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## EAT - Q3 2017 Brinker International Inc Earnings Call

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**OVERVIEW:**

Co. reported 3Q17 revenues of $811m and adjusted EPS of $0.94.

## CORPORATE PARTICIPANTS

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**Wyman T. Roberts** *Brinker International, Inc. - CEO, President and Non-Independent Director*

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**Will Slabaugh** *Stephens Inc., Research Division - MD*

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to the Brinker International Third Quarter Earnings Conference Call. (Operator Instructions) It is now my pleasure to turn the floor over to your host, Joe Taylor. Sir, the floor is yours.

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Okay, thank you, Kathryn. Good morning, everyone. This is Joe Taylor, Interim Chief Financial Officer and Vice President of Investor Relations. Welcome to the earnings call for Brinker International's Third Quarter of Fiscal Year 2017. Results for the quarter were released earlier this morning and are available on our website at brinker.com.

Wyman Roberts, Chief Executive Officer and President, joins me this morning here in Dallas. As is our practice, Wyman and I will first make prepared comments related to both our quarterly performance and certain strategic initiatives underway at the company. We will then open the call for questions.

Before beginning 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.

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.

With that said, I will turn the call over to Wyman.

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

All right. Thanks, Joe. Good morning, everyone, and thanks for joining us today. As you saw in our third quarter press release, Brinker delivered earnings per share of $0.94. Thanks to the operational effectiveness at both our brands amidst another soft sales quarter for casual dining. We faced sales challenges globally and here at home, with Maggiano's down 1.6% and Chili's company-owned restaurants down 2.3%. But when you look at our domestic franchise system, which experienced a milder winter in the Midwest and wasn't impacted by the oil market drag, they ran positive sales for the quarter. Combining Chili's domestic company-owned and franchised restaurants, we ran down about 1.7%, delivering sequential improvement in sales and margins over quarter 2 and in line with industry comps.

Strategically, this quarter, we balanced our messaging with a mix of value, innovation and quality. We went on air with our new 3 For Me value promotion in January, giving our guests more options to customize entrees for just $10. In February, we transitioned to high-margin, quality and abundance message as we launched our smokehouse combos, which offered bold flavors and in-house smoked meats, including Bone-in Chicken, ribs and jalapeño sausage. This balanced approach delivered positive mix and margin results, which contributed to the beat in earnings expectations.

So we're making progress, but we're not satisfied yet with our performance. We're on a journey to reclaim market share, and that drives everything we do. Our guests have made their feedback clear: their dining experience needs to be faster, the food needs to be hotter and they still want high-quality products at a great value. So our team is focused on implementing solutions to improve those specific aspects of the guest experience.

First, we're clearing the decks for operators to make it easier for them to deliver. We've made a commitment to simplify our menu to enable improved execution on our signature items. During third quarter, we replaced the custom combo section of our menu with the new smokehouse combos, which reduced operational complexity and help strengthen our culinary point of view. For the past 2 quarters, we've been testing the menu with 20% fewer items and it's resulting in better food delivered faster while decreasing back-of-house labor. We'll launch this menu nationwide Q1 of F '18, and we're already testing additional deletions as we continue to narrow our focus to meet the needs of our target consumer.

But simplifying the menu doesn't mean less innovation. We're making improvements across our menu in quality, craveability and presentation with the goal of becoming best-in-class. For example, during the third quarter, we moved to a smash burger, a new cooking procedure that produces a juicier product and cuts the cook time nearly in half. And we've introduced a new, more relevant stainless steel tray for presenting burgers and smokehouse combos, which are easier to clean and they don't break, which significantly reduces replacement cost.

We also upgraded the quality of our crispers to an all-natural chicken with new flavors like Buffalo bleu cheese and honey chipotle chicken and waffles. Since we went on air with crispers, the category mix has nearly doubled and guests are responding very favorably to the new products. This week, we upgraded our fajitas with nearly 50% more protein and the addition of rice and beans with every entrée. So we're concentrating innovation on our core menu. We're simplifying execution. We're also optimizing technology to enable a faster, more convenient guest experience. Our ongoing efforts to leverage technology have earned us a recognition as a leader and a pioneer in creating a digital guest experience in casual dining. Now we're leaning into the foundation we've built to take the guest experience to the next level in a way that others can't easily replicate.

For take-out guests, we know they want a simpler, faster, effortless experience, and we're meeting that need through an upgrade in our Chili's app that provides digital curbside service where our guests can order, pay and then notify us when they're in the parking lot all through the app; the guests never have to get out of their car. It's in test now and getting great response from guests, and we plan to launch it at the end of this fiscal year. We also see opportunities to enhance convenience in the dining room with the use of technology. We've had handheld devices in a relatively small test for several months and we're excited about the potential to increase efficiency and speed as we expand the test during this quarter. And a big part of our marketing strategy is to leverage technology to create better connections through direct marketing with programs like Plenti and Loyalty.

From a value perspective, we believe limited time offers are not the best way to drive our business. They increase complexity for operations and add confusion for guests. We think a more sustainable strategy is to offer consistent quality, craveable products at a compelling everyday value. We already have flexible value platforms at both lunch and dinner, and consumers give us a lot of credit for providing best-in-class value. Now we're aiming to refresh and update our value propositions to keep it relevant for consumers. We're currently evaluating alternatives and leveraging extensive consumer insights to develop an even stronger offering.

Now before I hand the call over, let's quickly touch on our global and Maggiano's businesses. Our Global Development team made meaningful progress in Asia during the third quarter, welcoming a new partner in Vietnam and continuing to expand development in untapped markets across Asia. As we look to open more than 30 restaurants this year with our global partners, we're confident we'll continue to deliver industry-leading growth in the years to come.

Maggiano's delivered a solid third quarter, driven by our biggest menu change in 25 years, including the introduction of a new daypart with Sunday and Saturday and Sunday brunch. The new menu highlights the brand's scratch kitchen and introduces new chef-inspired pasta and entrée selections, like our new Denver steak. It's hand cut in-house by our chefs, this steak has outperformed expectations and it gives us a competitive value advantage in the steak category. Since the new menu launched in early March, we've seen improved momentum in sales and guest satisfaction especially with weekend brunch, which we're excited to introduce to even more guests during this fourth quarter.

