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EAT.N - Q1 2021 Brinker International Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2020 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Alexander Russell Slagle *Jefferies LLC, Research Division - Equity Analyst*

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

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

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

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

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

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

Eric Andrew Gonzalez *KeyBanc Capital Markets Inc., Research Division - Restaurants Analyst*

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

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

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

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

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

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Q1 F '21 Earnings Call. (Operator Instructions) It is now my pleasure to turn the floor over to your host, Mika Ware. Ma'am, the floor is yours.

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

Thank you, Kate, and good morning, everyone. With me on today's call are Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, Chief Financial Officer.

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

Thanks, Mika, and thanks, everyone, for joining us this morning to review our first quarter performance and share highlights what we see for the future of our business. Looking broadly at the quarter, we're encouraged by the continued improvement in the environment, the consumers increasing engagement with the category, and we hope to see those trends continue. We know there are still challenges out there, especially with independents, yet Brinker continues its strong recovery, posting a better-than-expected first quarter and delivering earnings of $0.28 a share.

Both brands increased their progression from last quarter with Chili's reporting comp sales of negative 7.2% and Maggiano's negative 38.6%. And both brands delivered solid sequential improvement throughout the quarter, with Chili's ending September down just 1.4% and Maggiano's down 32.5%.

Plus casual is obviously a more challenged segment that's facing greater headwinds, but the Maggiano's team is doing a great job managing their cost structure and flow through. We feel good about where Maggiano's is from a relative perspective, and we're excited about the bold strategy Steve Provost and the team are putting in place to build the business.

The Chili's brand continues to exceed expectations from both a relative and an absolute perspective. The month of September marked our return to positive traffic, and that's pretty impressive given there are still major states like California and New Jersey, not yet near full dining room capacity. This brand continued its nearly 3-year streak of outperforming other casual dining chains in KNAPP-TRACK, driving a 16-point gap in sales and 23 points in traffic this quarter.

When we broaden our view of the category to include independents, our GAAP widened significantly. Current credit card data shows a whole category down 30%, which reflects the ongoing impact of this pandemic and the reality of what is likely to be a meaningful shift in the competitive landscape. In this tough environment, I couldn't be prouder of the resilience and agility of our operations team. For the quarter, they improved restaurant operating margin 60 basis points year-over-year.

When the pandemic hit back in March, the market drove us all to dramatically cut costs. Since then, we've judiciously evaluated every cost within our P&L, and we've been diligent about reestablishing our media -- our spending levels. In many cases, we're comfortable maintaining a level of spend below pre-pandemic levels. One of the biggest changes we made was to rethink our marketing spend. We significantly reduced traditional television advertising so we could invest more aggressively in digital and direct channels that work harder for us, like My Chili's Rewards.

And with the increased desire for convenience, we're shifting to support all our brands more aggressively with delivery resulting in higher third-party delivery fees and promotional expenses. Based on where we're tracking with sales and the efficiency of our P&L, we feel really good about these decisions. Our top priority has been and remains the safety of our team members and guests. We're committed to supporting our team that's working so hard to take care of our guests. We've now brought back most of our hourly team members, and we've been able to help them maintain their hourly wage levels. We've also kept our management structure intact. We know how critical their leadership is to our guests and our business and we're proud that we've been able to bonus our managers close to target.

Nobody could have predicted this pandemic back in the spring, and we're thankful we didn't have to change strategies when it hit. Instead, we leaned into the same strategies that have been helping us take share for the last 3 years, and they've been even more effective since the pandemic. But even before that, our challenge was to prove to ourselves and to you that we could create a growth model out of a legacy business in a category that's seen meaningful declines in traffic over the years.

We have always believed growth is available in this category if you do the right things. By delivering a better guest experience, a strong value proposition and more effective marketing, we unlocked sustainable organic growth within our base business. And our results demonstrate we're doing the right things. Our improvements to the base enables us to introduce our first virtual brand, It's Just Wings, an incremental growth vehicle that offers convenience and value in a way no one else is positioned to do.

Now there's been a lot of discussion about what a virtual brand is. It's Just Wings is not a disposable vehicle. We're committed to this brand for the long haul. There are barriers to entry in doing virtual brands well, and Brinker is uniquely positioned to do it right. We have the scale, the asset ownership, available capacity in our well-equipped kitchens, the right technology and unbelievably strong operators who can focus and deliver consistently.

When we rolled out It's Just Wings overnight to more than 1,000 restaurants. Now that's easy to say, but tremendously hard to do. So I know everyone is curious about how it's going so far. We're excited with how the brand is already performing, and we're well on track to meet our first year target of more than $150 million in sales. We're encouraged by what DoorDash sees with regard to consumer data. The brand is already generating high satisfaction scores and strong repeat usage. It's really resonating with consumers, which we know is critical to the health and long-term success of any brand.

Going forward, our focus is to ensure we're executing at the highest level possible, and we're maximizing the brand's growth potential. It's Just Wings started as a virtual brand, but as we wire in execution and accelerate growth, it may take different trajectories. We're evaluating internal and external opportunities to increase awareness levels and expand access to consumers. This is just phase I for It's Just Wings. We also believe we have capacity to expand our virtual brand portfolio. We're testing a few ideas to better understand consumer demand and ensure that we can execute at a high level. We'll have more to say on that in the not-too-distant future. Obviously, we see a lot of upside for virtual brands.

