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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Brinker International's Third Quarter F '21 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. Mika, the floor is yours.

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

Thank you, Paul, and good morning, everyone. With me on today's call are Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, our Chief Financial Officer. Results for the quarter were released earlier this morning and are available on our website at brinker.com. Wyman and Joe will first make prepared comments related to our operating performance and strategic initiatives, then we will open the call for your questions.

Before beginning our comments, it is my job to remind everyone of our safe harbor regarding the 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 (inaudible) 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*

Thanks, Mika, and thanks, everyone, for joining us this morning. With the rollout of vaccines in full swing and restrictions lifting across the country, our guests' pent-up demand for a dine-in experience is being released as well. People are finally starting to feel safer to venture out and spend more -- spend some of the money they've been saving over the past year.

We're excited about the positive momentum in our economy and the resurgence in our dining rooms. When we last talked at the end of January, we were already seeing progress in the business, even as we were navigating a COVID spike that drove another wave of capacity restrictions in our dining rooms. Just as we started to see numbers of cases come back down, we were hit with the winter storm of the century that impacted our restaurants across Texas and the southeast at levels we haven't experienced before.

But despite the challenges at the start of the third quarter, we ended strong, delivering an adjusted EPS of $0.78 with Chili's sales returning to positive territory from an absolute perspective. And we've seen those sales trends continue into April. When we look at our more normalized performance of fiscal '19, Chili's sales are up 10%, and nearly 3/4 of our restaurants are generating meaningful positive results, even though we're still social distancing and wearing masks in all of our restaurants and we're still operating under capacity restraints across the country.

We believe all along, the consumers' increased demand for convenience would continue post pandemic and it's playing out that way. As our dining room traffic increases, our off-premise business continues to hold strong. We expect that when things normalize, we'll see stronger dining rooms and a takeout and delivery business stronger than it was pre pandemic.

As you think about Maggiano's in the context of this recovery, upscale casual is playing itself out a little differently. We're pleased with the significant improvements in the Maggiano's business, especially in their dining rooms. Now it's just a matter of how quickly banquets come back. We know there's significant pent-up demand and we're well positioned to meet it. We're already seeing signs of social occasions returning, and we feel good about building our corporate business back in time for the important holiday season.

Staying focused on our strategy throughout the extraordinary events of the past year has served us well as we consistently outperformed the industry. We have good line of sight to hit the targets we were expecting post pandemic at both Chili's and Maggiano's. Navigating the past year taught us we can run this business even more efficiently than in the past, and we're committed to keeping our cost structure in line.

We think our category leadership (inaudible) driven by the multiyear investments in our infrastructure and digital capabilities will help us continue to outpace the industry. We still have a lot of heart for our restructured marketing approach, and we'll continue to leverage our digital expertise to connect with consumers and drive traffic.

The subject of labor is clearly top of mind across our industry. Today's labor market is one of the toughest ones we've experienced, but we have the tools to navigate through it successfully. While our performance throughout the pandemic enabled us to keep higher levels of staffing in our restaurants, we are hiring more team members than usual to support our increased volumes. We're also benefiting from our decision to keep our managers on board throughout the pandemic as they provide the operational leadership to staff our teams and take care of our guests.

We're fortunate to be able to leverage our scale, the digital expertise we built and our PeopleWorks team to recruit talent in creative ways to keep our cost structure intact and our guests coming back. We know the best way to maintain profit margins in this business is through volume, so we leaned into virtual brands as a way to leverage our assets and tap unused capacity. It's Just Wings continues to perform well, and we're on track to hit that $150 million target we set at the beginning of the year. Almost all of our domestic franchise partners jumped on the opportunity and globally, several of our partners have already picked it up. Wings is now in 9 countries and 160 locations outside the U.S., making it a formidable brand in just its first year.

It's a real testament to our methodical and disciplined virtual brand strategy, how we've executed it and the leverage it brings to our P&L and to our franchise partners' business. We have the system up and running and we're executing it well, especially during high volumes. Now we're focused on building the brand and leveraging the growth opportunities ahead.

We believe takeout holds a lot of potential for us. And now that we've invested in the technology and infrastructure to support it, we're working to increase awareness levels outside the delivery channel. We've learned a lot this year with the launch of It's Just Wings that will leverage when we're ready for our next virtual brand. We're pleased with the current results from the expanded test of Maggiano's classics, and we're working through the timing to ensure we're able to support our operators and deliver a great guest experience.

So this has been an exceptional year of learning for us, not just with virtual brands but in many ways. We've learned the restaurant industry in general, and specifically, our team is full of unbelievably resilient amazing human beings. I'm so impressed by how this team has risen to every challenge that's come our way. We're stronger for it, and we're prepared for the growth opportunities ahead as vaccinations spread across the country and dining rooms fill up.

