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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Brinker International Q2 F '22 Earnings Call. (Operator Instructions) It is now my pleasure to turn the floor over to your host, Mika Ware, VP of Finance and Investor Relations. Ma'am, the floor is yours.

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

Thank you, Kate, and good morning, everyone. Welcome to the earnings call for Brinker International's Second Quarter of Fiscal Year 2022. With me on today's call are Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, Chief Financial Officer. We released full results for the quarter earlier this morning, which are available on our website at brinker.com.

As usual, Wyman and Joe will make prepared comments related to our operating performance and then we will open the call and jump straight to your questions. Before beginning our comments, it is my job to remind everyone of our safe harbor regarding forward-looking statements. During our call, management may discuss certain items, which are not based entirely on historical facts. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more completely described in this morning's press release and the company's filings with the SEC. And of course, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations. And with that said, I will turn the call over to Wyman.

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

All right. Thanks, Mika, and thank you all for joining us this morning. I'm pleased with Brinker's second quarter performance and the progression throughout the quarter. It was great to see the effects of the Delta spike dissipate, our momentum come back and flow through improve. Takeout and delivery remained strong in the mid-30s, while dining room demand was on the rise. All our brands had impressive holiday results as guests got more comfortable coming together in groups, which helped us deliver a better-than-expected quarter with positive sales of 17.7% and adjusted EPS of $0.71.

These results demonstrate that with diminished COVID interference, our business model continues to perform well, particularly at volume. Now we, along with the restaurant -- the rest of the restaurant industry are not without our headwinds. Obviously, there are cost pressures with inflation at the highest levels we've seen in years. We've responded with appropriate pricing actions and with our most recent price increase, our menu price is now up over 4%. We've been deliberate about taking incremental price increases throughout the year to ensure that with every step, we protect our traffic advantage, and we've done exactly that. Chili's continued its trend of beating the industry marking the 16th consecutive quarter of traffic outperformance. This trend has continued into January despite the Omicron spike. Our fundamental belief is that the key to healthy, sustainable growth is to have an increasing number of guests choosing us. So we will maintain a disciplined approach to determining the timing and amount of future pricing actions.

To ensure we deliver a great guest experience and continue to grow the base business, we're focused on making sure Chili's is staffed with stable, well-trained teams and smooth operational systems. The staffing situation across the country has been the most unique I've seen in my career, but we're pleased with the hiring progress we've made. We have more team members on a per restaurant basis today than we did pre-COVID. Just last week, when I was out in restaurants, managers were saying that they -- where they used to see only 2 or 3 applicants for a job, they're now getting 10 or more. So we're devoting increased time and attention on providing high-quality training and improving retention for our new hourly team members and managers. And with the added pressure that COVID has put on our operations team, retention today is more -- is about more than just a paycheck. It's also about improving quality of life and creating a sense of belonging. We found new ways to leverage our technology to accomplish these goals. We're implementing a virtual learning platform that allows us to train both hourly team members and managers from the restaurant support center. This is a live interactive experience that improves the speed, quality and consistency of our training while reducing costs and the burden on our restaurant managers. With this system, we're experiencing a 20% retention improvement for new hourly team members.

For managers, we're also focused on increasing career progression and diversity that's so important to our business. We're doubling down on leadership development programs for both new and tenured managers like our highly successful Women Take The Lead program. We see much higher retention levels among those who've engaged in these programs. Our rehire rates also demonstrate further evidence of the positive impact of these efforts. Historically, the re-hire rate for managers who, for whatever reason, chose to leave Chili's and then come back to us has been in the low to mid-single-digit range. Today, that rate has more than doubled, and it's even higher at the hourly level, which speaks to the power of our culture and the strength of our business. We know how crucial it is to support our teams with efficient effective systems that enable smooth operational execution, improve the guest experience and strengthen our base business. This is another area where our technology expertise gives us a big advantage.

At Chili's, we recently completed the implementation of 2 major technology systems. The first is our handheld system, which redefines how we serve our guests. With this system, our servers cover more tables and earn more money. There are -- we're already seeing an average of 15% higher server earnings and significant improvements in guest metrics. We've been testing this in restaurants for years now. So we know the potential once it's fully up and running. We're also capitalizing on the consumers' increased demand to dine off-premise with a new curbside system that provides a more seamless guest experience. The operators are getting comfortable with it now and restaurants that have fully adopted are generating 15 to 20-point improvements in guest metrics. These efforts to strengthen our base set us up to accelerate additional growth vehicles. We've ramped up Chili's development plans and currently have in excess of 20 new full-size restaurants in the pipeline. We're also testing small footprint off-premise centric designs for densely populated markets that don't make sense for full-size prototype.

We've opened our first urban kitchen in Manhattan, offering both Chili's and It's Just Wings. And I never thought I'd see the day when I'd see a Chili's in Manhattan, but it's been up and running for a month, and we're encouraged by its early performance. We plan to open 2 small footprint locations and trade areas adjacent to college campuses in the near future. And virtual brands continue to be an important growth vehicle for us. We remain fully committed to this strategy. Our size and scale are uniquely suited to enable growth through this vehicle. It's Just Wings continues to perform well. And as of this week, Maggiano's Italian Classics is up and running in over 700 restaurants. We're actively working to expand sales channels, build brand awareness and accelerate this part of our business. Second quarter proved that when our business operates with minimal COVID impact, guest demand is high and the model is strong. We generated solid cash flow and good earnings.

As we continue to navigate the inflationary pressures and respond prudently for the long-term health of our business, we want you to know, we're committed to keeping our business model strong, and we still have growth ahead of us. We see a lot of opportunity to leverage our scale, our ownership model, to grow the brands in our portfolio and move the business forward and deliver a great return for our shareholders. And this is only possible because of our amazing teams working tirelessly in the restaurants and in the support center, and I want to thank each of them for their passion and commitment. And now I'll turn the call over to Joe to give you more details on the quarter. Joe?

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

Thanks, Wyman, and good morning, everyone. Let me continue the overview of our second quarter by providing additional insight into our operating results as well as briefly touching on the initial post-holiday operating environment as we move into the back half of our fiscal year.

