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EAT - Q4 2017 Brinker International Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Fourth Quarter 2017 Earnings Call. (Operator Instructions)

It is now my pleasure to turn the floor over to your host, Joe Taylor. Sir, the floor is yours.

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

Thank you, Kate, and good morning, everyone. This is Joe Taylor, Interim Chief Financial Officer and Vice President of Investor Relations. Welcome to the Earnings Call for Brinker International's Fourth Quarter of Fiscal Year 2017. Results for the quarter were released earlier this morning and are available on our website at brinker.com. Wyman Roberts, Chief Executive Officer and President, joins me this morning here in Dallas.

As is our practice, Wyman and I will first make prepared comments related to our operating performance and strategic initiatives underway at the company. In addition, we will provide guidance for modeling fiscal year '18 performance. We will then open the call for your questions.

Before beginning our comments, please let me remind everyone of our safe harbor regarding forward-looking statements. During our call, management may discuss certain items which are not based entirely on historical facts. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more completely described in this

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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 and Non-Independent Director*

Thanks, Joe. Good morning, everyone, and thanks for joining us today as we wrap up the year and share our strategies for growing traffic in fiscal '18 at Chili's and Maggiano's.

As you saw on the press release, Brinker beat revised earnings expectations for both the fourth quarter and the fiscal year, delivering $1.09 and $3.20, respectively, thanks to effective management at the restaurant level and solid financial controls. And this was despite top line challenges during the quarter.

Sales for domestic Chili's system were down 1.7%, which is consistent with what we've seen in the industry over the last couple of quarters. But despite the challenges during the year, we still made critical investments in our Chili's business to set us up for longer-term performance and to reinforce the foundation for our fiscal '18 strategy.

We strengthened our menu by replacing the custom combo section with smokehouse platters, which more than doubled preference in the category, simplified operations and increased guest satisfaction. We also invested in our take-out business, replacing our online ordering platform and introducing Curbside To Go, which sets us up to continue to grow this increasingly important piece of the business.

We strengthened our bar position by investing in craft beer taps, which sustained our solid alcohol mix at around 14% even as NPD data shows the industry was down about 4. And we invested in refreshing and growing our fleet. During fiscal '17, we designed a new, more relevant look, which we installed in 17 locations; and we and our franchise partners opened 13 new locations in the U.S., which continue to perform above the brand average, demonstrating the strength and relevance of the brand.

But around mid-fiscal year, as we moved through the holidays, it became apparent that with the industry dynamics and our performance, we weren't going to deliver expected results. The bottom line for us, we weren't getting the traffic we needed and we have to get significantly more aggressive to turn Chili's around in this environment.

Here's what we know. Chili's is an unbelievably strong brand with unprecedented awareness levels. People know the pepper and they love the baby back ribs jingle. These iconic features resonate across demographics and across need states. So this isn't a turnaround of the brand, of who we are, it's a turnaround of how we deliver on what consumers expect from us, and it starts with the menu.

We have to do 2 things with the Chili's menu. We have to make the food better and we have to deliver it faster. So we spent the last quarter evaluating several menu variations in restaurant that we believe will work much harder to drive traffic. And we only need to look as far as Maggiano's to prove that can be done.

Introducing the new menu last quarter significantly improved both sales and traffic trends at Maggiano's. We leaned into the strength of that brand, leveraged our incredible scratch kitchens to deliver new menu items and in new brunch daypart, and Maggiano's ended fourth quarter up in sales and gained important market share. Now, we're leaning into the strength of the Chili's brand by eliminating distractions so we can shine the spotlight on our signature items: burgers, ribs, fajitas and margaritas.

We're making significant investments to reinforce our expertise around this core menu. We're improving recipes and strengthening our value proposition with some higher quality ingredients, some larger portions, some new cooking techniques, and we'll deliver better food at even more compelling price points. For example, we're upgrading our ribs back to a bigger product with 30% more meat, and we're not changing the price. That's a compelling value for our guests.

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To improve execution, we're running a full-court press in reducing the size of the menu to allow our operators to get food out faster and hotter and we're pleased with what we're seeing in test. Our teams are delivering meaningful improvements in ticket times. We're effectively shifting mix to core categories and we've seen increases in the check. Next month, we'll implement the new menu with somewhere between 30% and 40% fewer items than we had on it a year ago. A simpler menu, better quality, faster execution and stronger value. We believe this new menu will be the catalyst for Chili's turnaround.

This quarter, we're aligning our operations teams, reinforcing supply chains and optimizing our marketing strategy to prepare for an early Q2 menu launch. We'll introduce the new menu with an aggressive marketing plan that utilizes national TV, digital and radio, and new -- and introducing new breakthrough ad campaign that is uniquely Chili's.

Chili's turnaround starts with better food and faster service, but it doesn't end there. As I mentioned earlier, we've been building the infrastructure to enable us to offer convenience that's unmatched in the category. With digital curbside platform now launched in our company-owned restaurants, take-out guests can order, pay and get their food without ever getting out of their car, all through the Chili's app. Today, about half our online guests are using it. We're seeing great satisfaction and check averages are higher than noncurbside orders. And this month, we launched marketing efforts to build awareness.

We also continue to enhance convenience and speed in the dining room. We now have handheld devices implemented in more than 100 restaurants. And we're seeing faster ticket times and increased efficiencies in our business model. Handhelds also allow us to put our best servers in front of more guests, improving the overall experience.

And finally, we continue to invest in refreshing the fleet with our reimage program. We started construction in approximately 35 restaurants primarily in the New England area. We'll closely watch the results from these restaurants to understand how best to leverage reimage to drive the business moving forward.