Listen, with the uncertainty surrounding COVID and the economy, we anticipate some volatility ahead. Like the rest of our country and the world, we are hoping and planning for a vaccine and an end to the sickness and deaths from this virus. We are hoping and planning for economic stability and continued recovery in the post-election environment.

But despite the things no one can know, here's what we do know. We will keep running our own race and working our strategy. We will stay flexible and agile, and we'll take care of each other and our guests. We will continue to manage our P&L and our balance sheet with discipline to create an even more stable model for our shareholders. And we will boldly grow these brands so we can continue to be a great place for our team members to work and our shareholders to invest.

And with that, I'll turn it over to Joe. Joe?

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

Thanks, Wyman, and good morning, everyone. As you just heard, we begin our fiscal year 2021 with momentum on the top and bottom line. We continued our recovery by delivering adjusted diluted EPS of positive $0.28, marking our return to profitability after just a 1 quarter hiatus. Now for the quarter, Brinker's total revenues were $740 million and consolidated reported net comp sales were negative 10.9%. Importantly, comp sales materially improved as the quarter progressed, with September consolidated comp sales down only 5.2%. Chili's has continued to lead the casual dining sector, ranking as the #1 brand in the KNAPP-TRACK index each month in the quarter.

And as Wyman indicated, beat by significant margins in both sales and traffic. In September, Chili's achieved another important milestone in its recovery, posting positive traffic for the brand of 2.2%. Another way to see Chili's impressive progression is to look at our net comp sales results, excluding those restaurants and markets not fully open for indoor dining during the quarter, such as California and New Jersey. These restaurants represent approximately 86% of the Chili's system, and they were only negative 1.3% for the quarter and positive 3.6% for September.

Now turning to margins. Restaurant operating margin for the first quarter was 11.6%, a noteworthy 60 basis points improvement versus prior year. Food and beverage expenses were favorable 10 basis points versus prior year due to the favorable menu mix, offset by low level of commodity inflation. Labor was favorable 120 basis points versus prior year. Now several items contributed to this improved performance.

First, labor expense relative to prior year benefited from the shift in sales from dine-in to off-premise in the quarter. Second, favorability was also buoyed by the fact some of our higher labor cost states reopened at a slower pace during the recovery, a benefit that will diminish as we move forward. Of course, naturally, we'll take the sales that go with adding that labor back into the equation. And finally, labor expense benefited from the ability to seamlessly integrate our It's Just Wings brand into the existing labor model, a point of leverage we plan to sustain. The labor favorability was partially offset by the increase in restaurant expenses, which was up 70 basis points for the first quarter versus prior year. Sales to leverage, higher delivery related fees and packaging expense were the primary increases, while lower advertising and repairs and maintenance expenses helped mitigate the overall increase.

Generating positive cash flow is an important part of our recovery process. With the business improving, we generated operating cash flow of $83 million. After capital expenditures of approximately $14 million, our free cash flow for the quarter totaled more than $69 million. Our first priority for cash generation is to invest back in the business. And as such, we have resumed both restaurant reimages and new restaurant development. We have increased our CapEx budget for the year and now expect to spend approximately $100 million during this fiscal year.

As Wyman reiterated, strengthening the balance sheet is also a key area of focus. As such, our second cash priority is to pay down debt, and we executed against this strategy during the quarter, reducing our long-term debt by approximately $50 million. We will continue to lower leverage as we move forward from here targeting an adjusted debt level of 3.5x EBITDAR.

Now turning to our current second quarter. Let me provide some color as to our expectations for the quarter and then some specific guidance metrics for the quarter. Today marks the end of our October period, and it appears we will continue the positive progression of comp sales established during the first quarter. We expect Chili's to further build its positive traffic performance this period, getting the second quarter off to a very fine start. While we anticipate year-over-year improvements in Chile's operating performance in the second quarter, our consolidated performance will likely reflect a more difficult holiday environment for the Maggiano's brand.

With that being said, let me provide some specifics for Brinker's performance in the second quarter. We expect consolidated comp store sales to be down in the mid single-digit range. We believe Brinker's restaurant operating margins will be relatively similar to prior year. Adjusted earnings per diluted share are estimated to be in the range of $0.40 to $0.60 and weighted average diluted shares are estimated to be in the 45 million to 46 million share range. I would also note we have a holiday flip in the second quarter with Christmas Eve and Christmas Day moving into the third quarter. This holiday shift will have a positive impact to second quarter comp sales that will be offset in the first period of Q3.

Despite the ongoing challenges in our operating environment, we continue to demonstrate strength and resilience. Our first quarter performance is a testament to our ability to deliver results. While operating in a pandemic environment comes with some uncertainties, there is no doubt we will continue to execute our share gaining strategy, take care of our guests and team members and be a leader in the restaurant industry for the short and long term.

And with that, let's move to your questions. Kate, I'll turn the call over to you to moderate.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today is coming from Chris O'Cull.

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

Stifel. Wyman, you mentioned the opportunity for additional virtual brands. One question is, how many virtual concepts do you think a typical Chili's restaurant could support? And what are the limiting factors for that?

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

It's a great question, Chris. It's not so much about how many, it's how much volume. And so ideally, you'd like as few as possible that do large volume, right? So we think It's Just Wings, is nowhere near its -- the end of its potential growth. And so we'll continue to grow that brand from what we're saying now is at least a $150 million brand to some higher level. And the constraint is really -- it's your kitchen capacity. I think there are certain limitations that just come with the current setup that you then would have to start to modify.