For the second quarter of fiscal 2022, Brinker reported $0.71 of adjusted diluted earnings per share, up from $0.35 in last year's second quarter. Brinker's total revenues were $926 million for the quarter, and our comparable restaurant sales were positive 17.7%. For some context around this performance, our sales trends improved steadily as we move through the quarter as guests resume their routines with the waning of the Delta wave of COVID. Our restaurant staffing improved through the quarter. And by the holidays, we experienced some of the highest level of dining room capacity recovery since the beginning of the fiscal year in July. We ended the quarter on a high note with a strong December, driven by the several weeks leading up to Christmas.

Chili's comparable restaurant sales were 12.1% for the second quarter. Their comp sales were negatively impacted approximately 1.5% by Christmas shifting back into the quarter from Q3 prior year and close to 0.5% from closing early on Christmas Eve. We chose this year to invest back into the well-being of our teammates in the restaurants and sent them home at 4:00 to spend time with family and friends. This reaction reduced company sales by approximately $4 million.

Maggiano's reported net comp sales for the quarter of a positive 78.1%. The much improved performance resulted from a higher pace of dining room recovery and importantly, improved banquet sales. The team has also done a nice job maintaining their elevated carryout business, which appears to have stickiness in the mid-20% range even as the other business channels improve. Still recovery to go, but the top line performance, coupled with an improved business model, allowed Maggiano's to deliver an above expectations quarter, a nice step forward for the brand.

During the quarter, Chili's inclusive of the virtual brands took several incremental price increases and exited the quarter carrying approximately 3% menu price compared to the prior year. In addition, as Wyman mentioned, we have taken further pricing actions in January, resulting in Chili's is now carrying price of over 4% and Maggiano's adding 5% price with their latest menu rollout. We do anticipate maintaining price at these historically higher levels for the foreseeable future. Brinker increased its consolidated restaurant operating margin to 11% in the second quarter versus 10.7% a year ago. We continue to be very encouraged in periods of low COVID impact as it allows us to realize the power of the business model and the ability to leverage margins with more normalized top line performance.

Food and beverage costs were unfavorable 120 basis points, driven by commodity inflation, partially offset by price. We are seeing stabilization in our supply chain and have a good line of sight into the balance of the fiscal year with a large majority of our contracts locked for the next 6 months. We are expecting high single-digit inflation for the third and fourth quarter. Labor for the quarter was then favorable 60 basis points versus prior year. Our recruiting and training efforts saw good progress throughout the quarter and the higher sales volumes in the later part of the quarter worked to effectively leverage the fixed components of these costs. Wage rates at the manager and hourly level remained elevated in the high single digits, and we expect to see this trend continue as we work through the remainder of the fiscal year.

As the teams continue to stabilize outside of COVID spikes, we should make incremental progress in reducing costs, such as training and overtime utilization that crept into the system during times of higher turnover and lack of labor availability. Restaurant expense was favorable 210 basis points year-over-year as the improved sales performance effectively leveraged the fixed cost included in this category. As we work to further build our sales channels, we should see this leverage dynamic continue and help balance the inflationary aspects in other parts of ROM. Our cash flow for the second quarter remained strong with cash from operating activities of $67 million and EBITDA of $88 million. Our total funded debt leverage was 2.6x, and our lease adjusted leverage was 3.6x., both down slightly from the first quarter, but down significantly from prior year.

Let me finish my prepared comments with some perspective related to our January period's operating performance that closes today. As has been widely reported, the Omicron variants spiked rapidly just after the Christmas holiday and played havoc throughout the industry with staffing and sales capacity, particularly with dining rooms. We have not been immune to that impact. After a challenging first couple of weeks, we have seen the spike dissipate in many markets and are seeing improvements in our sales week to week as team member exclusions come down almost as fast as they rose. While it is good to see what appears to be a much quicker resolution of this COVID wave, the January period will be a setback to our overall operating results. It's important that we quickly move back to a more normalized operating environment in order to meet our expectations for the fiscal year. Taking a step back from the volatility in the current environment and looking past the veil of COVID, we remain confident in our ability to drive improved business results across our brands. We see good growth ahead as we invest in our strategic initiatives, open an increasing number of restaurants and leverage our technological advantages. We also remain very appreciative of our restaurant leaders and teams and the efforts they are making each and every day to deliver the results we simply report.

Now that my remarks are complete, let's open the call for your questions. Kate, I'll turn it back over to you to moderate.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Dennis Geiger at UBS.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

Thanks for the insights, really helpful. Just wondering, Joe, I guess following up on some of the comments you just made. If you could speak a bit more to the full year. It sounds like you're talking about assuming the environment starts to normalize pretty quickly, you can kind of meet prior expectations for the full year. But wondering if you could kind of unpack that and just speak a bit more to that and some of the moving pieces there, please.

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

Yes, Dennis, I think one of the keys that you just mentioned is normalized operating environment. Of course, our expectations for the year don't anticipate operating environment similar to the first -- for really January, the first part of January, in particular, with those kinds of spikes. So let's assume that's -- we're working our way through that. I think, again, as we look at the various factors kind of driving the business, demand is there. I mean -- and again, our expectations around the willingness of the guest to interact with the brands in a variety of ways is playing out as we would expect. The inflationary factors are also there, too. Again, I think we're comfortable with the perspective we've given you on inflation. We had anticipated a little bit higher inflation on the commodity side in the second half of the year, and that line of sight still exists, which will kind of level us into that mid, upper mid-single-digit range by -- for the year. So I think generally speaking, on the tracks that we anticipate as we go.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

Very helpful. Just a quick follow-up, Joe, if I could here. Just on the staffing. It sounds like managing it quite well considering the difficult environment. Any more color kind of on impact to sales in the quarter. I think you guys have touched on that in recent quarters, how that has been trending recently? And kind of how much more staffing from here, if you could kind of speak to having in those company stores.

