THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EAT - Q2 2017 Brinker International Inc Earnings Call

EVENT DATE/TIME: JANUARY 25, 2017 / 3:00PM GMT

OVERVIEW:

Co. reported 2Q17 total revenues of $771m and adjusted EPS (before special item) of $0.71. Expects FY17 total revenues to be down approx. 2.0-2.5% and adjusted EPS to be $3.05-3.15.

CORPORATE PARTICIPANTS

Joe Taylor *Brinker International, Inc. - VP IR*

Wyman Roberts *Brinker International, Inc. - President, CEO*

Tom Edwards *Brinker International, Inc. - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Greg Francfort *BofA Merrill Lynch - Analyst*

Carla Casella *JPMorgan - Analyst*

Joshua Long *Piper Jaffray & Co. - Analyst*

John Glass *Morgan Stanley - Analyst*

Sara Senatore *Bernstein - Analyst*

Chris O'Cull *KeyBanc Capital Markets - Analyst*

John Ivankoe *JPMorgan - Analyst*

Karen Holthouse *Goldman Sachs - Analyst*

Andrew Strelzik *BMO Capital Markets - Analyst*

Jeffrey Bernstein *Barclays Capital - Analyst*

Brian Vaccaro *Raymond James & Associates, Inc. - Analyst*

Will Slabaugh *Stephens Inc. - Analyst*

Jeff Farmer *Wells Fargo Securities, LLC - Analyst*

Peter Saleh *BTIG - Analyst*

Bob Derrington *Telsey Advisory Group - Analyst*

Steve Anderson *Maxim Group - Analyst*

David Palmer *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Q2 earnings call. At this time, all participants have been placed on a listen-only mode and we will open the floor for your questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Joe Taylor. Sir, the floor is yours.

Joe Taylor *- Brinker International, Inc. - VP IR*

Thank you Kate. Good morning everyone. This is Joe Taylor, Vice President of Investor Relations. And welcome to the earnings call for Brinker International's second quarter of fiscal year 2017. Results for the second quarter were released earlier this morning and are available on our website at Brinker.com. Wyman Roberts, Chief Executive Officer and President, and Tom Edwards, Chief Financial Officer, are joining me this morning here in Dallas.

During the comments portion of the call, Wyman and Tom will provide a more detailed overview of the second quarter and will update the progress of several strategic efforts designed to capture market share. We will also review the update to our annual fiscal year guidance included in this morning's release.

Now, of course, before we begin our comments, please let me remind everyone of our Safe Harbor regarding forward-looking statements. During our call, management may discuss certain items which are not based entirely on historical facts. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more completely described in this morning's press release and the Company's filings with the SEC.

Additionally, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the Company's ongoing operations.

And with that formality, I will turn the call over to Wyman.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Thanks Joe. Good morning, everyone, and thanks for joining us today to review the second quarter and to talk about the Company's future.

While our second-quarter results are not where we want them to be, we are working to build share in the short term and to ensure the long-term health of our brands, and we remain confident that our strategic initiatives are on track to do just that.

The second quarter was really a mixed bag for us. We started off fairly strong, and when we talked to you back in October, we were feeling pretty good. Then the brand experienced a situation at one of our Chili's restaurants on Veterans Day that played out extensively on social media, followed by a couple of very tough weeks where we saw our business gap to the category drop to a level we hadn't seen in quite a while. We dealt with that situation by taking the necessary corrective actions as quickly as we could, and we closed that gap after about three weeks.

Unfortunately, in December, the whole category really started to get soft. We believe that's largely driven by the shift in holiday retail traffic to online, which is starting to impact how holiday shopping patterns play out. And based on this year's activity, some of the assumptions we have made that we've used regarding how to market during this time of year will have to be reevaluated.

So, Q2 was kind of a tale of three cities. It started strong in October, and then we had a singular event at Chili's in November and then an industry-wide challenge in December that created a unique quarter for us.

Maggiano's had a solid quarter primarily driven by strong holiday delivery and take out business. Dining rooms did well and, together with delivery and take out, offset some of the softness we were received in banquets. The Maggiano's team is doing a great job strengthening the business model and consumers' love for the brand continues to grow as the latest economic survey named Maggiano's number one in Italian concepts and one of America's top five favorite chains for 2017.

So, that was the quarter.

Going forward, we are focused on delivering results by leveraging the things that differentiate Brinker: first, that we have strong brands and we are committed to investing in them to keep them fresh and relevant; second, that we have scale that enables us to adapt to market needs, leading the way in key strategic areas like technology; and finally, we have the unparalleled access to big data to help us make the right decisions, especially as it relates to improving the guest experience.

At this point, to increase our relevance and to address the headwinds we are facing in casual dining, we know we have to get more focused at Chili's. Our commitment is to leverage the foundation we have built and to take bolder actions we know will make a difference in this environment.

Specifically, we are focused on convenience, menu innovation, and value. We know consumers are seeking increased convenience, and we believe technology plays a big part in being smarter and faster and delivering a better guest experience on their terms in a way that works for our business.

The fastest-growing segment of our business has been to-go. It's grown every year over the past five years and has gone from 9% of sales to close to 10.5% today. We have invested in a new online platform and we are excited about the opportunity it gives us to further enhance that experience, make it more compelling and market it more aggressively to consumers. We think this piece of the business has the potential for double-digit growth going forward.

From a culinary standpoint, we are working to offer great, new, on-brand innovation across the Chili's menu. In December, we completed the implementation of local craft beers and our Signature President Margarita on tap, and they are already contributing to record high alcohol mix. We also introduced some amazing food with our new bar menu as well as our smokehouse platters, which are helping us strengthen our points of differentiation with products like jalapeno cheese sausage, bone-in chicken, and our signature baby back ribs smoked in-house every day. These are terrific products that have been well received with preference levels above expectation. Clearly, this represents the kind of innovation we believe is worth the operational effort.

Now we have an opportunity to simplify the menu, so we continue to strengthen our core and eliminate what isn't working as hard for us, which will reduce complexity and free up our operators to consistently deliver a great experience. And in this fiercely competitive dealing environment, the right value proposition is critical for taking share. We feel great about how our 3 for Me platform is working for us and the flexibility it offers us to continually keep it fresh, relevant and profitable. Today, nearly a third of our guests dine on a value platform and we continue to test multiple options to maximize the offering and drive traffic across our dayparts.

