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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Q1 F '22 Earnings Call. (Operator Instructions)

It is now my pleasure to turn the floor over to your host, Mika Ware, Vice President of Financial and Investor Relations. Sir, the floor is yours.

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

Thank you, Kate, and good morning, everyone. With me on today's call are Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, our Chief Financial Officer. As many of you know, we pre-released limited results for the first quarter, ahead of our Investor Day hosted here in Dallas on October 20. We released full results for the quarter earlier this morning, which are available on our website at brinker.com. Since we have recently shared details regarding the first quarter, Wyman and Joe will make prepared comments related to our operating performance and then we will open the call and jump straight to your questions.

Before beginning our comments, it is 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 the company's filings with the SEC. And of course, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations.

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

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

Okay. Thanks, Mika. It's good to be back with you all again. It was great seeing some of you in Dallas and many of you virtually during our Investor Day a couple of weeks ago. Thank you for making time to get an in-depth look into our business. What you should have taken away from that was this, we're very optimistic about where the business is going. We're managing for long-term success, and we're confident in the strength of our brands and the levers we have yet to pull to continue to grow the business.

From a top line perspective, we're sitting in a good spot. Sales numbers are solid and traffic numbers are extremely good. Our near-term challenge is not creating demand but rather it's working through the latest pandemic-driven staffing and supply chain issues that are impacting our cost structure. As you know, there are -- these are the same challenges impacting the industry as well as much of the economy. But after 40 years in this business, I'll take managing costs over searching for sales and traffic any day. Those are good problems to solve because they're largely within our control. Our operators are working extremely hard every day to train our new team members, deliver great guest experiences and tying up the middle of the P&L.

We've taken some additional price during the quarter to help offset our structural labor and cost of sales increases. As I mentioned during Investor Day, we're not going to price to buy a quarter. But as we closely monitor the issues, we've layered in incremental pricing to offset what we believe are the structural labor and cost of sales increases. And Joe will give you more detail on that.

Moving forward, if we discover that what we thought was transitory turns out to be more structural, we'll deal with that from a pricing perspective with a disciplined approach that protects our traffic performance and keeps our brands strong. We know we have pricing power if we need it, particularly in the delivery in virtual brand channels, and we're committed to maintaining our margins and our business model. And that's what we wanted you to hear.

We're also working hard to remove transitory costs from the system with full recognition that the headwinds are notable and persistent, especially around labor. And while it takes some time, we're confident with the progress we're making and we will significantly reduce these costs by the back half of the year. The spike in turnover we experienced during the quarter created short-term pressure on the business as we trained our new team members to run our systems.

The good news is we are quickly building staff and have as many team members now as we did pre-COVID, though there are markets that are still not fully staffed, which is limiting their capacity. This is particularly true in the Midwest, where it's taking longer to reach these optimum levels. The impact of these staffing challenges cost us 3% to 4% in first quarter in sales, which we view as upside as we -- as we get those restaurants staffed and trained over the coming months. Our top talent is engaged in these markets to solve these issues as quickly as possible.

Meanwhile, the base business is strong, especially where dining rooms are fully open. When we look at the totality of the business, Chili's is running positive sales and traffic and maintaining a sizable traffic gap to the industry, most recently at 9% on a 2-year look as measured by NAFTrack. And we've got sales leverage around virtual brands and deliveries that we're holding in reserve until our operations teams are stabilized and fully trained. And while the last quarter was more challenging than we expected, we're making great progress, and my expectation is we will end the year strong. And as we shared with you during Investor Day, we've got exciting initiatives and innovation we're working on, and we're confident in our future growth opportunities.

Now I'll turn the call over to Joe to share more insight into the quarter and guidance for the year. Joe?

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

Thanks, Wyman, and good morning, everyone. Let me continue our prepared comments by providing some additional insight to the first quarter results and then share some guidance on our current expectations for the balance of fiscal year 2022.

During first quarter, top line sales performed well and outpaced pre-COVID levels by a very respectable amount despite COVID-related constraints. For the first quarter, Brinker reported total revenues of $860 million with consolidated comp sales of 17%. Keeping with our ongoing strategy, the majority of these sales were driven by traffic up 11% for the quarter, a 9% beat versus the industry on a 2-year look. The top line increase resulted in an adjusted earnings per share of $0.34, up from $0.28 in the previous fiscal year.