The dynamic leadership team of Gen Gray and Larry Konecny, who have been growing with Maggiano's for a combined tenure of nearly 35 years, will continue to drive these and other exciting initiatives going forward. And as strong leaders are often developed by their predecessors, it's a real testament to the forward-thinking leadership of Steve Provost, who served as the last -- as the President of Maggiano's in the last 7 years as well as a pivotal member of the Brinker leadership team. Steve has demonstrated time and again his ability to lead boldly and take measured risks in service of the guests. We're thrilled to have him take the helm of marketing and culinary for the Chili's brand, a crucial role in our organization. His partnership with Kelli Valade is the perfect combination to lead the brand as we continue our focus on driving profitable top line growth and traffic.

So I feel great about the team and the work being done across all aspects of our business. We clearly see the challenge in front of us and we're moving with confidence to tackle it. We consistently deliver strong cash flow. We've maintained our margins and we've developed a sustainable disciplined business model, gives us the freedom to invest wisely into this business with the intent of optimizing the experience for our guests and maximizing returns for our shareholders.

And unlike many others, we can leverage our scale, implement technology, leverage national media to capture share in this very competitive marketplace. Finally, we have a leadership team comprised of fresh perspectives from outside the industry and seasoned restauranteurs steeped in our brands, all of whom are laser-focused on understanding the guests. Our management team is strong and nimble and can shift and respond to the changing demands of our business; like Joe Taylor, a 17-year veteran with Brinker with deep expertise in finance and government relations, who most recently led the IR and treasury and has stepped in to take the reins as Brinker's Interim Chief Financial Officer.

And with that, I'll turn the call over to Joe to walk you through some of the financials. Joe?

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Thanks, Wyman. Let me continue the review of our quarterly performance by providing some insight to the numbers reported earlier today. Our third quarter adjusted earnings per share of $0.94 did exceed the expectations for the quarter we provided during our last call. The combination of effective restaurant-level management and continued success by our supply chain team allowed good flow-through for the quarter. As reported, restaurant operating margin improved to 17%, up from 15.1% in the second quarter.

Now while the earnings results are encouraging, our brands compete in a highly competitive industry segment that continues to demonstrate weaker and more volatile sales dynamics than expected, conditions that appear likely to remain in place in the near term. Our third quarter revenues of $811 million were 1.7% below prior year, primarily due to negative comp sales of 2.2% for the quarter. While comp sales performance did represent improvement from the second quarter, difficult market conditions slowed the level of progress in this area. Chili's domestic system-wide comp restaurant sales declined 1.7% for the quarter, again, a sequential improvement.

While our view of the broader casual dining sector indicates that the brand performed in line with the industry, our GAAP performance during the quarter displayed a higher degree of volatility than desired. As has been the case for the past year, Chili's comp sales performance has been negatively impacted by our energy market penetration. These markets reported quarterly comp sales of negative 4.9%, which is a 130 basis point improvement from the second quarter. This group of restaurants roughly 17% of the corporate-owned fleet, created a drag of close to 40 basis points on the overall comp performance. Both mix and price contributed positively to the quarterly comp performance, offset by negative traffic of 6.2%.

The introduction of our smokehouse combos during the quarter, along with very effective in-restaurant promotional activity, supported the positive mix and increased PPA. As of quarter-end, PPA for Chili's was $15.20, up from $14.73 at the same point last fiscal year.

Turning to Maggiano's, comp sales were down 1.6% in the third quarter. As Wyman mentioned, the brand introduced a new menu and rolled its weekend brunch to all 52 restaurants during the quarter. Guest reaction to both the menu and brunch occasion has been positive and helped strengthen Maggiano's performance as the quarter progressed.

As I indicated earlier, restaurant-level margin management was a critical driver of quarterly performance and earnings quality. Restaurant operating margin for the quarter was 17% and although increased from the second quarter, is a year-over-year decrease of 40 basis points, which includes deleverage of approximately 60 basis points. Cost of sales margin was favorable by 120 basis points, reflecting cost benefits from the commodity markets, leveraged by our pricing actions during the quarter.

Currently, we are 87% contracted across our commodity basket in the fourth quarter and 54% contracted through the end of the calendar year. Restaurant labor margin was unfavorable year-over-year by 50 basis points, primarily due to restaurant manager's salary increases and slight deleverage. Through proactive management at the restaurant level, hourly labor costs were relatively flat year-over-year. Restaurant expense margin was unfavorable 110 basis points, primarily reflecting our incremental investment in advertising, increased insurance expenses year-over-year and approximately 40 basis points of deleverage.

Despite the difficult operating environment, we continued to generate good cash flow, allowing us to make the investments we believe will build the business for the long term to manage our debt levels within the target range and return capital to shareholders through dividends and share repurchase. For the quarter, we generated free cash flow after capital expenditures of $83 million, bringing the year-to-date total to $164 million. In January, we received the final 846,000 shares related to our accelerated share repurchase. We finished the quarter with lease-adjusted leverage of approximately 3.5x.

In summary, we are focused on initiatives we believe will break through the challenges of our industry, differentiate our brands and improve traffic performance over time. As we move forward, our restaurant-level operational performance provides us the financial strength and the flexibility to fully execute these strategies.

And with that, Kathryn, I'm happy to open the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question is coming from John Ivankoe.

**John William Ivankoe** - *JP Morgan Chase & Co, Research Division - Senior Restaurant Analyst*

With JPMorgan. A couple, if I may. First, on CapEx. I think you spent $80 million year-to-date. Could you remind us or update us what you think that will be for fiscal '17? And importantly, as you're going through the capital budget and thinking about things previously like bar reimages or perhaps exterior or other types of spending, what you think fiscal '18 may be.

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

John, this is Joe. Obviously, the guidance range for F '17 continues to be $110 million to $120 million. Now that being said, as we kind of move into the fourth quarter and you have the sequencing of the actual spend that takes place in that fourth quarter, particularly as you get near the end of the fourth quarter, you can see some slippage. So there is probably a decent likelihood we will be somewhat underneath that range, but not materially off of it.