We are also keenly aware of the importance of delivering value to our shareholders as well as our guests. We have to operate with the most efficient cost structure that still enables us to deliver the great guest experience so that we don't have to pass any additional costs on to our guests. So, we recently restructured our above restaurant operations and restaurant support center to reduce layers, enable faster decisions, simplify execution, and get us closer to our guests. Tom will give you more details momentarily.

What I want you to hear today is this. We are committed to leveraging our great brands to drive long-term value for our shareholders and our guests. We have the ideas, we have the resources, and we're sharpening our focus to invest in the long-term health of the business.

All that said, it was a tough quarter. While the industry seems to have recovered from the December anomaly, it is still softer than we had anticipated, which has us reforecasting the back half of the year.

So, with that, I'll call -- I'll turn the call over to Tom to walk you through some of the details. Tom?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

Thanks, Wyman, and good morning everyone. Today, I'll provide more details on our second-quarter performance and share our updated outlook for Q3 and full year of fiscal 2017.

Our second-quarter adjusted earnings per share before special items was $0.71, a 9% decrease compared to prior year. These results were primarily driven by lower comp sales reflecting weaker category performance compared to our outlook entering the quarter.

Our total Q2 revenues were $771 million, a decrease of 2.2% over prior year. This includes lower comp sales of 2.9%, partially offset by increased restaurant capacity of about 0.5%.

For the casual dining category, Q2 comp sales were well below our expectation, particularly in the back half of the quarter. We believe the primary driver of this was the near-term impact of lower holiday retail sales traffic and the ongoing headwinds from lower food at home pricing. Despite the category softness, we remain encouraged by the performance of our initiative, both in market and in test, and their potential to contribute to comp sales growth over the longer term.

Chili's comp restaurant sales declined 3.3%, reflecting a 6.5% decline in traffic, partially offset by a 1.8% increase in price and a 1.4% improvement in mix. Looking at the overall quarter, Chili's comp sales gap to the casual dining category was approximately even despite the few challenging weeks in November after Veterans Day. Chili's gap was positive for a majority of weeks during the quarter.

One of Chili's in-restaurant initiatives that continues to deliver is execution of add-on sales that are improving our check average. In Q2, Chili's continued to deliver positive mix of 1.4%, reflecting strong guest engagement with our craft beer and happy hour rollout, as well as successful in-restaurant contests and merchandise. From a price perspective, Chili's increase of 1.8% reflects higher menu pricing slightly offset by happy hour food and alcohol offers.

Turning to Maggiano's, comp sales were down 0.8%, leading the industry by over 200 basis points. We saw softness in banquet sales reflecting a broader competitive set, the dining room results were stronger, and we grew our take-out and delivery comp sales 7.5%. Maggiano's continues to deliver a differentiated dining experience, and we are excited to build on that with the rollout of a new menu in the next month. The menu expands dining option to encourage incremental visit and includes a brunch offering. In test market, the new menu has driven both traffic and check average.

Now, I would like to go over Q2 margin performance. Our cost elements were essentially in line with our expectations. While lower sales resulted in deleverage of approximately 80 basis points for the quarter, including deleverage, total restaurant operating margin decreased 100 basis points to 15.1%.

Cost of sales margin was favorable by 80 basis points, primarily reflecting favorable commodity pricing for chicken and ground beef, partially offset by higher avocado costs. Currently, we are 85% contracted for commodities in Q3 with 67% contracted in Q4.

Restaurant labor margin was unfavorable 90 basis points, primarily reflecting a wage rate increase of 3.3%, which is in line with our expectations, higher employee health insurance costs, and deleverage of 20 basis points. Restaurant expense margin was unfavorable by 90 basis points, primarily reflecting deleverage of 60 basis points, our investment in advertising and higher maintenance spending.

For the quarter, we generated $42 million in free cash flow and $81 million year-to-date. We completed the previously announced $300 million acceleration share repurchase program which accounted for 5.9 million shares in total, including 480,000 shares in Q2 and the final 845,000 shares earlier in January. We finished the quarter with lease adjusted leverage of approximately 3.6 times, which is in line with our new, more optimal capital structure.

Looking at full-year of fiscal 2017, we continue to believe our initiatives are on track and will drive a positive gap to casual dining. But based on lower-than-expected category sales in the first half of our fiscal year and anticipated lower category trends in the near term, we have updated our annual come sales guidance to negative 1.5% to negative 2%. We now expect total revenues to be down approximately 2% to 2.5%, a decrease of 1% to 1.5% excluding the 53rd week in fiscal 2016.

We have updated our adjusted EPS guidance, primarily reflecting the impact of the lower-than-expected category in our comp sales. We now expect fiscal 2017 adjusted EPS of $3.05 to $3.15 compared to original guidance of $3.40 to $3.50.

As Wyman mentioned, we've reorganized our above restaurant operations and restaurant support center to support our focus on execution in a more efficient manner. As a result of this action, we will incur a pretax charge of approximately $6 million that will be reflected in our Q3 results. We expect to generate savings of over $5 million in fiscal 2017 and annual savings of approximately $12 million.

As a result of the reorganization and other savings, we are updating our G&A guidance to an increase of $6 million to $8 million versus prior year compared to prior guidance of an increase of $16 million to $18 million. We now expect a restaurant operating margin reduction versus prior year of approximately 90 basis points on a 52-week basis compared to original guidance of down 25 basis points. This is primarily driven by the deleverage impact of lower comp sales.

We now expect depreciation expense to be flat to up $1 million, reflecting timing of capital expenditures, and we project fiscal 2017 free cash flow of $205 million to $215 million, primarily reflecting lower earnings.

Turning to Q3, we expect our comp sales to remain negative but improve compared to our Q2 average. Looking at Q3 adjusted EPS, we expect the year-over-year percentage change for Q3 to be moderately below the percent change of our full-year fiscal 2017 adjusted EPS as we plan to continue to invest behind the initiative Wyman discussed.

To summarize the quarter and full-year outlook, while we have adjusted our expectations due to weaker than anticipated category, we are encouraged that our initiatives have demonstrated they can deliver share gains and believe they are on target. But in a more challenging category environment, we also know that we need to accelerate and enhance our strategic initiatives to deliver better results near-term while building greater brand strength longer-term.