It's not a large number. It's not -- we're not talking in the -- this is a single-digit, low single digit affair. Whether it's 1, 2 or 3. Just kind of depends on how it plays itself out and kind of how we work it. There's also the opportunity when you have many points of distribution, which really the virtual brand game is about points of distribution, and you're as penetrated as we are in a lot of markets, you don't necessarily have to put every brand in every distribution point. Not every kitchen has to carry every to still get you coverage for those guests that are looking for a delivery option.

So there's a couple of variables that we're continuing to learn and test as we build it out. But it's not -- it's a relatively small number. I mean it's all about sales growth. The good news is we know in our restaurants, we have $5 million Chili's that do that kind of volume, even though our average is 3%. So we know we have a lot of capacity to put more food out of that kitchen than our average. And that's what we're -- and so we're optimistic that we've got plenty of room to grow the virtual brand business because of that.

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

That's helpful. And then just 1 other question. Joe, could you break down how much of the margin improvement at the restaurant level was driven by the incremental flow-through of the It's Just Wings business versus fundamental changes that have been made in restaurants?

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

Yes. It was definitely additive to the equation, growing that top line and virtual brands is an example of how we're going to do that, but also growing the top line as we bring dining rooms more fully backline is important piece of that equation. It was in the 40 basis points range, when you look at it from an all-in standpoint, Chris.

Operator

Our next question today is coming from Andrew Strelzik.

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

BMO. My questions are on the margins. You talked about 2Q being kind of in line with a year ago. And you mentioned labor and advertising as benefits that will dissipate over time. So when you think about going from up year-over-year to kind of flattish, what are the dynamics at play in 2Q that we should be aware of specifically to that quarter? And then more broadly, when we're looking at comps being down and margins in line to better than a year ago, I mean, how are you thinking about whether it's back at 100% capacity, plus It's Just Wings or however you want to frame? And how are you thinking about how much better margins could ultimately be in this business kind of in a post COVID environment?

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

Yes. So Andrew, I think the -- when you start thinking about the delta as Q1 to Q2, I mean the unique difference basically is going to be driven off of the Maggiano's side of the equation. Obviously, Maggiano's historically has always had an extremely strong second quarter, but a lot around the banquet special events and celebratory nature of the holidays. And our anticipation right now is you want to see that same similar environment playing out.

So while it typically has an oversized contribution to the consolidated equation in the second quarter, you're going to see a little bit more of a headwind to that coming out of the Maggiano's side. I anticipate as we look at the Chili's brand to continue to see actually growth in the margins from that piece of the business. But it's just a relative contribution out of Maggiano's that you would typically get in the second quarter. I think of that as a very second quarter-specific kind of thought process.

And then far as sustaining on a long-term basis, again, I think we go back again to growing that top line. So I think, as I mentioned within the labor discussion, when you look at the virtual brands and their ability to impact margins, it's very leverageable. I mean, again, we have brought It's Just Wings into the equation with very, very little change to the labor model within the restaurants.

Obviously, as you bring incremental growth to the equation, either through It's Just Wings or an additional virtual brand to continue to look at that model. But generally speaking, you're going to get high leverageability coming out of that piece of equation. And then again, dining rooms are still coming back online, and you will get further leverageability as we grow that base piece of the business, too, which is a very important part of the equation.

I know we focus a lot on virtual brands. But the sequential improvement we've seen in the dining rooms, as they've come back on over the quarter is just, if not more, important to the equation. So again, there are pieces of the business from a modeling -- from a margin standpoint that we're very comfortable. We've improved, and that's improving off of a fairly efficient model that already existed. We weren't looking at a lot of low-hanging fruit from a margin efficiency standpoint. But we've been able to find some. And then Wyman, again, talked about some of the changes we're making and how we think about business drivers, such as media and delivery platforms and things of that nature.

Operator

Our next question today is coming from David Palmer.

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

Evercore ISI. You -- Joe, you mentioned that the restaurant margins would be about flat. I think you said year-over-year in the fiscal second quarter, how much of a drag is Maggiano's projected to be in that quarter? And how much might that be a greater drag from the first quarter? And I have a follow-up.

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

Yes. Again, without getting into the brand level specifics, it's probably -- again, if I look at where I expect Chili's to go, I would see further improvement in the margins on their side of the equation. So that improvement is going to be somewhat offset. It's going to be mainly offset by the Maggiano's drag. This is a very outsized earnings quarter for that Maggiano's piece of the equation. Again, that's specific to the second quarter. So as we move further into the year, that tends to mitigate itself. So I'm greatly pleased to see where we continue to drive the Chili's business, and that's a sustainability of where I would expect to see margins go in a longer period of time.

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

And then just a follow-up on to-go and delivery. Looking longer term, this is -- seems to be something of an area of upside for you. Are there clues about the most reopened markets where you've had a chance to have that on-premise business mature up? And does that provide a clue to you that you could share with us about how sticky at a higher level this to-go and delivery business can be? Any statistics there would be very helpful.

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

Yes. Well, David, it's interesting, right? So you got to kind of start with what we know about consumers, right? And there's still a large group of consumers who are not going out to restaurants, right? So depending on whatever survey you look at, it's 30% or more of the population, it's just not going to go out. They'll do dine-in or they'll do takeout, but not go out. So what we do know is in restaurants that are seeing volumes get back to pre-pandemic levels. So -- we are in the dining room. So we are -- even with that headwind, we have restaurants that are getting close to 80%, 90% of their pre-pandemic sales level in the dining room, and we're seeing very solid 30% mix in -- 35% -- 30%, 35% mix of takeout and delivery.