As we look forward, our ability to navigate through any short-term cost headwinds is solid. Our scale affords us advantages in terms of forward contracting, keeping our employment base intact and delivering one of the strongest value propositions in the industry. Longer term, we see a lot of organic growth potential for Brinker. Obviously, we'll continue to execute our multiyear virtual brand strategy and protect our improved business model. And with higher volumes, we'll capture new development opportunities and keep the brand fresh through our remodel program. I'm proud of our progress on our results, the strength of our brands and our line of sight to future earnings performance.

And with that, I'll turn the call over to Joe.

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

Hey. Thank you, Wyman, and good morning, everyone. The third quarter results reported this morning represent another successful quarter for Brinker and its brands. While the quarter definitely had its unique issues, I'm most pleased with the momentum we are generating as we move closer to a more normal operating environment, setting up further success both this quarter and next fiscal year.

For the third quarter of fiscal 2021, Brinker reported total revenues of $820 million with consolidated comp sales of negative 3.3%. Our adjusted diluted EPS for the quarter was $0.78. Chili's recorded flat comp sales and positive 4% traffic for the quarter, with the year-over-year performance improving throughout the quarter. Regional performance is strong nationwide with a broad range of state markets rebuilding their dining room sales back to higher levels, above 75%, let's say, when compared to pre-COVID performance. We do still have a smaller set of state markets such as California and Illinois, which are important markets for us, that are earlier in their dining room reopening process. We anticipate they will follow similar growth patterns as we move through the next several months.

A couple of items to note related to the third quarter. First, we had a holiday flip the first week, with Christmas moving into the quarter, resulting in a negative 1% comp sales impact. In February, we experienced Uri, a most unique winter storm that hit with historic subzero temperatures and power outages for more than a week, affecting approximately 30% of our restaurants. The material impact of the storm resulted in an estimated $10.5 million in lost revenues, a negative impact to consolidated comp sales of 1.2% and reduced adjusted EPS of approximately $0.06.

Once things thawed out, our positive progression returned, with average weekly sales volume hitting record highs in March. As we started to lap the beginning of the pandemic in mid-March, as one would expect, comp sales moved significantly positive and are likely to remain elevated for the foreseeable future. While pleased with this progression, we believe a 2-year comp comparison is a more insightful view of our performance. In this regard, the consolidated 2-year comp results for Brinker for the first 4 weeks of April was a positive 6.3%, driven by Chili's results of a positive 10.1% for the same time frame. I would note that Chili's is lapping off of a positive 2.9% in the third quarter of F '19.

Increasing sales volumes also favorably impacted margins, resulting in a consolidated restaurant operating margin for the third quarter of 13.9% compared to 12.8% for the third quarter of fiscal '20. Again, the winter storms had a negative impact on ROM, reducing the margin by an estimated 30 basis points.

Food and beverage expense as a percent of company sales was 70 basis points favorable to prior year, primarily driven by menu mix as we featured steak on 3 for $10 in the prior year. Pricing was slightly favorable and commodities were flat. Labor expense, again as a percent of company sales, was favorable 70 basis points as compared to the prior year. During the quarter, lower dining room capacity year-over-year resulted in a reduced hourly labor cost. We do anticipate hourly labor to increase, importantly along with sales volumes as capacity restrictions lift in certain states.

During the quarter, we meaningfully increased our manager bonus payout, impacting margins by approximately 60 basis points as we move to reward this critical leadership level for outstanding performance. By leveraging our scale, our well-established people, practices and benefits and utilizing our digital connectivity know-how, we are confident in our ability to effectively manage through the current labor market environment.

Restaurant expense was unfavorable year-over-year by 30 basis points, a reflection of increased off-premise costs such as packaging and fees, driven by our successful off-premise sales channels. Advertising expense continues in a favorable year-over-year position as we lean into our digital and loyalty-driven marketing strategy.

Brinker continues to deliver strong operating cash flow. Year-to-date, we have generated $268 million in operating cash flow. During the third quarter, we used a portion of that cash flow to repay $115 million in revolver borrowings, bringing the outstanding balance to under $300 million. We anticipate further borrowing reduction in the fourth quarter.

Additionally, we are investing significantly into the growth of our brands. Capital expenditures year-to-date totaled approximately $62 million. We opened 2 new Chili's during the third quarter and 2 additional locations in April, bringing our total for this fiscal year to 10. We are moving aggressively to further build our development resources and increase the NRO pipeline. We continue to target expanding new restaurant development to a range of 18 to 22 restaurants a year. We also are investing in reimages of our existing fleet, with a particular focus on the Midwest restaurants acquired in early fiscal '20.