It will come as no surprise, our most significant challenge during the quarter came in the form of industry-wide headwinds from both commodity costs and labor-related spend, which negatively impacted our margins and bottom line flow through. We experienced commodity inflation in the mid-single-digit range, with significant price from pork and chicken driving the increase. As Wyman mentioned, with a greater-than-normal influx of new team members, we experienced outsized costs in training and overtime.

We do consider the portion of these costs above our normal operating levels to be transitory, approximately 130 basis points in the quarter, 60 of which are incremental training and overtime costs. I anticipate these costs working their way out of the system over the course of the next couple of quarters. In the near term, I expect a significant portion of these transitory costs to remain in the system for the second quarter. We are taking thoughtful incremental price increases to help offset these higher costs.

Our third price action of this fiscal year is scheduled with our next Chili's menu update in 2 weeks. Following this increase, Chili's will be carrying a total of 3% of incremental price compared to last year. Of course, the mid-quarter price action will not fully impact the total price reported for the quarter. Due to the timing of price actions and the fact that Maggiano's will evaluate its menu pricing after the holiday season, we expect the second quarter blended Brinker price to be closer to 2%.

Our cash flow for the first quarter remained strong, with cash from operating activities of $40 million and EBITDA of $69 million. When compared to first quarter last year, our strength in operating performance and lower level of outstanding debt have combined to improve our balance sheet and leverage position. Our total funded debt leverage was 2.6x, and our lease-adjusted leverage ended the quarter at 3.7x. As indicated during our recent Investor Day, we are targeting to move these leverage ratios below 2x and 3x, respectively, over the course of the next 2 years.

Now turning to our outlook for fiscal year '22. We provided some guidance metrics for certain items during our last call, and we are reiterating those levels as of this report. In addition, this morning's press release included incremental guidance for both Brinker's annual revenues and annual adjusted earnings per share. Specifically, annual revenues between $3.75 billion and $3.85 billion and annual adjusted earnings per share between $3.50 and $3.80. This incorporates our current view of the casual dining operating environment, which assumes continuing challenges in the near term, especially related to supply chain and labor issues. This guidance, both reiterated and new, assumes no additional meaningful top line COVID-related disruptions.

While guidance is for our fiscal year performance, I can provide some directional thoughts related to the second quarter. With the exception of banquet sales at Maggiano's, we expect sales to exhibit closer to normal holiday seasonality, although impacted by labor shortage constraints in certain markets. As mentioned earlier in my comments, restaurant operating margins for the second quarter will again be impacted by higher food and beverage and labor costs. We do expect restaurant operating margin to improve when compared to both the recently completed first quarter as well as the second quarter of last year, ending the quarter at a level comparable to the pre-COVID second quarter of fiscal year '20.

Clearly, these are unique times for our industry, creating a variety of short-term challenges to work through. Challenges we can and will solve. We firmly believe our strategic initiatives focused on driving traffic and organic top line growth will differentiate our performance over time with the overall benefit to our team members, our guests and importantly, our shareholders.

With my comments now complete, let's turn it back to Kate and move on to any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Nicole Miller at Piper Sandler.

Nicole Marie Miller Regan - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Two quick questions. I want to start with the big picture on labor and I appreciate the update there. I was listening to one of the rideshare apps have reported earlier this week as well. And they talked about as the stimulus is easing off, they're seeing more employees come back into the driving pool. And I'm wondering if that suggests to you that restaurant workers are going somewhere else? Or that you too are sharing in that labor pool coming back to work?

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

Nicole, it's Wyman. Yes, great question. We absolutely are seeing better response to recruiting back into the restaurant. As a matter of fact, as I mentioned, we're back to pre-pandemic levels of staffing in the system. We've got these hotspots still, but we've been averaging about 1,000 new team members a week over the last month. So we're absolutely having some better success than we had earlier in the quarter at recruiting and having applicants show up at the restaurants and join the team. And now we're in that process of just getting them trained up and proficient at the work.

Nicole Marie Miller Regan - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

And just a second and last question, I think we all understand the price now, how it's being dictated, how and when it will flow through. But remind us of how you get there. How much of it is an algorithm or third-party science combined with the art of your experience as an operator?

