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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Q2 earnings call. (Operator Instructions)

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

Mika Ware

Thank you, Kate. Good morning, everyone. This is Mika Ware, Vice President of Finance and Investor Relations, and welcome to the earnings call for Brinker International's second quarter fiscal year 2018.

Results for the second quarter were released earlier this morning and are available on our website at brinker.com. Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, Chief Financial Officer, join me this morning here in Dallas. During the comments portion of the call, Wyman and Joe will provide a more detailed overview of the second quarter and will update the progress of our strategic initiatives underway at the company.

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

Such risks and uncertainties include factors more completely described in this morning's press release and the company's filings with the SEC. Additionally, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations.

Now I will turn the call over to Wyman.

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

Thanks, Mika. Good morning, everyone, and thanks for joining us to review our second quarter performance and highlight the next steps in our Chili's turnaround strategy.

From an earnings perspective, second quarter was solid for us. Taking into account the benefit of a new tax structure as well as the growth in our business, Brinker delivered adjusted earnings per share of $0.87.

Looking ahead, while the lower tax rate will help our earnings, we will also invest back into the business by accelerating our reimage project and will invest in retaining and attracting top talent with performance-based bonus incentives and new benefits like our advanced education program, which offers team members opportunities ranging from English as a second language all the way to an associate's degree, all in no cost to them.

We just introduced the program and we're already seeing a lot of interest. We're excited to offer unique benefits that differentiate our brand and attract team members who are passionate about delivering a great guest experience.

When we look at our business on an apples-to-apples basis, net of the tax impact on the quarter, we saw good earnings growth with Maggiano's strong holiday season leading the way. Maggiano's delivered record sales during the brand's most important quarter, up 1.8%, driving improvements across the business: dining room, banquets, takeout and delivery. We also turned the corner on our global business, returning to positive sales despite ongoing headwinds in the Middle East.

At Chili's, this was the first full quarter in our turnaround strategy, and we continue to see sales and traffic trends move in the right direction. Operations execution is improving, and we're delivering food faster and hotter. We've cut the number of our longest ticket times by half, and we're seeing meaningful improvements in our key guest satisfaction metrics.

And our teams appreciate the simple menu and back-to-our-roots strategy as we've seen decreases in turnover and stronger engagement scores. So we're encouraged by the momentum, but we're not satisfied. As we continue our laser focus on bringing back guests with higher-quality food and better service, we're also pushing harder to strengthen our overall value proposition and give consumers even more reasons to come back to Chili's.

Moving forward, we're dialing up the intensity on key aspects of our business we believe will increase relevancy and drive top line. For example, we still have marketing power to bring to bear especially in the digital space. We're already recognized as a digital leader in the category with our cutting-edge Chili's app and digital curbside platform. And with the recent promotion of our Wade Allen to Chief Digital Officer, he and the team will leverage the infrastructure we've built to elevate our ability to connect with guests. We believe there's significant whitespace here to further differentiate our story and increase our traffic momentum by targeting consumers uniquely with offers that meet their specific needs and compel them to visit Chili's more often.

A great example of the power of digital marketing is the growth we've seen in our to-go business. We delivered positive to-go sales during the second quarter, driven by double-digit increases in online ordering. And now that the franchise system is onboard, we have significant upside potential with the to-go business. Starting the back half of the year, we will leverage the power of our national marketing channels and focus our teams on delivering a great to-go experience.

We also recognize the increasing importance of delivery to our guests. We've learned a lot over the last 10 years since we've developed our own delivery model with Maggiano's. We've driven year-over-year growth every year since we started. And now we're taking the Maggiano's knowledge as well as work we're doing with multiple third-party vendors, like Amazon, who can leverage our shared Olo platform to develop the most efficient model that delivers a great off-premise Chili's experience. And just like with to-go, once we get the model right, we'll aggressively drive that daypart.

We've taken a similar strategic approach to dayparts with the introduction of our simplified menu. We're seeing solid momentum in our dinner and weekend business, and now we're working to build our lunch daypart. We know we can better meet the challenging needs of today's lunch users. So we've developed new food and operational enhancements to deliver more compelling value for lunch guests, which we're implementing starting this quarter and supporting with national marketing efforts.