Brinker has continually proven to be a leader in utilizing technology to enhance the guest experience and improve operational performance. In fiscal 2021, we will invest approximately $20 million of capital and technology that enhances our digital guest connectivity, supports our virtual brand growth and improves our in-restaurant dining experience.

Now turning to our expectations for the final quarter of this fiscal year. We expect both Chili's and Maggiano's to maintain their current favorable sales trends throughout the quarter, assuming COVID cases continue to decline and state and local restrictions continue to ease.

Let me provide some additional specifics for the fourth quarter. Total revenue is estimated to be in the $950 million to $1 billion range. Adjusted earnings per diluted share are estimated in the $1.55 to $1.70 range. Weighted average diluted shares are estimated to be in the 47 million to 48 million share range. Also, as we have previously noted, fiscal 2021 includes a 53rd week at the end of this fourth quarter.

As we settle into the last quarter of the fiscal year, we are excited about the momentum we have built from the uncertainty that surrounded the restaurant industry a year ago. During the past year, the members of our support teams here in Dallas stepped up and provided innovative solutions to any number of issues since the pandemic changed how we all approach our work. And our frontline team members in the restaurants have continually delivered for our guests in ways none of us would have contemplated not too long ago.

We are grateful to both these groups of team members who combined to lead the casual dining sector throughout this past year. They are all committed to finishing strong this fiscal year and then carrying the success forward.

And now with our prepared comments complete, let's open that up for questions. So Paul, I'm going to turn it back to you to moderate the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question is coming from John Glass.

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

Sure. It's Morgan Stanley. First, can you just maybe just be a little more explicit as you think about the fourth quarter versus '19, what the embedded comp for Chili's is? Are you thinking about winning stimulus benefits? Or how do you balance kind of what you're experiencing now versus what you might experience throughout the quarter? And I had a follow-up on the margins, please.

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

Yes. Again, I think -- John, this is Joe. We're thinking about it in a very positive manner. I think we're going to continue to see the same progression that we saw coming out of March and into April. There is a stimulus environment out there. I think that's very apparent. It's more than simply the stimulus checks. I think you have, again, that pent-up demand that is getting a lot of publicity and discussion. And not only pent-up demand, you have pent-up capability to meet that demand on the consumer side of the equation. So we're pretty bullish on where the consumer is and how they will continue to reenter kind of back into a more normalized environment.

And we also continue to see restaurant reopenings and capacity restrictions lifting. The progression that we're seeing in the performance of our restaurants as a percentage of '19 continues to go up materially as we work through each of the months. So I think we'll see some favorable progression there helping to drive the successful quarter we're guiding you to for [F 4].

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

And just as a follow-up, you -- Wyman, you mentioned labor shortages. Obviously, it is top of mind. Can you just talk about how you think about margins over the medium term because of that? First of all, labor shortages actually, if there are some actually becoming impediment, for example, opening dining rooms. Can you also just talk about what is the gross impact of the delivery cost in the business? Did you -- what is the structural layer of cost? I know there's other offsets, but what's the layer of costs that have been added into this -- the delivery channel, both through virtual brands and as your own brand has grown so much?

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

John, I think there's 2 questions there. One is around what are we seeing with regard to the challenges with current labor environment and then there might be a labor or a margin impact to delivery. So let me just talk to the labor situation because I know it's -- again, it is top of mind for really everybody, not just in the restaurant industry, but in a lot of places out there right now as we are in this unprecedented situation with a fairly significant unemployed population and real challenged staffing.

So we don't think that's obviously a long-term situation, right? It's never happened as far as I can remember that you've seen this kind of a robust economy and 9 million to 10 million people out of work and not really aggressively looking to get hired. So we -- what we're focused on is, again, leveraging our scale and our systems to staff our restaurants so that we can provide the support that we need to our managers to open and stay open and provide great guest experiences, but to also make sure that we're doing it in a way that doesn't significantly -- and from a long-term impact our cost structure.

And so there are some additional things we're doing to entice and to recruit. But for the most part, they're more variable and their incentives to get people to join and not so much about the long-term wage rate impact that we'll live with for a longer period of time. So we feel good about that. We also feel good about the fact that we're just not out there as aggressively having to hire because we just didn't cut as many, and we didn't cut any managers.

So those are things that are keeping us probably in a little bit of a better situation than maybe some that didn't kind of fair as well as we did through the pandemic. So again, more short-term impacts than longer term, and we'll continue to monitor this and see how it plays out over the next couple of months.

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

And then, John, as it relates to the delivery side of the equation and the virtual brand side of the equation from a cost perspective, I mean, systemically, what you're really thinking about is delivery fees and packaging supplies, the incrementality of that. Now that's obviously embedded into the modeling we do around the channel itself. But that's -- looking at company sales, you're talking a couple of percent there, probably 2% to 3% from an incremental cost standpoint. And then in some restaurants, you will see some additional labor in the equation, but that's simply volume-driven.