Before I hand the call over to Joe, let's touch on our global and Maggiano's business. We continue to expand our presence internationally, opening 30 franchise restaurants in fiscal '17. And while we experienced some headwinds in the Middle East with the impact of lower oil prices on their economies, our Latin American business remained solid. And we're encouraged by our partners' enthusiasm to expand the brand, and by the interest of new partners to introduce the brand to new markets.

During fiscal '18, our partners plan to open 38 to 43 restaurants, which will include new markets like Panama, Chile and Vietnam. We're rapidly becoming the largest American casual dining brand globally and we're excited to continue our trend of industry-leading International growth.

The Maggiano's brand continues to be a strong performer. We're pleased by the momentum created from our new menu and the addition of weekend brunch. And we're excited to welcome our newest location in Kansas City to the Maggiano's family, which is a testament to the team's ability to leverage a stronger business model and adapt the prototype to meet the needs of local markets. We anticipate continued momentum in fiscal '18 as we grow our brunch business, enhanced banquets and strengthen our off-premise business.

What I want to take -- what I want you to take away today is we're moving aggressively on every front -- food, service, atmosphere and the efficiency of our model. We're pushing every aspect of our business to learn what has the greatest traffic impacts and to move forward with urgency and accuracy. As we move forward with our strategies for F '18, we believe both Chili's and Maggiano's will deliver flat to positive comp sales for the year.

I want to thank our operators at both brands for working through the new menus and new systems while we evolve our top line strategies. Everyone is excited about this "back to our roots" strategy and the opportunity to reignite Chili's love with our guests. There's not a stronger leadership team or group of operators in the industry, and I believe in our ability to deliver F '18 strategies.

And now, I'll hand the call over to Joe to walk you through fourth quarter financials and our F '18 guidance. Joe?

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

Thanks, Wyman. I'm picking up from Wyman's comments. First, providing a brief overview of the fourth quarter of fiscal '17 earnings report more fully reported in this morning's press release and available on brinker.com, and then detailing various points of guidance for your modeling of our current fiscal year '18 performance.

Our fourth quarter adjusted earnings, excluding special items, was $1.09 per share, which is a $0.04 improvement over the fourth quarter last year when adjusting that quarter for the $0.19 impact to the 53rd week. Our bottom line performance benefited from effective supply chain management as well as well-controlled restaurant labor in light of the continued challenging operational environment.

Slightly lower depreciation costs and the benefit from our third quarter restructuring, enhanced flow-through and helped mitigate top line deleverage. Revenues for the fourth quarter totaled $811 million, an 8.1 decrease from the prior year's fourth quarter, primarily due to the extra week's inclusion in last year. Factoring out the extra week, revenues would have been down approximately 1.5%.

At Maggiano's, the successful rollout of our new menu and brunch offering improved comp sales to a positive 0.5% and a good step-up in performance from both the third quarter and the prior year. As outlined in this morning's press release, the domestic Chili's system recorded a 1.7% decrease in comp sales for the quarter. The full domestic performance of the brand is the most applicable to the industry's benchmarks and was approximately 50 basis points behind the broadest casual dining comparison for the quarter.

Chili's corporate-owned restaurants recorded a comp sales decrease of 2.2% for the quarter with some notable weakness in the Houston, South Texas and South Florida markets. Clearly, corporate restaurant comp sales performance have been weighed down by negative traffic, with a level of offset from mix and pricing increases. As Wyman indicated earlier, we are focusing our efforts squarely on improving Chili's traffic as we move further into the current fiscal year.

During the most recent quarter, our guests responded to effective menu merchandising of our popular smokehouse combos and our new chicken crisper platform, resulting in a mix increase of 1.4%. As we indicated would be the case during our last call, pricing a 2.9% increase for the quarter remains above our longer-term target level, primarily driven by larger price increases earlier in the year.

We will lap the impact of these increases as we move into the second half of the fiscal year, allowing for lower levels of price impact at that time. We will also lean back into more value-oriented pricing and other platforms to help maintain Chili's good value perception.

Restaurant operating margin was 17% for the quarter, and while that is 130 basis points below fiscal year '16, approximately 80 basis points of this differential is due to the positive margin impact of the 53rd week in last year's fourth quarter. The remaining year-over-year change is primarily due to sales deleverage.

In addition, we experienced increases in marketing and restaurant level insurance costs, partially offset by the benefit of menu price on our cost of sales margin. In response to the lower sales environment, our operators again did an effective job at managing their restaurant labor costs, maintaining a flat margin when factoring out a small impact from the 53rd week last year.

For fiscal year '17, we recorded adjusted earnings per share of $3.20, exceeding the high end of the guidance range we established in January. Our cash flow for the year remains strong, with EBITDA of $435 million and free cash flow of $210 million. This enabled us to make long-term investments into our brands and return meaningful capital to our shareholders. Combined with our successful debt offering last fall, we executed $371 million of share repurchases and $71 million of dividends in fiscal year '17, including $20 million of share repurchase in Q4.

With a commitment to maintaining our attractive capital return strategy, this morning's press release included announcement of our board's approval of a quarterly dividend of $0.38 per share. This represents a 12% increase in the quarterly dividend. In addition, the Board approved an incremental share repurchase authorization of $250 million, bringing our available authorization to approximately $365 million.

Let me now shift to provide some line item guidance for our current fiscal year '18. Our guidance incorporates our existing view of the casual dining industry, our beliefs in the ability to turn the traffic dynamics at Chili's and our strong cash flow generation support for our capital allocation strategy.

