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EAT.N - Q2 2021 Brinker International Inc Earnings Call

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CORPORATE PARTICIPANTS

Joseph G. Taylor *Brinker International, Inc. - Executive VP & CFO*

Mika Ware *Brinker International, Inc. - VP of Finance & IR*

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

CONFERENCE CALL PARTICIPANTS

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

Brett Saul Levy *MKM Partners LLC, Research Division - Executive Director*

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

Christopher Thomas O'Cull *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

David Sterling Palmer *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Gregory Ryan Francfort *BofA Securities, Research Division - Associate*

James Paul Rutherford *Stephens Inc., Research Division - Research Analyst*

Jeffrey Andrew Bernstein *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Jeffrey Daniel Farmer *Gordon Haskett Research Advisors - MD & Senior Analyst of Restaurants*

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

Jon Michael Tower *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Q2 F '21 Earnings Call. (Operator Instructions)

It is now my pleasure to turn the floor over to your host, Mika Ware. Ma'am, the floor is yours.

Mika Ware - *Brinker International, Inc. - VP of Finance & IR*

Thank you, Kate, and good morning, everyone. Welcome to the earnings call for Brinker International's second quarter of fiscal 2021. With me on today's call are Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, our Chief Financial Officer.

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

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

All such statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more completely described in this morning's press release and company's filings with the SEC. And of course, on the call, we may

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refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations.

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

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

Thanks, Mika, and thanks, everyone, for joining us this morning. Q2 was a dynamic quarter, and Joe is going to walk you through the details. You know, as we think about all the craziness 2020 brought across our industry and our world, we're also appreciative of the invaluable lessons we gained. We learned we have the right team in the field and here at the restaurant support center. Our operators are working tirelessly every day to deliver great experiences for our guests and team members as we aggressively pursue opportunities to grow our business organically.

We learned that we can drive our business and increase market share despite the hurdles brought on by a global pandemic and widespread civil and political interest. In the second quarter, Chili's increased its 2-year trend of taking share and leading the category with an 18% beat in sales and a 25% beat in traffic according to KNAPP-TRACK. We learned that our strategies work. The ways we leveraged our scale and our ownership model and the investments we continue to make in technology and improving our operational systems, they were working well for us prior to the pandemic and continued to work even more effectively throughout the year.

Leveraging those competitive advantages, open up opportunities for us to grow our business in unique and innovative ways, like elevating our digital guest experience at both brands and leaning into virtual brands. Those things are hard to execute and even harder to replicate. So we're taking those lessons into 2021 as we prepare to accelerate organic growth in a post-vaccine environment.

We believe like most others that a widespread vaccine will indeed release pent-up dining room demand, and our operators are excited to return to full capacity and deliver more great guest experiences in person. But we don't expect a return to the old normal. 2020 fundamentally changed us as consumers. We were forced to use technology to enjoy our favorite restaurants in new ways like third-party delivery. Crop side takeout, QR code menus and mobile payment.

And now that we've experienced greater convenience and control over our experience, we're not likely to give it all back. The Brinker team knew that convenience was a big opportunity even before the pandemic. 2020 just accelerated our commitment to embrace consumers' gravitation toward digital interaction and meet them where they are. We believe digital sales and traffic will continue to be a strategic driver of our results in both the near and long term. So in preparation for fiscal '22, we're dedicating even more time, effort and capital to accelerate in our competitive advantage as a digital leader in the category, and aggressively pursuing opportunities to drive our top and bottom line.

At Chili's, we're testing a fully integrated digital experience that gives our guests control over the pace of their experience and level of interaction with our team, whether they're dining in or off-premise. It's still early, but the team is making tremendous progress, and the guests and our test restaurants are responding really well. We anticipate a rollout beginning fourth quarter. We've also spent a great deal of time and effort systematizing what goes out the side door at both our brands. We got really good at takeout and delivery during the height of quarantine. So while our dining rooms are still limited -- at limited capacity, we're ensuring we have strong systems in place to support our operators and execute a robust off-premise business even as our dining rooms returned to full capacity.

Delivering a best-in-class off-premise experience also supports virtual brands, which is a key component of our growth strategy. Our scale and our ownership model, coupled with our ability to mine data and develop systems is proving very effective in this new world of virtual brands. It's Just Wings is on track and performing well. We believe there's significant upside. So we're focused on building it into a strong, sustainable brand. Some of the biggest brands in the world right now are virtual. So we know the model resonates with consumers as long as you deliver a great product.

Right now, we have a one-channel solution. We're working to optimize that channel through incremental marketing opportunities and expanded consumer touchpoints. We're also going to grow the brand through additional channels like takeout. We're ensuring we have the right systems in place that will best support our operator's ability to execute at a high level, especially as dining rooms reopen. Once we know we're consistently

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delivering a great guest experience and our operator at -- from our operators at full volumes, we'll move strategically to launch another virtual brand. I anticipate that by the end of this fiscal year, we'll have a clear line of sight and be able to share more details with you.

Listing 2020 was a crazy year, but through it, we confirm that our strategies are working and that we have an outstanding team in the field and at the restaurant support center. Every day, they demonstrate their ability to adapt for severe and win. As vaccines roll out and our country begins to leave their homes once again, I firmly believe we'll continue to win.

And with that, I'll turn the call over to Joe.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Thanks, Wyman, and good morning, everyone. Let me finish our prepared comments by providing some detail and context to our second quarter results as well as offer a few insights for our January's period's sales performance.

The second quarter fiscal 2021, Brinker delivered adjusted diluted EPS of $0.35. Brinker's total revenues were $761 million, and consolidated reported net comp sales were negative 12.1%.

A couple of items to note for the quarter. First, let me highlight impacts to the consolidated quarter resulting from Maggiano's performance, which was highly constrained by COVID restrictions and appropriate consumer reactions to the pandemic. As a reminder, the second quarter is traditionally their highest performing quarter. However, this year, COVID eliminated most of their typically robust banquet and corporate catering channels, both of which tend to overdeliver to results for their second quarter.