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

Yes, Dennis, it's Wyman. So yes, in the quarter, second -- our second quarter, we were still kind of working through some of these staffing challenges, both finding team members and managers given some of the activity that we saw early in our fiscal year in the summer. And then late in the quarter, this Omicron spike really dealing with call-outs and exclusions, right? There were a lot of people that had gotten sick late in December. The good news, though, is that on the hiring front, as I mentioned in my remarks, we're seeing much better pick up. And we have more team members in our restaurants today on an average then we had pre-COVID. So we're getting back to being fully staffed. Now there are a couple of hotspots here and there.

The PW team here, our HR group, has done an amazing job supporting our restaurants and hotspots to really be aggressive in recruiting and hiring, and that's turned out very well. So we -- as Joe said, as we look at our back half, we don't see as much headwinds due to staffing. We're feeling pretty good about our ability to keep our restaurants up and running and open full hours, keeping the dining rooms full. So the big question really now is just what's COVID going to do as we work through it. And again, we're encouraged by how we've seen Omicron kind of come down but we need that to continue. But we're ready to do the business and the consumer seems very comfortable coming to the restaurants.

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

And if I could just tag on just a little bit to that, why that staffing in particular is ability to bring dining rooms back up at higher capacity because when we see our highest operating periods like in December, it's when you're getting, as I mentioned, those dining rooms functioning back up to closer to normalized capacity. That's the opportunity that staffing brings us. You don't have to throttle that important channel -- our most important channel down as much.

Operator

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

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

Thanks, Joe, for the commentary on the guidance or the fact that you didn't renew that now, but perhaps the way things happen with Omicron in January that you perhaps eat into that guidance a little bit. I wonder if you could talk about how much January was a setback in terms of sales, EBITDA for the year. It's almost like a onetime thing if we are getting past the worst of COVID. We'll look at January as its own thing. Could you talk about that? And I have a follow-up.

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

David, I mean, the period is actually closing today. So I'm not going to get into any details on a period that we really haven't closed the books on yet. So I mean, it's a meaningful impact, particularly in the first couple of weeks. One of the interesting things I will say, too, on that quarter is we expanded our gaps to the industry in that environment. So we started seeing that expansion grow at the gap, the expanding of the gap really back in the latter part of the second quarter. And we continue to maintain that growth in the gap as we worked through the last several weeks. So those are the kinds of lines of site we see. But yes, it's not an environment that -- it's an environment we hope is episodic and that December environment is going to be the one that is more analogous to the rest of the year. So that's part of wanting to understand a little bit better where we go between those 2 variations of the theme.

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

And the only thing I'd point to, David, you see the industry numbers. So you kind of know what's happened in the industry. And as Joe said, we've outperformed the industry. So Omicron was definitely -- it had an impact on the industry through the back half of December and into January. We fared better than the industry, but we were impacted as well. And as Joe said, though, we're very encouraged by how it's working its way out of the system and as you look kind of through the month.

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

And as you look at the second half of this fiscal year, it looks like you're going to have pricing, maybe 1.5 points more pricing. Maybe give a sense of your food cost resets and maybe your feel of labor. Just things that are a little bit more permanent versus the January stuff, but things that are more permanent feeling things about the second half margin trend versus the first half. And I'll stop there.

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

Again, from a margin perspective, in this fiscal year, again, we expect both of those components to continue to run in that high single-digit rate. And again, we're seeing particularly inflationary environments in the cost of sales side of the equation pretty much line up with our expectations. We have good line of sight of that through our contracting and on the supply chain side of the equation. So we understand what it is. We have taken incremental pricing actions to help mitigate against that. But I think that is, again, the area that there is a belief we'll have a downward cycle at some point, not calling time frame on that, but we do still believe commodities are cyclical. And whether or not it's the back half of this calendar year or getting into next fiscal year, there's probably some relief on the absolutes of those.

The labor side of the equation is more structural. And we do anticipate that those inflationary rates that high single digits will moderate over time, but we're still working our way through the structural upticks that we've seen in labor. Again, the labor environment itself as we've seen more activity coming back into that market, I think, will help stabilize that over time also.

Operator

Our next question today is coming from Jeff Farmer at Gordon Haskett. (technical difficulty)

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

Keep going and we'll get Jeff back in.

Operator

No problem. Our next question is coming from Jeffrey Bernstein at Barclays.

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

From one Jeff to another.

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

Just got another Jeff.

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

It's not one Jeff, it's another. Couple of questions. One, just wondering if you can talk specifically about the restaurant margins for the second half of the fiscal year, obviously much improved this quarter versus last. But if you think about the line items with the greatest volatility, it sounds like you have a pretty good line of sight into commodities and labor. So I'm just wondering, especially with the pricing now at north of 4% of Chili's, what your outlook is specifically to the second half and whether that price increase is seeing any consumer pushback or whether you see any elasticity issues. It sounds like you're really not seeing any, but just trying to figure out how you would gauge that.

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

Jeff, Joe will talk to you about the specific margins. But I do want to talk a little bit about what I think is probably not as clear, and that's the impact of these COVID episodes and spikes as we're calling them, have on our mix. And so the good news is we continue to drive traffic and beat the industry by not a small margin, but by double-digit numbers on traffic. But it does shift from more dine-in to take out. And that's a pretty significant check hit. Obviously, the alcohol sales and the other things that don't happen as much when people dine out. Now we're happy to have the guests still engage with us. But what we see, and we saw in December, we saw in July when COVID stuck, we get back these dining room numbers. And the impact is significantly more than I think people understand and probably much more than other brands or companies you may follow.

And I just -- so the margin story and our ability to cover costs get much better because the check average goes significantly much more than the pricing impact that we tend to focus a lot on whether it's going to be a 4% or 5%. The bigger impact for us is when we shift out of dining room into take out because of COVID, we lose a lot of average check, and that's just out of our control. When we start to see them come back, all of our checks by channel, so takeout, delivery are up over pre-COVID by double digits. We're just not seeing all of that impact because of the mix shifts. And as the mix kind of shift back, we start to feel that and the margin pressure becomes a lot less now. I just wanted to share that because I do think sometimes it gets lost in the conversation about, are you taking 2% or 3%. We have much more of an impact on shift out of dining room into takeout than what another point in price is going to get us.