So it looks right now to be fairly sticky. Again, I think post pandemic and a vaccine, what that percent of the population then says, "Oh, okay, now I'll go back into restaurants," what that does to the mix, but we feel very optimistic or very comfortable that the convenience experience by the broad market now isn't going to revert back to where it was pre-pandemic. We're going to see significantly higher takeout and delivery. And that's without virtual brands. So obviously, as we show the virtual brands in the mix, that adds to that mix. So that's kind of how we're looking at it.

Operator

Our next question today is coming from Greg Francfort.

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

It's Bank of America. I had 2 questions. The first was just a math question on the second quarter. And when I look or plug down mid-single-digit comp in the margin guidance in my model, I'm getting higher EPS than the guidance. And I'm just curious if there's something on D&A or G&A that I'm missing or if I'm just off on some thing? And then the second question I had was for Wyman.

And you made a comment -- or you made a comment in the prepared remarks about what It's Just Wings could evolve to over time? And it seems like there's a few options for that. But I'm curious how you're thinking about what those options are. Is that stand-alone concepts that pushing harder into third-party, ghost kitchens? Just what you meant by that comment.

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

And again, without getting into too detailed of a modeling discussion on this call, it could be a matter of the -- again, the Maggiano's outsized drag in the second quarter relative to how you're thinking about the model. There is going to be a little bit of -- G&A was slightly beneficial in the second -- excuse me, in the first quarter compared to prior year. So that normalizes a little bit more in the second quarter relative to last year's second quarter.

So not quite as big a benefit there. You probably had about a $2 million oversized benefit in the first quarter, which really relates to the treatment of incentive-based compensation this year versus last year. So that normalizes a little bit in that regard. So you may want to make some adjustments there. But I'm going to make the assumption that it's probably the relative treatment of Maggiano's.

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

Got it. Greg, without -- again, we're not going to share a lot of our future growth ideas on the call just from a competitive standpoint. But suffice it to say, we're excited about the potential to do other things with this brand. It's a very strong brand. It's getting great consumer acceptance and appeal, our partnership and our learning with our partners at DoorDash on how to position it, how to market it more effectively. The team that's working on it is excited about other ways to put this product out to a broader consumer base. And so we're looking at several ideas that we think could significantly grow off of the base we've talked about.

And as we kind of execute and test those, we'll share those results.

Operator

Our next question today is coming from Nicole Miller.

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

Piper Sandler. The first question is probably pretty understandable why you're comfortable with less marketing, but I want to understand the change in message of tone. And are you comfortable with less discounting? And is that something that you think you could carry forward?

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

Nicole, again, a great question. We are, because we have such strong built-in value propositions in the menu. I mean when you look at value scores across the category, Chili's has some of the highest, if not the highest in casual dining. So our value is built in every day, and it's been out there long enough, that's got really strong awareness levels. We will continue to incent through direct and digital. So it's not like we're not -- but we're not going to do limited time promotions in the historic sense, right?

That's just not -- first, we don't see their effectiveness. I mean it really is about effectiveness, not like we have any -- we're just trying to grow the business the best way possible. And as we evaluate our effectiveness with those and really the competitions, we just don't see them being that effective. And so we're moving to what we think and what we can measure much more effective marketing channels. And the team has done a great job building our database. The operators have done a great job executing against more direct vehicles as consumers and our guests come in. So we're very comfortable that, that's how we can continue to -- if we need to incent folks to come in above and beyond what's out there on the basement.

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

Okay. And then just a last question on It's Just Wings. Clearly, nothing but incremental in terms of sales and margins. But as soon as you talked about that, however many months ago it was, my e-mail has been flooded out every single day with the concept doing the same thing. So how do you ensure that your marketplace partners doesn't only lend the same support to your peers and especially given the data that they do have, not that they would use your data and you by name specifically, but nonetheless, they have the data.

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

We have a great relationship with DoorDash. It's -- any partnership is built on trust. We trust them to do the right thing. We know they're treating us -- they're treating their other customers' confidentially with us. And so we assume that's the same way they run their business. I have absolutely no concerns about that there. Tony is -- he is a very, has a [coke eye]. So we have no concerns that they're doing their business the right way. And we're partnering with them to grow the business in a very transparent way, but how do we partner better to market through their site to be more effective to get the brand's awareness levels up.

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

And Nicole the other...

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

So no concerns on that, I think, and I don't even want that out there, but you're just -- you're basically okay if they help other people do the exact same thing. I mean I guess you're just saying there's enough room in this category and there's enough capacity in restaurants to do this. Is that the point?

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

Well, again, I don't think that's unusual to any channel at all in the industry. There's going to be competitive forces at play regardless if it's on-premise or off-premise. I think the fact that we can do it at such a large-scale national footprint is definitely the differentiating factor there as opposed to a brand you might get an e-mail on that's doing it in a small regional setup. So yes, that's a big difference, Nicole.

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

And if I misunderstood Nicole, I think the scale matters. I mean it's points of distribution. To put out 1,000 restaurants It's Just Wings overnight. That's really what makes this a big idea. And that's unique to us. People just don't have that many restaurant that they own, that they can generate the kind of sales that flows through incrementally and creates the kind of potential profit.