And with that, I'll open up the line for questions.

Joe Taylor - *Brinker International, Inc. - VP IR*

We'll be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Greg Francfort.

Greg Francfort - *BofA Merrill Lynch - Analyst*

It's Greg Francfort from Bank of America. Just two questions, one on the headquarter cuts. Can you talk about what positions those were and what the thinking is behind the cuts?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Sure. I'm not going to get into specifics, but we basically reduced 70 headcount, kind of an equal mix in the field and at the restaurant support center. So, in the field, we eliminated a level from our operational structure at executive level, and extended out our area directors' span of control, reducing some area directors. We also then at the restaurant support center made opportunistic decisions on where we wanted to focus the business. So, there wasn't -- it was an individual decision kind of market by market or department by department as we went through the opportunities we saw here.

Greg Francfort - *BofA Merrill Lynch - Analyst*

Got it. Thank you. And then I know you talked about the to-go business and technology. Can you maybe discuss the new online platform you've got a little bit more, and what gives you confidence in the double-digit growth in that platform?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

First, just what gives us confidence in the category is just as we continue to monitor consumer demand for convenience and their desire to get food where they want it. So to-go is a great opportunity. It's always been an important part of our business as this becomes more and more important. The platform allows us, the new Olo-based system allows us more flexibility. It's giving us a couple of additional consumer opportunities with pay online that we didn't have before, which, again, makes the opportunity more compelling for our guests. And we now have all of the Company restaurants on that platform. We are quickly converting our franchise system over. We should have that done shortly, and then we are able to then think about ways we can augment the to-go experienced with this more robust platform that will even make it more compelling and allow us to, now that we will have it nationally, market it more aggressively. And that's what's got us excited about the future. So a combination (multiple speakers)

Greg Francfort - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Carla Casella.

Carla Casella - *JPMorgan - Analyst*

It's Carla Casella with JPMorgan. One clarification question. When you were talking about third-quarter comps and the EPS, did you say that EPS would be down year-over-year a little more than your full-year guidance, or a little less than?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

A little more than the full-year guidance. We will still be investing in the quarter.

Carla Casella - *JPMorgan - Analyst*

Right, that's what it sounded like. Okay, great. And then on the minimum wage increases that we are seeing across the country, can you just talk about how that phases through your numbers, when we should see the greatest impact, recognizing that you are not paying minimum wage, but is it forcing you to change your structure at all?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

It's not forcing us to change our structure, although I'll talk about some programs that we are doing to help offset that. But to answer your question, it's relatively evenly spread. There are a number of states that have implemented minimum wage increases and they are starting at different times. So this year, it's really California, New York, and just in the most recent election, Arizona and Colorado. So, if it's fairly evenly spread across our quarters and, going forward, we would expect similar levels in the future.

Now, in terms of how we are working to potentially offset it, we are working and talked about handheld technologies for our servers, and have tested that out and are beginning to roll that out in the California market where minimum wages for servers are high and growing. So, we look to use a technology that will not just help manage the cost structure, but also deliver a better guest experience.

Carla Casella - *JPMorgan - Analyst*

Okay, great. And now that you've gotten to finish the share buyback, do you have a leverage range where you hope to keep your leverage?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

This level that we talked about at around 3.6, plus or minus, is the level that we were looking forward to keeping it at. That, while we are not targeting a particular rating, is roughly equivalent to that BB+ and gives us ample room to implement our capital allocation strategy going forward.

Carla Casella - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Joshua Long.

Joshua Long - *Piper Jaffray & Co. - Analyst*

Great, thank you. Piper Jaffray. I wanted to circle back to the focus on value for the year. My first question was on that third of guests dining on the value platform, is that the right number for now? Do you have a direction for that? It's a helpful point, but just curious if you also have some sort of color commentary in terms of where you would like that to be, or how you would like us to think about your ability to execute on the value initiative as we go forward on the rest of the year?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

I think that's about where we think we need to be to be providing those guests with a heightened desire for value at price point. Somewhere in that 25% to 30% is probably where you can feel comfortable that you've got options out there for that segment of the environment without doing -- without sacrificing too much margin, frankly. And so I think that's kind of the sweet spot that we are targeting.

Joshua Long - *Piper Jaffray & Co. - Analyst*

Understood, that's helpful. And then thinking about just maybe taking a step back on the initiatives about getting more focused at Chili's around convenience, the innovation on the menu side and the value, are those -- there's a lot to each of those, I imagine. Can you execute on all three of those concurrently? Do you feel like you're going to focus on one more than the other as we go through the course of the year, and maybe any focus on any one of those and the investments that you talked about in 3Q?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Well, I think, as we talked about with to-go for example, we've still got a little bit of work to do getting the franchise system up on the platform, so there will be a little bit of an opportunity for us to take advantage of that a little later in the year once we get everybody on Olo and then we get that initiative kind of lined up around the new enhancements we're working on. But the value and the innovation are parallel. The work that's being done at Chili's around food innovation is coupled with the work that's being done around value platforms and value innovation, and they go hand-in-hand. And that's also kind of working in conjunction with a simplified opportunity to reduce some of the complexity in the menu now and really focus on those menu offerings that are core to the brand and really compelling to our guests.

Joshua Long - *Piper Jaffray & Co. - Analyst*

Well said. Thank you.

Operator

John Glass.

John Glass - *Morgan Stanley - Analyst*

It's Morgan Stanley. Wyman, can you first talk a little bit more about how the quarter progressed? I understand qualitatively, but for example, in December, which I think was the worst month, at least industry-wide, were you in line with the industry at that point from a comp perspective, or did you find that that gap existed during that period as well?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

We were actually better, John, in December. So we had, again, a very unique quarter for us, started off outperforming the category, had a situation in November that kind of took a little bit of the wind out of our sails. We addressed it. We got ourselves back on track. But that couple of weeks in November was what impacted our trend relative to the category. Beyond that, we were at or better than the category for the better part of the quarter. We kind of felt that set-back in November.