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

Yes. And Jeff, again, as we continue to move through the second half of the fiscal year, while January gives us a little bit of a stub in the toe from a performance standpoint to overcome, I would expect moving out of this environment that you'll see the typical margin growth that you would in the back half of our fiscal year as we tend to obviously see progression in margins at the ROM level as we move through some of our higher volumes in Q3 and Q4. And I think that environment is very much still in place. Obviously, the dynamics that impact ROM, we're actively evaluating an ongoing basis. And as we think both said in our comments, we'll take further action if we think it's necessary to continue to support that margin growth.

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

And just to your point, the pricing we've taken so far doesn't seem to have gotten a lot of pushback. We think in this environment, that's pretty consistent. But we also don't think that this environment is necessarily the environment that's going to hold forever. And we want to be very cautious about when consumer perceptions and the economy maybe shift a little bit more that we have, the value propositions and the quality of the brands from a value perspective that drive consumers or appeal to consumers in maybe a different consumer environment that may or may not come, but typically, they cycle back.

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

Understood. And my follow-up was just to clarify, I know there was no mention of formal fiscal '22 guidance in your prepared remarks, but the fact that you gave very specific guidance last quarter for the full fiscal year. I just wanted to clarify. It sounds like labor and commodities are in line with what you were thinking. But is it otherwise a reiteration of the total revenue, total EBITDA and total EPS for the full year, seemingly second quarter a little bit better? And then January, like you said, stub your toe, but all in all, those key line item metrics are still reiterated for full year fiscal '22?

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

Yes, Jeff, again, we didn't speak to guidance with any updates or further information as it relates to what we gave you the last quarter. So as per our policy, that guidance is still there.

Operator

Our next question today is coming from James Rutherford at Stephens Inc.

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

Congrats on the quarter here. I wanted to circle back to the discussion of menu prices and consumer demand, running over 4% menu pricing today at Chili's. And clearly, prices are going up across all of food service and food at home. And I think you said you're not seeing an impact on demand yet. But I mean, what risk do you see that the low-income consumer potentially gets incrementally pressured through the year and consumers simply shift at the margin from cash with dine into either quick service or more at-home consumption. Just how would you respond if that event occurs?

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

We control what we can control, right? And what we can control is our value propositions and the quality of our brands. And we have one of the strongest value propositions in the industry in casual dining. And so we're more -- we've seen -- during COVID interestingly, the consumer kind of shift up in casual dining. And so we think that probably the first thing they'll do is probably come back down a little bit. And so if you just think about the amount of steak consumers have eaten in COVID, it's kind of interesting and that's usually a higher-priced item. It's a higher check average concepts. And we imagine there may be under pressure, some drift back to maybe some of the lower check average concepts before they jump right in.

We do know that in tough times, it's not like consumers they want to dine out. During every recession -- recessionary period we looked at, it's always confirmed that consumers continue to want to dine out. They want to -- they don't know how to cook. It's not like they learned how to cook in COVID, they're still wanting to go out or have their food brought to them. And we just want to make sure that if things get a little tighter, we have a really strong value proposition. That's why we're very cautious about how we price and making sure that our pricing actions don't do damage to the overall value propositions that we offer for consumers, which is why we think we've been able to, again, beat the category for 16 consecutive quarters on traffic.

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

That's a helpful perspective. My second question is around unit growth in kind of the urban areas, and you mentioned your efforts there, but some in the industry have chosen to partner with companies such as Reef across these urban areas. It sounds like you're taking an approach of kind of, if I understood correctly, building your own sort of to go and delivery-focused kitchens. I'm just curious what your view is on the pros and cons of the different go-to-market strategies there. And how big do you think the total opportunity you have for these smaller footprint stores?

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

Yes. I think the -- we're trying to keep all of our options open in that regard. In fact, the Manhattan location is a third-party kitchen location that we have space in. So that's an option. And in certain circumstances and really dense urban markets, that might make the most sense. The options we're looking right now that are the 2 units that we're looking at that are by college campuses, one here in Dallas and one in Columbus, are going to be in line, a little bit larger, kind of more in that 1,500 to 1,800 square foot that we would lease and manage. So they all are kind of off-premise centric in their approach. But I think there's different ways to approach different incremental markets, and so we're making sure we understand all of those options.

So it's -- I'm not going to put a specific metric out there yet as a target, but it's meaningful enough to spend a lot of time on it. We think there's a number of different markets, be they urban density, be they college campuses that respond extremely well to off-premise both to go and delivery. There could be some fill-in markets in other places that we have penetrated significantly in the suburban rings that we may go into. So again, it's just opening up a fairly large addressable market by thinking a little bit differently and leaning into really -- that's one of the COVID takeaways is that off-premise is a bigger component of what we will do going forward. So we want to make sure we're taking full advantage of that consumer shift.

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

And I'll just add, now having a portfolio with a couple of virtual brands in there allows us to leverage these spaces. And when you read and study what's happening in this space, a lot of times, it's just -- they're just not able to get enough velocity, right? They're just not able to generate enough sales to cover it. And this is where our portfolio has helped us and our ability to understand how to run this portfolio in a very tight kitchen environment even in the Chili's, it translates very well into this world. And so the team is working hard. We'll have a lot more information as we continue to get a couple of these things in the ground and up and running, but we're encouraged and it could be a meaningful growth vehicle for us in the future.

Operator

Our next question today is coming from Jeff Farmer at Gordon Haskett.

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

Hopefully, you guys can hear me this time.

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

We got you, Jeff.

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

Okay. Awesome. So you touched on it a little bit, but in terms of -- I'm curious how do exclusions work at Chili's. And what I mean by that is when those employees are held out for protocols or for whatever reason, do they get paid and then you guys bring in a secondary employee to make up that shift? How does that work when you actually do have exclusions with your employees?