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

And then, John, this is Wyman. Just as we think about '18, we're not ready to kind of give you guidance on that. We'll do that in August. But as I talked about in my prepared remarks, our focus right now is on food and service, especially the speed of service, we think those are big opportunities within Chili's. So we've got the remodel, the bar reimage in our 17 restaurants now. We've got a handful of restaurants in the Northeast that we got with the PDI acquisition that we haven't remodeled at all, so we'll probably take those. But the bulk of our focus in '18 is really going to be on the menu and the service aspect. And so I would anticipate that the level of work that we do on the remodel would be less than we may have thought prior to this quarter's call.

**John William Ivankoe** - *JP Morgan Chase & Co, Research Division - Senior Restaurant Analyst*

Okay. You guys specifically called out your PPA in this quarter, which is helpful, $15.20. Is that the right level of PPA for a bar-and-grill concept that really wants to speak to value, is the first question. And then secondly, you've obviously talked about a number of different things from a food and a service perspective for '18. Should we assume that this is going to require significant investment and operating expenses overall in fiscal '18? In other words, is fiscal '18 setting up to be a margin investment year for Brinker?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Well, John, we do need to invest back into the brand. We know that. We're working on how to get the best returns from those investments. We don't necessarily -- so we think that there is an opportunity for us, as I -- I'd mention again that to work -- to have the menu work harder for us. And that $15 price point is probably a little high, frankly. In the quarter, we ran quality and abundance for most of the quarter and didn't play a lot of value; and we're probably, in the mix, going to be a little bit more value-focused going forward. And we know on the base menu, we want to make the menu work harder for us from both a quality abundance and a value perspective. So those are investments we're looking at now, all of which, we think will provide a great return. So from that standpoint, I don't want to give you the wrong impression about the impact.

**Operator**

Your next question is coming from Jeff Farmer.

**Jeffrey Daniel Farmer** - *Wells Fargo Securities, LLC, Research Division - MD and Senior Restaurant Analyst*

Wells Fargo. So on the call, you mentioned the opportunity to continue to lever media scale, but are you seeing the expected return from, I think it's your mid-teens percentage increase in advertising dollars in '17? And what are your early thoughts on media weights heading into fiscal '18?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Jeff, it's been an interesting year, right, so with the category and our performance as well as the different messages that have been out there, so we still believe and we measure our media and analyze it very, very aggressively with both internal and external help and so we think it is working for us. That said, we think there's an opportunity for us to get more out of our messaging, both with regard to the messages that we're putting out there, being more relevant for our guests. And again, that's what we've talked about as well as maybe a change in some of the mix. So Steve Provost comes into the Chili's marketing department with a fresh perspective, really evaluating all aspects of the marketing plan, and we're excited to kind of walk you through what he has in store for the brand kind of for '18 on our next call. But we obviously are not walking away from leveraging our scale in marketing.

**Jeffrey Daniel Farmer** - *Wells Fargo Securities, LLC, Research Division - MD and Senior Restaurant Analyst*

That's helpful. And just one quick follow-up, and I might have missed this, but have you guys shared with us Chili's off-premise same-store sales either for this quarter or prior quarters? Are you at a point where you're going to begin to share that information?

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Yes, what we've talked about before, and it is consistent with this quarter too, is to-go. Revenue has been in that 10.5% to 11% of sales, and that is consistent with where we are right now. Again, we do believe we have a good upside as it relates to the off-premise sales, and that several of the initiatives are designed to lean into that space.

**Jeffrey Daniel Farmer** - *Wells Fargo Securities, LLC, Research Division - MD and Senior Restaurant Analyst*

Okay. Yes, I apologize, I understood the mix component of it. I just was curious of the same-store sales nature of that particular segment where we're positively growing versus the balance of the business.

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Yes, I think what we've indicated in the past is that they have been positively growing and they continue to positively grow. We haven't put a lot of definition around that.

**Operator**

Your next question is coming from Will Slabaugh.

**Will Slabaugh** - *Stephens Inc., Research Division - MD*

With Stephens. Just looking at the mix of check growth versus traffic in -- on a 1 and 2-year basis, looks like over the past couple of years, losing around 10% of traffic. And I know there's some oil impact there, et cetera, but just more broadly, I'm wondering if you think given the results and what the customer is telling you with their feed if this calls for maybe a more dramatic mini revamp of quality, of value, maybe a platform or anything like that? Or do you feel like you have some things in place that just need time to work? How are you thinking about the setup from here?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

No, we absolutely think we've got -- well, we've got some things in test and we're doing a lot of work with consumers right now to address the changes that we think are necessary on the menu to be more compelling. So yes, we think there is a need to refresh the menu in a way that's more compelling from a value as well as a quality perspective. And we're really targeting kind of a best-in-class benchmark for aspects of our menu that will take us kind of to that next level.

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**Will Slabaugh** - *Stephens Inc., Research Division - MD*

Got you. And then I was curious also, in the research that you've seen, wondering how differentiated you think the customer thinks Chili's is now, and what it will take to sort of drive those differentiators home to the customer to get them to maybe frequent the restaurant more often, assign a higher value to the Chili's brand than maybe they currently do.

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Well, again, I think the strength of the Chili's brand is kind of undeniable. It's got some really nice, unique points of differentiation that are powerful in today's kind of marketplace. That said, casual dining is under more pressure now than ever to kind of win consumers' hearts and minds. And I think that's a combination of what happens on the menu and what offerings we're delivering as well as when they walk into the restaurant, how consistently we can make them feel special. And those are the things that we're really focused on from both the marketing and the menu development standpoint as well as an operational perspective. And so the way you're going to win in the future in this marketplace is really leveraging I think, we believe, those 2 things. What it is we're promising, especially from a menu perspective, which Chili's does have the permission and the expectation to be uniquely different from a lot of the other players as well as how consistently we can deliver that. And that's a combination of how we support operators to do that and then how well we hold ourselves accountable. So things like technology are ways that we think we can overcome some of the challenges in casual dining to deliver a better guest experience while maintaining a business model that's got a little bit more of a labor component in it.