We're also continuing to improve the quality of our food as well as pursuing product innovation targeted around burgers, ribs and fajitas. We believe infusing new news into our core menu will preserve the simplicity in our operations while attracting new guests and giving our loyal guests reasons to return more often.

And for the past year, we've been working to develop a new look for Chili's. We've created a remodel that delivers a more relevant atmosphere and meets our return hurdles. We're able to use some of the incremental cash generated from tax changes to accelerate this program while still maintaining our dividend and share repurchase targets. So starting in Q1 of F '19, we're investing in a brand-wide reimage program that will impact every restaurant over the next 3 years.

What I'd like you to take away from today is that we're excited about the work we're engaged in. Everyone in the organization is focused on delivering a better guest experience and driving traffic at Chili's.

And now I'll turn the call over to Joe to give you more insight into the second quarter results. Joe?

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

Thanks, Wyman, and good morning to everyone. Let me continue the overview of our second quarter by providing additional insight into our operating performance, highlight some of the more meaningful tax reform impacts and update certain aspects of our annual guidance due to those impacts.

The second quarter marked the implementation of the Chili's turnaround strategy, focused on food investment and a simplified menu. In addition, it was an important quarter for Maggiano's with the continuation of their menu strategy, enhanced banquet offerings and more aggressively promoted carry-out business.

Both brands' efforts in the quarter combined to support solid earnings performance with reported adjusted EPS of $0.87, including approximately a $0.10 positive impact from the change in our effective tax rate due to the recently passed tax legislation. Factoring out this rate change and the other adjustments related to the tax legislation, our adjusted earnings per share would have been $0.77 for the quarter, an improvement of 8.5% when compared to the second quarter last fiscal year.

Since I've already started the discussion of the tax legislation impact, let me highlight a couple of meaningful aspects of the legislation for us. First, our GAAP earnings include a provision charge of approximately $8.7 million, adjusting the valuation of our deferred asset accounts to reflect the reduction in the statutory rate.

Next, and as you know, the U.S. statutory rate decreased from 35% to 21% effective January 1. Now for June 2018 fiscal year taxpayers, such as Brinker, the statutory rate for our current fiscal year is a blended 28%, basically half the year at 35% and half at 21%. As a result, we now expect our effective tax rate for this fiscal year to be between 20% and 22%, down from our previous guidance of 27% to 29%.

I would note, the second quarter ETR of 19.5% is slightly below what we expect for the remainder of the year in that it includes a provision benefit, effectively catching up the provision for the higher ETR expense in the first quarter. For comparative purposes, had we been able to benefit from the new statutory rate of 21% for the entire year, our effective rate for this year would be -- would have been in the 14% to 16% range.

Lastly, our earnings per share will increase this fiscal year as a result of the tax legislation. As such, we are increasing our fiscal year earnings per share guidance range to be $3.42 to $3.52, up from our original guidance range of $3.25 to $3.35.

This new guidance range reflects the utilization of a meaningful portion of the tax change benefit for this year for team member compensation and support programs, as Wyman highlighted during his remarks. Now that we have likely set an all-time record for the time devoted to tax during an earnings call, let me provide some insights as to the earnings performance reported this morning.

For the quarter, Brinker reported comp sales of negative 1% based on brand comp sales of Maggiano's positive 1.8% and Chili's negative 1.5%. I would note, the weather impact for the quarter was approximately 20 basis points for each of these figures.

These results represent a change in the trajectory of our sales and are supported by sequential traffic improvement from the first quarter of 2.8% at Maggiano's and 4.3% at Chili's. Underlying those numbers, we improved traffic at Chili's in the important Thursday to Sunday time frame by more than 5%, driven by the initial effectiveness of the strategy at dinner for those days.

As Wyman indicated earlier, the improved performance of Chili's is encouraging for this initial quarter of the strategy. However, we are not satisfied with the pace and level of the improvement. We believe the initiatives Wyman described will build on the initial momentum and more aggressively grow sales in the second half of [this] year.

Further down the P&L, restaurant operating margin of 14.9% for the second quarter decreased year-over-year by 20 basis points primarily due to our food investment and increased hourly wage rates. The impact of wage rate increases, both merit and market inflation, during the quarter was approximately 60 basis points, partially offset by savings from employee health care and managerial bonus accruals, resulting in overall increase of 40 basis points for restaurant labor when compared to the second quarter of fiscal year '17.