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

Yes, Jeff. Well, first, managers and hourly team members getting COVID and -- or being exposed to COVID has been a very interesting process, right, over the last 2 years. The exclusions of managers, obviously, when a manager gets sick, they're salaried for the most part, they're paid, they're covered, but it's very difficult. If you have a manager or 2 of 4 managers come down with COVID, we don't have like managers laying around that we can just go and replace them. So oftentimes, that's when the restaurant is without the leadership it needs to stay open all full hours, right? So we end up having to throttle the business, what we call throttle the business down to adjust for the ability we have of leadership to run the restaurant.

With team members, it's different. Oftentimes, we don't know because they're hourly and they may or may not coming on the schedule, they may just call out. It's not as clear oftentimes what's going on with hourly team members, but we are committed to supporting all of our team members through the COVID experience, and we do everything we can, and I think we do a great job keeping them safe in the first place and then supporting them through this environment. But it puts a lot of pressure on the restaurant both from a manager and an hourly perspective because it happens without any warning, right? You just get to call in and say, hey, I'm not coming in today. And while you want to try and replace those shifts with other team members, it's not always easy to do, especially in the environment we've been running in.

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

That's helpful. And then just one more unrelated. Some of your peers have discussed this over the last week, which is that greater-than-expected supply chain pressures have added to some of their commodity inflation pressure. It sounds like a lot of these supply chain members are seeing some of the same staffing issues, some production issues as well. So my question to you is, and I apologize again if you've already discussed this, but on your supply chain, have any headwinds there materialize to make your commodity situation a little bit more challenging than it already is?

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

Well, I mean, again, everyone's been impacted by Omicron. And the -- I think the significant impact it had on the country in terms of people contracting COVID in the late December, January time period impacted anyone that was producing product. I mean, just like we were just talking about our restaurant managers and our team members getting COVID and not being able to come in, while that was happening in plants and production areas. So there were some, I'll call it, wobble in the supply chain system but we've managed it. And the team, again, after almost 2 years of figuring out how to work through a COVID environment, I'm really proud of the work we've done, and it hasn't had a dramatic impact on our restaurants.

To this point, we've been very flexible in terms of being able to shift product and move it around. We've got a good line of sight into how to keep our restaurants staffed or stocked up and supplied. It doesn't mean we don't have issues that we're dealing with on a daily basis with all of our supplier partners throughout the country, whether they have delivery issues or getting supplied to the centers but a good job overall. And I'll let Joe talk the monetary impact.

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

Yes. I think, Jeff, particularly as you think about where does cost of sales go from here, and we start thinking about particularly moving into next fiscal year and what the cyclicality may look like. The underlying inflation that all of us have been dealing with really for more than a year now, there is a component of that and probably a fairly meaningful component that is coming out of those disruptions that you talk about, production cutbacks, the staffing issues that you see within production, within distribution, all the different components of the supply chain. That is -- has fed fairly meaningfully that inflationary cycle. So as that stabilizes, which, again, I think similar to we see stabilization continuing to work its way and grow within the -- our side of the equation. I think we'll see that on the supply chain side of the equation. So I think it's not too farfetched to believe that those inflationary drivers may start to dissipate. Again, I think it's still several quarters out, but I don't anticipate still having that level of underlying issues that they face as we move into the next fiscal year in particular.

Operator

Our next question today is coming from Andrew Strelzik at BMO.

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

I actually wanted to start by following up on that point you were just making about, food inflation, food costs for next year. I'm not looking for guidance, certainly, but I'm just curious, as you're either starting to have those conversations or are going to start having those conversations. How

-- what is your philosophy around locking food costs for next year? Are prices at a level that you're comfortable to do that? Would you want to see things change? I'm just curious for your philosophy and your willingness to do that at these levels.

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

Yes. Andrew, as soon as I start, I know that as I start talking about next year, that'll happen. But I think, again, philosophy is we don't -- our supply chain doesn't function on fiscal years and how they think about accessing markets and building contracts. So we already have contracting that is working out into next fiscal year, chicken in particular. So we're always evaluating the different flows of the markets, getting a lot of input as to where the folks that follow the commodity industry very actively think things are going. There's a balance there. It's almost sound like I'm going to talk about the Fed, but there's a dual responsibility we have with the supply chain to manage and provide price stability but also make sure product is there.

And frankly, over the course of the last year, and I think for a foreseeable period of time, that responsibility of product availability is very critical. And so again, you kind of balance those 2 as you go and thinking through your contracting. But we're always layering on contracts in different pieces of equation and building forward. So it's not -- contracts don't run fiscal year to fiscal year. They're on an ongoing basis. So hopefully, that gives you a little more insight there.

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

The only thing I'd add is, again, I'll just say my belief is having been through a couple of these cycles with products specifically that there are some products that are at all-time highs, and they will come down. And so where we have typically been looking to contract for a longer period of time, we'll not do that as much. We'll play the market a little more. And there's some risk associated with that, obviously, more volatility, but we don't think it's prudent necessarily to lock in on these prices. There's really no historic support for them. And we have a belief on a couple of specific products that we're going to ride the market a little -- probably more than we typically do. And that's just kind of what the market is giving to us.

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

Got it. That's extremely helpful. And my other question, I was hoping that you could dig in a little bit more on some of the December performance. There's really strong dining room demand weeks before the holidays that you talked about, which presumably or hopefully might look like, what maybe a normal environment could look like at some point. I guess I'm curious what the Chili's kind of off-premise sales look like at that point? Regionally, was there any -- it was a pretty broad based or were there markets or regions that didn't participate as much? Any kind of learnings or insights from that period that informs kind of your thinking going forward?

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

Well, I think the best story I can share with you without getting too detailed into all of our performances is really the Maggiano's story. In terms of what happened during the holidays, it was very, very encouraging. So as the Delta kind of -- spike kind of dissipated. What we saw at Maggiano's was a real willingness for consumers and our guests come back in large groups and the banquet business performed much better than we had anticipated. Both the social side of that as well as the business side did better than we had thought. And Maggiano's had a great December really kind of showed us that, hey, that's a brand that is even more impacted by COVID because of the large party nature of the banquet side of that business. And so as that started to go away, we were very encouraged and it was pretty much across the country and so that's probably the best example.