John Glass - *Morgan Stanley - Analyst*

And you raised the issue of holiday traffic may have impacted the industry overall. When you looked at your own business, did you note that mall area or mall -- either in or around mall stores were worse? Is that a general comment that it's just people are out and about, or did you actually see stores that had to close their affiliation with direct retail trade getting worse? And maybe you could talk just generally about how mall-exposed the brand is.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

I think it's not -- Chili's is not as mall-exposed as, let's say, Maggiano's for example, but we did see some correlation, softer traffic, in more mall-centric locations. But I do think it's also just a broader industry phenomenon that we are experiencing. And as we've historically gone to this time of year, the holidays were, from our perspective, and this is how I looked at the holidays as long as I've been in the industry now, a time where you didn't necessarily have to put as much pressure out there to generate traffic. People were out and about. They were shopping. There were very busy times in the restaurant, and you could play higher margin and less value promotions, and actually is a time where, if you were going to take a hiatus week from a media perspective, this would be a good time to do it, and we do this year as well as prior years. These are quarters where we take a little bit more of a break from the heavy media weight. And so I think those assumptions are all going to have to be reevaluated now in an environment where consumers may not be just out and about as much. It doesn't mean they are not going to dine, but you may need to be -- it may be a more typical environment, and how you address them, what you talk to them about during this time period may need to change.

John Glass - *Morgan Stanley - Analyst*

And then just quickly, was there a calendar shift because of the extra week that store closure or difference in days this second quarter versus last year's second quarter that was meaningful?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

There was a small calendar shift. It was just the timing of Christmas. So, it's worth 30 basis points of a little drag in the quarter that will move into Q3.

John Glass - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Sara Senatore.

Sara Senatore - *Bernstein - Analyst*

Bernstein. Thank you. And I have two questions. One is just on the outlook. You had said that your gap was actually better in December. So when you think about the expectation for improvement in the comps, is it a function of a better industry trend? I think you had said January looked like that was resolved but still soft, or widening gap or some combination of the two. So maybe just a sense of where that improvement is going to come from. That was the first question.

And then my second question was about off-premise. And we hear a lot of concept talk about how their food is or is not well-positioned for off-premise for delivery. And I guess do you have any data from customers that would tell you whether Chili's -- whether your -- the type of food you service is appropriate or whether there is any kind of limitation based on what kind of menu items you have? Thank you.

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

It's Tom here. I'll handle the first question on outlook and drivers of improvement. There are a couple of things that I think will impact this. First is the category and ultimately food away from home versus food at home pricing coming a little closer together as the commodity outlook normalizes. And the category, we already noted, December is probably an anomaly versus where we eat longer-term.

The other for us is a normalization of oil states. They have still been negative more than the overall performance of our brand, and that was consistent in Q2. But the most important thing is really our initiatives, and where they are rolling out. Wyman touched on a couple of them, but craft beers were completed in December. Olo was launched for us, our company stores, and will be then rolled out franchisees in the second half, and Plenti also rolled out in the November time frame. So as we get traction, build on this with menu innovation and value where we continue to test and evolve 3 for Me, that will help build our gap with the industry.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

With regard to Chili's food and its kind of appeal as a take-out product, I guess, first, it's just the numbers kind of speak for themselves in terms of pushing over 10% and moving towards 11% of our total sales now. And it's growing. Guests are telling us they want our food and they want it in the restaurants and they want to take it home. So I think there's a desire to have the menu at home.

I think what we are learning now as we embrace this even more so than ever is there are things we can do to make the food, first off, travel as effectively as possible, so we are putting a lot of energy and effort into how we package it and how we bring it to the guest, and then how we offer it. And so there are opportunities, obviously, with the to-go business where we can do more family-style options, party platter kind of business, that not only addresses the needs of a take-out consumer better potentially, but also addresses some of the functionality and puts the product in a position and in a package that's going to deliver the best experience possible.

And our experience with Maggiano's is invaluable. So, Maggiano's has got a great delivery and take-out business, and we've learned a lot through them as to how to continue to evolve that business at Chili's.

Sara Senatore - *Bernstein - Analyst*

Thank you.

Operator

Chris O'Cull.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

I'm with KeyBanc. Wyman, the Company cost of sales is probably one of the lowest in its history or it's been a while (technical difficulty) percentage of sales. Has there been any consideration to reinvesting in food quality?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

That's a good question. I don't think, from a food quality standpoint, we have been investing back in food quality. I could list the things we've done but, in general, the menu has, over the last few years, has done nothing but improve the quality of the product in there. So, I think the opportunity that we have is to continue to determine, A, where is the value proposition, and are we -- is there -- is the portion size for the price are probably bigger questions for us than quality of the product.

I feel really good about the quality of the products that we serve at Chili's. And I think the team has done a great job listening to guest feedback, understanding where the opportunities are, and addressing those.

And so the bigger question on cost of sales I think for us is are we giving a competitive value proposition out there that in the face of a lot of folks out there from fast food on really lowering prices, and giving bigger portions potentially. So that's where we are more focused. Not that quality isn't critical; we just always have had that. I think the bigger question for us now is do we have the right value proposition to be compelling for all segments of the business at all dayparts, so lunch, dinner, those snack occasions.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

Is that a change that you are considering this fiscal year?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

We are doing some of that. You'll see it in our -- like our Thursday Margarita Night where we've absolutely, at $5.00 margaritas, taken some margin hit there and invest it back in on a value proposition on a quality product. We feel good about our happy hour menu as another example.

Part of the -- what you are experiencing and when you look at the cost of sales favorability isn't us doing anything to enhance or degradate the experience of lower quality or lower product. It's just lower cost of products. This is this issue Tom was talking about with commodities I know you're well aware of. But there's just been some real favorability in some commodity products, primarily in the beef world, and we are just getting some of the benefit of that. We have -- a good example this quarter was avocados. The avocado market exploded this quarter, and we saw significant increases. And we chose not to reduce portion, not to reduce quality. We basically ate millions of dollars in increased avocado costs to continue to keep the quality product on our menus and to give our guests the same product, the same prices, even though we are experiencing significant headwinds there. So some of this is just a function of margins getting better because of lower cost product.

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

And to that point, last year, commodities for us were down for our basket around 3%. And this year, it's approaching 2% deflation across our basket, largely led by meats and poultry this particular year.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

Okay, great. And then Tom, you mentioned third-quarter earnings. I think you said the decline would be at a greater rate than the full-year guidance because of continued investment. Could you help us understand the magnitude of these investments and maybe what, how some (multiple speakers)

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

I'm speaking a little bit about advertising that will continue to be focused on the brand, so we'll be -- as we mentioned before, we've increased advertising for the year, so that will be a key item there.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

Okay, great. Thanks.