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For fiscal year '18, we are currently forecasting comp sales growth of flat to positive 1% and revenue growth of 0.5% to 1.5%. We expect restaurant operating margin to be down 25 to 40 basis points as we invest specifically into our core food equities.

Underlying our guidance for restaurant operating margin is a market view for cost of sales that includes a slight inflationary environment in the low single-digit range across our general basket of commodities. We also expect labor wage rates to increase in the 3% to 4% range for the year. Depreciation expense is forecasted to decrease $2 million to $3 million, while G&A expense is forecasted to increase $5 million to $6 million, primarily due to incentive compensation reaccrual.

Rising interest rates and the full year impact of last year's debt offering is expected to increase interest expense $8 million to $9 million for the year. The effective tax rate for fiscal year '18, excluding the impact of special items, is forecasted between 27% and 29%.

Our cash flow estimates include adjusted EBITDA between $420 million and $430 million that will support forecasted capital expenditures between $105 million to $115 million. Free cash flow was estimated between $205 million and $215 million, leading to our forecasted annual weighted shares outstanding of between 47 million and 49 million shares. Finally, our adjusted earnings per share guidance for fiscal year '18 is a range of $3.25 to $3.35.

This guidance for fiscal year '18 can be found in this morning's press release along with our standing guidance policy. With the annual guidance now reviewed, let me provide just a little color as it relates to the pacing of our performance. Ad you likely picked up from Wyman's comments, we are moving towards the implementation of most aspects of this year's plan, field alignments, menu introduction, marketing, with various kickoff points late first quarter and early second.

At the same time, we are currently lapping through the first quarter of last year that saw a higher weighted launch of that year's marketing campaign and the introduction of our new burgers at the beginning of the quarter. This lap mismatch, combined with the continued issues of the sector, will likely lead to first quarter earnings performance below last year's reported numbers. As indicative from our annual guidance numbers, we are then planning for improved operating performance once we move into the remainder of the fiscal year.

Kate, I'm now happy to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Brian Vaccaro.

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

Raymond James. Just a couple on the comp outlook and the components of that. Can you talk at a high-level, it sounds like that you said you're going to lap pricing, you're going to let some pricing roll off. But can you remind us how that -- what is the 2.9% that you took in the beginning of the year and then the back half, we should expect something sort of in that sub-2% range on our pricing front?

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

Brian, I think that's the timing sequencing that we're expecting. It's -- we carry the higher pricing really into the first part of the next calendar year, early '18. At that point, we'll lap and start to see lower pricing levels working their way into the comps. Clearly, the impact, the positive impact to comps that we're expecting as we move through the fiscal year is driven off the traffic side of the equation.

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

Okay. And on the food cost outlook, I appreciate the commodity inflation outlook there. But in terms of the investments that you're making in quality and portion sizes, can you provide some perspective on how you expect that to impact, in terms of magnitude, the COGS ratio in fiscal '18?

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

Again, we -- I mean, from a ratio standpoint, we think the opportunity is going to be kind of a mix of increased actual dollar investment back into those core equities, and that's a meaningful investment we're making across those offerings. At the same time, we will benefit from the pricing aspects of the year as we kind of move through the rest of the fiscal year. So it's a bit of an offset between those as how that ratio actually works. So we expect a slight increase in the ratio as we move through the end of the fiscal year.

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

Okay, that's helpful. And then just one more, if I could. Joe, can you share, what was the adjusted debt-to-EBITDA ratio at the end of fiscal '17? And has there been any change in the comfort range on that ratio?

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

No, we're still in the same comfort range. We're ending the year at 3.7, so it's up a tick from the prior end of the previous quarter, but definitely still in our comfort range that we have talked about, which is that 3.5 to 3.75 range.

Operator

Our next question today is coming from Jeff Farmer.

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

Wells Fargo. You did touch on it, but how has the streamlined menu test benefited back-of-house labor? And what are then the time savings in getting menu orders to the table or to the customer?

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

Jeff, Wyman. What we're seeing is what we would consider meaningful improvement and especially what we're focused on are, obviously, the longer-ticket times where the complexity of the current menu is made for some opportunities kind of in the rush as we get into some more complicated menu items that we've now eliminated. So we're seeing improvements that really help us address that issue. And the feedback we heard from our guests is that, that is one of the biggest opportunities that we have. So the whole operations team is focused on really getting food out as quickly as possible. Additionally, with the handheld that I talked about, that's on the front end, getting that order into the kitchen as quickly as possible is also a big opportunity for us. And we're seeing that window shorten as we go to handhelds, which eliminates the need to take the order and then go find a POS terminal to input from. So we're pushing on several fronts to get the food out faster, which also then correlates to it staying hotter.

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

Okay. And then just following up on labor. Again, you hit some of this stuff. But I think on the call you said well-controlled restaurant labor. So what exactly does that mean? Are there additional opportunities? And are you actually pulling labor hours out of the model?

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

I wouldn't characterize it as pulling labor hours out of the model necessarily, Jeff. I think, again, our managers did a great job of reacting to the operational environment. And that environment, at any given time, might result in fewer labor hours being utilized within restaurants. Again, they effectively managed hourly labor relatively flat year-over-year when you make the 53-, 52-week adjustments. And then there's obviously some benefit in the labor and the restaurant expense line from reduced bonus compensation also.