I mean, again, we saw -- we've talked about the importance of getting dining rooms -- the dining room mix back open at Chili's, and we saw that as well. But the real bright spot in December from a future perspective and a consumer insight was kind of what we saw with Maggiano's.

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

Yes. And I would just add that December isn't an outlier. Again, if you go back and look at other -- really going back into last fiscal year. So if I go back into the spring and summer, we're looking through some of those periods, you look at July. Look, the periods that really have been nominal COVID. We see the exact same thing happening is the dining room -- you don't have to throttle as much. So dining capacity comes back online, the demand is there. You can meet that demand more aggressively and those dining rooms are the channel. That's the engine that drives the entire machine here. So you really see the positive results coming from those kinds of environments. So it's very encouraging, and it's something we have a lot of confidence in going forward.

Operator

Our next question today is coming from Brian Vaccaro at Raymond James.

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

I just had a couple of questions on the quarter itself. Just some clarifications. On the labor side, Joe, on the last call, you provided some good detail on what you view as sort of transitory costs in that labor line. I think it was over 100 basis points, just to make sure we understand what's in your labor line from that perspective. Could you give a little bit of more color on those components over time, training, et cetera?

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

Yes. And again, as I mentioned in our ability to improve within -- specifically within labor, those are 2 areas that continue to be elevated. I think you're looking at the opportunity probably to be in that 75 basis point range between the 2 of them without having to get overly aggressive. And that's just normalizing back to levels of typical training and levels of OT. Again, turnover rates are coming down, so you would expect over time that that's going to help on the training side of the equation. But it is still important that we lean into making sure that we have the muscle memory and the capabilities in the restaurant. So we're not going to be bashful about training and particularly to the effectiveness of our system.

So I think that will, over time, dissipate. And I think, again, having more team members coming back into the system and having availability across all the different dayparts and shifts will improve over time. So they're still there. They're still negatively impacting more than we'd like to see. But we have pretty good line of sight to how to work those off over time.

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

All right. That's helpful. And just looking at that labor line and if we look at it on a cost per week basis. And think we're up 4% on our math, maybe versus a pre-COVID trend and thinking about high single-digit wage inflation, it would seem that hours per store might be down 4% to 5%. Is that generally in the ballpark? And if so, do you think that's sustainable? Or could you frame where you think where current staffing levels currently are versus some target that you might have in mind for a post-COVID environment?

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

Brian, it's Mika. Part of that element was even though wages were elevated with all the staffing issues we had throughout the quarter, sometimes you were probably more understaffed than you wanted to be. So that dynamic is what's making it look lower. But it will all kind of normalize over time and then we'll start work productivity. We'll stabilize and we'll work out the overtime training numbers back out. So there's a lot of moving pieces in labor.

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

Yes, but it is the dynamic, Brian, that we've seen -- we've experienced and we've seen a lot of our competitors where the P&Ls look pretty good because they're not fully -- you're not running fully staffed, full operating restaurants. And all of that margin stuff is good, but there's nothing better than a restaurant running at full capacity, full volume and doing it with the sales. And that's -- so I know it's hard sometimes to see the line of sight because it gets a little blurry because of these constraints, which are unique to this environment. We have never dealt with this in my decades in the industry where you're throttling restaurants. I mean you've always held the door a little bit, but never where you're seating half your dining room or you're shutting off your to-go system because you don't have the people. And the -- again, the good news is those are becoming less and less of an issue as we get fully staffed and trained.

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

All right. That's helpful color. One more for me. Just on G&A, Joe, it was quite a bit lower than we would have expected here in the second quarter. Just color on the underlying dynamics there? Is that timing? Or has there been a change to your annual guidance, I think you were looking for up $8 million to $12 million year-on-year. Is that still an expectation? Or has there been a change there?

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

No, I think we're still running in that ballpark. We're investing in the G&A side where we need to from an IT perspective. Obviously, the percentage has leverageability in it, and we saw a little bit of that this last quarter. I think overall incentive comp is probably down a little bit relative to where it was in prior year. It's a lot of mix and matches. We're being very diligent. And I think one of the things that comes with waves is you get less travel, less meetings, all those kinds of things that flow into that G&A side of the equation. But I think that growth in G&A is still in line, probably towards the lower end of it.

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

Okay. All right. And sorry, one last one. In that other revenue line, that franchise and other revenue line in this current quarter, I noticed that jumps up pretty meaningfully. I just wanted to could you provide color on how much of that was related to the higher Maggiano banquet fees? Or was there any impact of gift card breakage or some other onetime dynamic we should be aware of?

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

It really was across a number of different areas. And you hit on several like the banquet revenue does flow into there. So as we talk about banquet revenues coming back, gift card revenues also up. But all the things that you would expect to see as dining rooms are open tabletop revenue. The franchise revenue itself, as you've seen, particularly the international franchise. Markets improve and put more sales on. So it was across a number of those areas. And the only very few negative numbers flowing through that piece of the equation.

Operator

Our next question today is coming from Nicole Miller at Piper Sandler.

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

Can you please share with us the average weekly sales for October, November and December? And then validate, I look back in the model, and it looks like January in the current quarter would be a lesser average weekly sales compared to Feb and March. And so to the degree you're off in average weekly sales in January, you have a whole lot of sales opportunity to make up in February and March. Is that right?

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

Well, again, we don't typically get into the specifics. But yes, again, your average weekly sales are going to get impacted meaningfully in spikes such as you saw. So we would intend, one, February and March tend to be higher volume months than January anyways in a normalized environment on an average weekly side of the equation. And I would expect not only bounce back from COVID, but to see that continue to play out as we kind of go forward.

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

All right. Can you talk a little bit about the fleet from a suburban versus urban footprint? Like what percent is suburban, what percent is urban? And how did those areas compare to one another from a Chili's perspective?

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

Yes. We have very nominal, what I would consider urban penetration. It is -- you have some Maggiano's that sit within more urban environments, more downtown environments. And again, Maggiano's has had a nice quarter. The Chili's really is a suburban, exurban smaller market footprint. So again, when we think about the new initiatives, we may be looking to try and penetrate some of those markets. But generally speaking, very little that I would consider to be true urban.