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**Operator**

Your next question is coming from Karen Holthouse.

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**Karen Holthouse** - *Goldman Sachs Group Inc., Research Division - VP*

This is Karen Holthouse from Goldman Sachs. One quick housekeeping, what was your leverage ratio at the end of the quarter as you calculate it?

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

On a lease-adjusted basis, it was just a tick over 3.5, Karen.

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**Karen Holthouse** - *Goldman Sachs Group Inc., Research Division - VP*

All right. And then, looking at -- we didn't get any formal guidance update in getting to the low-end of the prior comp range of down 1.5 to 2, which seemed to suggest a pretty material pickup, like 300 basis points or so in the fourth quarter. How should we think about that? Are there -- are they tied to the oil markets are getting better, there's an intra-quarter piece of that, that was encouraging? And what gives you confidence that low-end would still be achievable?

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Well, Karen, we haven't given specific guidance as it relates to the fourth quarter. We are very confident and comfortable with the guidance we provided for the year. We obviously just reported a quarter that had good margin experience in it. And that obviously has a meaningful impact on the overall result as we move forward, but there is volatility in the system and there's volatility in the marketplace, and that will play itself out as we move through the fourth quarter also. But we are comfortable with the guidance ranges we have provided.

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**Operator**

Your next question is coming from Howard Penney.

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**Howard W. Penney** - *Hedgeye Risk Management LLC - MD*

Hedgeye Risk Management. Wyman, I think I missed the first part of your comments. I didn't miss it, but I heard that you're reducing or you're thinking about reducing your menu by 20%?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Yes, Howard, we... we've had it in test for really quite a while, a couple of quarters. And whenever you make that significant number of deletions, you just want to make sure that the guest response isn't going to be negative with regard to losing some favorites. And we haven't had that experience, so we're very excited about being able to roll that, which will simplify some of the work that happens in the kitchen, allowing operators to really focus on execution as well as there are additional tests now kind of building off of that, that we think we can take the menu down even greater.

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**Howard W. Penney** - *Hedgeye Risk Management LLC - MD*

And to be clear, though, that's going to be rolled out...

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Absolutely.

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**Howard W. Penney** - *Hedgeye Risk Management LLC - MD*

Or that's still in test? And when will that be done?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Early first quarter.

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**Howard W. Penney** - *Hedgeye Risk Management LLC - MD*

Any thoughts on the implications to comps for that? Or is that not something I could ask?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Well, I think from a comps perspective, it's relatively neutral to check and margins. So it's not -- the objective here was to provide a simpler operation for our operators to deliver better consistency throughout the menu as -- and then the aspects of the menu that we're looking at that would actually be more compelling, if you will, from a guest perspective are to come. We're testing quite a few things and we'll be kind of coming out with some of those ideas here in the near future.

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**Howard W. Penney** - *Hedgeye Risk Management LLC - MD*

And then just lastly and along the same lines, is there a cost reduction in the supply chain that comes along with this too? Or is it just a menu comp?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

No, not significant. No. It's more about just simplifying the operational side of the business to allow them to focus and to keep -- I mean, obviously, when you take that much out of the restaurant, your ability to manage your waste and to keep product rotation accurate is easier, and so we'll see some of those things; your ability to run a more efficient back-of-house production crew because they're just making less items and so they can leverage their hours better. We're seeing some of that and so that's kind of what we're building in.

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**Operator**

Your next question is coming from Sara Senatore.

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**Sara Harkavy Senatore** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

I just have a couple of quick follow-ups, if I may, please. The first is just on value and again, I wanted to just go back to this question of abundant value versus maybe price point. I think when I look at the food margins, they're quite high this quarter so I guess, how do I think about the margin versus comp trade-off with respect to more aggressive value? And then a second follow-up I had was, 5 years ago or so when you embarked on the turnaround, which proved very successful, I think one of the things that we saw was you kind of changed the labor model with respect to broader coverage for maybe each of the servers and less support. And I guess is there any reason to think that maybe the speed of service opportunity that you talked about now might be a function of that? And maybe there's a need to staff up a little bit? Or I know the handhelds, your view is that they can be very powerful, but just in the context of maybe what you've done with the labor model historically.

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Sure, Sara. I think as we mentioned, in the third quarter specifically, we did lean into the smokehouse combos, which were a higher price point, higher-margin offering and so we didn't play a value out as much in the third quarter. I think going forward, we probably will be more aggressive in this environment with value. All the indications that we see through the industry tracking and -- is that, well, fast food is an all-time high deal rate and casual dining is right up there as well at all-time highs. And so I think in the quarter, based on NPD data, we don't see any backing off of that, so we will be more aggressive. But we just want to make sure when we come forward with a consumer proposition that it's sustainable. We don't think that it's good for our restaurants or for our guests to just throw offers out there that we can't live with for a longer period of time. We really want to establish a value proposition, like we have in the past with these platforms, that is ongoing. So that's what we'll be working for, and I think if you look at our margin, we've got plenty of room to do that and make it up in the traffic side of the business. So we will be focused on that more so going forward than maybe we were in the third quarter. With regard to the labor model, now all of our work that we've done over the last 7 years really to strengthen the business model at Chili's, leveraging our labor, it didn't slow the experience down. I think if anything, some of the things we've talked about with operational complexity, where we've let the menu get a little bigger, and it makes it harder for the cooks to get the food out of the kitchen because there's just so much going on, has probably been the bigger issue and that's why we're focused on simplifying that. The issue isn't that I can't find my servers. It's hey, how quickly can we get -- after we've taken your order, how quickly can we get the food to you consistently on a busy night? And that's what we're focused on. And handhelds, they just allow you to keep people on the floor and not have to basically take as many steps. It just keeps -- it just adds that level of efficiency to the process, where people aren't having to run back and forth to terminals. So it looks encouraging.

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**Operator**

Your next question is coming from Robert Derrington.