The brand's operating profit was $22 million below last year, constituting virtually all of the reduction in consolidated operating profit for Brinker. The impact on consolidated comp sales and restaurant operating margin were also outsized with the brand reporting net comp sales of negative 47% and a restaurant operating margin of 5.5%, down more than 11% from prior year. With the second quarter now behind us, we expect the impact from Maggiano's to the consolidated performance of Brinker to be more muted as we head into the rest of the fiscal year, particularly as the brand recovers from both an improved operating environment and the implementation of performance driving initiatives.

Now moving on to Chili's. The brand continued its relative strong performance, although also impacted by COVID restrictions during the latter half of the quarter. Operating income for the brand was relatively close to last year and only $1.6 million. Chili's reported net comp sales for the second quarter of negative 6.3%. This result does contain a holiday flip, which benefited the brand by approximately 100 basis points as Christmas moved out of Q2 and into Q3. The brand continues to meaningfully outperform the Casual-Dining sector with our gap strengthening in both sales and traffic through the second quarter. Traffic gaps in the KNAPP index exceeded 20% throughout the quarter. Performance relative to the competition was strong throughout the country, with double-digit sales gaps recorded in regions from East to West Coast.

Included in the consolidated adjusted net income for the quarter with a tax benefit of approximately $2.4 million, primarily driven by employment tax credits. Part of this benefit is a $1.8 million catch-up related to Q1, which was over accrued relative to our current expectations for our annual tax liability. The consolidated restaurant operating margin for the second quarter was 10.7%. Most of the variance to prior year is the result of the lower than normal contribution from Maggiano's, which impacted the consolidated margin by 130 basis points. The leverage due to top line softening in November and December was the secondary influence.

A food and beverage expense was unfavorable year-over-year by 40 basis points, primarily a result of menu mix, some higher costs from items such as cheese and produce. Labor costs were favorable 10 basis points with savings in hourly expenses, offset by deleverage. Included in this performance is a consistent level of manager bonus compared to last year's second quarter. We remain committed to retaining our restaurant leadership teams as they are critical to our success, both in the short term and as the operating environment returns to more normal conditions. Restaurant expense was unfavorable year-over-year by 170 basis points, driven by top line deleverage, increased delivery and packaging, partially offset by lower advertising and restaurant maintenance expenses.

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Even with the volatile operating environment, Brinker has delivered solid cash flow, generating $130 million of operating cash flow year-to-date. After capital expenditures of $37 million, our free cash flow for the first 6 months totaled nearly $93 million. As I mentioned last quarter, we first used our cash to invest in the business. Unit expansion is progressing with 6 new or relocated restaurants opened year-to-date. We also continue to invest in restaurant reimages, technology and equipment to further enhance our guest experience and allow for better execution as our sales volumes, both on and off-premise grow.

Our second priority is to pay down debt. So far, during this fiscal year, we have retired over $66 million of revolving credit borrowings, and plan for further meaningful reductions as we progress through the second half of the year. As I've indicated during prior earnings calls, we are strengthening our balance sheet by deleveraging to below 3.5x lease-adjusted debt, which we anticipate achieving next fiscal year.

From a total liquidity perspective, we ended the quarter with $64 million of cash and total liquidity of just under $658 million. While we are not providing specific guidance for the third quarter due to the ongoing operational environment, I do want to offer some perspective on January. While the first week of January was negatively impacted by the holiday flip of Christmas moving to our third quarter, top line results for Chile's strengthened as we move through the remaining 4 weeks of the period. Underlying this performance is improvement in the net comp sales to a range of negative 5% to negative 6% for the last 4 weeks combined.

These results obviously included the impact of ongoing COVID-related restrictions, particularly dining room closures in our #3 and 4 markets of California and Illinois.

Factoring out these 2 markets, the rest of the brand during the last 4 weeks of the January period should record net comp sales of approximately positive 2%, again, clearly indicating the brand's ability to perform in a strong positive sales manner with dining rooms open.

Also supporting the January results is the performance of It's Just Wings. As you might expect, the brand does well in conjunction with sports, and our ability to market on the delivery platform around major events allowed highly incremental sales and set a number of sales records during the period. Overall, we are hopeful for an improved operating environment as we move through the quarter with the opportunity to return to recovery level performance we delivered in the early fall. In March, we start to lap at the initial pandemic outbreak, which we anticipate will create meaningful year-over-year positive net comp sales comparisons.

Looking beyond the short-term volatility caused by the ways of COVID restrictions to the solid long-term strategy being executed by our operators, I'm confident as to what this company can deliver for our shareholders. Our focus and execution will enable our continued performance as a leader for the Casual-Dining sector for the rest of this fiscal year and the years ahead.

And now with our prepared comments complete, let's move to your questions.

Kate, I'll turn it back over to you to moderate.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from David Palmer.

David Sterling Palmer - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Evercore ISI. Just a question on marketing to start. How do you think you'll end up spending money, gross spending broadly, it can be advertising, whether that's digital or TV or your e-mail promotions. How do you think that will settle out for you, both as a percent of sales, but also the breakup between these? And then I have a quick follow-up.

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

David, it's Wyman. I don't know if I can give you the percent of sales number right now. And again, with higher sales that we anticipate, those numbers are going to move around. But I will tell you, just as we think about marketing, we are just thinking about it differently and not in the traditional sense as much. And so when you think about the significant reduction we've had in traditional media spending, but we've offset that with significant increases in digital direct and the support of our takeout and virtual brands through third-party partnerships and promotions as well as fees. So we kind of look at that whole bucket. And in some cases, if we're going to leverage our database more, a lot of that shows up as comp expense, which doesn't really -- it nets out of sales. So you wouldn't even see it in the P&L as you're looking at net sales. So -- but we are committed to much more what we think is a forward-looking approach to marketing, much more direct and much more digital.