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

Yes. Nicole, I think if you're looking for some kind of regionality play for us, it's what we've talked about in the past. I mean, it really is more COVID driven so where is COVID having a bigger impact. So the Midwest is more heavily impacted and California is a little more heavily impacted. And those are really the variations you're seeing in the business are much more COVID driven and those are areas that are more impacted. Now there are individual markets in all of every state that may have a restaurant that's in a trade area that's maybe having staffing challenges or COVID spike. But overall, that's the big story there. Then the good news, again, is getting better across the board.

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

Yes. Let me clarify, that's a really good point. I think that's helpful. I was also thinking like high-level tech curbside systems. Maybe help us understand like where are you in a mall, where are you freestanding? I'm not sure if that's the right application, but where are you going to get your bang for your buck essentially on some of the investments you're making on that side. Does that even matter? Does the format matter, I guess?

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

Well, it does. That's a good point. But again, I think to Joe's point, the 2 technology systems we'll just use, the 2 we talked about today, the handheld server model, obviously, that works everywhere. And then our to-go system works in 90 -- I'd say 99% of Chili's. I was in a restaurant in Miami that happened to be in a mall. And it's not as easy in a mall parking lot because you don't have the dedicated spaces and some of the technology doesn't work as easily, but that's a rare, rare instance. Most of our restaurants are freestanding. They have the structure and the curbside takeout system works perfectly well in all of them.

Operator

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

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

I wanted to ask on the unit growth side. We noticed that the company-owned unit guide, was it now on a gross opens basis is now at 4%. So I just wanted to get a sense of maybe what's driving that? Is it timing related? And maybe some of those development plans just get pushed out into the first part of next year? Just any color on that development cycle would be great.

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

Yes, Jared, really excited about what the development team is doing. The developing pipeline that's now moved well north of 20 units. There is some timing -- when you look at that chart, the fiscal year timing deal, we've seen a few that were right at the end of fiscal year slip into the next fiscal year. Construction is taking a little bit longer in some respects. We're seeing some impact there. Nothing material or something that gives me any pause. But I'm expecting '23 numbers to be very exciting. I think we'll be definitely over 20 units in the fiscal year, but continuing to maintain. I'm more focused on maintaining a pipeline as we kind of move forward that is in that mid-20s, and they're delivering exactly along that line.

I'm also real excited about what we're seeing as we do open these new restaurants. Not a huge numbers so far this year, but the ones that are coming online with the prototype are pretty exciting to see what can happen there. And again, they also have the ability now to more -- to incorporate more fully the technological advantages we're moving in, particularly the curbside to-go side of the equation. And really trying to make a few little adjustments here and there to more fully accommodate that what is now going to be that mid-30s percent of the business going at the side door. So a lot of great things and again, the development team and the design teams and all the work that goes into that are doing a great job in starting to deliver what's going to be a good growth pipeline.

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

That's really helpful. And then just one kind of quick follow-up on that. You talked a little bit earlier about some of these newer concepts, so that's your New York City location or some of these college campus tests that you're running. In the development plans, I mean, is there something we should be thinking about in terms of average weekly sales like a Delta there versus as those units maybe sort of come into the fold and how those would play versus the base business that they're coming in against?

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

Yes. What we've talked about so far from a pipeline standpoint really is the traditional corporate owned Chili's. So again, we haven't updated as we understand more of these opportunities, then we'll get to that kind of information. But everything right now is based on current prototype Chili's openings. And we'll test these other ones to be able to give you that type of perspective.

Operator

Our next question today is coming from Chris Carril at RBC Capital Markets.

Christopher Emilio Carril - *RBC Capital Markets, Research Division - Analyst*

Wyman, you noted the consumer trading up during the pandemic. And just following up on this from a value perspective. Can you share any further thoughts on guest utilization of your platforms like 3 for $10.99 and the meal for 2. And to what extent do you see any potential for incremental pricing actions on those platforms specifically?

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

Chris, well, first with the first part, I mean, again, it has been interesting to just watch the dynamics in casual dining and throughout the industry, both in fast food, and we study it all. And I've been intrigued as to why. And I think sometimes with so much -- when somebody is paying for your meal and with so much government support out there, I think you tend to maybe buy up when it's not your dollars as much. And so I think we've seen a consumer that had a lot of cash and has decided that maybe they treat themselves a little more. And so they bought up in the category, and it's going to be interesting to see what happens as some of this moves out of the system a little bit. And our expectation is that we'll see some of this shift back into concepts that have a little lower check average and maybe a better value proposition like ours. And that's -- so we think that's upside going forward.

That said, throughout this whole pandemic and again, I've said it a couple of times, but I'm really proud of what the team has done to grow traffic through this time period better than the category. So with that, we know pricing puts pressure on traffic. We've been really strong with our traffic. So yes, we probably have some additional pricing power, if you will, in the menu. We're going to -- we can be very cautious about how we take pricing actions as we move forward. We have priced our value platforms this year, and so we're watching them closely. The mix, to your point, is holding solid. We haven't seen a lot of shifting there. And so we're still kind of -- and the guests comments and ratings on those platforms has held solid. And so we continue to lean into those. But we're also looking at new ways to position our brands, specifically Chili's on value, but also Maggiano's, both channel-specific, daypart specific. We're always looking at alternative ways to give the consumer a great value but also maybe pass little price along with that.

Christopher Emilio Carril - *RBC Capital Markets, Research Division - Analyst*

Great. And then I guess just following up on labor. I think, Joe, you noted turnover rates are coming down. But curious if you could expand on just turnover levels a bit more, particularly in the first few months following hiring. How does that turnover rate today compared to more recent levels and perhaps pre-COVID levels?