Comp store sales were in line with our expectations, resulting in an increase of 20 basis points. Investment in our core food equities and a mix shift to those items as a result of our new menu were the principal drivers of the increase.

For the quarter, we generated $43 million of free cash flow, bringing our year-to-date total to $71 million. During the quarter, we repurchased 947,000 shares, ending the quarter with 46.9 million diluted weighted average shares. Our quarter ending adjusted leverage ratio was 3.8%.

In conclusion, the second quarter is most notable for the start of the turnaround strategy for the Chili's brand. Much planning, research, training and operational alignment went into the efforts to refocus the brand around its strengths. The Brinker leadership team is thankful to the many teammates who have worked tirelessly to formulate and start implementation of the strategy. It's been a good start, but we have much work still to do to build on the initial momentum. Sequential improvements and positive sales growth are central to our plans and we believe very attainable.

Now with our prepared comments complete, let me turn the call back to Kate to moderate your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today is coming from Sara Senatore.

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

It's Bernstein. And I guess, I just have 2 questions. One is just trying to understand, you said you're pleased with seeing some improvement but perhaps not satisfied with the pace. Could you maybe quantify that? Is it just where you thought your comps would be in the quarter versus where they ended up? Is it about a gap to the industry? Are there other metrics that maybe you can talk about in terms of what you might have expected versus what materialized, and then what the specific initiatives that you mentioned that address those? And then my second question was just about the margins. And again, I know you've talked about kind of offsets to wage inflation. I just -- I'm very impressed at the ability to manage expenses so tightly. Could you maybe remind us a little bit about what you've done around -- in particular labor? I think you've talked about just scheduling and that kind of thing. But just a little sense of what is reducing labor hours or just being more efficient and how much more you have on that front.

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

Okay, Sara, let us unpack that, and let me start with the second part of your question. We'll go back to the first -- zooming through it. Again, our operators continue to do a very effective job in the restaurants of -- particularly managing labor and their overall expenses. It's not just the labor of one. It's across a number of restaurant expenses. We give them a lot of tools to do that. We develop business rules to help in that capacity. But the in-restaurant performance has helped maintain those margins as we kind of move through this environment. We obviously are going to continue to look at opportunities. We've talked in prior calls about the handheld devices and things of that nature that can help us as we move forward. And we're going to continue to look for those opportunities where they present themselves.

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

And Sara, this is Wyman. Just on the kind of the overall kind of how do we see it, it is -- we are encouraged about the changes we've seen with the implementation of the Chili's turnaround strategy. We have fundamental belief that the -- improving the quality of the menu and the food was central to moving forward and delivering more consistently, especially on the hot and fast metrics. And we've seen the directional movement that we were looking for in the business on both those key metrics. So our metrics around hot and fast and around traffic have both improved. We'd like to see more, and we think, as we mentioned, one example is the lunch daypart that's not moving and needs to be probably more specifically addressed, and that is going to happen this quarter relatively quickly here. The initial introduction of the menu was much more dinner-focused. So it's not unexpected, but just kind of continuing to move down the path towards the strategy of making Chili's much more compelling around a food-based, more consistent delivery proposition.

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

Just to clarify, so the dinner business was kind of in line with expectations. It's just maybe the lunch daypart that was a little bit of a laggard versus what you had hoped.

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

More so, yes.

Operator

Our next question today is coming from Will Slabaugh.

William Everett Slabaugh - *Stephens Inc., Research Division - MD*

It's Stephens. And apologies for my voice. Is there any way to parse out the lift you got from the new menu versus the industry getting better in the quarter, especially as it relates to traffic? And then the second part of the question, can you talk about value in the menu after the change this quarter and if this means kind of what you saw tells you that you need more everyday value on the menu, just given the traffic still lagging a little bit?

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

Will, I'm not sure I tracked on your first part.

William Everett Slabaugh - *Stephens Inc., Research Division - MD*

Sure. Any way to parse out the lift you got from the new menu versus just the industry getting better in terms of your sequential improvement?