David Sterling Palmer - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

And I have another sort of forward-looking one that hopefully you can give us some texture on, that's around your third-party brands or your virtual brands. You were testing a few. There was a thought that perhaps one of those tests stopped happening. I think it was on flatters and pies. But perhaps you can talk about the pipeline of your virtual brand and what the stages are. And how you think you roll those out? It sounds like you're now going to maybe be unmasking. It's Just Wings by having it go out of the Chili's itself as a growth thing. But I'm wonder also those other brands in terms of the delivery side.

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

Well, first, David, let's just talk about the unmasking comment because we've never been -- we've never thought it was important, and this is through the whole testing process to keep these brands secretive, if you will, that we want to be upfront with consumers about where -- who these brands are sponsored by who actually is producing this product because we think that transparency is important.

And so the process that we're going through is as we introduce a virtual brand in test, first understand how viable it is. How much -- from 2 primary aspects, right? How big is the potential from a sales and a consumer perspective? And then how operationally executable is it in our restaurants. So when we stop a test, it doesn't necessarily mean that test was unsuccessful. It just means we're done testing. We could very well be -- have everything we then know -- need to know to go. But what we're doing is we're taking It's Just Wings, and we're going to develop it further. Again, we've got it into one channel.

We're learning every day really how to maximize that channel. Joe mentioned, we're in our first sports season really. And obviously, that brand resonates well during sports. So we're pushing the marketing in and outside the channel. And then we're pushing to take out. And that takes an infrastructure build, that requires technology and support and then a marketing effort behind that. But we want to build that brand out. And then at the same time, get our operations lined up for full restaurant capabilities as well as full takeout, both Chili's and virtual brands. And that's all happening now. And as soon as we get that brand kind of further built out, we'll go and look at the next brand and determine when to bring that into the mix. And that's the process we're going through.

Operator

Our next question today is coming from James Rutherford.

James Paul Rutherford - *Stephens Inc., Research Division - Research Analyst*

It's Stephens Inc. I wanted to follow-up on a comment that was made about the fully digital experience and test, I think it was at Chili's. Can you talk a bit more about how that would look in the restaurant and whether this is a direct response to the potential pressures on minimum wage? And kind of finally on that topic, the potential impact to margins if this rolls out to the system at the store level.

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

So well, just to address the first question or the second question first, it's not a direct response to minimum wage. It's a direct response to what we talked about that consumers have been looking for, and we've been embracing, and that's convenience and control over their experience more. And so what we've done is we've taken a lot of the technology that we already had in place, like our tabletop technology. And we've incorporated some of the new technology or the technology that we've kind of built through the COVID experience, which has a lot more to do with how you can talk to consumers in that third -- at their home and in other places, and we've kind of linked that more together.

So basically, you're able to -- if you're a family, and you know, you've got -- if you have small juvenile or if you have small children or not, James, but you know there's a window, right? You don't have 1.5 hour. You have a limited time. And sometimes, when you go to a casual dining restaurant, it's that front-end that can take a little longer than you'd necessarily like. Well, if you've got your order ready on your tablet or on your phone and you walk into our restaurant, when you sit at the table, we'll -- our tabletop device will allow you to interact with it before they serve or even gets there as soon as you sat and your order then immediately goes into the kitchen, then your server sees that, brings out the food, starts the experience and then you're often running significantly faster.

You can close out at the same time on that device, and you eliminate some of the, kind of stretch points, if you will, that can come into an occasion, if you're in a hurry. If you're not, we've got servers there, they'll take your order and bring your experience to you at whatever pace you want, but it allows you to control that more. So we're very excited about the opportunity to offer this to guests. We think it will pick up. We think the table turns will be there. It will allow service to be a little more efficient. All those things are side benefits, but they actually have implication to the restaurant on a -- especially, on a busy Friday Saturday night.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. James, one of the things I would add just to the second part of that, while the specific digital connectivity we're talking here isn't design from a labor model standpoint. But we have shut -- what we found is we deal in a lot of higher labor states is technology does matter and technology will be helpful. So this and the other investments we've made in technology, probably will have a role to play as you kind of work your way through higher-wage environment. So I think we're well positioned and understand how that can be a piece of the equation.

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

And I'll just say that technology -- it's one thing to map it out. It's another thing to make sure it's stable and running well and that everything is working. Because, again, on a busy Friday, Saturday night in the restaurant, if you're relying on that technology to be the backbone of your operations, it can go down. You can -- because you don't have a backup. And so that's why some of these things that sound fairly simple or easy, at the end of the day, you've got to make sure your technology and your infrastructure is solid because you're going to bank on it and the guest experience is really determined by how good you are at delivering them. And that's what we're excited about kind of locking that down.

Operator

Our next question today is coming from Brett Levy.

Brett Saul Levy - *MKM Partners LLC, Research Division - Executive Director*

MKM partners. We're in a time where, obviously, sales are going to be volatile, and there's quite a shift in what's going on with the input costs. How are you thinking about, not just the traditional, but also the newer prototypical units? What kind of margin potential there is either where you can see savings on the labor front, where the incremental costs can get pushed aside or they're just going to become overbearing? And do you think your new experience type units have the potential to actually expand margins and how greatly?

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Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. Brett, let me make a few comments, and we'll take it from there. Again, everything we're seeing today despite the volatility, it's not changing our view of how we can grow margins and that's through top line. Our new restaurants are well received as we open them. We're really pleased about the outperformance we've seen from the group that's come in so far this year. So again, it's a prototype that plays well in a variety of markets. I think it's going to work well to increase top line.

It's all about really, how do you take that average AUV up from that $3 million-ish range into the mid 3s. So we target and think about $3.5 million AUV. That's where the big opportunity lies to be a more efficient operation at the restaurant level as we get towards that. So as we grow the base business, as we connect digitally, as we layer in virtual brands, those are all going to be key pieces of the equation. Yes, there are places that we will be more efficient and how we use technology to offset headwinds, how we make sure that our supply chain is effectively dealing with those markets. All comes into bear. But it's a growth strategy to manage margins as opposed to how do I cut the bare bones. I mean one of the things we saw in the second quarter as we went into a little bit more volatile environment was obviously a deleveraging impact, but we also don't want to overreact.

