term risk to beef supplies is minimal. So really no meaningful impact to supply or pricing short term. And then the consumer demand seems to be holding up, meaning they're not significant -- USDA has done a great job of just talking about how the product is safe to consume.

So long-term risks are really -- could stem from restrictions to animal movement across the state lines. So that could potentially disrupt supply chains for a short period of time. But where we sit here, our supply chain team is fairly good about the product side and the price. And that's why I think for this year, we're expecting basically a low single-digit inflation for beef.

**Jacob Aiken-Phillips**

*Melius Research LLC*

Got it. And then just you mentioned some softness in guests among under 35. Can you just give us some more color on that? Is it an affordability issue or is it more about how they're choosing occasions across different channels?

**Ricardo Cardenas**

*CEO, President & Director*

Jacob, it's hard to tell why they're down, but it is -- I would say that unemployment is the highest in those '20 to '25 that it's been in a long time. But there's no specific reason that we're hearing that the below 35 is down. And it's not a huge -- it's not as big a part of our business as the people that are above 35.

**Operator**

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

**Andrew Strelzik***BMO Capital Markets Equity Research*

I know it doesn't get a lot of focus, but I wanted to ask a question on the Other Business segment, which had its best comp performance in a couple of years, built some momentum through the year. So I was hoping you could unpack what's been driving that better growth trajectory? And how should we think about the durability of that into '27?

**Ricardo Cardenas***CEO, President & Director*

Yes, Andrew, I would say the Other Business, which is Yard House, Cheddar's, Seasons 52 and Chuy's. All of the brands were positive this quarter and really driven a lot by Yard House. Yard House and Cheddar's had a pretty darn good quarter, and we think that should be able to continue. At the levels of Yard House comp, I don't know, maybe, but we think they're doing a pretty good job. They've actually, over the last 3 years, as I mentioned in my prepared remarks, done a lot on their menu, especially on the things that really matter at a kind of a bar and a gathering place. They've really improved their burgers. They've really improved their tacos and their pizza platform. And they've got other things that they want to work on.

But Cheddar's is the same thing. Cheddar's is made -- has made and is making more improvements in their food and continue to improve their service. And we're going to focus on executing on both of those brands. Chuy's is in the middle of its integration and kind of on the back end of its integration. And now they're going to focus on using those tools that they know and continue to work on recipes to make sure there's consistency across all of the restaurants on execution of the recipes. So we feel really good about those brands and the trajectory that we have for them and their future growth. As I mentioned in my call, in the early part of the call, that you should see a little bit more growth on those 3 brands in the future than you've seen from the past.

**Andrew Strelzik***BMO Capital Markets Equity Research*

Okay. That was helpful. And then on the Olive Garden delivery side, now that we're a year plus in, can you give us a sense for how you're thinking about mix potential there, incrementality and kind of the growth rate as we've lapped the national rollout?

**Rajesh Vennam***Senior VP & CFO*

Andrew, so from Uber first-party delivery, when we look at where we were in Q4, we were basically around 4.7% of total sales, which is consistent with what we saw in Q3. So we don't expect this to be a meaningful driver incrementally year-over-year as we get into the future, but it's holding pretty fairly steady. The incrementality is still in line. We said roughly 50% incremental. That's what we think we're seeing. But Olive Garden off-premise in total this quarter was 27%. And so that's a pretty good place to be.

## **Operator**

Our next question today is coming from John Ivankoe from JPMorgan.

### **John Ivankoe**

*JPMorgan Chase & Co, Research Division*

The question is on both direct and indirect disruption that may have happened due to the recent Gulf crisis. Was there anything in terms of supplier or other types of distribution surcharges? Anything at all that may have actually influenced COGS direct or indirect in the fourth quarter and first quarter? And would you expect that any type of disruption that happened from that would have been short term that wouldn't occur beyond the very short term?

### **Rajesh Vennam**

*Senior VP & CFO*

Yes, John, great question. So there was some impact, especially there is a fuel surcharge, as you can imagine, but there's a little bit of a lag in how that works its way through the system. So we would expect part of the Q1 inflation is some unfavorable impact due to that elevated fuel prices working their way through the system. And we expect that impact to ease through the fiscal year as prices come down. But it was an impact, and it was -- when you look at it, especially through the lens of COGS inflation, it could be -- it was not -- it could be tens of basis points, approaching 50, 60 basis points. So at the peak. But it seems like things are starting to calm down, so that should help.

### **John Ivankoe**

*JPMorgan Chase & Co, Research Division*

Okay. That's very helpful. And 50 to 60 basis points is certainly not nothing. And remind us where we are on the utility side. Obviously, a lot of utilities across the U.S. are contracted or regulated. So there might be some lag there. So just remind me where Darden stands on the utility front in the relatively near-term outlook.