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**Robert Marshall Derrington** - *Telsey Advisory Group LLC - MD and Senior Research Analyst*

Wyman, you mentioned in your prepared remarks some discussion about the new chicken crispers that you all rolled out earlier in the month of April. You mentioned the preference. In visiting some of your restaurants, I don't think I've seen a product that has had as high a preference level as what these appear to have. Can you give us any perspective, how does the preference on the crispers compare to anything else that you've introduced as new items?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Bob, I mean, we've had -- obviously, we have a history and a reputation for our chicken crispers, and it's one of what we would consider a core category for us along with burgers and ribs, fajitas. So when we leaned into that with this new promotion and expansion of the menu a little bit on this category, it was with the knowledge that hey, we've got a solid guest base in that product. So we did see it grow quite a bit, like I said, almost double the category with the introduction of the new items as well as the marketing efforts behind it. So it's a significant category for us; it's right up there with fajitas and ribs and not quite -- well, not quite to the burger category, but in that ballpark.

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**Robert Marshall Derrington** - *Telsey Advisory Group LLC - MD and Senior Research Analyst*

That's great. You also mentioned menu pricing being a little bit more focused on value going forward, but looking at your menu, at least in some of the markets we visited, your 2 meals for $20, the price looked like it went up to 2 meals for $22, that's a higher value price, any kind of commentary on that?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

No, we did take 2 for $20 up earlier in the year to 2 for $22. I think the -- competitively, if you look at our value platform at dinner for 2 for $22 now, it's -- what's unique about it versus others in the category is we still have solid protein on there. There's a steak on there, there's ribs on there. There are things that others don't have, and so we think that platform has a lot of power still. It's still the most popular category on the menu in terms of just a category where people go. And so we don't think that pricing that -- because we kept the integrity of the product in there -- has cost us too much. We think there's room in that category potentially to do more with those price points. We also added an entrée salad as an option, which was -- has been very well received. So we continue to leverage that category and feel pretty good about how we've got it priced and valued.

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

And Bob, I would note that -- we did have markets, Bob, that were at that price point already, so there was a good experience and track record and understanding of the move we were making nationwide on that.

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**Robert Marshall Derrington** - *Telsey Advisory Group LLC - MD and Senior Research Analyst*

That's helpful. And last one, if I may. On the calorie counts, you all added those system-wide, I guess, in early April. Wyman, should we anticipate any preference shift within the menu? You got some eye-popping numbers within some of those items.

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

It's interesting how you have to kind of build those items and those calorie counts up, but the -- no, we've had history in markets that have had calories on the menu for quite a while. We see maybe a little bit of shifting early on, and then everything tends to go back to pre-levels and then it is what -- it is kind of what it is. We went a little early just because we had a menu print going, so we just took them with that.

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**Operator**

Your next question is coming from Peter Saleh.

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**Peter Mokhlis Saleh** - *BTIG, LLC, Research Division - MD and Senior Restaurant Analyst*

Peter Saleh from BTIG. So I just wanted to ask about your menu pricing. And we talked a lot about value on the call, but it does seem like the menu pricing was a little bit closer to 3%, 2.9%. It seems like it was running maybe double where you've been on average over the past 5, 6 years. So could you just talk about the decision to raise price at this point and really raise it by that much?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Peter, yes, it was really -- when we took 2 for $20 up, you have to -- we haven't touched that category in, I don't know, 7 years and so we had to make a decision on whether or not we wanted to strategically rearrange the category or price it and give ourselves some room to build from it. And we chose to price and build from, and that's kind of where we're at now. And so while we're a little high on where we're typically at with price rate today, that's one of the reasons we feel we have room to reinvest back into the menu and don't anticipate that being the case going forward. So we're just a little ahead of ourselves because when you price one of those platforms, it's a big category and it tends to be a little bit of a step.

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**Peter Mokhlis Saleh** - *BTIG, LLC, Research Division - MD and Senior Restaurant Analyst*

And did you see pushback on the 2 for $20 menu when you took that price? Did the consumer push back on?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

No. Preference is holding. Things are -- again, the value proposition in that platform is undeniable, so it's a little bit of a price increase. But when you look at what you're getting for $11 with an appetizer and an entrée and now a salad option, so it's a fairly -- it's a great value even at that price point. And competitively, we think it's the smarter way to go to keep the category intact with again, like I said, steak and ribs in there versus what other folks have potentially done, which is break out the premium product and price it even more expensively. So that's kind of the approach we took.

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**Peter Mokhlis Saleh** - *BTIG, LLC, Research Division - MD and Senior Restaurant Analyst*

Got it. And then on the delivery side. I know in the past, you've talked about potentially testing delivery, third-party operators. Where do we stand on delivery and others, discussion about curbside service? But are you still in test on delivery? What is your thought process there?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Well, again, as we talked about, we think the big opportunity in the short term is take-out. That's a big piece of our business. It's by far the biggest part of that outside-the-restaurant opportunity. We have a new curbside pickup that's working in test now, and that we think will allow us to market something that guests really want the ability to not have to get out of their car, use the app to just do all the work and then we just bring your food right out to you. So it just simplifies the process, which is what they're really looking for. With regard to delivery, we think that the opportunity is there, but it's not -- it's shaking itself out and so we've got several different delivery tests in place, if you will. We've got partners that we're testing with. We've also got delivery options that we are focused on more internally, not with the -- well, obviously, at Maggiano's, we have our own vehicles; but at Chili's, we're working more with third parties but with a little bit more support from an in-house operation. So we're continuing to evaluate. But right now, our biggest -- more energy and focus is on the take-out piece.

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

And Peter, I would add that the -- Peter, I'd add that curbside is a great example of how we're going to leverage the technological investments we've made. It drives very heavily off of the mobile app, includes the ability to mobile pay. Obviously, we've talked about our investment and the partnership with Olo. It is driving the system. And so as we continue to expand that test, we're seeing good results from the way the guest is reacting to that new and enhanced capability. And I think a lot of positive opportunities to come from that as we go.

**Operator**

Your next question is coming from Jeffrey Bernstein.