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

Again, a really good question. We are a little bit more deliberate around pricing and making sure as best we can. There's no guarantee when you take a price that you'll understand the full impact across all of your guests. But especially when we start to price in what we would consider our value propositions and where there may be some more value-sensitive guests to get a look at it and to get a response. And whether that -- we use multiple ways of testing that out, if you will, some of them in market, some of them through research to just understand the sensitivity to this pricing.

The good news is the pricing that we're taking has been tested both from a consumer perspective conceptually, but also in market. And we're feeling really good about the responses and the strength of the value propositions post price, and that gives us a lot of confidence that we can continue the traffic momentum that we have post the price increase that Joe had mentioned is coming here in the next couple of days.

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

Yes. Nicole, and I would add to the equation as we broadened into multichannels, I mean, again, when you think about pricing experiences where we're typically taking a broad-based menu oriented price, there was probably a lot more clarity around realizing that price. So it's one thing to take a price action. The more important thing is to realize as much as you can of that price action.

And there's probably some greater sensitivities when you start thinking about price in different channels or geared towards specific products, where consumers can move within channels or they can move from one product to another more readily. So we want to make sure that there's as much certainty around realizing the price as there is to picking the amount of price we're going to do at any one period of time.

Operator

Our next question today is coming from Jared Garber at Goldman Sachs.

Michael James Rothstein - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

This is Michael on for Jared. Just a couple of quick ones for me. First, in terms of COGS for this year, definitely going to be elevated. You touched on that definitely in the next quarter. How should we expect that to kind of progress throughout the rest of the fiscal year and then kind of into the start of '23 as we think about some of your long-term guidance you gave a couple of weeks ago?

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

Yes. Our expectation is obviously we're going to see an increase in COGS costs and impact of the COGS margin versus the sales level. We were in that kind of 3.5% to 4% inflation range for the first quarter. And that's going to move up into the higher single digits as we progress into the second half of the year. I think we've been talking about this year, we've been pretty clear that we expected more COGS inflation to hit the system in the second half as you roll through some of the contracts we have in place. And we're very comfortable that is still the situation. The guidance we have provided you incorporates all that.

So our line of sight to the -- our expectations around food and beverage costs, I think, is pretty tight right now. We are seeing, again, some markets at extremely high levels compared to historical norms, pork, in particular, chicken being the other one. We are anticipating high levels, but there's also probably some opportunity as those markets may normalize. The question is the timing around when they do normalize over the course of the next year. But again, I'm feeling good about what we have embedded from a cost of sales perspective into our COGS around the fiscal year.

Michael James Rothstein - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Appreciate that. And then another quick one. In terms of comps dynamic within the current quarter, what are you guys seeing in terms of versus the number you gave quarter-to-date, mainly Chili's and Maggiano's as well, at your Investor Day and then the update you gave today, maybe a little bit of a acceleration there. What drove that? And how you expect that to continue to change, especially on a traffic basis?

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

Yes, Jared, I hate to be talking about week-to-week traffic and sales changes but because we did give you two data points, there's really not much in that. We see the business pretty stable. There's been some shifts based on some holiday timing and it has probably a little bit more to do with what happened for a couple of weeks back in 2020 than it has anything to do with what's going on today. So we anticipate and we're seeing pretty much consistent sales and traffic trends. And so nothing to really report there in terms of a deceleration or anything.

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

Yes. The related data point we gave you a couple of weeks ago was that average weekly sales and showing how they had started to move back up again in October, and that situation is very much still in place.

Operator

Our next question today is coming from Eric Gonzalez at KeyBanc.

Eric Andrew Gonzalez - *KeyBanc Capital Markets Inc., Research Division - VP & Equity Research Analyst*

Can you perhaps clarify that restaurant margin comment you made towards the end of the prepared remarks? I think you mentioned fiscal 2Q would be comparable to the second quarter of '19, which if my model is correct, is about 12.7%. And also, I think you discussed a lot more inflation will hit the P&L in the second half, but perhaps some of the transitory costs are all over that time. So should we assume that the restaurant level margin for the year is roughly flat to '19? I know you've got this 3- to 5-year outlook, which calls for 50 basis points on top of the '19...