So it is a unique -- and that have kitchens that have some capacity to do this and the capability to pull it off. So it's an easier said than done thing to create a virtual brand and especially to sustain one. So I think some folks are kind of looking at doing virtual almost pop-ups that they'll use to help get them through COVID, but that's not our strategy. This is definitely a long-term growth vehicle and one we see working well for us going forward.

Operator

Our next question today is coming from Jeff Farmer.

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

Gordon Haskett. And 2 questions as well. So just sticking with It's Just Wings. You guys made the point that $3 million in system sales generated in the last week of July. I'm just curious if you can share any information in terms of how that's progressed? Are you seeing any type of growth from that $3 million system sales level in July?

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

Jeff, we're just kind of -- we don't want to get into the nitty gritty, like every week kind of projecting or showing data. We're comfortable with the $150 million plus potential for this brand. It's not a growth potential to get there. We're in those levels now, and we're very comfortable about how it's -- how the brand is performing and our ability to grow from there.

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

Okay. That's helpful. But unfortunately, I have 1 more nitty gritty question for you, which is on -- you did share that Chili's same-store sales, I believe, were down 1.4% exiting the month of September. That's impressive. But in terms of any commentary on October in Chili's, anything you can share with us?

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

Yes. Jeff, I think -- and let me reiterate some of the comments in the -- in my script. Again, we expect -- and Chili's was also positive 2.2% in September in traffic. We expect that to grow and will grow in the month of October. And we're going to continue to see further positive progression off of that September number. I'm not going to give you specific back to positive or anything of that nature, but we're definitely going to be moving closer in that direction as we finish up this period. So it's a positive on both of those traffic and comp sales from a progression standpoint is our expectation.

Operator

Our next question today is coming from Brian Vaccaro.

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

Raymond James. I wanted to just start on Chili's sales trajectory and some of the dynamics there. Wyman, you noted in your prepared remarks, the ongoing industry pressures, especially on the independents. And I'm curious how that's showing up in your performance across markets? Are you seeing outsized gains in smaller markets versus mid to larger-sized markets, where perhaps there's a more meaningful supply reduction?

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

No. Brian, the big difference still with regard to market performance is COVID response. So again, in these markets, California, New Jersey, Wisconsin, where they've more extreme dining room constraints. That's where you're seeing tighter, obviously, less sales. And the share gains, again, looking through the data with the various sources that we can, we see pretty consistent share gains across markets.

So I think the strategies we're using are broad based. They're working across the country, and we're seeing fairly consistent share gains that way. And it really has more to do with again, what's going on in specific states, like California, where we're -- we may not be as aggressive in California with putting out outdoor dining as some folks have. And so we may not be taking as much share in that state as some others that have put out much bigger patios and gone more all-in on an external kind of dining experience.

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

All right. That's helpful. And sorry if I missed it, but what was the off-premise sales mix at Chili's in the quarter? And then could you help frame where you are on effective capacity and perhaps remind us kind of where you are enrolling partitions and other initiatives to maximize your dine-in capacity?

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

Yes, Brian, for the quarter, and again, you saw a progression of this as you move through the quarter. But for the quarter, you were in that upper 40s percent, 47%, 48%. Off-premise, conversely, the low 50s on the dining room side of the equation. Again, that was a, if you remember, we talk kind of a 50-50 mix coming out of the prior quarter. So you tend to see as those dining rooms come back open a shift in that progression.

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

Yes. And capacity -- yes, sorry, go ahead.

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

Yes. So with regard to capacity, we're -- again, it's very hard, Brian. I'm not trying to be vague here. It's just every market is different. Every -- I can't even give you a state number because it's county by county. But in general, there's always going to be the 6-foot with regard to social distancing that we are sticking with. And so that puts -- I'd just say, that keeps you at least at 25% or -- the most you could get was 75%, if you just said, "Hey, we're going to open it up and just do social distancing." And you put the partitions in. We are there. So I'd say we're probably closer to 50%. If I would just give you a number, somewhere around 50%. In high-volume restaurants, we are looking to be a little more aggressive with putting in some plexi to allow us to get a little bit more -- to get more greater utilization of tables. But if we're somewhere in that 50% to 75% range. And again, some markets, a lot less because some markets are mandating 25. So it just -- it really is a market-by-market story.

Operator

Our next question is coming from John Ivankoe.

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

There's obviously some kind of discussion about holiday in general, perhaps being, I guess, a risk for the industry overall as people do have -- whether it's office parties or just family gatherings or friends gatherings, what have you just -- one, whether those are going to happen? And secondly, whether the restaurants that were previously very busy during the month can kind of accommodate -- basically accommodate these people with some of the capacity restrictions that we just talked about.

So how are you thinking about, I guess, implicit in your comp guidance? The Thanksgiving, the Christmas time frame, I guess, is kind of the first point. Do you think there's any kind of risk at Chili's? I mean is Chili's over-indexed with larger table sizes, for example, during that month? And if you could remind us, for Maggiano's for the quarter, what percentage of the December quarter business is banquets and in larger parties as you can measure it?

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

Yes, John, I'll take the first one on Chile and let Joe kind of give you what we can on the Maggiano's mix. It really is not as big an issue for Chili's. Chili's, if you look at our Chili's sales trends over the years, second quarter is a relatively consistent quarter for us. We have some higher days, obviously, and we have a couple of -- we're closed Thanksgiving and Christmas, so those mitigate some of those higher days, but it's nowhere near the seasonal holiday impact that you see at Maggiano's, I mean, obviously, or other brands.