**Rajesh Vennam***Senior VP & CFO*

Yes, John, actually, we saw some impact when natural gas, I guess, peaked during February of this year. But since then, it's been fairly steady. Our utilities inflation has been more in that mid-single-digit range for the year. But as we go to next year, based on some of the contracts we have and some of the hedging we have in place, we expect it to be in that low to mid-single digits.

**Operator**

Our next question today is coming from Jim Sanderson from Northcoast Research.

**James Sanderson***Northcoast Research Partners, LLC*

Just one question on Olive Garden. I wanted to go back to the mix issue for the lighter portions. I think that's 80 basis points in the quarter. How do you see that evolving? Is that going to grow as more and more consumers take advantage of that menu option? Or is it relatively stable as you lap the launch next year?

**Rajesh Vennam***Senior VP & CFO*

Yes, Jim, I'd say we would expect that to come down a little bit. 80 basis points is probably the peak. As more consumers come in, it will have some impact, but it's not going to be as -- it's not going to be -- we don't expect it to be a lot more than maybe 10, 15 basis points, and that will still take a big increase in preference. The bigger part of it is year-over-year, we started with basically 40% of the system in Q1 last year. And so there was about 30 basis point impact, I think, in Q1. So as we wrap on that, you get -- you would expect this quarter -- first quarter, for example, to be more of a 50 to 60 basis point headwind and work its way down as we go through the year as we wrap on the phases of launches that we had last year.

**Operator**

Our next question today is coming from Brian M. Vaccaro from Raymond James.

**Brian Vaccaro***Raymond James & Associates, Inc., Research Division*

Just two quick ones. First, at Olive Garden, could you just elaborate a little bit more on how the lighter portion menu is performing? Rick, it sounds like that preference continues to build sequentially. But how is the customer using the platform? Any new learnings there? And then the follow-up, just a quick one on the guidance. Raj, what level of SG&A did you embed for the year in the fiscal '27 guidance?

**Ricardo Cardenas**

*CEO, President & Director*

Yes, Brian, the lighter portions menu, we're talking somewhere in the mid-single -- low to mid-single-digit total preference, but a lot of that is on the weekends at lunch, which is where we had eliminated lunch menus years ago. There's still some of that preference going on at dinner, but more of it is lunch on the weekends, and it helps fill our restaurants again. And we'll start seeing other things. As that grows, you should start seeing it spread across. And as we kind of potentially remerchandise it and how we talk about it, it might be -- it might continue to grow. That's why we think maybe tens of basis points in the future of mix, but not 80 like we talked about.

**Rajesh Vennam**

*Senior VP & CFO*

Yes. And Brian, on the SG&A, I'll separate S and G&A because we separate marketing. We put that as part of the restaurant level EBITDA. For marketing, we expect it to go up about 10 basis points, and I think I mentioned roughly \$25 million year-over-year. And then G&A, we expect it to be closer to just probably a little bit north of \$500 million, but around \$500 million. So -- and that can move a little bit based on what happens with mark-to-market.

**Operator**

Our next question is coming from Jeffrey Bernstein from Barclays.

**Jeffrey Bernstein**

*Barclays Bank PLC, Research Division*

Great. Rick and Raj, rather than ask a 10-part question and a follow-up, I did just want to share a personal note with my plan to retire in the back half of this calendar year. I just wanted to thank you and your predecessors for your partnership, learnings and insights over the past many years. I've always appreciated your longer-term perspective on the business, which is a rarity. And I applaud your 30-plus year chart demonstrating the 10-year average total shareholder return always above -- at or above 10%. I think that's something your peers likely strive for.

So I just wanted to congratulate you on a successful fiscal '26. Best of luck achieving similar in fiscal '27 and most importantly, sustaining for years to come. So I just wanted to thank you again. It has been an honor to work with you over all these years. Thank you.

**Ricardo Cardenas**

*CEO, President & Director*

Jeff, I want to say the same thing to you. Thanks for your questions and your comments all these years, and thanks for believing in what we do and thinking about the long term. We're going to miss your questions. We're going to miss what you've done with us and helped us over the years. And I would say my predecessors would say the exact same thing if they were on this line. Best of luck to you in your retirement.

I was hoping you would ask a question or at least be on this call. And I look forward to hearing from you some other ways. You've got our e-mail addresses. Every once in a while, if you get the knack to listen to a call and you want to give us a call afterwards, that would be awesome. But I don't expect to do that. I expect you to have fun in your next endeavor. And I'll let Raj say what he wants to say.

**Rajesh Vennam**

*Senior VP & CFO*

Yes. No, thank you, Jeff. And I echo everything Rick said, and we've always enjoyed the partnership, and we really want to thank you for the time we had the opportunity to spend with you and all the best with your next chapter in life. And we'll miss hearing your voice on this call.

**Operator**

We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

**Courtney Aquilla***Vice President of Finance & Investor Relations*

Thanks, Kevin. I want to remind you that we plan to release first quarter results on Thursday, September 24, before the market opens with a conference call to follow. Thanks for participating on today's call. Have a great day.

**Operator**

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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