So as you see successful volumes at a certain restaurants, you may have additional labor, which clearly is -- the volumes are clearly what we're driving for on that side of the equation. But I think systemically, that's really the major differences in those channels.

Operator

And the next question is coming from Nicole Miller.

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

Piper Sandler. I wanted to ask about the comment around development resources. What are those resources? Is it something to do with bench strength? Or is it just the actual commitment around the pipeline? And what's the incremental cost or not of the development resources to accelerate?

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

Yes. It's really the people side of the equation. We're increasing our development team to make sure that they have the ability to broaden their scope as much as possible around the country. There could be some incrementality around some outsourced brokerage opportunities and support staff there. But it's really headcount and it's -- I can use one hand because they can be very effective if they're giving the right tools and support behind their efforts. We want to make sure that they're out aggressively looking at opportunities on a nationwide basis.

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

And is 18 to 20 the goal and the run rate? Or is that the first step in a continued acceleration?

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

It is the level we are getting to, and I'd put it probably more in the first step than the run rate. As we get closer to that over the next 2 years, we'll continue to evaluate it. Again, we think there's great opportunity to grow this brand, to grow it maybe in some different ways and footprints. We'll continue to look at all those opportunities as we move forward. So it's nothing to say that you can't go beyond that, but we'll get more specific with those plans as we get further down the path, but we definitely plan to get to that level at least.

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

And then the -- what happens in the real estate markets is going to be critical there as well, right? And so we know there's a lot of expectation that with the results of the pandemic, real estate prices will have come down. We just haven't seen that yet and whether or not that comes to fruition, we'll see. But if it does, that opens up more opportunities. So there's a couple of things in the current environment where we know we can grow and depending on which -- what happens in the future, there could be even more aggressive growth.

Operator

And the next question is coming from Alex Slagle.

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

Jefferies. Just a follow-up on the short-term variable incentives around labor. I mean, do you think the magnitude will be similar to what we've seen in 3Q? Or should we expect the sort of step-up into the fourth quarter?

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

I think there'll be a little bit of a step-up, but it's not going to be meaningful. We don't anticipate it. We've given you guidance as to kind of how we see the quarter, and it doesn't include a huge impact to that. One of the things we're seeing, which is a little bit of a good news for our operators and our -- some of our team members is we'll just use more -- a little more overtime than we've used in the past.

And a lot of our team members, especially in the kitchens, in the heart of the house, they prefer to work a few more hours and get the overtime. And so we may have to use a little more overtime than we would historically use. And again, that's a short-term kind of solution to get us through what is a very unique and really non sustainable situation here with labor.

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

Yes. Alex, I think in the past when we've talked about labor inflation, we typically looked at that 3% to 5% kind of range is the normal conversation we had about labor inflation, that includes the overtime and training and bonus structures we deploy. We'll probably be, I think, in the short run, running at the higher end of that level, that the numbers I talked about for the fourth quarter embed that thought process into it, and we'll see it as it develops. But we're very comfortable. We have the -- all the tools in place to manage through this short term.

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

Got it. And on It's Just Wings. Just now that you've established the strong delivery business on DoorDash and expanded into pickup. The brand has some website, I guess, now and integrated with Google, what's the next phase of marketing for the brand and building awareness outside DoorDash?

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

You're a little ahead of schedule there. So we do obviously have the great DoorDash relationship in the delivery side. We've integrated with Google. Our website and our marketing push to a broader consumer about pickup really hasn't taken off yet. That's kind of going to happen more here in the fourth quarter as we continue to see what the upside is with the pickup aspect of wings, which we're very optimistic about. We think there's a real nice growth vehicle there against that brand and against any other future brand.

So again, a lot of infrastructure work has to go into play to make that happen, and we're almost finished with that. And then we get to push it to the consumer to see how they react, and that's kind of coming.

Operator

And the next question is coming from Eric Gonzalez.

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

It's KeyBanc. You said you haven't seen any degradation in the off-premise business as capacity restrictions eased. Are we to assume that the digital mix is sustained in that mid-40% range?

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

We have seen some denigration, Eric. I mean we were running in -- obviously, at the peak, we were running at 100%, and we're now much -- we've seen it go from the 40s as restaurant dining rooms get closer to that historic level, it's dropping down in that mid- to low 30s. And so we do see some but we think it's going to stay closer to that 30% range.

Again, if you remember, pre pandemic, we were just starting to push up to 20%. So between everything we're doing and all the different aspects of the business, we're thinking that it will probably stay in that low 30 range as dining rooms get back to full capacity.