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

Jeff, we're not pulling labor out of the model per se. What we're doing is running efficiently and the operators are really monitoring the model as well as they ever have. And then in some of these test restaurants with new menus, we're finding their ability to get the work done faster because there are just fewer things to prep, so they're more efficient. But we're not [missing -- pulling] those hours out of the model.

Operator

Our next question is coming from Sara Senatore.

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

Bernstein. I have one question and then a follow-up, if I could. So first, on the CapEx outlook for next year. I think a few years back, we had thought sort of a maintenance CapEx was around $50 million. It sounds like you may be starting another reimaging cycle, and I guess I'm trying to sort of calibrate that against what seemed like you just finished one in fiscal '15. So maybe just -- can you talk a little bit about CapEx expectations and whether or not, what Wyman said about -- the test in New England imply about kind of longer-term or medium-term run rate on CapEx. So that's my first question and then I do have a follow-up, please.

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

Great. Yes, Sara, the construct in the CapEx is very similar to what we've had the last several years. What we consider to be maintenance CapEx or nondiscretionary CapEx is -- continues to be in that $50 million to $60 million range, and that obviously includes both restaurant fleets and IT investments as we kind of move forward. We also then have in that $20 million to $30 million range, is our new restaurant development bucket, and that continues forward in this year also. And then on top of that is that $20 million to $30 million of what we consider to be initiative CapEx spend. In this year, the predominant portion of that bucket is the reimage project that is going on in the New England restaurants, and Wyman referred to that 35 to 40 restaurant that we're targeting for reimaging up there. So that is a continuation of the work we have been doing at determining the next look and feel, and improving the atmosphere for the brand. And obviously, we will look very closely at the results that come out of those restaurants and talk to you down the road about further investments as we move forward in the reimaging.

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

Yes, Sara, the only thing I'd add to that is, while the reimage program ended, I think we finished it in '14, but it started 3 years before that. So those first restaurants that were on the front end of that reimage program are pushing 6, 7 years now with the current look. And so a 7-year cycle to be thinking about reimaging and staying relevant isn't, we don't think, out of the question for casual dining brand to stay relevant. So again, there's not a huge commitment right now, but we want to stay up-to-date, and we'll continue to look at that aspect of the business.

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

Okay, that makes sense. And then just the follow-up was on the sort of comp and the cadence there and -- this year and what you're expecting. I think one of the trends that we've seen is strong performance out of the fast food hamburger category. And I was wondering if you think you might -- the bar and grill category might be losing some traffic to trade down there as they all try to invest in higher quality. And if so, can you stem that tide or what reverses that? Is it higher beef prices which maybe undercut some of the discounting? Or is it just, as you talk about, kind of investment in value? So just trying to understand where you think the traffic might have gone and where you might get it back from.

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

Yes, Sara, I think it's gone to multiple places. Some in the quick service area, and I do think that the bigger issue there is the unprecedented value propositions that were pulled together with lower -- really kind of on the back of lower beef prices, hamburger prices, the last year or so. That looks like it's kind of mitigating, and we think that probably will run its course with more traditional commodity pricing. And -- but we are going to be more aggressive on our value propositions in some of those areas and we think that's how we will compete in that space. And then, I think the other things we're doing with regard to the other aspects of the business, right? How do we get a more consistent, faster experience that may be a bigger opportunity with maybe some of the fast casual pressure that the industry is feeling. So -- but at the end of the day, we're really focused on what our guests are telling us they went out to Chili's and just delivering that better and more consistently, and that's focused on burgers, ribs and fajitas.

Operator

Our next question today is coming from Bob Derrington.

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

Telsey Advisory Group. Wyman, can you give us a little bit of color on -- when a consumer comes in and sees the new menu that you plan to roll out in about a couple of months or so, what exactly is there -- what you've seen? Is it -- is there a wow effect from them seeing bigger portion sizes, greater proteins, larger servings on the platter? Is there any turnoff from not seeing as many menu items as there used to be? What have you seen in test so far?

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

Bob, we've seen -- and that's why the testing process is so important, right? When you start to make dramatic changes to the menu, and we're talking about reducing the number of menu items from 30%, 40%, you have to make sure that those cuts are not going to create problems with guests missing items that really would prefer to have. And so there's been an iterative process with this in restaurant, where we put menus in, and for the most part, most of the items that we have taken away, they found new items or alternative items that they like a lot. And with the recipe changes and the improvements in the food, they've been very impressed with those and happy. A couple of times we've had to go back and say [not] that item, we have had to add an item back, and so that iterative process of working with operators and guests to understand where's the line got to be to reduce the menu so you get the most out of your simplification efforts but aren't alienating guests is kind of what the work that's been done over the last couple of months. And we've gotten great feedback on the quality of the improvements, and we haven't really put a lot of the value proposition into those markets yet, which we know will just take it over the top.

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

A quick follow-up on that, if I may. In communicating that to consumers, we know that you had some change within your advertising agency and some of the news. How will you -- I guess we're not chilling since '75 anymore. How will you represent that information to consumers? TV? Radio? And what exactly will we see?

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

You'll see the marketing campaign across all the platforms, Bob, and you'll see it in a campaign from a new agency, a new marketing team here Steve Provost put together, just a talented group and has partnered with a new agency. And the creative is, we think, some of the most compelling that we've ever done. We're very excited to introduce it in a month.

Operator

Our next question today is coming from Howard Penney.

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

It's -- with Hedgeye Risk Management. Wyman, as we look across the industry, the concepts that are generating positive traffic in the industry, and there are a few and I'm specifically referring to casual dining, it's nearly 100% coming from to-go/delivery. And I know I heard you talk about that. But I was just wondering if maybe you could provide some details around your success in the to-go/delivery area, and is that correct? I mean, do you expect your traffic improvements to come from that segment? Or do you actually expect the dine-in business traffic to grow?