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

Yes -- no, I think from a traffic perspective, yes, you can do the net math and see that there's an incremental difference between our traffic movement and the industry's movement and where we were trending with the industry prior to the rollout. So yes, we've definitely outperformed where we were relative to the industry pre- versus post-rollout. Again, we've got work to do. We're continuing to put initiatives in place that will close the gap from an absolute perspective. But we definitely have seen movement on that metric relative to the implementation of the menu. From a value perspective, we do have -- we have seen some -- we've seen guests -- guests have told us that they're recognizing the improvements to the menu, especially on key categories, again, burgers, ribs and fajitas. The work that's been done to improve the quality of the burgers has been noticed, and we're selling a lot more burgers. And so those are things that will continue to gain momentum, we believe, as more and more guests get exposed to that. And that's one way the value proposition is being enhanced. We're looking at other ways, investments back into quality of other parts of the menu as well as pricing strategies and promotional strategies. So all of that is still in the works. Specifically again, that lunch daypart that we've talked about has yet to really be addressed and that -- again, that's coming.

Operator

Our next question today is coming from Gregory Francfort.

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

Two questions. Just the first is -- I didn't see an update in the release on the full year guidance on comps. And does that mean you guys are still expecting you'd get to flat to up 1%? And sort of what do you think is the trajectory of how we get there? And then my second question is just on the nonproductive media. I know you guys have been making a move to remove some aspects of that and reinvesting the savings back in the business. Can you remind us sort of what impact that's having on the restaurant expense line and then when that program was started?

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

Greg, as it relates to the -- to your first question, we obviously are very aware of the challenge and the build in the back half of the year. It's a competitive market, and we're very understanding of the lift we have ahead of us. We are focused on the opportunities, the initiatives that we discussed today for growing traffic and growing sales as we move through to the next year. And that's where we're going to keep our focus to build the business. And the second question...

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

Was just on the nonproductive media and removing that and the timing of it and maybe how much you're saving on the restaurant expense line from that.

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

Roughly, it's in that 10 basis point range for the quarter when you look at the accrual. Remember, we have an accrual-based expensing system for advertising.

Operator

Our next question today is coming from Jeffrey Bernstein.

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

Calling from Barclays. Two questions. Maybe just one, talking about the fiscal '18 guidance. So it seems like the fundamental components are unchanged with the flat to plus 1% comp, which I'm guessing you're hopeful that then you could be doing a 2%-plus comp in the back half to achieve that. But if the fundamental components are unchanged, I'm assuming that the increase to the earnings guidance is purely -- I think the midpoint was like $0.17 increase, was purely tax. So I'm just wondering if in the -- I think in the second quarter, you said it was, I think, it was $0.08 or $0.09 benefit from tax. Presumably, there was no reinvestment made. So should we assume the remaining $0.08 or $0.09 in the back half is evenly split between the third and the fourth and that the offset is what you're talking about in terms of significant labor reinvestment? Is there any way to quantify that?

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

I think the timing that you're referencing, Jeff, is applicable as you go forward. And yes, the reinvestment piece of the equation would take place in the second half of the year since it's obviously been designed since the tax reform passed near the end of December. So I think you're on pace with the timing.

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

Got it. And then just the -- can you maybe provide a little bit more color on the remodel? I think you said a good portion of your tax savings going forward would be to start this aggressive 3-year remodel program. So I'm just wondering, any insight? I think you said you had a good template already. So what the costs of that are that -- maybe the sales expectation, whether or not you have the franchise buy in for whatever number of units they're going to be doing. Any color on the remodels would be great.

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

Wyman. I probably won't give you as much color as you're asking for here because we're just moving it forward. It's a program that we've been working on really over a year and we've been keeping you up-to-date. We've got almost 40, 50 restaurants now finished in the New England area, and we're seeing good returns on the investments we've made. With regard to how much of the tax savings we'll invest, it's not a significant amount. It's not going to change our capital structure that much, so we don't see this as changing models, if you will, from a cash flow stand -- in a dramatic way. We won't start the reimage program until the first quarter of '19. That's when we'll actually start building them out. Right now, we're permitting and getting ready, but we're excited about the look. We're excited about the returns we've seen and the ability to kind of keep the brand relevant and keep reinvesting back into Chili's to stay competitive. And the franchisees are totally engaged and aware of the remodel program. We haven't yet mapped out kind of the rollout for them.