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

Got it. Then if I can maybe sneak one in about It's Just Wings. I was wondering if you could -- I know you don't like to discuss the sales mix in particular. But maybe if you could speak directionally about how the sales contribution has trended in recent weeks as those dining rooms opened up. And are you seeing anything to suggest that you might need to invest more to support that brand as things normalize?

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

Yes. Eric, I think again, I think the brand is performing as we expected it to perform. The fourth quarter was the strongest quarter of the 3. I should say, third quarter -- sorry, I just got a lot of 3 fingers just raised in the room. So the third quarter was the strongest quarter as we kind of learned how to use the brand around some of the major sporting events.

But it's trending how we would need it to trend to hit those results as we talked about. I think there's going to be some seasonality as you look at this business as you go throughout a year. And this is probably one -- we expect it to have a little seasonality in the fourth quarter. And I imagine we're going to see that based on the first couple of weeks, but again, right in line with what we need to do to get those targets in.

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

Yes. And when you think about the fact that really not a college football season last year, so we're excited about what the fall will hold for the brand. It's been a really great year of learning around the virtual brands, It's Just Wings and others, around how to market them effectively, about how they play to different audiences and who the target is.

They definitely -- we've experimented and tested several brands now and they all have unique aspects to them. So getting those insights this year has been very helpful. And then obviously, getting our restaurants to execute and operationally locked down so that we're -- as dining rooms pick back up, the wings business is integrated seamlessly has been hugely important and something we've been very encouraged by how it's all playing out.

Operator

And the next question is coming from Dennis Geiger.

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

UBS. Curious if you could share some more thoughts on kind of regional performance, and specifically, what you've seen in off-premise in those markets. Maybe kind of touching on maybe It's Just Wings' performance in those markets as well with the greatest capacity as things have reopened. And Wyman, you just gave some good color, I think, on the -- how off-premise has trended and what you expect, but curious if you could share kind of what you've seen in those regions specifically.

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

Well, I mean, yes, Dennis. By far, the biggest variable to regional performance is still, far and away, restrictions. And so it's all the other things you were wanting to talk about are really insignificant to dining room capacity restrictions. So in states, as Joe mentioned, Michigan, California, Illinois, where we're still seeing some fairly stringent capacity issues, that's what's driving the regionality. In states that have been open more, we're seeing obviously much better performance. And we anticipate as those states see better COVID results and COVID becomes less of an issue, they'll -- their capacity constraints will be lifted and we'll see that same performance. So we're actually very encouraged about the breadth of the recovery when you kind of factor out COVID restraints.

Now specifically, when you think about It's Just Wings, it's not so much a regional, it's almost a market-by-market and sometimes restaurant-by-restaurant. That's what I was talking about. Depending on who the consumer is for a virtual brand really drives (inaudible) area. So there are some regional moves if you were to pull all the way back at the national level. But for the most part, where we see the real interesting learning is at the restaurant-by-restaurant, market-by-market area. And that's what we've kind of started to better understand. So -- and then with regard to delivery and takeout, again, broad-based, nationally pulling kind of similarly.

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

Great. And maybe if I could, just one more, Wyman. Curious, your thought and given your perspective on kind of industry supply, how you think this plays out going forward and ultimately how you -- the brands benefit from that. I'm not sure if you've seen any kind of discernible benefit yet from supply coming in. But overall, kind of of how you think this benefits you from a market share gain perspective going forward, recognizing it might be a little early to make that call.

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

And really dealing with closures is what I think you're...

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

Yes, you're talking about a number of restaurants?

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

Yes.

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

Okay, sure. So we don't have -- I don't -- we're not out there tracking the number of restaurants that are opened now versus prior year. Obviously, there's -- the number has been estimated somewhere in that 5% to 15% range. I think in most of our trade areas, it's probably on the lower end. I think you're going to see a significant restructuring in major metropolitan areas, obviously in the New York cities and the Chicagos.

How quickly they come back will be very interesting. There's a lot of stimulus, there's a lot of interest and so that -- but that doesn't really impact our business as much. So we're not really counting, if you will, on a great tailwind. We're seeing what we see today. We think that's projectable out into the near future. And we'll see what happens with regard to competition, if you will, as we get past COVID and things get to be more normal.

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

I think, Dennis, one thing anecdotally we are seeing on the development side of the equation, as we cast that net wider, is more and more opportunities of looking at sites that are closed restaurants from other brands. So we're seeing that at a higher rate than we've seen in the past, so another data point there to look at.

Operator

And the next question is coming from Jared Garber.

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

Goldman Sachs. Can you give a little bit more color on the $20 million tech investments that you mentioned earlier and how you see that flowing through, whether that's in-store technology or more sort of mobile or website technology? And then also on the new unit opens that you talked about, any color on maybe the shifting in asset design, especially as it relates to potentially supporting these digital brands through the Chili's kitchens?