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

Eric, to clarify, it's a big one for you. It's not '19, I said '20. So you need to look at second quarter '20 as a guide post that I gave you.

Eric Andrew Gonzalez - *KeyBanc Capital Markets Inc., Research Division - VP & Equity Research Analyst*

2020? Sure. (inaudible).

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

Yes. So I'll just refer you back to my comments that, again, moving up from what we saw in the first quarter and above what we saw last year, which is fiscal '21 and then comparable to that F '20 number.

Eric Andrew Gonzalez - *KeyBanc Capital Markets Inc., Research Division - VP & Equity Research Analyst*

Sure. So then as you look at the second half of the year with some of that more inflation coming on, but also the transitory costs rolling off, should we assume that the margin is maybe flat to how should we think about that versus the 13.2% baseline you established at the Analyst Day?

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

No. I think there's -- assuming there's those two events and the normal seasonality we have, remember, third and fourth quarters are our higher volume quarters. I think there is leverageability and upside to those margins as we move through the rest of the fiscal year on a quarterly basis. We're not going to get into that specific level, but I would expect to see normal seasonality patterns play in those quarters.

Operator

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

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

I wanted to get a sense of how you guys thought you were kind of staffed for kind of between Christmas and New Year's. I mean I know you've talked about the number of people that you're hiring on a weekly basis. But do you have the staff on average and also the staff on a store-by-store basis to basically you'd be able to serve this real wave of demand that the industry normally sees in the month of December? Or might this be a particularly capacity constrained scenario that we actually might see in December relative to some previous months that you've talked about?

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

Yes. Great question, John. There are really 2 -- the 2 brands are significantly different with regard to what happens during the holiday and traffic. At Chili's, our traffic patterns during the holidays are elevated, but they're not extreme. It really is more about those specific days. You have some -- you just have a couple of bigger days, if you will, a few more weekend days during the week, almost is one way to think about it at Chili's. And we absolutely have -- feel good about, as I mentioned, where we're moving with regard to staffing. We still got those hotspots. We've mentioned the Midwest is really kind of the biggest challenge for us right now in terms of if you want to talk about regionality of labor and the constraint. But for the most part, we feel pretty good about being able to be staffed and ready for the holidays at Chili's.

Maggiano's again, bigger issue, especially if we see the kind of historic demand for banquet business and large groups, which we think we're feeling pretty good about right now. But again, time will tell as we get closer to the date. And they're working aggressively to staff up. And that may be a little bit more of a headwind, but I think they're -- we're going to be fully staffed to handle the business we expect. Now whether the -- if the environment is overheated, we may not be able to take all the potential business that we could have gotten if it just becomes a really kind of a gangbuster kind of holiday season. But they've got plenty of staff and management now in place to handle what we anticipate being a solid holiday, probably not a record-setting holiday.

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

That's helpful. Good to know. And then secondly, I was hoping for kind of, I guess, a real-time education of what you're seeing in the chicken market. I mean we -- as an industry, kind of you saw stable boneless, skinless breast prices for years. I mean they kind of -- we're in a fairly tight range and obviously, are very elevated now. When you talk to your suppliers and you kind of just -- you talk to the people that are really in that market, how much of those costs do you see as transitory versus structural? And as you're kind of thinking about the chicken contract as that comes up for renewal, I mean, I guess, how much rest do you think there could be that we'll be looking at fiscal '23 versus '22 as another escalated year of commodity increases?

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

Yes, John, it's tough to pinpoint exactly what I said to be transitory and structural there. I think it's a high level of transitory again, what we're hearing is, obviously, it's not an issue of number of chickens. There's -- and this is pretty consistent across a lot of the protein commodity bases is that there's enough supply. It's a production kink that really is throwing some wrenches into the system and creating that incremental cost.

So I think over time, we do have a strong belief that, that is going to correct itself. And we're hearing anecdotally from partners that they're seeing better hiring rates, very similar kinds of patterns that as they work through some of the systems, we would expect to see greater production capacities, which should definitely impact the price as you go forward. Our chicken contract runs well into the -- well, it runs into the fourth quarter, into the April time frame.