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

Jeff, I think underlying your question probably is the thought process as to what does it do for go-forward capital expenditure program? [It's something] we'll deal with obviously when we get into the fiscal '19 rollout and the guidance we provide for that. But one of the things I would let you know is when there is some incremental cash benefit obviously coming from the tax piece of the equation, which does allow our capital allocation programs to remain fairly consistent and our thought process is there, you also have -- remember, this year, already in our CapEx budgets, roughly $20 million of this year is associated with the reimage program that Wyman mentioned, primarily the New England restaurants. Typically, when you get into a reimage program, there are some dollars that support that program for your -- from your R&M side of the equation. So I think when you're -- if you're thinking about CapEx, there are already dollars in our CapEx budgets today that will support a meaningful amount of that reimage spend as we move forward in addition to some of those cash savings from the tax side of the equation.

Operator

Our next question today is coming from Karen Holthouse.

Jared Garber - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is actually Jared on for Karen with Goldman Sachs. Just a question on the remodels again. So the remodel push last time meant CapEx averaged about $150 million a year. Is that a fair ballpark to think about the spending over the next 3-year push? And how does that fit into some of the testing you guys have done around your bar remodels?

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

Yes, again, I don't want to get into specifics as to go-forward CapEx. You're accurate in your assessment from the prior program. But again, I think as we've indicated, a meaningful amount of the spend, we would anticipate, it is going to be supported by current levels of CapEx spend that we do and the ability to shift some of those dollars around those buckets and the tax level. So we do not view incremental CapEx spending getting out of line in any way, shape or form. And -- go ahead.

Jared Garber - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Yes. If I could just switch gears a little bit then. You guys mentioned a double-digit increase in online spending helping to-go. Could you frame that for us a little bit and remind us kind of what your current to-go mix is and how much the ordering has migrated online? And how you think that kind of compares to what your peers have been talking about, maybe a little bit higher?

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

Again, I think, well, from a total mix standpoint, we're pushing up into the high 10s, 10% range is pushing towards 11% from a total mix stand. And a lot of that improvement is driven off of the mobile ordering application we've put in place. So we've been running double-digit increases in that piece of the business, so feeding the positive gains we're making on the to-go side of the equation. We have a relatively good base to start from. I think larger than some peers, not as large as some other peers, but it's a good base that we're growing off of, and it's a positive growth that we're doing.

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

And Jared, again, I think one of the key things is we haven't put a lot of marketing support behind this yet. Getting our franchisees up on the system has been a priority. And now that they're there, we will start to put more aggressive at national advertising behind this, just getting the awareness about how easy it is to order and pick up to-go at Chili's.

Operator

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

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

Stifel. Joe, you mentioned 10 basis points of savings in advertising. But can you provide some more detail on what drove the remaining year-over-year improvement in that line? And then do you expect a similar improvement the balance of the year?

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

It's actually a number of different things that run across those margin accounts and restaurant expense. I mean, again, when I referred to the job that our restaurant management teams are doing, there's -- it really does run across advertising, R&M spend, some IT spend, things of that nature, so there's a number of things. The consistent one and the meaningful -- the most meaningful one is that, on the advertising side of the equation, we would anticipate that maintaining itself as we kind of move through the rest of the year.

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

Are you lapping any unusual comparisons on that line because I think last year, you saw some pretty big increases as a percentage of sales, which may have been due to the comp. But is there anything unusual in the back half that you're lapping?

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

No, there's nothing really unusual. And you're right, the deleverage impact was the -- probably the more meaningful issue last year.

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

And then one last one. I apologize if I missed this, but what do you expect the check average growth to be the remaining quarters of the year?

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

Well, what we'll talk about, Chris, is just our pricing strategy, right. So we definitely know that last year was a more -- was one of the most aggressive pricing years for us for various reasons. And we are focused on keeping our pricing in that 1.5% range, tighter than we've been in the last 12. So that's kind of how we -- that's the biggest driver to our check increase now. What we do promotionally, what we do from a mix standpoint, that can obviously also impact the check, so -- but just from a pricing perspective, we think getting past the more aggressive pricing and lapping on that is another key to getting the traffic momentum back. And that's going to happen as we get more in that 1.5% pricing range.