**Jeffrey Andrew Bernstein** - *Barclays PLC, Research Division - Director and Senior Research Analyst*

From Barclays. Two questions on the top line. One, just kind of a clarification, I guess. I don't know if you'll give any color in terms of how the quarter played out. I know the industry was choppy. It seemed like we saw January bounce back from a weak December, but then February softened and then March was an uptick. I'm just wondering whether you saw something similar. And if you could just clarify, I know you said that your fiscal '17 guidance is still intact. I wasn't sure if you just kind of used that and drew the line at the EPS guidance, because it would seem like your fourth quarter comp implied guidance would be a significant acceleration, which maybe ended the third quarter in a really strong position, so it's possible. But again, just trying to get an understanding of the sequential trend and whether you think that the comp component of the implied fiscal '17 guidance is still realistic for this quarter. And then I had one follow-up.

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Jeff, we haven't given the specificity around the sequencing within the quarter, except to say that it was a choppy and volatile quarter. I think what you have seen in the industry, obviously, plays out specific to us too. So I'll leave the volatile comments as kind of the best descriptor of that quarter. A couple of things as it relates to guidance, again, we are very confident and comfortable with our -- the annual guidance we've given you. Obviously embedded in that guidance, margin is a big piece of the equation. And I think as we demonstrated this quarter, we delivered a really nice flow-through margin-driven quality of earnings; and how that moves through the rest of the fiscal year will have an impact on the final numbers. One thing also to -- and I think we've also indicated that -- when it relates to comps that our belief was we could sequentially improve comps as we move through the rest of the fiscal year and into the next fiscal year. So that's still very much embedded into our thinking. Again, understanding the conditions of the industry and some of the volatility that could play out as we go forward. The other thing to remember is the impact of the [ WAS ] numbers as we make these calculations. And I think there's, from some of the notes I've seen this morning, maybe a little clarification there. The [ WAS ] number as it relates to the fiscal year EPS is higher than what you see in any of the given recent quarters due to the way the ASR sequenced our share repurchase this year. So it's not -- the final fiscal year [ WAS ] is not a simple addition of the 4 quarters.

**Jeffrey Andrew Bernstein** - *Barclays PLC, Research Division - Director and Senior Research Analyst*

Understood. So it sounds like it's more a sequential improvement in the comp and confidence in the earnings necessarily, rather than a specific comp number for the guidance.

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Correct, and then again, how things flow through the P&L from a margin management standpoint can have a meaningful impact, obviously, on those final numbers.

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**Jeffrey Andrew Bernstein** - *Barclays PLC, Research Division - Director and Senior Research Analyst*

Understood. And my other question was just if I look back to the Investor Day back in I guess it was June of last year, I know there was -- confidence was quite high on a comp rebound. And I recognize the industry has been challenged, but if you were to magically strip out the challenges of the industry and just look at Chili's performance maybe, Wyman, I mean, would you say there's anything in particular that exceeded or fell short of expectation? I mean, I know a lot of people walked away quite impressed with the value platform, with the focus on alcohol sales, the digital, mobile, Ziosk marketing. I mean, there was a long list that left us feeling quite confident in the acceleration in trend, with the bump in ad spend. I'm just wondering, would you prioritize and, say, 1 or 2 of these things fell short of the expectation that was partly to blame for the Chili's side of the shortfall on comp?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Yes, Jeff, I think to your point, I mean, the biggest gap between what we thought was going to play out this year and what played out was really the headwind of the industry, right, significantly more challenging than we had anticipated. And then with regard to Chili's and the work that we've talked about and the initiatives, I think the -- the one that's probably still got the most opportunity for us to leverage is the loyalty direct marketing part of the equation. We've got a great database, a great infrastructure build. We're continuing to understand how to use that to engage our guests in powerful ways, but I think that learning curve has been a little longer than we would've anticipated. But we're still very excited about it and we know the potential is there for us to leverage it and it's going to be very difficult for others to kind of replicate because of the infrastructure investment that was made, that's just not going to be available to others. That's probably the one thing.

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**Operator**

Your next question is coming from Nicole Miller Regan.

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**Nicole Miller Regan** - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

I'm from Piper Jaffray. Just two quick questions. On your off-premise like around to-go as well as potentially delivery, you talked about some enhancements, but what might you do to enhance the process around packaging and specifically accuracy of orders? And then the second question this morning is on Maggiano's brunch. I find that very interesting because when we've seen other brands add that daypart in the past, sometimes it cannibalizes the customers' weekend visits, as an example, a Saturday night or a Friday night visit. It doesn't seem that you're experiencing that, so could you walk us through the incrementally of your brunch daypart?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Nicole, I think obviously, with our focus on take-out, we're looking at all aspects of it and it really kind of dovetails nicely with the conversation we've been having about simplifying operations, delivering a more consistent experience. Fast and hot doesn't just apply to the in-restaurant experience. I think the take-out experience is also, even maybe more so, a challenge and an expectation from a consumer perspective that it's fast and -- or at least timely and hot. And so the operators are, again, focusing in on what we need to do to make that happen. There are systems being put in place, there are staffing changes made and there's a lot of focus on that aspect of that business. And as we get more -- as we roll out the curbside app, application, we'll focus a lot on that. And as we start to market and drive people in for that, which we really haven't done yet, we will obviously put a lot of emphasis in the restaurants on delivering on those guest expectations. With -- go ahead.

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Nicole, as it relates to the brunch piece of the equation, I guess I'd suggest to you that I think about it as really an extension of an existing daypart. So I mean, we're opening the restaurants slightly earlier than we would typically do for lunch on those 2 days to accommodate the kind of brunch occasion, and so not maybe as distinctive a whole new daypart as you might think of breakfast, but I think a very natural extension of the daypart that could be additive. The other piece of the equation is, we're early in the process and so not a lot of specificity as to your frequency question, but if you think about the way that brunch can be used and folks that do like to brunch, there's opportunity for enhanced frequency within that daypart. People, particularly in a brand like Maggiano's that does such a great job and is recognized as a special event brand, the opportunity to increase the frequency at an occasion like that has some potential good upside to it.

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

And the only thing I'll add, Nicole, is again I think we worry about cannibalization the closer the food offerings are to each other, and there's really this menu with breakfast and brunch fare compared to the core Maggiano's pasta and seafood-driven items is unique. And so it's not an easy trade, right? So the folks that love Maggiano's for what it is today are probably not going to get that itch scratched with a brunch meal it's just a different -- if it's a totally different cuisine. And that, I think, helps keep the incrementality high.