We're not necessarily the celebration destination place. It's where people do come in when they're out shopping. So there is higher -- some higher usage, but it's nowhere near as great as you would see in other brands and including our brand Maggiano's. So we don't see that. We think the way we look at it. And again, we're just speculating like everybody else. But as we look at the data and we see what's going on kind of through this first quarter, we know there's going to be some changing habits. Obviously, there'll be less travel, there'll be less shopping, more online, but we also know they still don't want to cook.

These consumers are not going to want to cook these meals. They're not going to -- they're going to want to have food prepared for them and whether or not they're out and then we deliver it to them or whether they do come in and we think we're going to see similar kind of trends at Chili's, and we have the capacity. Unless something happens with outside our control with the virus, we think we'll have the capacity to kind of deliver kind of trends we're currently seeing.

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

Yes. And John, the 1 other thing I would remind you as it relates to Chili's in the quarter, again, we do, and it goes to both brands. So we do have the benefit of the holiday shift for Christmas, which is a close day for us and the second quarter shifts into the third. So you do have some underlying support too coming out of that piece, it's probably about 1% liftish in that range to the quarter. So just when we get to the reporting of the second quarter, I want to make sure everybody is aware of that. So that will be a benefit.

From a Maggiano's standpoint, the holidays, if you -- I think the best barometer historically is the banquet side of the equation, which typically would make up about 20% of their business during this quarter. That's one, and that's also a nice driver from a margin standpoint. So when I talk about the headwinds that are unique to the second quarter as it relates to margins, that's driving a big piece of that equation. Again, we're contemplating that -- that's built into the perspective we've given you as it relates to the quarter. So we'll see how the environment plays out over the next, yes, 2 months.

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

And just to make a little bit of a joke, Wyman, I think plenty of people could have predicted the pandemic as of the spring. I got a chuckle on that as of the prepared remarks, as I was kind of thinking about April as we were kind of in the middle of everything. But anyway, hopefully, that joke is well received or not, but anyway, it's good to hear you guys, and I'm glad everything is going so well.

Operator

Our next question today is coming from Jeffrey Bernstein.

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

From Barclays. Two questions. First, just on the broader Chili's sales outlook, Wyman, it does seem like consumers want to go back to restaurants. I know you mentioned 30%, have not yet entered. But it does seem like sales should continue to improve as capacity restriction ease further, which seems like the biggest headwind. But if you put increased capacity aside, it does seem like multiple peers have mentioned maybe not assuming any further sales improvement from here prior to a vaccine, especially with the COVID spikes and colder weather and a recession potentially upon us. So just thinking specific to Chili's, whether you anticipate further sales improvement near term? I mean it sounds like the Chili's comp is still modestly negative or whether you do believe you can still see some significant further reacceleration in that trend over the next few months? And then I have a follow-up.

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

Jeff, I think the -- it's a complicated question, right? In terms of -- because you have some major markets like California that is reacting and responding significantly different than let's take a major market like Texas to the same virus. So if California starts to -- is willing and starts to feel like they can then open up their market even in a COVID world, similar to other states, then we'll see growth in Chile's overall sales. We know they are a significant drag to our number right now. Joe mentioned, that if you take that, what is, 14% of the restaurants that aren't open in a COVID world like kind of like the rest of the country.

And we see significant improvement to the numbers we've shared with you. So that's just -- yes, in a COVID world, if everyone kind of can run at open dining rooms at limited capacity, we still have growth potential in a COVID world. And then obviously, the big upside comes when COVID moves away. So -- and that's an interesting -- again, given the 30% of the population saying they're not going to restaurants until there is a vaccine, that tells you there's some pent-up demand out there. Now they're using takeout and delivery, but that tells you our dining rooms have a lot of potential to get very busy once there is a vaccine. Does that help?

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

Got it. And then my follow-up is just -- it was mentioned about independents and the challenges they're facing. Obviously, the pandemic is difficult for all. But things like many are talking about significant independent closures is the silver lining for the large chains allowance for some market share gains. I'm wondering whether you're seeing that yet? I know a couple of industry sources that said, we're just not seeing it to the same magnitude that maybe was expected initially. So just with your 1,000-plus restaurants across the country, so you would have a pretty good gauge on to what magnitude are we really seeing independent store closures at this point?

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

Again, first, we absolutely are sympathetic to the impact that pandemic's having on others in the space. And we aren't tracking independent closures. And based on the previous question, we haven't seen any noticeable correlation to that. Again, the results are all being influenced by so many factors. Guests not willing to go to dining rooms, the response to the communities and the governments in that space and then what's going on competitively.

So very hard to kind of tease that element out. But we know that's going to be there. Obviously, there's going to be some shift in the landscape of restaurants when -- and it's already happening. But I think it's just very hard to tell now because you get consumer behavior that doesn't line up to normal. So once we get that in the mix and the demand starts to replicate what it's historically had, and then you'll get a better sense for what that looks like.

Operator

Our next question today is coming from Alex Slagle.

Alexander Russell Slagle - *Jefferies LLC, Research Division - Equity Analyst*

Jefferies. Good morning. I had a question on the other virtual brand tests you're doing and what these tests look like relative to what you experienced with, It's Just Wings, and what you're doing different and how you evaluate your options here?