We wanted to maintain levels of spend that we thought were appropriate for what we thought was going to be a relatively short period of volatility. We're not through the woods yet, but we are back into recovery. But I think the comments I made about manager bonus are probably indicative of that and how we worked on and making sure we were still while being judicious, right levels of R&M spend and other spends that you could have quickly knee-jerked back very dramatically just to gain a couple of tenths of margin. So we're trying to take a longer view.

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

Yes. The only thing I'd add, Brett, is it really is about systems, right? And what we're doing and what we've taken the opportunity to do in a lot of restaurants where the capacity is down is put in systems that will allow us -- well, in all our restaurants, but in places where we're down, it's a little easier to put in these systems, especially around takeout and delivery that will allow the restaurants when we're back up and running and growing the volumes that Joe talked about to execute at a high level. And that's how we're going to grow the business. And with that, we'll come leverage and better margins.

Operator

Our next question today is coming from Chris O'Cull.

Christopher Thomas O'Cull - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Stifel. I had just a follow-up question on the margin, response you just gave, I'm trying to understand how Chili's segment restaurant margin moved quarter-over-quarter. I know it was -- I think it was up 50 basis points to the prior year in the first quarter, but fell 80 basis points to the prior year on higher sales this quarter. And so I was hoping you could just explain what drove that sequential change in performance? And how we should be thinking about recovery and especially the labor dynamics as sales start to recover?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. Chris, good to talk to you. Again, we're real comfortable with the way Chili's is going to be managing margins going forward. Chile is actually continued early on in the quarter. So when I look in the October time frame, it was expanding its margins. I think the delta that took place was simply the COVID restrictions and the volatility of this top line sales that came into play as you saw that those reductions in that deleverage. I think you've seen the month -- the weeklies we gave you back in December and kind of moving from pretty much a flat to slightly positive comp into a -- down in the teams, it was just the quickness of the deleverage and our choice, again, to maintain some of the cost dynamics that we thought were important to the business for it coming out of recovery and again, manage our bonus.

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

Yes. I think, Chris, if you just think about -- let's just say California. The magnitude of the hit there has been significant as everybody is well documented, right? And so we're paying those managers really solid bonuses. Even though their performance level in a typical environment, wouldn't -- that wouldn't happen, right? I mean if we were doing this off our typical, hey, sales and profit drive your bonus payment, they probably wouldn't be getting any bonus. But we're recognizing the need to keep these operators motivated to keep them in the shop with us because we know this is -- it's going to turn around.

It's already starting to turn around, and we need them there. And so there's a little bit of that in the mix. So again, we're confident about where margins are going to play out. We've seen it as the business gets stronger. I think if you just look at Chili's in the quarter, even with all that volatility, the margins are relatively flat. So it's not something we're overly concerned with at all. We're actually very excited about the growth potential and how margins will then react.

Christopher Thomas O'Cull - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Excellent. And then just one follow-up. How should we be thinking about the flow-through? I mean, the flow-through is obviously very high with these virtual brands. How should we be thinking about changes to the potential flow-through with these initiatives like takeout and some other things that you're introducing for It's Just Wings?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. Again, one of the things we like about the virtual brands is the flow-through and the ability to leverage the existing structures and operations and management teams we have in place. We're learning how to invest into those brands. So that's going to be a big piece of the equation. But as we make those decisions as to right level of brand building spend, and again, these are younger brands, and they will need nurturing and investment, and we want to expand and build those brands in a number of different platforms and consumer access channels. We're going to start from a pretty high level of flow-through. So we can -- so we're very comfortable with the ability to invest back into those brands. When I just look at the base level of flow-through that they develop.

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

Yes. So a little heavier on the front end and especially with to go, very profitable on the back end as the brand gets established, and we build that -- we're just in that process to understand, okay, what's it going to take to get a little bit more brand awareness out there direct.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

And I think that's a great point as we move from one channel right now into some other channels, there's opportunities there because you don't have some of the delivery fees associated with it to go. That's why we're very excited not only about the growth potential of It's Just Wings to go, but the flow-through potential, too.

Operator

Our next question today is coming from Andrew Strelzik.

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

BMO. I actually wanted to follow-up on some comments you just made. Can you share with us where the awareness is right now for It's Just Wings and how that's been trending? And then when you think about brand building in virtual brands. I mean, just kind of holistically, you've talked a little bit about marketing and some of the channels that you might move into. But just holistically, how do you think about building those virtual brands into brands with recognition and sustainability in the context of a category that obviously is getting more competitive, not less competitive over time? And so just how you think about standing out in that context?

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

All the data we have, again, we're primarily a one channel brand right now, right? So we're a DoorDash brand. And so everything that's been -- primarily. I mean there's some PR and some other things that have been out there. But most of it, it's either order mouth or you're learning from it on DoorDash. And the growth and all the acceptance and the repeat numbers are all real positive. We're excited about how the brand is building. It's a limited channel. It's a big channel in one aspect, but it's just one channel. So as we look to grow this brand more broadly, we'll use the traditional marketing approaches that you used to build any brand.

So it will -- obviously, as we've talked about, it'd be a more digital and more social approach. But we will start to move people directly to It's Just Wings' website and get overall awareness and how we get them there will be typical marketing activity that we already have a lot of history with in terms of how to do that effectively. You have to have the infrastructure in place first, though. So you have to have the technology and all of the ability to -- for people to map and get to that location and understand what It's Just Wings is and how to get there. And that's all kind of being built and has been built now. And so now we can start to push that channel, and we'll see how quickly we can build the brand and where it goes.

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

And just on the -- some of the investments that you're talking about, more capital being put behind kind of the systems and some of those things on the digital side, are you assuming that you can do that in a way that's not going to impact the margin progression? Or should we expect a little bit more choppiness or kind of taking aside the sales volatility?