Operator

Our next question today is coming from Robert Derrington.

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

Telsey Advisory. A couple questions, if I may. Wyman, as you think about the increased efforts at lunchtime to try and drive traffic and sales during that weaker daypart, is there some risk or have you tested? Is there risk that you may be cannibalizing your dinner sales, which have a higher check average?

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

Well, Bob, it's a great question. The beauty of Chili's is the difference between price points on the base menu -- well, On the menu at lunch and dinner are not that dramatic. The biggest difference, frankly, in the check is probably the beverage component, more -- obviously a lot more alcohol being sold at dinner. So no, we don't worry about that. We also know that most people have a lunch restaurant and they have a dinner restaurant. And their lunch restaurant tends to be closer to their work, and their dinner is closer to home, which makes all the sense in the world. And so you're not trading out occasions as easily as I think it might appear on the surface. So no, we've got a lot of insight into the lunch business. We've obviously grown the business nicely prior. We're seeing some -- what we're really seeing is some macro kind of demographic issues around how consumers are using lunch daypart in casual dining, and so we're addressing those. And the value proposition, the speed, the consistency, all those things are critical, and we're excited about what we're kind of bringing forward.

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

Okay. And Joe, question on the tax rate. Within the release, it talks about subsequent years, the federal statutory rate being 21%. Is it reasonable to expect that you'll still be getting some FICA Tip Wage Credits that should lower that effective rate more into that roughly 15% range?

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

I think I -- yes, I indicated in my script that if we had, had the statutory rate this fiscal year at 21% for the entire year as opposed to the blended 28%, we would have been in that 14% to 16% effective tax rate, a lot of that driven, obviously -- one of the major tax expenditures we utilize is the FICA Tip Credit.

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

So it's probably more reasonable that we use a rate within that vicinity for our projections going forward in the outyear?

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

Obviously, without providing guidance, I would understand that utilization, yes.

Operator

Our next question today is coming from John Glass.

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

It's Morgan Stanley. I just have a few follow-ups. First, just on the question of the reinvestment in wages and -- the P&L reinvestments, not the CapEx reinvestment. Did you, in fact, quantify what that will be? And do you think those are contained within this year kind of as more onetime? Or what's the ongoing nature of the reinvestment that you're likely to make?

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

I mean, I think you can do the math and you could see it's in that 40% range in terms of reinvestment this year. The biggest component of that is an incentives program targeted at the restaurant operators towards the initiatives and the objectives that we're so focused on, so that -- and then we've talked about the education program as well, which is again, that's more ongoing. So it's a little bit of both. Some of it is more in this year, and we'll decide next year as to whether or not we continue that incentive program or we change it and modify kind of the annual incentive program. And then obviously, we're committed to the education program. So for the most part, it's mixed, gives us some flexibility into next year.

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

Yes. And then a question on mix. The mix was lower than prior quarters. And it wasn't clear, your answer. Is that a function of the new menu so the mix would just be lower because you're trying to drive traffic even if it's at a lower mix average? Or is that just a promotional activity this quarter and that's an anomaly?

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

I don't look at it as an anomaly. I think it -- I mean, I think it will be more than the normal scenario moving forward. It's a combination of menu and promotional activity that we'll utilize as we go forward.

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

Okay. And then just finally, on the advertising front, you noted that there was less advertising spending in Chili's and that there was some efficiency gain. But do you plan on the second half a greater amount of advertising to emphasize the new menu, the new products on the menu? Or is there a way to change in advertising rate in the back half versus the first half?

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

John, what I want to be clear about is when we talk about the advertising savings, that is based on the accrual nature of how we account for on the P&L. So that's a -- we use an accrual basis that basically straight-lines our advertising costs throughout the year as opposed to the actual cash spend. I think we've talked in previous calls that our campaign was designed for incremental spend in the back 3 quarters of the year with that savings on the spend in the first quarter. And that plan is -- remains in place and will continue forward.