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

Yes, Alex. So we don't -- just like we didn't share a whole lot with you of anything about It's Just Wings before we rolled it to 1,000 restaurants, we don't really like to talk about what we're testing for obvious reasons. But we're excited, I'll just tell you that. I don't think -- I think there are other big ideas out there like It's Just Wings. We have to test -- the first 2 things we're testing and evaluating it is demand. Is it a big idea? Can we generate the kind of sales potential that gets us excited, like in It's Just Wings does and then can we execute? And those are the 2 things that I think are critical to the long-term viability of a virtual brand and making it worth the effort. And we think there could be a couple of those ideas out there, and we're aggressively learning.

Alexander Russell Slagle - *Jefferies LLC, Research Division - Equity Analyst*

And then on development, you raised your development outlook slightly. Is this a function of more sites available or better visibility on getting construction resources and activities in motion? And any thoughts on the expected cadence of those openings?

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

Yes. It's a combination of that, Alex. And again, I think it was important to get the process going because development is a longer-term process. So I mean we've already opened 6 new restaurants so far this fiscal year, a couple more to go to round out the year. So the work being done now will actually have a bigger benefit, really, when you think about the second half '22 and into '23. Again, I'd like to get that level development back up into -- where you're really looking at 1% to 2% of net capacity growth from the new development side of the equation.

So all the efforts going into making sure we can build that pipeline. Feedback we're getting, again, where it's difficult to, as Wyman said before, they kind of really parse out impact of independents. We do see that to some degree when you work with the development side of the equation. When you think about site opportunity, both de novo and possibly going into sites that become available as you kind of go through this situation. So there are an increasing number of those out there that may lead to some opportunities. But again, we have the resources now in place and the pipeline development is starting to take off that we'll build that new restaurant development.

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

And I'll just add, opening restaurants in the pandemic is something that we were nervous about. And these 6 restaurants that we've opened have all performed very, very well, kind of above expectations in an absolute perspective. So that gives us a lot of confidence as we get more aggressive with our developmental plans.

Operator

Our next question is coming from John Glass.

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

It's Morgan Stanley. My question is on wages. And with the election close by, the conversation is about whether we have a round of minimum wage increases at the federal level? And holding aside prognostications as whether that will or won't happen. Can you maybe just frame how different your store margins are in states where you already have a much higher minimum wage, state managed minimum wage, maybe closer to what a federal would be? Or said another way or out a different way, what's the average wage rate today in your business, just so we can sort of frame where you are versus what may potentially come?

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

Yes. I don't know, John, if you want to go into that level of detail. What I can tell you is, first, there's a lot of rhetoric, and there always is, especially pre-election around these topics. We just talked about the very difficult environment that's facing restaurant industry right now, especially independents, and that there's going to be legislation that puts even more pressure on this industry, that, that gets done, I think, is going to be a very interesting conversation. When it really gets time to do that in your -- in your state to your restaurant tours, the people that are employing that are right now facing millions of unemployed restaurant workers, and it's just a very interesting conversation when the reality actually comes to the table, what that does to the industry.

That said, what we're proud of is that our average server makes over $20 an hour. Our average (inaudible) house team members are making well over minimum wage. So we don't have -- our team members are making good wages. And we'll work on and deal with kind of legislation as it comes. I will say this is where scale and size helps. Again, if anyone's going to be able to navigate through this and continue to offer value propositions that we offer 3 for $10 in California tells you that we have figured out how to be as efficient as possible in the highest wage states, still deliver great value propositions and make money. So we'll figure it out.

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

Just a follow-up. In states like -- I use the example of California, are restaurant margins lower than the chain average? Or does volume offset it? Is there any way to sort of frame where wages are much higher or restaurant -- how much lower are restaurant margins?

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

Well, I'm not going to give you the specific numbers, John, but obviously, the percentages are lower, but the volumes are higher. And that's where, again, because you've got the ability to bring scale to play to do things, leverage technology and do the things that allow us to be more efficient, it just puts more pressure on the smaller guys that don't have those resources. So from a competitive standpoint, it may actually make more sense for us to see that, but we don't wish that on the industry. It's just not a good thing. And again, our servers are making over $20 an hour. And that's what we're proud of.

Operator

Our next question today is coming from Eric Gonzalez.

Eric Andrew Gonzalez - *KeyBanc Capital Markets Inc., Research Division - Restaurants Analyst*

It's KeyBanc. I appreciate the detail on wings earlier. Maybe this part was danced around a little bit, but I'm just going to ask you directly, what was the same-store sales lift from It's Just Wings in the quarter? And then separately, can you talk about the marketing strategy for the remainder of the year? Like how important new innovation or new menu news will be in the months ahead? Doesn't seem like it's a big focus now, but perhaps that's due to capacity being more of a constraint. But do you think that, that changes in the months ahead and maybe your marketing strategy shifting to digital, do you think it bring back some TV going forward?

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

There's a lot in there, Eric. Yes, we're not going to give you the numbers broken out, but it's pretty simple math. I mean we keep saying it's a $150 million plus brand and that it's on that trajectory now. So if you just do the basic math and you have our total sales, you'll get in the ballpark. So that's a fair number.

The response to the marketing, again, I think you have to -- from our perspective, what a lot of people did during the pandemic was reduced menus, simplify down. We didn't do that. We've kept everything out there. So from our consumers' perspective, we feel good that things they love about Chili's are still there. They've been there through the whole time period, and that's what they know and love about the brand.

Innovation right now is not a top priority for us. We continue to innovate. We still have our margarita of the month. If you didn't get the spider bite, you better hurry. I think you got to couple of more days before that margarita goes away, and we bring out the next one. So we are still innovating and we're using digital and direct and all our channels to convey those messages. But we are leaning heavily into the quality of the food that we deliver every day and the value propositions that are built into our menu every day, and they seem to be doing fairly well for us.