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

Well, from a capital standpoint, these investments are very small. I mean relative to building restaurants and staffing them. We're talking about very small investments in technology and sometimes it's in materials like shelving. And so it's important, but it's not expensive relative. And so again, on the flip side, the expense necessary to build the brand, as Joe talked about. We're just going to have to see how that works and how quickly and how effectively we can do that. We're confident that we have a lot of history and a lot of experience and some great marketers that can help grow this brand quickly and effectively. But we'll have more on that probably next quarter.

Operator

Our next question today is coming from Greg Francfort.

Gregory Ryan Francfort - *BofA Securities, Research Division - Associate*

It's Bank of America. Wyman and Joe, my question is on the news recently around minimum wages and tip credits for minimum wages. And you guys are in a lot of states where the wages are already at $12, $13 now or headed to $15. Can you talk maybe about some of the experiences that you've had operating in those markets either around price elasticity or kind of what you've done around labor controls or new equipment that may be an indication of how you would handle sort of a broader national minimum wage going up?

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

Yes, Greg, I think it's a combination of all of those things, right? So we are definitely leveraging technology, and we put it in states that we're experiencing higher labor costs that allow us to be more efficient, also allow our servers and our team members to make more money because, again, the tip pool and the tip amount is then spread over fewer team members, so they make a lot of money, and that's great. We also then are looking at ways to be more efficient and effective around tip pooling sometimes. And that opens up sometimes as you get into some of these higher cost situations that allow us to mitigate some of the costs that we may have to pay by helping -- letting the tip will help bring up the heart of the house wage rate, if you will.

And then from a pricing standpoint, we do see that competitively, especially folks that can't do the things I've just talked about, they basically deal with this from a pricing perspective. So competitively, you have a little bit more room to price interestingly enough though, in California. We have 3 for 10 out there, and it works fine. And we've just built a model. It's not efficient, not effective, and it drives that much traffic that the leverage helps us become competitive now.

How long we can afford that price point in that market, I don't know. But it's out there and it's been out there for a couple of years even as the price and the wage rates have gone up. So I think our scale really helps us in this environment. And at the end of the day, these things that across the industry are going to be much more difficult for restaurant operators. And again, in our case, that's half the category that don't have scale. The way you deal with this most effectively is through technology and through systems, and we have the ability to do that and have been doing that. And we're excited about rolling some of this technology to other markets fairly soon.

Gregory Ryan Francfort - *BofA Securities, Research Division - Associate*

That's great perspective. And then I had one other question. Just on your thoughts on Chili's as potentially being -- Chili's really hasn't been a very strong unit growth chain for a little bit of time. Are you seeing that pandemic as an opportunity to accelerate that? And are you seeing the real estate market free up to kind of make that happen? And that's it.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes, Greg, I think, again, we do think we are reaching a point in the brand's evolution that we can increase our unit development. You got to remember, we have also done a couple of acquisitions of franchise that have brought units back into the corporate ownership side. So we have grown the base. Again, I think we've indicated we want to get up into that 1% to 2% net growth on an annual basis. I'd like it to be, over time, towards the higher end of that. There's a pipeline in a process, and we've got great folks in our development teams already working that. We are seeing some changes in the real estate market.

I think we are seeing conversion opportunities at a much higher level, which are interesting because I'm seeing our ability to access certain markets now that you probably wanted to have had the same level of access to pre-pandemic. So I'm excited about that opportunity. We're positioned in the company so we can grow at that level from both a capital perspective and a team perspective, develop -- again, keeping and developing our leadership is a critical part of that equation. So yes, I think as we move really into '23 and '24, you'll start to see that higher level of new restaurant developed work its way into the system.

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

And that's one of the benefits of these acquisitions. We've brought back territories that haven't been built out as well or as effectively as Texas. And so we -- and we're now opening restaurants in these markets and having a really great reception. So we're confident that there is probably more green space out there than we had before for that reason as well.

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Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

And the strategy has also played to -- again, the ability to open $3.5 million or $4 million restaurant gives you a lot more access to markets you want to be in. That's -- it's just a better model to have them if you're trying to open something at a significantly lower AUV.

Operator

Our next question today is coming from Robert Derrington.

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

Telsey Advisory. Joe and Wyman, I'm trying to think about It's Just Wings and kind of a transition from being just a brand that's on -- available through the DoorDash app to being possibly available in other ways. One thing that certainly has benefited Chili's in many ways has been the leverage that you have on the information that's received if I place an order through the My Chili's app. You control that, you can use that within your rewards and your loyalty program. Is there some thought of as you move -- you add to go with It's Just Wings, does that give you more leverage? Does it get you better access to information by which you can communicate with your consumer?

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

Absolutely, Bob. I mean, again, it fits the model we have, as you just spelled out. We have these infrastructures in place to do direct marketing very well. We will deploy that against the -- It's Just Wings brand and create that. The beauty of the brand so far is that there's -- it's a fairly incremental guest to us in terms of it doesn't just overlay with the Chili's guests. So it's a different occasion. It's a different user-based. And so it helps us broaden our base of users, and again, leverage all the infrastructure and capital that we've already put in place. So -- and including leveraging our marketing capabilities and with regard to direct. So it's absolutely a key to the strategy going forward.

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

Is there a potential -- quick follow-up, sorry. Is there the potential that you could add possibly a loyalty or rewards program to It's Just Wings? And what access do you have now of that consumer data that, I guess, goes through DoorDash first?

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

DoorDash is a great partner. They share a lot of information in broad terms. They don't share individual guests contact information. We are working with them to be more aggressive and to partner at a higher level with regard to trading loyalty data or at least giving guests the opportunity to become Chili's loyalty guests through the DoorDash app. And so we're working that opportunity. But right now, it's really -- it's more just general market information. So how do I know that the DoorDash, It's Just Wings guests isn't the same as the Chili's guest because DoorDash helps us understand the broader characteristics of those 2 segments?

Operator

Our next question today is coming from Jeff Farmer.