Operator

John Ivankoe.

John Ivankoe - *JPMorgan - Analyst*

With JPMorgan. It looks like your CapEx was $60 million in the first half. I think you guided to the year at $110 million to $120 million. So, is there any symbolism in being kind of at the higher end of the CapEx range? And at this point, I think it would be nice to have some view in the fiscal 2018 if there's anything major that you are planning to do on the remodel or retrofit side in fiscal 2018 that would lead to materially different CapEx than what we are seeing in 2017.

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

Sure. When we look at this year, the $60 million year-to-date is really more a function of the projects that we've implemented. And one of them was the craft beer rollout timing was all in the first half, as was a buildout of a little less, around 17 restaurants that we were testing out various bar configuration. And then we have the normal spend for maintenance, new restaurants. So it's a little bit more just idiosyncratic than the timing of a couple of projects, not necessarily be that into the full year as to where we might end up in the range. We are still in that range. We haven't adjusted that or updated that particular guidance.

And then, for 2018, this year, we made investments in craft beers as well as Margaritas on tap. And to the extent that there are opportunities to make investments that pay out, we will do that, but we are not in a position right now to talk through that. We just finished those test bar configurations, so we will be reading that over the next several months and incorporating that into our 2018 thinking as we get closer to the year.

John Ivankoe - *JPMorgan - Analyst*

And could you give us just a sense of what you -- I haven't seen one of those 17 restaurants, I'm sorry to say. But what did you accomplish in those 17 restaurants? Is there kind of an investment that you think might make sense, and did it actually achieve the right sales lifts?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

It's too early to give you a total assessment of the investment and the impact. We feel good about what we've done in these restaurants. It's a combination of some exterior work that we think, again, freshens the brand. Is it a more contemporary and relevant look? And then most of the energy on the inside was around the bar state, so opening it up, creating a little bit more energy, if you will, and had a little bit of a different palette from where we sit today, which, again, we think is more relevant and contemporary. And so all of the feedback qualitatively has been great. The guests really enjoy it. We are now doing a little bit marketing behind it. We are working with the operations team to bring it to life, to the next level. And I think, by the time we get together next quarter, we will have a pretty good sense for how we see it playing in our future, and we will be able to give you a little more sense for where we are going with that as we think about 2018 and beyond.

John Ivankoe - *JPMorgan - Analyst*

Thank you.

Operator

Karen Holthouse.

Karen Holthouse - *Goldman Sachs - Analyst*

One housekeeping and then an actual question. Housekeeping on this comment for fiscal third-quarter EPS being somewhat or moderately below the full-year range. Is that on a 52-week or a 53-week basis for the full-year guidance?

And then on G&A, we had obviously the cost cuts that are coming in partially this year partially next year. Then but -- guidance or G&A guidance came in outside that. So I'm just trying to understand. Is that incentive comp related? Is that other ongoing cost cuts or timing? I know that there was some investments this year. Did any of that end up getting pushed to 2018? Just trying to think about what sort of a share based model off into 2018 would be.

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

It's Tom here. Great question on the Q3. It's off a 53-week basis, so it's just reported or adjusted EPS as we reported on a 53 last year to a 52-week this year.

And on G&A, we have obviously incorporated the savings in the G&A target. The other savings are a combination of the reduction in incentive comp for this year of some degree and other savings in other G&A line items.

Karen Holthouse - *Goldman Sachs - Analyst*

And then in sort of the investments that were originally planned this year, is all of that still happening, or has any of that have been pushed out?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

All of the investments that we are making, and I talked about CapEx investments in the business, are still on track and in plan.

Karen Holthouse - *Goldman Sachs - Analyst*

All right. Thank you.

Operator

Andrew Strelzik.

Andrew Strelzik - *BMO Capital Markets - Analyst*

BMO Capital Markets. Thank you. So, I have two questions. The first one, I'm wondering what gives you the confidence that the headcount reductions, particularly at the field level, won't impact operations or the guest experience.

And then secondarily, you've mentioned several times the investments that you are making in the business, but if you look at the CapEx, it's relatively low relative to peers. You look at the G&A, same thing. And I know you mentioned, or you've already addressed on the COGS side, but I'm just wondering. Do you feel like the level of investment within the strategic plan is at the right level, or have you considered stepping those up to try to turn around the same-store sales growth trajectory? Just any thoughts around the level of investment would be very helpful. Thank you.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Sure. Let me just talk about the field and why we are confident. Actually, we think that this new structure will actually deliver a better guest experience.

Two things. One is we are just closer to the field now, so we take a layer out and the commitment from the Chili's operations leadership and all of the folks at Chili's is that, with this effort, more energy and more effort will be focused at the restaurant, and less throughout kind of the above restaurant organizational structure. So, the focus is back 100% on the restaurant, and a commitment from the RSC, the restaurant support center, to keep those operators -- to allow those operators to stay engaged the restaurant level by supporting them here with some of the work that they had been taking on in the past. So at that area director level, trying to take some of the more administrative, I'll say, burden off them so they can stay in the restaurant and focus on the guests.

And then frankly, unfortunately, with these things, you have to make some tough calls, but we obviously kept our best and strongest people, the folks that we have absolutely the utmost confidence that they can lead and take on a little bit more responsibility if we give them a little bit more support. And so those are the two things that have us confident that the change in the field structure is going to deliver not just the same but even a better guest experience going forward.

With regard to investment, I'll let Tom talk about it in detail. But I will say I know our capital structure. We are not investing in new restaurants the way a lot of other folks are, so I think you want to look at, apples to apples, what are they spending the money on. So we are not opening a lot of restaurants. When we look at what we are spending on maintenance, I feel very good that we are keeping our restaurants in shape. We monitor our guest feedback on quality of the experience as it relates to the operation.

And then, as we just talked about, we are evaluating alternative investments in the business from an atmosphere standpoint. So if we find something that really is compelling, that moves the brand forward in a powerful way, we will not hesitate to invest in that experience. And we've also made really good investments I think and smart investments over the years on technology that, again, I don't think everyone else in the category is doing. So it would be interesting to see, when you broke out new restaurant capital spending versus investments back into the brand, how that all stacks up because, obviously, in a category like ours that's saturated, those other investments I think are not as -- not paying out as well as they used to do.