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**Operator**

Your next question is coming from Gregory Francfort.

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**Gregory Ryan Francfort** - *BofA Merrill Lynch, Research Division - Associate*

Just a couple. The first one, you talked about leveraging customer data and I guess how the learning curve's been a little bit I guess maybe not as steep or I guess has been steeper than you had expected. When do you think that begins to matter? Is it a next 6 months, 9 months, next couple of years? I guess, what's the time frame on sort of being able to use those strengths?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Greg, I think it's -- we're already using them. It's just how quickly can we continue to take that big data which we have, again, build an infrastructure that allows us to leverage really more than anyone in the industry; in all sorts of aspects of the business, how quickly can we take it to the next level. And I think we're continuing to ratchet up our understanding of the data and our ability to use it to motivate our guests as well as to inform our operators and understand the opportunities that are happening within the restaurant. So it's an ongoing process. I don't think there's a switch that clicks on in 6 months. We just see the opportunity to continue to get better and better to take advantage of that skill set and that resource that we have.

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**Gregory Ryan Francfort** - *BofA Merrill Lynch, Research Division - Associate*

Got it, got it. And then I think you said in the prepared remarks that hourly labor costs were relatively flat in the quarter. I guess, is that restaurant wages? And I guess, what were restaurants wages in the quarter? And do you expect that to sort of continue to be flat going forward?

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Greg, the wage rates continued to show that in that 3% to slightly above 3% inflationary rate -- and we do expect that to kind of continue -- that's a combination of minimum wage, merit increases and just the frictional wage environment that is out there right now. What our restaurant-level operators did is managed that equation extremely well and kept the hourly wage cost level actually slightly down year-over-year. So again, great in-restaurant level management, some of that is using the data we have talked about before, but kind of delivering a more efficient experience.

**Gregory Ryan Francfort** - *BofA Merrill Lynch, Research Division - Associate*

Is any of that rolling out the tablets that you guys have talked to or is that something that really isn't in the stores yet?

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

I really don't -- that really isn't in that equation yet. I think it's just good restaurant-level management.

**Operator**

Your next question is coming from David Carlson.

**David Richard Carlson** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Gentlemen, I don't know if you called it out on a previous questions, but do you guys anticipate a similar level of pricing in the next several quarters in kind of the mid to high 2% range, given the change in the 2 for $20 to 2 for $22?

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

David, the move from 2 for $20 to 2 for $22 will have an impact as we kind of move through the next couple of quarters because -- until we get to where we have lapped that piece of the equation.

**David Richard Carlson** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. And when would that be? When would you start lapping that?

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

End of this calendar year.

**David Richard Carlson** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Fair enough. So -- and also, it appears the commodity deflation for the quarter was maybe in that 2% range. What is your commodity basket expectation for the fiscal fourth quarter, Joe? And kind of what are your early expectations for fiscal '18?

**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

As it relates to the fourth quarter, I mean we're looking at a relatively stable commodity environment, starting to see a little bit of inflation work its way back into the equation. The fourth quarter, probably not as deflationary as we have seen these last couple of quarters, but fairly stable environment. We think inflation, as you kind of move forward, will play a little bit bigger role in the overall markets. And then how that plays out is going to depend on contracting and our abilities to understand the markets and take advantage of pricing as we see it. So again, stability in the market with some slight inflationary aspects to it is probably the view.

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**David Richard Carlson** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay, that's very helpful. And then one just follow-up on the comment you made I think a question ago on managing the labor line at the restaurants. Just trying to gauge whether you would anticipate labor to be less of a headwind in the fiscal fourth quarter if the comp trend improve -- does, in fact, improve relative to the fiscal third, especially if we do keep this pricing in the mid- to high- 2% range?

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Again, I think we anticipate the labor pressures to be present in the market on a go-forward basis and then how we manage against that -- again, we've proven the capabilities there. We think there are some opportunities as we move forward, handheld is one of those aspects. Clearly, the ability to grow the line and lever those margin points across the restaurant operating margin segment will also be a meaningful opportunity as we move forward.

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**Operator**

Your next question is coming from John Glass.

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**John Stephenson Glass** - *Morgan Stanley, Research Division - MD*

Just first following up on the loyalty, you talked about converting to Plenti last year and that was going to benefit you as people use their points, that you're one of the only restaurants in the system. Has that worked out the way you thought? Has that benefited? Is there any way to quantify the benefit you're getting from the Plenti system?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

John, I think the conversion has been a little more challenging for our guests than we had anticipated, just the process. But we obviously are saving -- we're seeing savings on the cost side with a program that is not nearly as expensive as the My Chili's Rewards Program. So we're benefiting from that, and now what we're really focused on is okay, how do we now take that resource that we have as a Plenti partner and really kind of take it to the next level. And again, it's just this learning curve we've talked about now that we're in understanding how our guests convert over to the Plenti system and then what's the opportunity within the unique Plenti world to engage those consumers to come in and use points and just engage with Chili's. So all that's happening now as we just iterate through the process and the learning curve, if you will, okay, what's the most compelling offer and message that we can be extending to those folks.

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**John Stephenson Glass** - *Morgan Stanley, Research Division - MD*

Just on the franchise comps, you cited system sales and franchise comps a couple of times and maybe they benefited from weather and some different attributes. Is there anything else that they're doing differently than you, for example, have they taken less pricing? Did they take more pricing? Did they not convert to the 2 for $20? Is there anything else you can observe in that, their results versus yours, that would give you insight into your -- the performance of your business?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

No -- I think there are a couple of things, John. There's -- we also have insight into the industry, right, through Black Box and [ apps ] to see regional trends. And we know that the Midwest, from a weather as well as I think there may just be some more consumer confidence in that part of the country. As we look at consumer confidence numbers, it's interesting, right, how strong they are and yet how kind of polarizing they are; similar to other polls we see around. And I think there's probably more strength on the consumer side in that part of the country as well right now, not necessarily for any tangible economic reasons, but just because of a better feeling from the consumers that are maybe spending more freely there. They're not as engaged -- our franchisees are not as far into the loyalty and Plenti world as we have been. We've been taking the lead on that and working through this curve that I talked to you about before we roll that to the whole franchise community. So they're engaged on a peripheral basis, but they aren't as heavily involved in that. So that's another variable. But for the most part, we think it's really just those other 2 things, just the weather and the lack of the drawdown from kind of the oil markets that we're experiencing in our company-owned universe, if you will.