Jeffrey Daniel Farmer - *Gordon Haskett Research Advisors - MD & Senior Analyst of Restaurants*

Gordon Haskett. You touched on a couple of questions I wanted to dive into, but I did want to approach it from a little bit of a different angle, if I could. So with the potential minimum wage increase clearly in investor focus, I am curious what is the hourly labor expense for, let's say, Chili's or

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just Brinker in its entirety as a percent of total labor expense? And then as a follow-up to that, what is the average hourly wage when including front of house workers that are potentially receiving tipped minimum wage in the states that allow them to do so?

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

They're looking, Jeff, to see we can give you a number on the first question. On the second question, the average tip server is in the $20 range. Again, it varies. In California, it's significantly higher because there's no tip credit, and they're at $15. So you can imagine in California, they're closer to $30, maybe a little bit lower than that in the 2 13 states, but not too far below 20, and we average well into that mid- -- low to mid-20s.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

When you look at -- Jeff, when you look at labor expense, roughly 2/3 of it is going to be on the hourly side of the equation.

Jeffrey Daniel Farmer - *Gordon Haskett Research Advisors - MD & Senior Analyst of Restaurants*

Okay. So again, in terms of -- this is almost sort of your editorial thinking about this. So the conversations with peers have been that $15 looks like a long shot, somewhat increasingly looking like a potential that it could happen, but that -- the tipped minimum wage was always sort of a bridge too far to the extent that the casual dining sector, in particular, is under a lot of pressure right now. And then that's probably something that is unlikely to happen, that's my comment. But how are you guys thinking about it?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. Again, Jeff, this will be a debate. I think it's going to be front and center for an extended period of time this year. I've been involved in a couple of minimum wage debates over the years, and they do tend to be intense discussions. There's passion on both sides of the equation. They tend to extend over periods of time. I'm not going to get into the various sausage making of buttoning of budget reconciliation versus regular order versus things of that and how the Congress works its magic. But I think there's probably a decent down the road possibility of a wage increase. I think we have to be realistic in our thinking to that. I don't see that happening in the short run and we're going to focus our time and attention on the specifics underlying that because, again, it's -- there is a complexity of the way minimum wage works at the federal level, and we're going to focus very heavily from our sector perspective, on the tip side of the equation.

It's been an effective methodology on how that legislation has worked in the past, and we're going to continue to advocate strongly that, that methodology be maintained in some form or fashion as we go forward. That being said, we operate in a number of higher wage rate states that have their own approach to things. I think there's 20 or so that have opted outside, including our number 2, 3 and 4 markets. So we're used to large numbers of restaurants in higher-wage states. So -- but it will be a debate. And I think we can't just assume things are not going to change, and we'll engage and we'll be prepared as we kind of move forward that. But I don't see it impacting this fiscal year and, frankly, maybe not even in the first part of next fiscal year.

Jeffrey Daniel Farmer - *Gordon Haskett Research Advisors - MD & Senior Analyst of Restaurants*

Okay. That's very helpful. And just a separate follow-up on California. So obviously, the mitigation efforts in that state have been one of the headwinds you face from a consolidated same-store sales standpoint for the Chili's concept. But what I'm looking for is sort of an understanding or better understanding of the case study. So obviously, California, in July, went ahead and reinstituted indoor, some dining suspensions. And then remove those, I think, late August, September, depending on what part of the state was. My question is, how quickly did that California consumer respond to the reopening of indoor dining.

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

Very quickly, yes. It's an immediate response. And again, California is a very -- I mean when COVID's over and you do the case studies of why a state that closed restaurants still has some of the worst result. It's just interesting, right? So it comes back to -- it doesn't look like if you're running restaurants the right way. It's not the driver of COVID. And I think California has felt that that's some editorial from my perspective. But that said, when we open up parking lots and put tents in them, people line up. I mean they're just dying to come to a restaurant and eat. And so -- and get out of their house. And so you can do that safely. In California, they've I think overreacted -- listen.

They've got a COVID problem. So I'm not dismissing that. I just think their solution, which is really heavy on the restaurant business has been not as effective, obviously, because it hasn't really dealt with the COVID crisis that they needed to. So when they -- we'll start to see -- we've already started to see it. As soon as they start to lighten up and open up even outdoor dining, which is, I think, is usually the first step, and then they'll go to some indoor, we see the immediate response. But California has been the biggest negative drag throughout the whole pandemic because it's never consistently up and down the state, had a policy that has had dining rooms open at the same time throughout the state at any capacity level.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

And we're excited when they do because I guarantee, there's some pent-up demand in California.

Operator

Our next question today is coming from Brian Vaccaro.

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

Raymond James. I wanted to circle back on It's Just Wings. In prior calls, you obviously mentioned the sales of around $3 million a week or annual run rate of over $150 million. Could you provide a tighter update on the brand's more recent sales performance, either dollars or contribution to Chile's comps? And then what's the time line on when you expect the takeout channel to be rolled for the brand?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Brian, let me talk to the first part of that. Again, we're -- the $150 million annualized sales, we're extremely comfortable with and confident with that. There's been no deviation from the way the brand has been performing, it gives us any doubt there. And that's just -- and that's a number talking to the corporate side of the equation. The franchisees have now embraced it and are starting to perform nicely also in their own regard as it relates to wings. And as I mentioned in my commentary, what we're seeing as we learn how to promote, particularly around sporting events, some nice incrementality off of that. So again, there's a number of ways we are now learning how to grow the brand, how you market it, how you tie it to different sporting events and now how we take it to other channels. I think, from a timing standpoint on.

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

Well, I mean, if you're in DoorDash today, you can -- in some markets, it's already turned on, and you can have that option. Now most people that go to the DoorDash app, obviously, are looking for delivery. But we have -- we are experiencing -- we have some guests today who are in the DoorDash world that choose to pick it up. And so we're already out there with a system, really testing the system, both external and internal that allows us to deal with pickup It's Just Wings guests. We're in test markets, some significant test markets with the infrastructure in place to allow the website that direct people to the right restaurant to pick it up, and that test is now technologically in place, and now we'll start the marketing aspect of it. And I would think by the end of this year, we'll have this thing rolled out and movement is our goal.