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

Jared, I'm not going to walk you through the detailed breakdown of it. But I will tell you just one example of some of the things we're excited about or one of the things we're excited about with technology spend, and that's the rollout of our handheld devices across the country. So again, we've been working on a handheld solution for multiple years. It's been employed in over 100 restaurants. But it wasn't quite ready, and so we've done a lot of work and we've invested a lot of time and energy and capital into getting it right.

And we now feel like we do have that right and solved with -- and so we'll roll that technology out across the system. And that's going to do a couple of things, first, we think provide a better guest experience. It also allows us to run more efficient restaurants in the front of the house. It will make more money. So that's a great tech investment that we will roll out here in the next fiscal year. And that's just one example of what goes into that $20 million bucket.

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

Yes. One thing I would add to that, too, Jared, because I think it's important to understand, that's not a one-time unique investment. That's -- you can pretty much think of that as a run rate from a capital investment standpoint. One of the -- and I think the market-leading advantages we've developed is because we've been very consistent on that level of investment into technology really now for a number of years. So it's building on a base that I think is outpacing many in the industry and giving us that competitive advantage.

And also supporting that, that's the capital spend. Supporting that is an infrastructure spend that is even at a higher level that is making sure we have the development capabilities and the innovation to support things like our apps and our websites and our connectivity. And so it's a -- technology is just a key component of how we approach the business, and those spends are embedded into our base and our thinking going forward.

Operator

And the next question is coming from Sara Senatore.

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

Bernstein. I wanted to ask a bit about the virtual brands and maybe the competitive set there. I think it was interesting to see a lot of restaurants maybe follow you into that virtual market, utilize excess capacity and, in many cases, I think we're seeing fairly similar menu offerings. So I guess, one, could you just talk a bit about the competitive environment there and to the extent to which that informs how you're thinking about growth?

And then two, if -- whether you think that use case and that those menu items have benefited from pandemic-related dine-in -- or, rather at-home dining similar to maybe what we've seen in pizza just insofar as we think about as people leave their homes, again, some of these -- I think some of the food categories are probably going to see different dynamics, headwinds versus tailwinds. And wings in particular seems like one that's benefited.

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

Sure. Great question, Sara. I think the -- there's 2 things, right, that kind of boldness, if you will, around a virtual brand strategy. One is it really is about scale and being able to do large numbers. It's about how many locations can you put out there. And with 1,200 restaurants in the U.S., we're able to kind of meet that criteria. And so yes, there's a lot of people doing it, but not a lot of people with scale and so they don't really impact you very much.

And then operationally, just getting it right and positioning a brand is not easy. And so a lot of people can throw stuff out on the Internet or put it on a website for a delivery company, but then to execute it right to price it, to have a value proposition that's really compelling, I mean we think our positioning in the wings business is very strong. And we can do that. And then when you consider our scale to buy and source product and all the things we bring to the table, it just gives us competitive advantage.

So I'm not too worried about people coming in. And I think the thing that doesn't get talked about the most, it's probably the most important is what's it doing to your base business? And are you able to pull this off? And I've seen examples of people throwing maybe 3 or 4 virtual brands in [wings] and it's just very, very hard for me to imagine how that executes from an operational standpoint. As they -- and sometimes as they talk about simplifying their menu and their base concept, it's like that, they just -- they just don't kind of go together. So you have to be very diligent about all of that to make it work both from a brand standpoint and from a consumer perspective.

So that's kind of how we see it. I think there's going to be some winners and losers. With regard to the product and is it just being kind of artificially pumped because of the pandemic, we don't think so. We think the wings business for -- as an example, is a strong baseline business. And we don't think we're going to see significant deterioration as we go back to more normal levels of restaurant operations and some of our other concepts, we think you're probably going to see even more support than that. So we don't think we've gotten into anything that's too trendy, if you will, based on the pandemic.

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Operator

And the next question is coming from Greg Badishkanian.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

Sure thing. From Wolfe Research. It's actually Fred Wightman on for Greg. In the release, you guys mentioned that you're meaningfully above 2019 levels for sales and traffic. So I'm wondering if you could just give some context for that 10% quarter-to-date Chili's comp that you highlighted? And maybe just touch on how you think traffic and check are going to progress over the next few quarters here?

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

Yes, Fred. Currently, it's traffic-driven, and it's -- and that's by design. I mean we're really leaning in to make this a traffic story. It has consistently been a traffic story for over the last year really in going back really 2 years before that. So that's why we're being very diligent and disciplined around pricing.