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

And some details around that is last year for Chili's, for instance, opened around 14 restaurants. This year, we pulled that back to opening and building eight. So we took that extra in flex and invested in things that we believe are going to drive the business. That includes Olo. It includes Plenti integration into all of our systems and rollout. It includes the beer tap. So we are looking at different ways to move the overall business through that.

And then of course other investment in the P&L, which advertising aimed at the largest and clearest example. But (technical difficulty) throughout the P&L in areas that Wyman mentioned, we've done or are considering in terms of food value and other areas. So, feel like we are looking at the appropriate way to invest to drive the business.

Andrew Strelzik - *BMO Capital Markets - Analyst*

I appreciate the thoughts. Thank you.

Operator

Jeffrey Bernstein.

Jeffrey Bernstein - *Barclays Capital - Analyst*

I'm from Barclays. Two questions, just one following up on the value discussion from earlier. It does seem like the value dynamic has been a little bit more extreme lately. I know you guys are running effectively the 3 for Me for $10. I know your largest bar and grill competitor is also pushing a $10 offer. So, I was wondering. I think you said we are now seeing a third of your customers on value versus the 25% to maybe 30% sweet spot. So it seems like it's even above where you would hope it to be. I'm just wondering how you think about the risk of degrading the brand longer-term, and maybe where you are seeing the greatest bang for the buck in terms of that $10 offer. And then I had one follow-up.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Yes, I don't think the -- in this environment, denigration of the brand, I think the key there is what are you giving the guest, and making sure that the quality of the product and the quality of the overall experience isn't being compromised. And we are all over that, and the team is keenly aware of that guests don't eat price points. They eat the quality food that we provide them and they do it in an atmosphere and with a service mode that we have to deliver on. So I think that's the key to making sure we are not doing damage to the brand. It's offering a great value for those guests that are more compelled to shop for more price-centric. We have to have some of those alternatives for them. For those that aren't, we offer them value at all price points, and that all centers off of a quality experience in everything we do. And so that's the answer there, I think.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. And just as it relates to the -- with the reorganization, make things timely, I know you continually examine the model and you are reacting to changes in the environment. It seems like we are seeing some constructural shifts in that environment. You acknowledge the retail headwinds at the malls and the fast casual kind of taking more share. So I'm just wondering. When you do your periodic store-by-store assessments, what do you consider when you evaluate potential for closures in what seems like obviously a very challenged category? I think you said it is a saturated category. Do you ever say, you know what, maybe 900 plus Chili's is too many and we would be better off with some net closures or whatnot? I'm just wondering how you think about it on a store-by-store basis and whether that's a possibility in coming quarters or years to you see some kind of fresh closures.

THOMSON REUTERS

Wyman Roberts - *Brinker International, Inc. - President, CEO*

It's a business model for us, Jeff, so we are constantly evaluating every restaurant as a standalone business and how it's performing, and what it's generating with regard to returns and cash flow. And obviously, if it's a good investment, we keep them open. And our portfolio is very strong. We don't have a lot of restaurants that aren't doing well in terms of delivering the kind of returns you would expect, or at least positive returns, to make them a candidate for closure.

The other thing, though, that we do look at in a concept that's pushing over 40 years old, we have had some restaurants that we built decades ago. They are a great restaurant that the market has just moved on. And the trade area has changed, and the competitive set and the asset just doesn't represent the brand as well as we would like it to, and so we are, even in the few openings that we have this year, several of those are relocation, where we are closing a restaurant and just moving it basically down the street. And some of these restaurants are actually -- they are not on a closure list. It's not like they aren't producing a return. We just think the opportunity from a financial perspective to make more money, but more importantly, from a brand perspective, to put the brand in a better place, in a better place in the market, with a better look and feel and delivery is critical. And so several of the investments we are making now in new restaurants are really relocations. And probably a third of the -- 25% to a third of the new restaurants we open are relocations this year.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. Tom, just to avoid any confusion, I just wanted to clarify one thing. Everyone is asking the question about that fiscal third-quarter earnings. To be clear, your guidance this year is $3.05 to $3.15, which would seem to be down 11% to 14% versus what I believe everyone is using is the $3.55 last year. I just want to make sure because, I know when you first gave the guidance for fiscal 2017, there was talk about $0.40 plus of unusuals and the apples-to-apples growth might be different. So is there any way you could provide kind of a range in terms of dollars and cents you're talking about of the quarter, or am I right to assume that the growth you're saying is going to be down a little bit more than 11% to 14% for the third quarter?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

Your assumptions are correct. So, to keep things simple, we are just benchmarking that off of the $3.55 ex the adjustments because we haven't provided those last year on a quarterly basis. So, it's a little more straightforward to just look at the year-over-year with our new range being, as you noted, down 11% to 14% off of that (technical difficulty).

Jeffrey Bernstein - *Barclays Capital - Analyst*

Understood. Thank you.

Operator

Brian Vaccaro.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Raymond James. Thank you. This might've been asked, but just a couple of clarifications on the comps and guidance. On the comps, I wanted to clarify your December comments relative to the industry. Did you say that you outperformed on both a COGS and traffic perspectives in December?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

No, just sales.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Just sales. Okay. And it's probably difficult, but are you able to quantify the impact of the Veterans Day situation on the quarter for Chili's?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

No, we can't quantify it specifically. Something like that is a little bit qualitative, but it did take our trend from above to below for those few weeks. So for those three weeks, we went from consistently outperforming the category to underperforming the category for several weeks.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Okay. All right. Fair enough. And last one just on the comp, you mentioned the continued softness in energy related markets. Can you quantify the drag that that was on your fiscal second-quarter results?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

Sure. Our energy related markets, that's still that 17% of our markets, they were down 6.1% in the quarter. And that compares to prior quarter down 4.1% So they were down a little bit more, but I have to say it followed the exact same pattern as our overall sales with an October that was significantly better than the 4.1%, and then weakness towards the back half of the quarter from mid-November on.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

That's helpful. Thanks Tom. Then last one, I wanted to just circle back on the SG&A and the incentive comp discussion. Obviously, it's down this year, but can you quantify how much remains in your SG&A guidance from an effective comp perspective or, alternatively, how the updated accrual compares to what a full accrual would be if you had hit your target?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

I would say we have a good portion left. I don't want to give the specific amount, but it's a very good portion, unlike last year, in Q3, where it really came down to McKinley, we are not in that situation at this point, so we are still targeting to continue to pay out incentive comps.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Okay. Thank you.