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

Howard, both. We've got to increase the traffic in the dining room and we will continue to increase the business in the to-go area. We had growth this year in our to-go business in both brands. To-go is really an important part of our business. It's over 10% of the Chili's business. It's over 11% or 12% of the Maggiano's business. We've got products that consumers appreciate in that to take out and have delivered. So we will continue to push those. We've got the infrastructure now with the curbside that we think is really going to make it even that much easier and more compelling for our guests to come to Chili's to get to-go. And we're now just going to market that more aggressively now that we've got that offering available, and we'll start to now put some innovation into that aspect of the business in both offering and packaging. So that business is -- it has been growing, it grew this year. It will continue to be an area of focus. But we're also going to grow the dine-in traffic, and we think the new menu is really the kind of the catalyst for that.

Operator

Our next question today is coming from John Ivankoe.

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

From JPMorgan. A couple of questions, if I may. Firstly, I was hoping that you would elaborate on the comments that you expect first quarter of '18 earnings to be down year-over-year. I mean, just that you've framed some magnitude for that because, obviously, it could mean almost anything.

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

I'm actually going to leave it at -- it is expected to be down year-over-year. I think the impact of the lap that we discussed is apparent when you're turning on your marketing and your other initiatives really at the end or in the early part of the second quarter, some of the drivers we're expecting will start really at that point, John. But I'm not going to kind of give you the size of the breadbasket as it relates to it. It is expected to be below last year's results. Because if you go look back at the last 4 quarters, the first quarter of last year was a decent quarter for us based on the launch of that campaign.

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

Okay. All right, that's fine. I just wanted to see if we could get a little bit more, but I understand. Secondly, in your comp forecast for '18, what are you assuming in terms of restaurant industry same-store traffic? What's kind of the baseline that you expect obviously to outperform?

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

Yes, it -- we are expecting it to continue, obviously, to be negative, and in that same low single-digit range is how we start to build the thought process for the year. So that headwind continues as far as we're forecasting right now.

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

Okay. And obviously, I mean, you do expect a very material change in your traffic from fourth quarter '17 and then 2018. I think we all look forward to seeing the new advertising campaign, and certainly the focus on what brought the brand the success that it's had over the last 40 years or so. But are you using any call to action? I mean, what is it specifically that's going to make people see the advertising or see the products, what have you, and come into the stores? So I mean, are you going to do anything particularly powerful even on a temporary basis in terms of couponing or discounting or BOGOs or just anything just to get people in to see the differences?

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

John, we're not looking to use or leverage limited-time marketing efforts to introduce this menu. We think the menu -- well, we know the menu has got some very powerful components and very compelling offerings in it and we will focus on those. The improvements we've made, the changes in the quality, the changes in the portions, some of the pricing that will come with it, those are all very compelling and they will be the things that the advertising focus is on, really what this new menu is doing for the quality of the experience, especially the food at Chili's. So that's going to be the focus of the message.

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

Okay. And then one final modeling question. The increase in interest expense '18 over '17. I mean, what is driving that? Are you expecting to put additional debt on the balance sheet or fix some of your floating? Just a little bit more clarity on that line.

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

John, the 2 primary drivers there are, one, we still have some year-over-year incremental interest costs related to the debt offering we did last year. So if you remember, that was not done at the beginning of the year, so the first quarter basically has -- is seeing the year-over-year increase from that. And the rising interest rates. I don't know if the markets have noticed, but we have seen some increases in short-term borrowing rates. And so we have a yield curve assumption built into that number [thereto].

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

Great. But no additional debt is, I guess, the conclusion as well?

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

Not included in this forecast, no.

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Operator

Our next question today is coming from Stephen Anderson.

Stephen Anderson - *Maxim Group LLC, Research Division - Senior VP & Senior Equity Research Analyst*

Yes, from Maxim Group. We saw this morning the announcement of one of your big competitors announcing accelerated closures of their restaurant fleet. And I just want to ask you, looking at your own portfolio of restaurants, have you gone through the number of restaurants that you -- that are generating [-- in terms of generating negative] free cash flow, as you see the need for any closures? I notice you didn't have any update on guidance on restaurant development in the U.S. But -- [so wondered] how do you look at that?

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

Stephen, yes, we don't -- well, first off, we are constantly evaluating the quality of the fleet, and our fleet's in great shape. We are actually more focused on some relocations, where having 40-year-old restaurant market areas shift and move, and we've moved a couple of restaurants for those reasons. But in terms of significant number of closures due to underperformance or cash flow problems, we don't have that issue.

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

Yes, Stephen, for the year, we would expect to open between 5 and 10 restaurants domestically. The international growth will continue in that 30 to 35 range as they continue to open, both in existing markets and penetrate some good new markets, too. So...

Stephen Anderson - *Maxim Group LLC, Research Division - Senior VP & Senior Equity Research Analyst*

Very consistent with the last few years.

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

Yes.

Operator

Our next question today is coming from Peter Saleh.

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

From BTIG. Joe, I think you had mentioned that you guys plan to lean into value a little bit more. Could you elaborate a little bit on that in terms of the timing and what you exactly meant by that? And will that be featured more in the new advertising campaign?

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

I'm not going to elaborate as to a timing perspective, but it is definitely part of our strategic initiatives for the year. Again, we approach value from a long-term value perception perspective. We want value on an everyday basis, and we will include that as we think about those core equities and platforms as we move into the fiscal year.