Now clearly, you have a mix situation over the course of the last year with restaurant capacity shutdown. So you're not -- you haven't seen the alcoholic beverages, the apps, the desserts, things of that nature. Now as you start to reopen restaurants, we think there is going to be a nice opportunity year-over-year on the mix side of the equation. The -- so I think that will be some incremental opportunity that flows back in. But what we're most gratified by is if you looked at the traffic numbers, they line up very, very tightly with those comp numbers we gave you. So it is a traffic-driven story. And I think that will continue kind of as we move forward.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

Perfect. And then you guys had alluded to some uncertainty on the event side at Maggiano's, which makes sense. But is the holiday season sort of the line in the sand or your best guess for when that could normalize? Are there any sort of market level indicators that suggest that could come back sooner than the holiday season? Anything would be super helpful.

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

Well, I mean, I think the CDC came out with some new guidelines maybe as recently as yesterday around vaccinations and people that have been vaccinated and their ability to congregate in larger numbers without math. And so you're really -- we're very encouraged again by, first, the overall impact that vaccinations is having on the country and allowing people to move more freely. And we anticipate that as more people get vaccinated, that this will improve and people will not only be allowed to but feel more comfortable gathering.

And we're seeing that. You're seeing that in the travel industry. You're starting to see this process move its way through. And I think as you start -- if you will, ticking off, okay, well, what would be the next thing that would kind of open up sporting events? And then social gatherings are going to be very high at that -- on the top of that list. So we just anticipate that happening really organically with all the improvements that are happening through the vaccination process. And then corporate will kind of follow after that.

So I think, again, we're not predicting, but if you continue this positive trend with vaccinations, I think by the end of the year, towards the end of the year and the holiday season, we could be in a very nice place and people will -- could feel very comfortable gathering again.

Operator

And the next question is coming from Chris O'Cull.

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

It's Stifel. One, are you seeing It's Just Wings growth rate level off, maybe period to period? Or are there any indications you could see significant growth over the $150 million into next year?

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

Yes. I think our -- again, we've talked about it a couple of times. The idea that takeout on that brand, what could the takeout business be? How -- what potential do we have when we start to build the brand outside of just the delivery channel that we have today? Again, don't know exactly. We're going to find out here in the very near future. But we just know just in general, consumers take out more than they deliver.

So we have to build the brand's awareness and that's going to take a little bit of work. But if you were to just kind of use historic ratios, you'd be pretty encouraged that, hey, a pickup business or a takeout business for this brand could do very well. And so we're excited. That will be the lessons that we learn here in the next couple of months as to how hard is that, how heavy a lift is that to get the brand awareness up and what kind of response do we get.

So that's -- we're already having -- I mean, again, we're already having people every day in every restaurant come and pick up [each day]. The numbers are fairly small now because we're not pushing our own website and an aggressive marketing plan, but we'll start to test that. So that's where we see the biggest opportunity.

But we also know, again, this was a year of learning around the marketing. And so as we start to better understand how this was our first season of sports, and it's a very sports-oriented product. And so we'll get smarter about, okay, here's how we better market or more effectively market against the various seasons as they come around. And we're also now very much aware of where our markets that do well versus those that are a little softer. So all of that learning comes into play in terms of how do you grow the business going forward.

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

Do you anticipate being aggressive with the marketing efforts to build awareness? Or do you think this is something you need to build gradually over time because it could be -- you can make the operations a little more complex?

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

Yes. I think we've got -- we feel very comfortable about our ability to execute wings in the restaurant at high volumes. Again, I mean, gone through our first Super Bowl. We know there's a lot of capacity and capabilities in our restaurants to execute this brand at a high level of sales. And when you say aggressive, I think we're going to be very targeted and very -- so -- and we will address -- but you're not going to see a national ad campaign -- you're not going to see a TV ad with It's Just Wings on it on national television. We're going to be very targeted in our approach to knowing how to connect and talk to these consumers.

Operator

And the next question is coming from Brian Vaccaro.

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

Raymond James. Wanted to circle back just on the recent sales trends, and I appreciate the monthly comps you provided versus '19. But Joe, could you help us translate that a bit into average weekly sales? We don't have monthly AWS back in '19, so I was just hoping you could level set where quarter-to-date average weekly sales dollars are for each brand.

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

We're getting -- when you look at average weekly sales, again, and then comparing it to '19, as you said, you have a -- some different deltas there. You don't have the Midwest in '19, which we have in our current levels. And of course, wings is in our current levels and didn't exist in '19. So we've been running very consistently up in those mid- to upper 60s for the Chili's brand. And then you can layer on for Maggiano's, you're running in the $5 million to $6 million level kind of on a weekly basis.

The nice thing is, as I mentioned in the script, is coming out of Uri, the storm, and you start to then build into March, you saw these weekly average sales moving north. I mentioned the record levels we hit in March. You obviously had stimulus dollars flowing in kind of in that mid-March time frame. But we've seen a very consistent maintenance of those levels in April.