Operator

Will Slabaugh.

Will Slabaugh - *Stephens Inc. - Analyst*

With Stephens. Thanks. I was wondering if we could try to exclude the tough environment for a minute and wonder kind of on the positive and negative side in the quarter. It sounds like you're pretty happy with the to-go business, the beer launch. I'm wondering what other parts of the menu, recent launches, etc., where you feel like the consumers are gravitating toward, or maybe given the softness, we are seeing more opportunity to improve? So just really your take on sort of positives and negatives, if you're able to parse that away from what's happening externally.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Yes, I think we are actually very excited, as I mentioned in my comments, about some of the new food that was rolled out with the smokehouse menu options. So that's more innovation. We are still -- we are seeing preference for those products and customer satisfaction on those items that are very encouraging. So, there's some new innovation in terms of products that we are excited about there.

We are also, again, the 3 for Me platform is a value platform with some of this food integrated into it that's also got us encouraged and continuing to assess how to best address consumers' needs for value and create some energy and some excitement. So those are a couple of areas where we are seeing positive results along with, as you mentioned, the take-out business.

I'd say the lunch business is still an area where we are continuing to address the challenge that we see, both from a macro as well as from a competitive environment that we are focused on now and looking for some opportunities to better strengthen that business.

Will Slabaugh - *Stephens Inc. - Analyst*

Got it, that's helpful. And as a follow-up there on the industry, you mentioned you're expecting to continue to remain weak, and maybe not where they were in December but still pretty tough throughout the year. So with that being the baseline assumption, I'm wondering. Is there sort of a pie-in-the-sky scenario where you can think about things turning positive for Chili's by year-end, by fiscal year-end, and what that might entail? So what is the scenario where we do comp positively, and what works to get us there?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

It's Tom here. A couple of things. The industry improved, the oil market to improving, and traction on some of the initiatives that we've talked about as we've been rolling them out throughout the second half here. So, those are the things that we are actively working on. The last items are the ones we control, and we are real focused on making them as impactful as possible.

Will Slabaugh - *Stephens Inc. - Analyst*

Thank you.

Operator

Jeff Farmer.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Wells Fargo. Do the last four quarters of casual dining segment same-store sales and traffic change your thinking in any way about the Company's long-term earnings model, which I think you guys are point to 10% to 15% annual EPS growth?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

At this point, we haven't made any update to that model, and we still believe that we are on track to getting back to growth on Chili's and that Maggiano's is generating great results and a great gap. So we feel good about where we are headed, and I think that's where we are going to create a lot of value.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

And then one more sort of related question. It looks like share repurchase has materially outpaced free cash flow over the last five-plus years. I'm just curious. Based on the current leverage levels and your updated free cash flow guidance, and just the general free cash flow trends, do you think you can continue to outpace your free cash flow in terms of your level of repurchase or repurchase level outpace your free cash flow pace?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

I would just point out that, this year, we had a recapitalization, so we did increase the leverage to a new level that we'll be maintaining going forward, so that's a one-time step up to a more optimal capital structure. And with that, it does provide more leverage as we grow earnings to increase our debt levels and maintain the same absolute leverage amount to allow us to, as we go through our capital allocation process of investing in the business, paying a dividend and then using the (technical difficulty) to buy back shares to put us in that position. So we think we are positioned to be able to perform and continue to work our capital allocation process in a similar manner.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

But obviously this year, with the recapitalization, it was a big one-time bump. That's not going to happen again. So it wouldn't be at that pace.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

And then just to be clear, I think you guys -- the top end of the adjusted debt to EBITDA is 4.25. I think you already mentioned that. How high would you take your leverage ratio?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

That, we mentioned that was the top end of our covenant. That is not the top end of where would be going. We were targeting about a half a turn. Our target was 3.25 to 3.75, roughly speaking, and we ended the quarter around 3.6.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you very much.

Operator

Peter Saleh.

Peter Saleh - *BTIG - Analyst*

BTIG. I know there's a lot of discussion around the to-go business, but I just want to be clear here on the strategy. Is small order delivery at Chili's part of the to-go strategy for this year and going forward?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Hey, Peter, Wyman. The delivery model for us at Chili's is kind of being developed kind of as we speak. We've got several different tests in place with -- well, we've always had third-party deliverers of our food at Chili's in markets, but obviously, as you are aware, that business model is being pushed aggressively by new, bigger players, and we are in tests with those players, and we are kind of evaluating that business from a third-party perspective. From an independent, or from a delivery -- from the perspective of should we deliver our own product, and at what price points or what check averages, that's also kind of being evaluated. At Maggiano's, we have a full in-house delivery system with vehicles, so we've got a lot of history there. We have some restaurants within the Chili's system that do delivery of the product themselves, and so we are evaluating the delivery aspects and options aggressively this year. I think they will trail the take-out business initiatives that we've talked about, because we think those are actually bigger and more fully developed and will lead. But they are going to be closely following them as we really address this whole consumer convenience and out-of-restaurant phenomenon.

Peter Saleh - *BTIG - Analyst*

Great. And then one more point of clarification. If you do move forward more aggressively on delivery at Chili's, it will be with a third-party provider, right, not your own employees?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

No, I think that's what I was just kind of mentioning. We have all of those kind of alternatives in some restaurants, so we have restaurants that are delivering from our own employees and we have third parties of various different companies delivering our product, and we are evaluating the viability of all of that. And again, we've got a really good in-house delivery model at Maggiano's that we also have the ability to learn from. So over the next six months, I think we will see, the back half of this year, we'll continue to see how these all play out. We will especially take a big interest in how some of these bigger aggregators, the Postmates, the Ubers the Amazons, how those guys are all coming to market and what they are bringing with regard to viable business models and how well they deliver our products to see if that is really the best way to go or not.