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

Yes, the only other thing I'd add is value isn't just price. I think oftentimes when we talk value, people just go [ahead to straight] price. But -- the example I gave you about our ribs, we know quality portion and -- are huge components of the value equation, and we're working on those as well as price. So we're looking at the overall value proposition and addressing the biggest opportunities we have on every individual item.

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

And then on the loyalty transition to Plenti, any sort of update on the impact on the overall comp this quarter?

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

Obviously, the -- we are in the Plenti network, but we are still in the lap period of that transition from last year. We haven't put a specific number on it, obviously, in our commentary. But it -- from a traffic perspective, it [was a drag] as we look at the traffic dynamics. Again, I think as we indicated previously, we'll get through that lap of the transition as we get closer to the end of this calendar year, kind of starting in that late November, December time and moving into the next -- the second half of the fiscal year.

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

Great. And then just the last question from me. On your share count guidance for next year, I think you're expecting 47 million to 49 million, which seems a little conservative given the level of free cash flow that you will have after the dividend? Any sort of thoughts on -- is that just being conservatism? Or is there something more to it?

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

I mean, we think that is the applicable range. I would remind you that we tend to tick up in the first part of the year based on incentive compensation programs that have their in-year issuance in that first quarter and then you start to move down as you [move throughout] the rest of the fiscal year. I would say that the -- one of the year-over-year comparisons is -- remember we did the larger buyback related to the debt offering last year earlier in the year. If you think about the sequencings of the free cash flows this year, they're a little bit more back-ended to the fiscal year. So that has an impact, too, on the in-year weighted average share count as you make that calculation.

Operator

Our next question today is coming from Jeffrey Bernstein.

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

From Barclays. Two questions. One, maybe Wyman, as you think about the -- just the casual dining segment and the challenges that the broader segment is facing. We've heard plenty about the industry headwinds, but it does seem like the challenges are more concentrated in the bar and grill. So I'm just wondering -- well, I guess, wondering whether you agree with that. But what do you think is driving that? I mean, are you a believer in the oversaturation? Or is it just maybe the perception of a lesser quality offering or kind of a me-too offering? I'm just wondering to what you attribute when we think about some of the other players and other subsegments of casual dining that seem to be doing better than the traditional bar and grill, and maybe what specific initiative you think is going to break that cycle whether it's your new menu or advertising or value?

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

Yes, Jeff, I think it's interesting. This cycle, if you will, bar and grill is definitely under more pressure as a group, and so it had us really going back and understanding what is it that differentiates us, who are our guests and then what is it that may have them not coming as often and how do we address those needs? And so I think, at the end of the day, the bar and grill category, and more specifically, Chili's, just had some opportunities there, whether it was coming from competitors in casual dining or in other competitive channels that we needed to address. Some of it around differentiation, some of it around value. Again, not just price, but quality and so we're working on all those fronts and that really, it starts with the food. I mean, I think at the end of the day, you really have to get the menu and the food offering right, and that's what's going to really be the catalyst for the Chili's turnaround is the menu and the food offering. But then there are other components, right? So the convenience factors and then the consistency factors are also very important, and all of those things are being worked on.

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

Jeff, one thing I would add to that too, that when you think about kind of the winners in the categories that you identified, from my perspective, it's not necessarily just driven by the category or subsector they have to be in. Is that if you look at a lot of the folks that are putting up decent numbers, they have very clear identity of what they stand for. So either it's the cuisine or the protein or the daypart, but there's very good clarity from a consumer perspective as to who they are and why you would go there. And I think that's what we're really focusing back on through the work that we have done and the ability to understand what the consumer really gives credit to Chili's, in particular for those ribs, burgers and fajitas, and really making sure that the identity of Chili's is better understood and better focused on.

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

Got it. And then just looking back to last year, I mean, from an advertising perspective, I know many of us were pleasantly surprised you had said your spend was going to be up 17%, I believe, for the year just ended. And yet, clearly, the comps were disappointing. So I'm just wondering what about the ad spend maybe did not work or what overwhelmed what might've been otherwise a successful ad campaign? I'm just wondering how do you measure the return on that? Or maybe if I may add on to that, looking at fiscal '18, should we assume spend at the similar, what was I guess, more elevated level from fiscal '17?

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

Yes, Jeff. I mean, I think at the end of the day you got to separate, in your marketing efforts, there's the amount and then there's the messaging and then there's the creative that carries that message, right? So what's the offer and then how did you communicate it? And I think we do believe in the power of marketing for Chili's and we think we have a clear understanding of how to leverage it as best -- as good as anybody. But the -- I think the messaging and the creative were opportunities for us, and that's what we've really focused on. This year, we will introduce the new menu with the campaign, and we are very excited about it, as I've said a couple of times. And we will -- we'll have similar weight levels to last year, but the marketing budget has become much more efficient. Steve has done a great job working hard to take a real detailed look at what we consider nonworking dollars. Dollars that are spent in the marketing budget, but don't go to a media spend. And we're finding dollars there that we can now reinvest back into food and the value propositions on the food, while we keep our spending at the same levels. Be a little more backloaded this year versus front-loaded last year in terms of the fiscal year, but we see ourselves still being an aggressive marketer.

Operator

Our next question today is coming from Nicole Miller.

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

Piper Jaffray. Two quick questions. You said a couple of times during the prepared commentary about making these strategic decisions swiftly yet accurately, and it seems like that could be challenging. So could you talk through what metrics specifically you're measuring? And what are the checks and balances?