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

Yes. So it's been a journey, right? So pre-COVID levels from an hourly perspective spiked dramatically into the spring and summer with everything you're aware of they've come down fairly dramatically, not back to pre-COVID levels. We've seen this higher level of turnover, both in hourly and manager early on in the process, and that's why we talked about our new training platform where we trained virtually. With this increase in turnover, it put a lot of pressure on the managers to train a lot more new team members. And so we're taking some of that off of them. And what we've seen with turnover is if they're trained well and they're onboarded, if you will, into the brand well then they stay longer and they are actually stickier and they get through that first 30, 60 days.

And so we're really focused on that retention, both -- with both groups. And that's why at the hourly level, it's about training. And at the management level, it's about engaging them in other activities like our Women Take The Lead program that gets them kind of bought into the brand and understanding what's great about this company, which if they stick around for a couple of months, they get it, and we have a much better tenure experience with our team members. So I hope that helps.

Operator

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

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

A couple, if I may. First, on the handhelds, are they being used at 100% of the stores, 100% of the time? I know you mentioned that, I think you mentioned the weight stop was getting tips up 15% to 20%, there's increased customer satisfaction, but I just wanted to get an understanding of the current usage across the system. And are you realizing or could you realize any margin benefit from that system going forward, not just satisfaction?

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

Yes. John, so yes, the system after years of getting the technology right and actually having to rebuild it and using our technology expertise to make sure it's 100% dependable and high volumes, it's rolled out nationally, and every restaurant has it, every Chili's has it. And is now going through what I will call the learning curve, just getting used to how to run a different model where your servers stay out on the floor and you've got a runner component and the technology is communicating back and forth, but it's out, it's running, and we're just getting proficient at it, I'll say.

Now we've had it in some restaurants for years, but that was 10% or less of the system, and now it's 100% of the system. There is some efficiency with it with that investment in capital and the level of efficiency and the payback is really kind of linked to the cost of those hourly team members. So in California, where you're paying a much higher wage rate, it's a significant number. And in some other places, it's not as much, but it's just a better program. And again, one thing we know is when our team members are making more money, which we focus on that extensively, they stay longer. So tying back to the other question, retention goes up when server earnings go up and both of those things are happening.

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

Okay. All right. And so I guess, to some extent, you answered the question. So getting proficient with it means, in some cases, that system is being used in some cases, the legacy system is being used in terms of taking orders? Or where would you kind of put us on the time line?

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

Yes, I think, again, you've got -- we have servers that have been working for us. I actually went and recognized a server that's been working for Chili's for 40 years. So there's some muscle memory with how she takes her orders, right? And we've given her a new piece of technology. And so yes, they're just getting them up the curve and getting them trained on how the pad works and not going back to the POS terminal like they've done for -- in some places, decades. Yes, you just got to get that muscle memory locked in. You got to get them to rely on runners and the technology to have the food come out, so they stay on the floor. That's just a couple of things, but it isn't -- it's critically important for us to get the system. We have great metrics by server, by runner as to how they're using the system. So we know what usage rate each server has. And so we're -- the operators are all over this. And we're very excited about how quickly they've gotten to where they are today, and we don't think it's going to be much longer than we'll be kind of pretty much fully up to speed.

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

Okay. And the second question is on delivery. Could you talk about what that is as a percentage of sales this year versus last year, maybe growth or decline this year versus last year? And whether you think you're potentially reaching all addressable business based on your current relationships and if that might change?

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

John, I don't have the numbers in front of me. I mean what we know is -- Mika might have, but what we know is when the -- when we get these COVID spikes, we see people shift from the dining room to take out and delivery. And so in the second quarter, we saw some of that occur again. But it is still very strong. And our numbers on off-premise, both takeout and delivery, as I mentioned in my comments, we're still in the solid 30% range, even as we moved into December. So we're happy with kind of our position, if you will, in takeout and delivery. But we do see opportunities to expand kind of where we are, and we've already talked about the fact that we're no longer exclusive. We're going to be exclusive to just 1 third-party distributor. And so we're expanding channels and that's going to be, I think, another growth vehicle for us.

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

Yes. And John, delivery continues to be in that mid-teens. So again, some good stability there. And I would anticipate it kind of staying in that 15%, 16% as we kind of move forward.

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

Yes. Most of the shift back into the dining room will probably come from takeout because those are the guests that are more familiar with the location and don't have the delivery piece. And at Maggiano's, the delivery piece has grown dramatically. It continues to be a real strong driver for them.

Operator

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

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

I'll just ask 1 question. It's on virtual brands. I was wondering how incremental the carryout channel has been to these concepts? And maybe if you could touch on the overall concept comp growth from these brands, whether they're comping above the system or generally holding a constant mix of sales?

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

With regard to the incrementality of the brands, I'm sorry, I'm just want to ...

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

The virtual brand.

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

The virtual brands incremental to the overall. Yes, it's very highly incremental. So we know the virtual brands are significantly incremental to our sales story and again, offer some really unique opportunities to explore some of these ideas that Joe was talking about with urban and kind of smaller take-out delivery-centric prototypes. And then year-over-year, we're going to -- we're rolling out Maggiano's. There's no over year there. We're very happy with where we're at with It's Just Wings. The business continues to be strong, and we'll keep you posted as we kind of get to the next level. Once we get the Classics rolled out, and we start to expand some channels of distribution, kind of where we see this business moving.

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

Yes, and they're maintaining a pretty consistent percent mix of total sales, similar to what we've talked about in the past. Again, the whole concept of throttling, when you throttle a restaurant, which typically includes throttling your off-premise system too, impacts not only the base brand, but also impacts virtual brands. So again, getting out of that throttling environment is important across all of the brands. So -- but again, very, very positive and encouraged on what these brands are going to contribute as we continue to move forward.

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

Has the carryout channel been incremental? Or is it still too early to talk about that driver?

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

It's incremental. It's just small still. We're still building it, trying to build that awareness levels. And again, the bulk of the business is still delivery. And so we continue to try and drive awareness of takeout, but the bulk of the business is still delivery.

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

All right. Well, I think we ran out of time everyone, but I appreciate your questions and look forward to reconnecting with everyone after our third quarter.

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

Great. Thank you, everybody.

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

Bye-bye.

Operator

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