Peter Saleh - *BTIG - Analyst*

Great. Lastly, I think there was one brief mention of the Plenti program. Any other comments you guys care to make on how that program is performing as it integrated into your loyalty program?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

We feel good that Plenti is going to perform as we expected over the course of this fiscal year. As you recall, it was just launched in November, so there is a build as we transition people into it. And the primary short-term benefit was to reduce the expense related to the loyalty program, which we do expect to see. And then longer-term, as we build the number of members in it, we will use that platform, along with email and other digital marketing, to build up our presence and drive traffic. So that's a little longer-term.

Peter Saleh - *BTIG - Analyst*

Great. Thank you very much.

Operator

Bob Derrington.

Bob Derrington - *Telsey Advisory Group - Analyst*

Telsey Advisory. Wyman, when we step back and look at the Company's business back to 2007, the annual traffic trends have been pretty torturous. That's not new news, averaging about a 3% decline each year since then. As you look at the numbers, as you think about those things, you've spent a lot of money updating restaurants, remodeling stores, making changes to the menu. All of those things are somewhat evolutionary. Is it time to kind of take a look at the Company's business and look to be more revolutionary? Is there a thought that maybe the evolution that you've been making on an annual basis, maybe you need to take a more dramatic step than that?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

I think it's we try and make sure that we are doing both, trying to understand, okay, what does the future look like and are we addressing it significantly enough to be a viable constant moving forward. And obviously, the traffic patterns, as you said, have been a challenge, but the business model continues to play itself out in a very strong way. And so we want to make sure that we are doing the right things for our shareholders with regard to the investment that we've made in this business.

So, to answer your question, we do look aggressively at, hey, what would an alternative model look like, but we also understand the real valuable brand, it's a business model and a category that's got sustainability. And so we just want to -- we are always balancing that out. And these ideas, whether they are concept tested or whether they are tested in restaurants, those are things we do all the time. We don't always talk about some of the things we are doing that are a little bit maybe more on the revolutionary end, to use your word, but it's not like we don't have those things being evaluated.

Bob Derrington - *Telsey Advisory Group - Analyst*

Given the fact that certainly a strong percentage of your consumers really look to you for value, is there an opportunity to kind of take that a step further and maybe back away from some of the capital initiatives? I'm just trying to think about your business.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

Again, everything is up for grabs from our perspective. We are always evaluating where to invest for the best return, and for the long-term viability of the business and the brand. So whether it's a capital investment or not, or whether it goes back into kind of an expense category on the menu, we are constantly kind of making those decisions relative to how they impact the long-term viability of the business and the brand.

Bob Derrington - *Telsey Advisory Group - Analyst*

Got you. Thank you very much.

Operator

Steve Anderson.

Steve Anderson - *Maxim Group - Analyst*

From Maxim Group. The domestic side of the business has been I think well covered, but I wanted to focus on the international business. You noticed, seeing that comp is down about 4%, and given that a significant percentage of those are in the Middle East, have you given any thought to maybe looking at your pace of new unit development overseas, and where you want to target unit development?

Tom Edwards - *Brinker International, Inc. - EVP, CFO*

It's Tom here. First, in the Middle East, we are lapping some co-op marketing from prior year, and some of those countries are also doing some of their own pullbacks related to the consistent lower oil pricing. So, there are some things that are impacting them very specifically, but it really hasn't affected where we want to grow. There is still real strong interest in the Middle East, and we're opening, our partners are opening restaurants.

THOMSON REUTERS

There is also extremely strong interest in Asia and a couple of new countries that we will be excited to talk about in the very near term. And we continue to build with new partners and with existing partners in Latin America. So, Chili's is a concept that resonates really well in different cultures and different countries. The flavor profile, the venue resonates, and it's a great economic model. So, we think we can grow in all different geographies. That's what we are pursuing.

Steve Anderson - *Maxim Group - Analyst*

Thank you.

Operator

David Palmer.

David Palmer - *RBC Capital Markets - Analyst*

RBC. Good morning. Just seeing the consumer data you see, and I assume you see stuff from the Ziosks and external surveys, where do you think there is an opportunity to improve or to drive better share versus NAB? Whether it be on the labor or the food side, is there perhaps a need to reinvest?

Wyman Roberts - *Brinker International, Inc. - President, CEO*

I think, again, we've got opportunities to create a compelling value proposition in the environment that we are in. So, we think that the value proposition that we've got out there is solid. We know our value scores are some of the best, to your point. We get a lot of consumer data, but in this environment, there's always that need to keep things fresh, and so between the value proposition providing the innovation necessary to address consumers' desires for new food, better food. And then execution, I think, again, the commitment from Chili's and the operations teams to make sure that every guest experience is a great experience. And when we talk about big data, we don't lose track of we are in the hospitality business. And the data is just a way for us to become a better hospitalitarian. It is about how do we perform the basic function of the restaurant business better, and having that insight from our guests that, hey, this restaurant, this daypart, this menu item isn't quite filling the promise that we need it to. We have that information and the operations teams are embracing that and using that to create a better guest experience every day. So, I think those are -- it's not a simple one silver bullet solution to how do you win in this category. It really crosses all aspects of the business from what you're doing from a marketing and a culinary standpoint, but, at the end of the day, how well you execute in the restaurants day in, day out.

David Palmer - *RBC Capital Markets - Analyst*

The one reason I mentioned that, some of that, is because grill and bar these days, there are some players that are really struggling. You have the best AUVs in the business in that segment. And perhaps, strategically, there is a reason, a very good reason, longer-term, to reinvest and make sure you drive that separation and value to the consumer at a time like this.

Wyman Roberts - *Brinker International, Inc. - President, CEO*

We would agree. I think we are seeing -- the pressure of the category will have a bigger impact on those that are closer to the edge. And having the higher restaurant level volumes helps us. We are not -- we understand that position, and we want to use our position as strength to continue to separate ourselves from others. And hopefully, some of that will create some thinning out in the market.

David Palmer - *RBC Capital Markets - Analyst*

Thank you very much.

Joe Taylor - *Brinker International, Inc. - VP IR*

Thank you Kate. Thanks to everyone for participating in the call this morning. I would like to note that our third-quarter earnings call is scheduled for the morning of April 25, 2017, a couple of months from now. And with that, everybody have a great day. Appreciate it.

Operator

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