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

John, I would say, from a marketing perspective, the weight levels, which is really the most important thing, are comparable in the back half. But we are really challenging ourselves on media mix with the changes that are taking place in traditional broadcast TV. How much can you put into digital? How much can you put into social? How does it all play out to deliver the most effective and efficient marketing plan that we could come up with? And so team's been working really hard. We're trying and testing a lot of different approaches as to how we spend the marketing dollars.

Operator

Our next today is coming from Jeff Farmer.

Our next question today is coming from Stephen Anderson.

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

I'm from Maxim Group. One thing I've noticed with KNAPP-TRACK and some of the other indicators, I've seen Texas has been an outperformer relative to the rest of casual dining. I just want to see if you can parse out what you've seen in Texas and some of the energy markets where you had lagged in the last couple years.

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

Yes, Steve, great observation. We talked about the energy markets for far too long. It was actually nice to have a call where we weren't talking about the drag on the energy market, that we're actually seeing some rebound in those markets. So I think with the -- they had kind of started -- it started to stabilize and now with some lift in oil prices and I think just a better overall economy, you've got the unemployment rate and some better income numbers, it's playing out well in places like Texas and Oklahoma, and we're starting to see that. And obviously, when you look at our mix of restaurants, that's important. So we're excited to see those markets stabilize and actually now start to move themselves back into a growth mode.

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

And also wanted to -- with the -- some of the proceeds you're getting from the lower taxes, have you discussed maybe potentially looking at some of your debt and maybe looking at paying down some of that?

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

Steve, that's right. That's something we have looked at. In the short run, I think we've talked about what we've done this year on the call. As we get into '19, obviously, the tax scenario continues forward, and we'll look at those number of different opportunities. We're very comfortable with the leverage position that we're maintaining right now. So frankly, I would view that fairly far down the priority list.

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. I do have a couple of quick follow-ups. So you guys have been offering the $6.99 burger and fries, I think, for roughly 4 months. I'm just curious how have consumers been responding? Any surprises? And then from a second question perspective, just looking at your tax reform or the guidance for your free cash flow for FY '18 in terms of thinking about how tax reform could impact that number, even a number in '19, any guidance for us on that?

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

Wyman. Just on the burger front, we intro-ed the menu back in October with $6.99 burgers. But then we moved the messaging to fajitas in December. And so the initial reaction to the $6.99 burgers was great, I think I'd mentioned early on the call. Our overall response to the changes we've made in the burger category, both in the increasing preference, number of burgers we're selling is up significantly and the guest response and feedback on the changes we've made to the burgers is very positive. So the burger category is doing very well for us.

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

As it relates to the cash flow, there are some benefits from a cash tax perspective as you move towards the end of the fiscal year. Some of it is dependent upon the timing, obviously, when we make various cash tax payments. Obviously, the bigger, more annualized benefit of that will be as we move into F '19.

Operator

Our next question today is coming from David Palmer.

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

Couple quick follow-ups as well. The first thing was the fiscal 2Q earnings that goes with the $3.42 to $3.52, I don't think that's the $0.87, which includes the deferred tax revaluation, correct, Joe.

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

Yes, that would include -- that is the $0.87 number. So that's the -- I mean, the guidance you're provided is for adjusted earnings on a go-forward basis.

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

So $3.42 to $3.52 is using $0.87 for the second quarter, and that includes the impact of the deferred tax reval?

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

Correct, and it's utilizing the guidance we provided, the 20% to 22% effective tax rate for the year on a go-forward basis. And obviously, we've also indicated that it's netting the reinvestment discussion we had also.

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

Got it. And just the follow-up, just on the basic business. You had the core value message that you did in 2 phases, the burgers then the fajitas. Were you -- I know you're heartened by the improvement in your trend through the quarter, and in some ways, you can see and squint through the numbers and see customer satisfaction scores and other things. But it feels like some of your competitors were more dramatic in their improvement and more sharp on price point, and maybe they're not running the long-term race. But are there some tweaks that you're thinking about that you can make to your value message to make it more impactful, more dramatic in terms of sparking a traffic trend change?