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

Nicole, the first was making sure we had good data. So we've spent a lot of time doing the research at a level that we haven't done in a long time. And we're -- it's not like we don't use research in our day-to-day, but we went very deep and very strategic on the research to understand the segment and who our guests are and what it is we need to do. So it's based on some of the most in-depth research that's ever been done for Chili's, not only on the brand, but on the industry. And then it's testing. That doesn't always guarantee tests will roll nationally as they rolled in test market, but it's given us a lot of insight. We've iterated on those -- in those test markets with the menus and with some of the operational elements. And so we're fairly confident that when we roll nationally, we've got pretty good insight into the impact we can expect.

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

And then the second question, I'm very curious about the Maggiano's performance and it's very respectable, of course. Can you parse out and tell us if you see a difference between the higher-end social guest and what they're doing? And then a business customer and what they're doing?

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

In terms of the banquet business, I assume you're referring to the banquet business when we break it out social versus business. We haven't seen any major shifts in our mix or how that business has been playing out this year. We are excited about some innovation that we're bringing into the banquet business to address both those segments, some new offerings and menu ideas that we've got for the business, customer as well as some things we're bringing to our social side of that business. So there's been some great work on new offerings that Maggiano's will be rolling out very shortly to try and expand the breadth of occasions that both social and business can enjoy at Maggiano's.

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

And Nicole, I would add to that on the -- when you think about the introduction of the brunch offerings, both the specific brunch on the weekend and some brunch items that live on the menu on everyday basis. That's an example of taking an opportunity for a brand that was more historically less frequency, more special events kind of equation and start to broaden the reach and the opportunity for how the guest would use that brand, possibly increase the frequency of the brand. So again, it's a shift, maybe a subtle shift, but it's one that has the opportunity to bring guests more frequently back into the restaurant.

Operator

Our next question today is coming from Will Slabaugh.

William Everett Slabaugh - *Stephens Inc., Research Division - MD and Associate Director of Research*

With Stephens. I had a question on the simplified menu as well. Wondering about the comment made about average check increasing with that. I was curious if you'd talk about just kind of broadly how much and then the reasoning behind that. If you're taking some of the things out that are lower priced, is that a good thing that the average ticket is increasing with that? And I guess just any more color you're willing to give there.

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

Will, Wyman. Yes, in the test markets, as I just mentioned, we've rolled out the deletions and we've done the focus on the categories, but we haven't put in all the value proposition. And so what you're seeing in test is movements to more fajitas, combos, ribs. Those are higher check average items for us and so we've seen some of that. What we'll see with the rollout is some of that will be offset with some stronger-value propositions that will come with the introduction of the menu.

William Everett Slabaugh - *Stephens Inc., Research Division - MD and Associate Director of Research*

Makes sense. And one quick follow-up, if I could, on the combo and the ribs and some higher-quality foods that you're launching next year. How do we think about cost of sales as we factor that into our models, just considering those planned investments of both quality and quantity?

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

Again, I think it's -- from a dollar perspective, it is definitely a meaningful investment back into those core equity items. Now some of those items from a margin percentage basis aren't necessarily all that different from what you see right now. So again, so it's [investment backing in]. We expect that the margin and the incremental cost and the margin for cost of sales will include -- increase slightly for the year because of that.

Operator

Our next question today is coming from John Glass.

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

It's Morgan Stanley. On the new menu, when you talk about reducing by 30% to 40% the items, what percentage of the mix do those represent? Just to give people better clarity on how many, what the dollar -- the dollars are that are being reduced.

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

Yes, it's a great question, John. It's single digits, probably. High-single digits. It's going to vary by restaurant. But overall, we're probably in that range.

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

Okay. And going back to the question of the intention on the mix, there are a lot of brands that have promoted value, sacrificed mix, but have gotten traffic from it. So when you put everything together, and I know you haven't yet put some of the value in, is your idea to keep mix constant and positive? Or would you expect mix over the term of the year to actually turn negative and that you get a commensurate uptick in traffic?

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

Yes, we're not...

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

Go ahead, Joe.

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

Yes, we would expect it to stay in the positive range for the year. There will be some puts and takes as you kind of go through that. Again, you get some positive move as you -- from the core equities that we just discussed. But it's going to be in the slight positive category.

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

Okay. And then, Joe, maybe just a final one for you. On the margin guidance, I'm just trying to put the pieces together, you're talking about food inflation, labor inflation, some investment in food. Even though they may not hurt margin, it doesn't sound like it's going to help it, and very modest comp increases. Are you -- what is your expectation specifically about labor? You're going to cut some labor, you're managing labor better, so is the labor line expected be closer to flat? Or is there some offset in the other restaurant expense line that you didn't talk about? How do you achieve the more modest amount of margin decline in '18 versus '17 given those headwinds are probably getting worse, not better?

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

Good question, John. We would expect those wage rates to be, again, in that mid-3s, that 3% to 4% kind of range. And where you have opportunities then, if you think about the different components that make up restaurant operating margin, I think you might have heard a comment from Wyman about how we have approached our marketing dollars. And basically, the reallocation of nonworking marketing dollars gave us an opportunity to reallocate within the restaurant margin some of those dollars over to support on the food side of the equation. Obviously, you have some operational incentive compensation bonus increases going on that impact in the labor. But you also have leverage coming back in. So if you think about the top line growth aspects, and that's the key to the forecast as we move into the rest of the fiscal year, is that top line growth has great leverage ability as you kind of move down through that line to offset some of those cost increases. So it's a bit of a reallocation of some dollars and it's leveraging that top line growth that we're forecasting.