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

All right. That's helpful color. And one quick follow-up, sorry if I missed it. But what was Chili's off-premise sales mix in the fiscal Q2 and the split between delivery and takeout?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

The split between delivery and takeout has remained relatively consistent, kind of at a 2/3, 1/3 split. It's been interesting as the whole off-premise channel grew throughout the pandemic in the ups and downs that has stayed relatively consistent. And I want to say the overall mix continues to be in that -- in the high 40s, yes, that 45% to 47-ish percent bouncing around. I would expect, as you get some of these larger markets opening, you'll probably start to see that, again, start to come back down again like we saw during the last wave.

Mika Ware - *Brinker International, Inc. - VP of Finance & IR*

Kind of accelerated.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes.

Operator

Our next question today is coming from John Ivankoe.

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

I'm with JPMorgan. A couple of questions, if I may. First, can we talk about the 2% comp, excluding California and Illinois? How -- I guess, widely distributed is that number? In other words, can we talk about comp performance in kind of some of the key southern markets like Florida, for example, maybe Texas? And as some of these markets have added 100% of seating capacity, more or less, back for customer usage and customers, in fact, are, in many cases, using that capacity. How are trends in those kind of markets? And as you've reopened the dine-in have been opened the longest of markets like that, what has been the overall trend in sales dollars of your off premise business? And I have some follow-ups too.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

John, first, there are very few -- I mean, to my knowledge, states of any or geographical areas that are 100% dining room capacity. There may be some folks who are pushing that, but we're not. We're continuing to abide by the restrictions and the guidelines. And so first off, all these numbers are still, for the most part, a large part, we're probably closer to 50% capacity. And the breadth of that sales result is broad. It is across our regions, both Southern and Midwest, New England. So yes, it's not a -- it's not like Florida is up 20 and everyone else is down 5. Now it's a fairly consistent pattern with the typical geographical variances, but nothing dramatic. It's -- which has got us feeling pretty comfortable about, as Joe said, our ability to deliver positive comp sales. We're doing that with 50% dining room capacities.

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

And what we also see, John, just to add a little more color is it's why do we feel comfortable? Well, we're getting -- we're definitely stretched on the weekends. Weekends are where we struggle the most from a sales perspective because we just don't have the capacity. And so our comp numbers on the weekends are more challenged early week where your capacity isn't as big an issue, very strong.

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

Okay. I have a question -- sorry, go ahead, Joe.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

It's been interesting to see in a number of these other markets that have gone to constraints and restrictions and then come off of them, how quickly the bounce back has happened. Again, you see -- when you look at some of the Mountain regions that have moved in and then back out, again, you get a return to what we were experiencing kind of in that September, October in relatively short order.

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

Okay. And secondly, one of the -- obviously, the overall driving themes or positive themes. And I think you've kind of touched on it in terms of sub conversion opportunities that are arising for you is kind of consolidation of supply. Certainly, one of the hardest things for us is not just to look at it at a national or state level, but in individual trade areas like your own. And obviously, you guys, over whatever the last 40 years, whatever it is now, 50, I guess, 40, have done a great job of selecting real estate.

In other words, I think you've generally chosen to locate Chili's and trade areas that have gone up in value, not gone down. How much effective supply I can use? I guess, a specific term, do you think has come out in the marketplaces in which you compete, I guess, on a trade area by trade area basis? I know, I think, listen, I'm asking you for a number, but it's a qualitative comment. I mean how big of a contraction do you think has actually happened at this point of where you say, "Hey, listen, not just number of restaurants, but the effect of supply, in other words, sales dollars or customer occasions, whatever that may be, have actually come out of the market that you might be able to capture some long-term share from?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. I think -- I mean, again, it's difficult to pinpoint. And you have to look at, particularly when you're thinking about conversion is the -- why is that available? Is it just a bad location that eventually went away, or is it a franchisee, for instance, or something that the larger entity went away and had some good opportunities embedded within it? So we've got to look very carefully at that. Again, we tend to have higher AUVs. We tend to penetrate into a market a little more effectively than some of the competition. So I think there's some upside there. But again, we want to be -- we're probably more judicious about looking at conversions to make sure that we're understanding what the real opportunity is there.

From a capacity standpoint, I think that question is still open. You see, for instance, the National Restaurant Association is -- right now, they look at the world, and they look pretty extensively through their state restaurant association network down into the breadth of the market, and they're talking about 1 in 6 restaurants being closed. Now how many of those stay permanently closed? We'll see. I've seen distribution numbers a little bit below that, but they tend to look more extensively into the higher end independent operator, which probably has a little bit more survivability to it. So I think they'll be there. And then again, it is side-by-side by side. And so the -- you got to be careful about kind of the broad brush national look at individual real estate markets.

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

And then one out of 15…

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

Very helpful -- go ahead, sorry, Wyman. Go ahead.

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

John, just to put some color. The 1 out of 6 closures, we know, obviously, independents have been heard more significantly. And they tend to not run as a group at higher volume. And so I wouldn't translate necessarily that same percentage into sales opportunities. But it's definitely going to be a different landscape post COVID.

Operator

Our next question today is coming from Jeffrey Bernstein.

Jeffrey Andrew Bernstein - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

From Barclays. A couple of questions just from a sales trend perspective. I'm just wondering what you think drove the sequential uptick in January? I think you set down 5% to 6% all in versus what we think was like down 12% in December. I'm wondering whether you think the broader industry participated in that directional trend and whether you think it's stimulus or less political noise. Or how sustainable might that be? Just any thoughts on that, and I had one follow-up.

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

Jeff, it's like clear, it's COVID. I mean it's just COVID. I mean, restrictions come in, we close dining rooms. So sales go down. We've been up the hill and down the hill, and now we're kind of going back up, I mean, up to…

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Positive.