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

David, it's -- there are some competitors out there that are more aggressively promoting with some offers that are pretty amazing actually in terms of just the magnitude of the discount and the offer. We're trying to -- our approach is to strategically build back the business at Chili's through sustainable efforts around quality food and better execution and driving value that way. So while we will continue to look at value promotions and limited-time offers and other kind of marketing tactics that help do that, we're going to do those things in a way that we think is sustainable and consistent with where the brand sits, and that's really probably the difference. So it may -- there may be some folks out there that can drive some shorter-term sales and traffic with some kind of very aggressive offers, but we don't think those are sustainable, especially in a company-owned restaurant environment. We see the P&L impact to all of those kind of things firsthand. And so we're very kind of aware that -- what's sustainable and what isn't.

Operator

Our next question today is coming from Andrew Strelzik.

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

BMO. Two questions from me. First on the G&A guidance. Just want to confirm, you're still expecting that it's going -- that you're going to hit the previously provided range and just understand what is driving that step-up in the back half of the year? Obviously, you're tracking well below that here in the front half of the year. And my second question, on the Thursday to Sunday delta from a traffic perspective that you mentioned, is there anything that you can provide in terms of the types of customers that your -- is it frequent customers, infrequent customers, how they're using the menu. Any kind of color that we could better understand what's going on in those days of the week.

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

Yes, Andrew. And as it relates to the G&A, there's really no new news there from that perspective. I think one of the principal differences year-over-year would be related to incentive compensation and the accrued levels vis-à-vis the targets for that compensation. There was a meaningful decrease related to that last year.

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

And then Andrew, with regard to the strength we're seeing Thursday through Sunday, again, it just really more lines up with the introduction of the new menu at Chili's was more dinner-oriented, right. So between the fajitas, the burgers and all the ribs, burgers and fajitas and margaritas and the messaging that we were focused on was primarily a dinner-oriented message, although again, guest sees our menu at both dayparts fairly well, but it wasn't lunch-specific, and we're now pivoting to a lunch-specific messaging around the same strategy. So that was really the big difference. There's no major shift in user type or component of the guest mix.

Operator

Our next question today is a follow-up from Chris O'Cull.

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

Joe, I'm trying to understand why the earnings growth in the back half of the year would not be greater than the first half given the lower tax rate. Is there anything in terms of just the sales trend that we need to be thinking about that would cause that not to be improving?

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

Nothing as it relates to that. Again, I think what we've talked about on an ongoing basis is our plan was to continue to incrementally grow sales, which will have that impact to earnings. You do have some lapse as it relates to the expense. One I just mentioned was the incentive side of the equation. So there's some expense lapse that do have an impact as you kind of move through the second half, Chris, that come into play.

Operator

Our final question today is coming from Joshua Long.

Joshua C. Long - *Piper Jaffray Companies, Research Division - Assistant VP and Research Analyst*

It's Piper Jaffray. My question was back on the pricing front. Wyman, when you talked about getting -- or kind of moving past some of those higher-than-historical levels of pricing, getting back down to that 1.5%, was curious if that's something that you'd reach this year? Or if that's more of a run rate number and that's something we see in -- more so in 2019?

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

Yes -- no, I mean, our historic number has always been in that 1% to 2% range and really 1.5% kind of the sweet spot. But because of some of the specific things we had to kind of address in the last year, we got a little bit over that target. And we're -- so we're really moving back to where we have traditionally and strategically think is the best place to be from a consumer standpoint.

Joshua C. Long - *Piper Jaffray Companies, Research Division - Assistant VP and Research Analyst*

Understood. And then as we think about the investments in and around the to-go platform, you mentioned that you've been really trying to get those up and ready before putting marketing to it. Any other sort of investments that need to be put in there? Or is it -- should we think about the systems being in place since more about learning about them in the real environment as they've been kind of invested in and just you start using them now with some of that marketing support?

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

Yes. I mean, we're continuing to invest in our infrastructure with regard to digital marketing, but nothing structural that's holding us back now. So now it's just kind of incrementally finding ways to move forward. So we can now, especially now that the franchise organization is aligned, we can start marketing more aggressively the capabilities that we already have. We will continue to look for new capabilities and be a little bit more of a leader in this area because we think this is how we can really provide a differentiated value to our guests and leverage the strength of Brinker.

Operator

We have no further questions in the queue at this time.

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

Well, thank you, everybody, for joining us this morning. We are scheduled for our next earnings call on May 1, so we look forward to talking to you all then. Have a good day. Thank you.

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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