**Operator**

Your next question is coming from David Palmer.

**David Palmer** - *RBC Capital Markets, LLC, Research Division - MD of Food and Restaurants and Analyst*

Just a big-picture question, broadly speaking, I would imagine your goal is to stabilize traffic in a way that doesn't involve serious margin sacrifices. And you've talked about some things on this call: you're talking about take-out, handheld efficiency and perhaps that -- those are the types of things, and there's maybe some other things, that can help fund food renovation like your new chicken crispers or value platforms like 3 for $10, but could you perhaps do a big-picture summary of what you're thinking about in terms of gives and takes to kind of have it all, traffic and earnings growth?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Well, I think, David, without getting too deep into the plan, I think what we're talking about, one of the biggest challenges we faced, even in this quarter, was just deleverage. And so when you think about the opportunity to invest back in, drive some traffic and then recapture some of the leverage loss, that's really the upside and that's where we think there's opportunity. So it's not, from an absolute standpoint, nearly as risky or -- as it may appear. We know there's upside to getting our operators more volume. They're unbelievably good at leveraging that.

**David Palmer** - *RBC Capital Markets, LLC, Research Division - MD of Food and Restaurants and Analyst*

If you were to do -- I assume you get feedback from consumers from a variety of ways and one of them would be your Ziosk and then another one would be external surveys. What are they telling you about the people that are coming less or not at all? And as well as the people that are coming that you can maybe have come even more often, what is the -- what's the best hand that you have to play to stabilize, in terms of an area, to stabilize traffic?

**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Well, Dave, we're in the middle of just really doing the work to focus in on who the guests are that we are really going to win with and finalizing that plan and strategy around those guests with research that is more significant than we've ever done before around this brand and around the category. So it's a timely question. I don't want to give you too much on it to just to say that we do know, for example, the whole idea of hotter and faster is a compelling thing that those guests that you're talking about and that we're talking about, want to see more of. And so we see -- so from an operational perspective, that's an area that we know we can do better on. We know the kind of things that allow us to help address that issue: the simplification of the menu, the advent of some new technology, those kind of things. And then we know that value is -- and quality are critical, and that comes in a couple of different aspects, but we're focused on really identifying what the specifics are of those -- for those guests that will make us more compelling, and that's where we're headed.

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**Operator**

Your next question is coming from Andrew Strelzik.

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**Andrew Strelzik** - *BMO Capital Markets Equity Research - Restaurants Analyst*

My question is actually similar to the previous one. It seems like a number of the initiatives from a menu and service perspective would be more targeted towards existing customers who maybe aren't coming as frequently or trying to turn around the frequency levels of those existing customers, and not so much for lapsed customers. So I guess my question is, are you not seeing as much that -- are you seeing that the issues from a traffic perspective are more frequency of existing relative to lapsed? Or would that maybe be even more impactful from lapsed customers than -- I appreciate that there are other things going on that you think are going to attract some people maybe that have stopped coming to the brand the way that they used to?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Andrew, I think it's a combination. It's not one or the other, it's a little of both. So you see some frequency, you see some slippage in categories. The beauty of the Chili's brand though is it's got great appeal across the demographic and psychographic segments, right? So when -- it's a brand that appeals to a lot of the category or demographic categories that others are struggling with. And so we have the opportunity to put together the initiatives and the messages that will work against those guests that are really -- we're not trying to convince somebody to come to Chili's that's not coming. It's really about getting folks that have an affinity for the brand to come more often or to increase some frequency. With doing that, you also open up to some folks that are on the fence. But there are a lot of people with an affinity towards the brand already and a lot of really nice consumer demographic categories.

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**Operator**

Your next question is coming from Steve Anderson.

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**Stephen Anderson** - *Maxim Group LLC, Research Division - SVP and Senior Restaurant and Consumer Analyst*

From Maxim Group. One of the reasons frequently cited for the decline in casual dining has been the gap between the food at home cost and the food away from home cost, the latter of which has increased while food at home has declined. But since the beginning of 2017, that gap actually has started to narrow. I just want to see if you've seen or heard anything related to that maybe pointing toward potentially a sort of, at least a modest recovery in casual dining because it just seems that with that starting to narrow, that might take away one of the reasons why casual dining has been under so much pressure.

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

Steve, we haven't seen anything yet. I think it's early, but we know that, as you mentioned, in all the analysis that's done by the industry experts, it tends to be one of the big drivers. So we do think that some kind of more normalization in those 2 lines will lessen some of the pressure that's being put on casual dining. And so we anticipate that, although we don't -- we haven't seen anything yet. But we think the category has the potential to strengthen, with some of those variables moving kind of back to a more normal state.

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**Stephen Anderson** - *Maxim Group LLC, Research Division - SVP and Senior Restaurant and Consumer Analyst*

Okay. And just a follow-up on the Maggiano's. You've seen a sequential comp decline. Can you point to any one reason why you've seen a decline in maybe the last quarter or 2?

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**Wyman T. Roberts** - *Brinker International, Inc. - CEO, President and Non-Independent Director*

No, I think again, it's just the choppiness of the category. I think the work that's being done at Maggiano's, as I mentioned with the new menu and the things that we're seeing in terms of how guests are responding, that gives us a lot of optimism for kind of our ability to continue to grow that business.

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**Operator**

Sir, there are no further questions in queue.

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**Joseph G. Taylor** - *Brinker International, Inc. - Interim CFO, VP of Corporate Affairs & IR and Treasurer*

Great. Thank you, Kathyrn, and thanks, everyone for participating on the call this morning. Please be sure to join us for the fourth quarter and the fiscal year-end earnings call that's scheduled for August 10, 2017. And with that, everybody, have a great day. Thanks for participating.

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**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.

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