Operator

Our next question today is coming from Gregory Francfort.

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

It's Bank of America. Wyman, I think it's interesting that the 3 of the biggest players in casual dining are all working on product quality reinvestment. Can you talk about if the consumer definition of value might be changing? And then just as a follow-up to that, can you help us understand the size of the magnitude impact on traffic that put changes to some of the lower-end, less-profitable products, specifically the 2 for $20 have had on traffic and what -- and the current traffic trends?

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

Greg, I can answer the first one, but you have to restate the second one. With regard to value proposition, I think it is clear, you can see it in the competitive environment. A lot of folks are getting the same message from consumers that quality does matter. I think what's important is that some people interpret that, well, price may not as much, and what we're very sensitive to and seen is you've got to give them both. You've got to give them really good product at a compelling price point, and that's what we're focused on. And because of our business model and because of the efficiencies of our operators and everything we have in the 4 walls of a Chili's business, we think we can do both very well and very -- better than the competition, frankly, and that's what we're committed to doing. We just have been spending most of our time over the last quarter determining where those investments should be made, specific on what items and then how do we really engage the guest in changing some perceptions that they may have about the quality of the product.

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

And maybe the second question was just you guys took price on the 2 for $20, and it seemed like that was a conscious trade-off of lower profitability traffic for higher profitability traffic. I was wondering if you could help us understand the magnitude that, that may be having within the down mid-single-digit traffic, and how much of that is sort of conscious trade-off and how much of that is kind of industry pressure.

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

Again, we're -- the pricing strategy was -- this year was more aggressive than we've seen in the past from us and more than we'll -- you'll see in the future from us. It really was driven primarily by taking that 2 for $20 up to 2 for $22 because that [wasn't] the logical place to go. But we know consumers are sensitive to price, not all obviously, but there is a component. And we're working to better understand, okay, how does the value proposition play itself out among those various aspects that have kind of been hitting on? And the price piece is a part of that. So we will continue to put very compelling price offerings out there as well as improve the quality of the product.

Operator

Our next question today is coming from Andrew Strelzik.

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

BMO. Two questions actually. The first one, CapEx spending for 2017 came in a little bit below, which you had expected, I believe. Is that just a matter of timing? Or are there some investments that you were -- some spending that you decided to forgo?

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

Andrew, it's a little bit of both. Again, timing does play into the equation particularly, obviously, as you get near the end of the fiscal year. And again, you continue to evaluate the plans as you go. I mean, obviously, CapEx plans are made with decent lead time. And if we get some point in the fiscal year for any one given item, we may pull back in that regard. So it was kind of a mix of the 2, but nothing that changed really the thought process or strategy around the initiatives or the approach to CapEx.

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

Okay, great. And my second question. I'm wondering about the sentiment of your workforce at Chili's in the restaurant. So comps have been softer, maybe some pressure on bonuses. It sounds like execution has become more difficult and we know the competition for labor is tough right now. So what are you seeing from a turnover perspective and have you seen any degradation in terms of the sentiment within the stores of the workforce?

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

We measure our team members twice a year, ask each and every team member how they're feeling about working for us. And Chili's had the highest team member satisfaction that they've had last year. So the broader workforce is definitely in a good place with regard to Chili's. And I think it has a lot to do with the leadership of that team and the culture that there is within the organization. Same for Maggiano's, by the way. So both are very strong culturally and aligned with their team members. I think as the industry is feeling some pressure on turnover, we felt some of that as well, but we're kind of almost best-in-class with our management and our hourly turnover rates. And again, a lot of that has to do with the culture. And our focus on making sure people are making money, that they're having the opportunity to make good money whether they're in hourly or whether they're in management.

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

Andrew, and I would add to the comment by saying as we've been out in the restaurants, particularly those test restaurants, where we've been looking at the simplified menu and some of the process improvements, the response we hear from team members is very supportive, very encouraging, some of the best things that they've seen. We're now in the alignment with our team members through some GM conferences and other communications about what's coming. And to say that the response is enthusiastic would probably be an understatement. We are really appreciating what we're hearing from them. [It's about -- as to] where we're going with the brand. And to me, that's a great feedback and testament for the confidence we have in what we're doing.

Operator

Our next question today is coming from Carla Casella.

Carla Marie Casella Hodulik - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Carla Casella, JPMorgan on the debt side. Most of my questions have been answered. But on the minimum wage front, can you just give us a little perspective on the impact to '17 versus '18? Does it get worse? Or do you start to annualize it in? Does it get better as we go forward?

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

It's a relatively similar impact '17 and '18, Carla, obviously a lot of those minimum wage increases are at the -- well, all of them are the state level. You have a pretty good line of sight to them because they're already in law and then -- and have schedules associated with them. You do start to lap some of the bigger increases as you move out in some of the years after this, but pretty much similar reaction impact.

Carla Marie Casella Hodulik - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

So did '17 -- just I'm not clear on the timing. So did '17 feel the full impact of the increases in '17? Or were they more in back half?

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

Yes, it varies from state to state, Carla. Some different wage increases at different state levels [roll in] at the different times. So it's kind of an ongoing year-over-year impact.

Operator

We have no further questions. Thank you.

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

Well, great. Kate, thanks for your assistance and thanks to everyone else for participating on the call this morning. Please join us for our first quarter earnings call for fiscal year '18 that is scheduled for November 1 of this year. And with that, let me wish everyone a very good day and thank you for participating.

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

Bye, everybody.

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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