So while you start those conversations in real time as to what that look like, we're going to watch that very closely as we move through the next several months and start moving more towards dates that you might traditionally commit for new contracts and keep our options as broad as we can there for as long as we can. We've got good partners to work with in this regard, and we'll work it actively as we kind of move towards that April kind of time frames.

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

You're right, John. There's nothing -- if you just look at that market over the last, really almost 10 years, there's nothing structurally that's changed besides maybe some of the labor component costs that aren't going to -- that wouldn't support the kind of potential inflation that's out there now. So we think it's going to mitigate to some degree, and we'll make some bets based on that thinking, going forward.

Operator

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

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

First, a question on labor. Are you still thinking the mid-34s there for -- as a percent of sales for fiscal '22? And if so, how are you breaking that down in terms of labor hours per unit versus the previous year and versus pre-COVID? And are you anticipating any sort of change there from handhelds in the new service model? And lastly, what sort of wage increases are you anticipating also in this guidance on a 1-year basis?

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

Yes. From this guidance, David, I'm almost taking those in reverse, from a average wage, we expect that to be in -- elevated as to what we've seen in the last several years, but in that upper mid-single-digit range. So if you're thinking 6%, 7%, that's been a fairly consistent range as of late, and we're incorporating that into our thinking for this fiscal year.

Obviously, we've talked a lot about the opportunities we see around deploying TSC. It's out in most of the system, and we're getting close, really within the next several weeks of getting that fully deployed. We like it as a labor operating system in the front of the house because, one, we think it's the best guest service model we can deploy. It also has great retentive value. And the fact that one of the things you quickly see is average earnings or servers going up from that model. So we like the ability to lean into that in this current model. It obviously has a runner system involved with it. So the hours aren't that dissimilar but maybe -- but are deployed across some different functions different than what you might see here.

So we're not anticipating a step change in any way, shape or form a number of hours having to flow back in, you will get hours in the second half of the year naturally from a seasonality standpoint. So from this point, I think volumes will dictate the amount of hours flowing in the system, and we would expect to see greater hours as we have success on the top line in Q3 and 4 that we normally would expect to see.

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

And then I wanted to ask you a question that we talked about during the...

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

And David, by the way, yes, and that the number for the fiscal year, the target we talked about at Investor Day is still definitely in play that mid-34s.

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

Okay. And then Wyman, we talked about this pricing strategy for off-premise versus the on-premise. It feels like the incremental margin for off-premise has been well below the incremental margin for on-premise. And I know there is -- you effectively want to get these virtual brands launched and there's been a lot of outsized inflation perhaps in wings and -- but delivery fees, there's a lot of players out there pricing this along to the consumer, and the consumer seems to be taking it because they're willing to pay up for convenience. So I'm wondering, is that on the table that you could do a step change in pricing for that business, assuming you're taking your pricing right now for off-premise is similar to your on-premise? Is that on the table as something of a price lever? And I'll pass it on.

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

Yes, it is, David. And just to remind you, there are certain things we don't do in delivery, like the value proposition that is 3 for $10 or 3 for $10.99. We just don't offer that. So one of the ways we address some of the issues you're talking about, there is additional price. So we are already pricing at a premium, and we will continue to look at how much more of a premium we need to get to make that channel carry its weight, if you will. But we also haven't -- we just don't put some of the offers out there that are more value and maybe not carrying as great a margin. So between those 2 things, between the mix and the price, we will continue to make sure that the delivery channel is carrying its weight and delivering good returns.

Operator

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

Unidentified Analyst

This is Patrick on for Chris. My first question was just for the quarter. I was curious if there was any step change in your promotion of the 3 for $10 platform in the base Chili's business? And if so, what role that played in driving traffic in the quarter, but maybe also what additional pressure that might have added to the cost of goods in the quarter?

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

No. No real change there, Patrick.

Unidentified Analyst

Okay. That's helpful. And then I also wanted to ask about the planned expansion to the third-party aggregators that you discussed during your Investor Day. Just as you initiate those new partnerships, does your DoorDash agreement actually allow for that? Or should we be thinking about there being a change in the economics in that agreement as you add on additional partners?

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

Without getting into details, we continue to appreciate our partnership with DoorDash and as we look to expand channels with other third parties and other ways to grow the business like our own websites, we'll continue to evaluate the relationship we have with DoorDash. But nothing specific to announce today.