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

Positive sales, yes. And so -- and it's I'd say, 90% just restrictions and the reaction to the communities to the pandemic appropriately, for the most part, I would say. There's probably some stimulus in this month, obviously, there's -- those checks have been out, and that's probably -- that couldn't hurt. It can't hurt when the government throws significant dollars into the economy. So there's some of that in the mix, but we're seeing a pretty consistent trend. So we don't think it's the major driver.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. And the interesting thing about that, I do think there's some stimulus there. But again, one of the things COVID constrained pretty much across the sector, well, gift card sales. So you probably don't have quite as much of a gift card impact that you would normally see in January. So they're kind of offsetting factors that are sitting outside of the whole COVID impact.

Jeffrey Andrew Bernstein - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Understood. And then as you think about the kind of Casual-Dining segment from a promotional environment perspective, it seems like there's less discounting. Like you said, I mean, everyone has limited capacity to satisfy the customers. So why would you deep discount? So I'm just wondering on how you think that's going to play out as we move through and beyond COVID? It seems like, safe to say, it's more peers because I

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know you guys have talked about easing up on your LTOs in recent quarters and years. But just wondering for the impact of promotional environmental at all?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. I know, we kind of got out of it. Yes. For us, it's -- we just kind of got out of that game really under our third year now, Jeff, of, what, chasing promotions at a casual dining level. Our belief is it's kind of a lot more wasted energy, and it's not very efficient. You're going to get pops. You're going to hit something every once in a while, but all the energy and effort and the brand, what I'll call, degradation to going through those cycles can -- isn't worth the effort is kind of where we're at. And so it's always a competitive category. It's always going to be. We just talked about the landscape will look different post COVID, so we'll see how that plays into the mix. But we're going to go after with the strategy we've always -- we've been employing, especially the last few years, which is a strong base value propositions, talking to consumers more directly and incenting them that way versus some broad thrown out message that doesn't necessarily work very well.

Jeffrey Andrew Bernstein - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Understood. And lastly, Joe, you mentioned that you didn't want to necessarily give fiscal third quarter guidance. I know during the second quarter, you were more comfortable to do so. I'm just wondering, directionally, whether you could offer any color on margin or earnings, if the comps were to stay at this down mid- single digit level, or is it just not worth even attempting?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. It's not -- Jeff, I'm not going to go there. Again, as I indicated in my script, we do have some beliefs around recovery as we kind of move through. And as we demonstrated in the fall with some of the numbers you saw, and we've talked about that level of recovery has those positive directional impacts on things like margin. So I'm looking forward to some near time ability to talk about that kind of activity.

Operator

Our final question today is coming from Jon Tower.

Jon Michael Tower - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Wells Fargo. Just a couple of questions. First, on the It's Just Wings and moving to a potential physical presence, is this a pusher pole? Meaning are consumers asking for this today? Or are you essentially getting ahead of any potential demand in the pickup channel and especially with the knowledge that the economics are more favorable to you versus, say, traditional delivery transaction? And then my follow-up question is just -- I know there are a lot of moving pieces in the business right now. But I was hoping maybe you could help frame the long-term margin and profit opportunity for breaker as a whole. Perhaps even referencing the margins relative to fiscal '19 levels, like where do you think this business can move from where it's been in the past?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Let me take the back end of that first, again, from a margin perspective. Again, we're still very firmly of the belief, as we've talked about this in the past, that we can grow margins and grow them from that '19 level over the course of the next couple of years, that's the opportunity of getting -- taking a 3 million AUV to 3.5 million AUV in that dynamic. Those will grow -- that will grow margins. We're not pinpointing down a specific level, but it's definitely at a higher mid-teens kind of thought process is what we've talked about. And again, as we move further down this path and get better insights, we'll start to give you that down the road, but it's definitely a nice upside opportunity at those level of AUV to leverage the system very nicely. I mean as far as…

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

Yes. I think the push full, it's interesting. We're in a channel that doesn't really -- I mean, consumers don't expect when they're in the delivery channel to pick up. So there's not a -- that's all -- that's really -- that's the only segment that knows of It's Just Wings per se. So -- but we know based on the strength of the product and the acceptance in that channel that there's broader possibilities and greater consumer acceptance of the product. So I can't tell you that the people that are on DoorDash today are saying, "Oh, why can't I pick it up?" Because they don't want to pick it up. They're on door dash because they want someone to deliver it primarily. But we know that the brand itself, and we know based on our history, I mean, if you look at the mix within Chili's world, take out to delivery, take out 2:1, right? So it's -- the takeout guest is a broader category than the delivery guests in our broader world. So we know that is a -- there is a segment out there that have no problem picking up.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. I just want to be too -- clear, too, John, because you made a comment in there about as you move to physical locations. So I just want to make sure there's no misrepresentation. We're talking about pickup at a Chili's. So not putting a separate physical location out there.

Jon Michael Tower - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Correct. Got it. And just a follow-up on that. The magnitude of the difference between a delivery transaction and the to-go transaction. Is there any way you could help frame it? I think today, the incremental margins on, and It's Just Wings transaction is somewhere in the mid -- in the 40s, say, that was to flip to a physical pickup transaction, how much better can that be?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Well, again, I think you benefit from -- if I break it into specific channels, as you're talking about there, you're going to benefit from not having to pay the delivery costs. And those are inconsequential. They're, obviously what we think are very well negotiated rates, but those don't exist. Now how you market into that channel and the cost if you put to make sure that there's awareness and understanding, building out a website, marketing through Google, doing things of that nature is another cost. So all in, it's definitely going to be a more favorable flow-through for that particular channel.

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

And it's a lower cost to the consumer as well, right?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes.

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

Because they're not paying for those fees. So those things are all kind of -- they're all positive price -- total price for the consumer and margin for us. The magnitude will kind of TBD.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes.

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Mika Ware - *Brinker International, Inc. - VP of Finance & IR*

All right. Well, thank you, everyone. We appreciate you joining us on the call today. We look forward to updating you on our third quarter results in April. Have a wonderful day. Bye-bye.

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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