And with regard to marketing mix in the future, Eric, we'll see. Again, I started in this industry 36 years ago, as a marketer doing limited time promotions on national television. So I know very well how effective they have been. I just don't think that's necessarily the world today. And we'll continue to -- our marketing team is going to continue to do and try the more effective approach to driving brand awareness and building the brands and driving traffic. And if that doesn't work, we'll shift back around. And we're flexible and agile.

Eric Andrew Gonzalez - *KeyBanc Capital Markets Inc., Research Division - Restaurants Analyst*

Just on the mix comment before. I think you made a comment that it was in the high 40s, your to-go mix. Would you be able to maybe tease out delivery versus takeout breakdown?

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

It's still maintaining about a 2:1 ratio on the -- to-go to delivery, to-go being the higher piece of that equation. We'll need to move on, Eric.

Operator

Our next question today is coming from Dennis Geiger.

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

It's UBS. One and just a quick follow-up to Jeff Bernstein's question. Just if you could talk about further sales gains from here, if state restrictions don't change, and I apologize if I missed it. But just maybe given whatever existing capacity you still you may have in the dining rooms right now maybe driving a further step-up in off-prem if independents and small chains struggle a bit more this winter. Can you kind of increase those gains within the current state restrictions right now, do you think?

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

Yes. I think we are getting -- we are doing some things with regard to additional adding -- making the -- increasing our capacity within the current constraints. So again, use of plexi and things like that, it still provide a very safe environment for our guests that allow us to open up a few more tables.

So there are some of those options out there, and we're moving down that path. Again, the big opportunity within the COVID world is just to get to the point where some of these more constrained states, cities and counties start to open up dining rooms to even the 50% level, right? I mean that's where there's some bigger opportunity in the COVID world. And that's a very fluid thing. The good news -- I mean I know it's half empty, half full kind of proposition as we see COVID kind of move up in some cases. But the good news is that I don't -- it's going to get managed. There'll be pockets, and then we'll address it, and we'll move through it. And we've seen that really now several times through in certain markets. So we don't anticipate a major retraction -- reduction in traffic based on COVID cases. It will be more pocketed, and that's something we can work through. And so that's just how we see the business. And again, we'll address that on a market-by-market basis.

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

Got it. And then if I could, just on the development opportunity, Joe, that I think you just highlighted, just wondering if there's anything more to share there, understanding this is looking out a little bit, but is it company stores? Will it be franchisees, size of stores? Is there anything beyond what you've said that you can share. Obviously, the business is strong, and this field does feel like an opportunity to accelerate that. Just anything if there's incremental -- anything incremental there at this point, Joe.

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

It definitely is an opportunity. And what I'm referring to getting to that 1% to 2% capacity growth from new development, that's for company owned. Again, we're going to be the more aggressive player in that development opportunity. And I think the development is also broad based. I mean we're looking throughout the country.

Operator

Our next question today is coming from Chris Carril.

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

It's RBC Capital Markets. So I just wanted to ask, first, specifically about digital sales. And I'm curious to hear if you have any early observations from what are presumably your growing digital sales mix on the back of the It's Just Wings launch? And then just how sticky those sales are relative to your expectations?

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

We're running where we at. Now we're or -- yes. So we're in the 40s. And again, this is one of those things where we want dining rooms to open up more. And as we see that, we shift from a more digital world to back to the real-world and the dining rooms that we actually want to see more of. We're in that 40% range right now. And the stickiness, especially around It's Just Wings is very good. And again, based on benchmarks that we're made aware of, we're in very good shape with regard to how both Chili's and the It's Just Wings brand are kind of connecting with the digital users.

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

Yes. And Chris, from a relative standpoint, that's about -- that's more than twice the level we had really going into COVID. So nice spike there and stickiness at a much higher level. So new normal being set.

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

Got it. Got it. And then just on the mix component of the comp, I mean, presumably, off-premise is creating a significant portion of that drag. But is there any impact from It's Just Wings, specifically on the mix? And how do you see mix playing out as presumably on-premise and overall sales continue to trend in the right direction?

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

It's a great question, Chris. And I think, again, something people may not be picking up as much. First, we haven't priced, right? And again, I think you're seeing -- when you just look at our differential between traffic and sales, you can tell that there's some mix and pricing issues going on within our brand, but also with response from others. So we're being very cautious about pricing right now. We think we have -- we're really not planning on a lot of price right now, and so that's future potential for us.

And then the mix hit from primarily alcohol, loss of alcohol sales when you move -- it's not a It's Just Wings issue. It's an alcohol issue. When you move consumers out of the dining room and into a takeout environment, you lose alcohol sales at a fairly good clip. And we're doing everything we can to get alcohol sales out into the takeout world, but it's still a significant mix shift.

And that will come back as dining rooms -- as dining rooms come back. Our percent alcohol mix for the guests that are back in the dining room is actually up. And so it's just the mix of guests that are in takeout versus dine-in is creating that major drag. And as we open up the dining room, that's significant opportunity -- it will just come back organically. As they come back in, they will drink.

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

And we've seen that. So again, that progression of openings, you do see the mix improving in those restaurants as they get more dining capacity.

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

All right. That was last question for today. So we've run out of time, but thank you, everyone. We appreciate you joining us on the call today and look forward to updating you on our second quarter results in January.

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

Have a good day, guys.

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

Hey, thanks, everybody.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.