Operator

Our next question today is coming from Brian Mullan at Deutsche Bank.

Brian Hugh Mullan - *Deutsche Bank AG, Research Division - Research Analyst*

I just have one clarification item on the guidance and a follow-up. Joe, I'm just wondering if the at least $400 million of EBITDA comment that you made at the Investor Day, does that still stand for fiscal '22? That's just a clarification question.

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

Yes, it does.

Brian Hugh Mullan - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And then as a follow-up, at the Investor Day you shared and it's just Wings P&L, it showed marketing expense at about 9% of sales. So could you just discuss the degree of confidence in that marketing spend level holding firm at around 9% as you seek to grow that revenue over the next couple of years?

And I asked because you talked about driving direct traffic via SEO and SEM, keyword search, Google food ordering. When you look at other consumer spending categories that have shifted online, these can be expensive and competitive activities, so just any thoughts of that 9% is a firm number? And is there a marketing percentage of sales threshold or a ceiling, where investing to drive that business direct gets less attractive from an ROI perspective?

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

Brian, it's Wyman. Yes, I think what you're seeing there is an elevated investment level with the introduction of a brand-new brand, right? So obviously, we're very excited about our 2 virtual brands. We're going to spend up on them as we establish those brands in the marketplace. But to your point, the beauty of how we market these brands is it's very trackable. We have a pretty good line of sight as to the return we're getting on these marketing investments. And I will say, again, in the first year, 1.5 years, we've made some decisions that haven't paid out as well, but we now understand where we're getting the best bang for the buck in the marketing programs and how to push these brands forward and build them in the various channels that we're now moving towards.

So I'd say that's a number that's probably on the high end. It's an introductory brand kind of investment. And as we establish these brands, establish their customers through loyalty, specific loyalty programs we're building around them, then we'll see that number come down.

Operator

Our next question today is coming from Brett Levy at MKM Partners.

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

First clarification, you've said on the margin, I know you've answered it twice now, but you said going back to fiscal '20, did you mean going back to fiscal '20 or back to fiscal second quarter '20 when we're talking about the absolute restaurant level margin?

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

Brett, actually, we meant to say it will be similar to Q1 F '20.

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

Yes.

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

Yes.

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

Okay. F 1Q '20, got you. Second, when you think about pricing, you've obviously stepped up your levels and you've had a greater frequency of adding price to the menu. How long or how quickly do you need to see prices maintain or pull back before you start to think about the next tranche of pricing? And do you think there is a maximum gap you need to keep versus your peers when you look at pricing? Because obviously, you're in line with some but short of others.

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

Yes, we're not -- we tend to not benchmark against peers. We tend to want to stay closer to our customers and our guests and understand how is the pricing affecting their ability to and desire to continue to engage with these brands and our value -- how is our value proposition holding up. And so that's what we really kind of benchmark against. So we're kind of daily monitoring that through our guest feedback loops. And we'll continue to watch that.

And I guess, the biggest question we have and what we've reiterated to the group here is what we see as structural, we feel pretty good about having that covered, but we do have a fairly significant transitory bucket, if you will, that we're working down. And if for some reason, the changes in the environment that have been really primarily COVID-related, if those tend to be more structural now, then we'll have to take some more pricing as we move forward. And we can do that relatively quickly, but we always like to be connected to the guest and diligent about what the impact is going to be as best we can.

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

And then just finally, are there any promotional mismatches we should think about over the next 2 to 5 months?

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

No, the beauty of what we've been doing really prior to the pandemic is we haven't been -- we weren't an LTO promo-driven concept. We kind of got off that carousel years ago. And so that's why our value propositions and the base business is so important to us, because that's what we drive this business from. We don't want to be kind of bound by limited time offers or other gimmicky kind of things that have to drive traffic. We'd much rather be working off a stable day in, day out proposition for guests that we know resonates well. So nothing there.

Operator

Thank you. This concludes our question-and-answer session. I will now return the floor for any closing comments.

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

Thank you, everyone. We look forward to answering any questions. I'm here for you, and have a wonderful day.

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

Thank you.

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

Thanks, everybody.

Operator

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