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

But seasonally, Brian, these are our biggest months. So if you're just looking at average weekly sales volumes for Chili's, obviously, Maggiano's has big months in the holidays, but for Chili's, the spring are our biggest months. And so we're seeing some absolute high volumes and we weren't -- and we're wrapping on those.

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

And again, that's probably -- and again, you're looking at an overall system that's probably running, on average, in the high 70s from a capacity standpoint compared to that time frame that you're looking at. So again, when you think about California, 10% of the market and significant markets in places like Illinois and New Jersey and some of the Upper Midwest states that are not carrying those levels yet, we're comfortable they will. There's upside to that.

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

The other thing we can see, Brian, it gives us a -- well, when you just -- again, it kind of builds off what Joe was just saying about the constraints. So we are still constrained in our dining rooms. Our weekend volumes are still being hampered. So we're seeing stronger F '19 builds, if you will, weekday because we don't have as much capacity constraints because those are some of the lower volume dayparts and weak parts.

When you get to the weekend where the capacity comes in, you're still being constrained. And so as the constraints get released, we'll see bigger and better numbers, again, across the system but especially in those states that are most constrained, California, Illinois, Michigan.

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

That's great. And I guess parlaying that a little bit into your fiscal 4Q guide, it would seem to embed -- correct me if I'm wrong, but it would seem to embed perhaps a little lower AWS volume than that at Chili's, say, for your fiscal 4Q guide.

Is there a degree of seasonality we should be mindful of as we think about May and June? We can obviously see it on a quarterly basis. First half of your fiscal year is usually higher than the second half. But is there a degree of seasonality there or just perhaps broader conservatism as you set the 4Q guide as we see how stimulus rolls off, et cetera, et cetera? Or just wondering how you framed kind of that fiscal 4Q guide a little bit.

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

I don't think there's significant on either of those fronts. I mean we're pretty much kind of projecting similar kind of trends that we've seen in April through the rest of the quarter, as Joe kind of mentioned. And the absolute levels are in the ballpark of what we've just been talking about.

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

Great. And on the effective capacity, thank you for that, I think you said upper 70s at Chili's. What does that look like in markets like Florida and Texas? Are you able to get back closer to 100% or is there a natural ceiling with social distancing and other considerations in place?

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

You definitely see it in different markets. There -- we have markets that are back above 100%. We have market -- we have a number of markets sitting in the 90s. That kind of goes -- as you get reopened, you tend to see it move into the 70s then progressing to 90s as people get more comfortable. I think vaccines is driving a lot of that progression.

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

Hard to get to 100% though without fully open. I mean -- and no one's fully open. We're not fully open. Even if they say they're fully open, we're still doing some social distancing and we're still wearing masks. So until it gets quite open, back to, hey, there are no restrictions and everyone's comfortable, there will be some constraints. I mean it's hard, hard to get to that 80%, 90% and then the takeout business is covering a bit. To get all the way back to 100% because then you got those weekends volumes that you've got to -- where you need every seat, that will be a bigger challenge. But we're optimistic that, that's going to happen fairly soon. And the -- yes, go ahead.

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

I'm sorry, sorry to interrupt you there. Yes, last one I wanted to just touch on the tightness in the labor market. If you have it handy, where does your employee count stand at the end of the fiscal third quarter? And could you frame how many employees you think you need to hire to catch up to sales? And then maybe wrap it up into the fourth quarter. Could you ballpark kind of the onetime hiring and training costs or elevated training costs that you've embedded in your 4Q guide?

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

Yes, Brian, we can probably follow back up with some of those specific numbers. I don't have those team number levels. Again, we've maintained a level of staffing throughout this. It is a good starting point, we're hiring consistently really in the 5,000 per team member per month kind of which is a little bit higher than you would typically see, again, a lot of that driven by the reopening trade as you come back in line. So as it relates to those specific cost numbers, that's getting a little into the weeds.

Operator

And the next question is coming from John Ivankoe.

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

At JPMorgan. Maybe a little bit on that last question. With labor costs running at the higher end of 3% to 5% and obviously, the stimulus and just money in general that's in the economy, what is your thought on menu pricing? Might we expect a significantly above-average menu pricing year at least over the next 12 months? And then I have a follow-up as well.

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

John Ivankoe, good to see you or good to hear you. We are -- again, with regard to any of the pressures that we're anticipating. The good news is for a lot of our cost structure, it's locked down, right? So especially on the cost of sales side and the commodity side, we're feeling pretty good. We've got a good line of sight and we've got some fairly good costs locked down.

So then your -- the labor issue that you're talking about could put a little pressure on it. As Joe said, we're talking to maybe 3% to 5% is what we're dealing with. We know we like to price in that 1% to 1.5%. But again, if anyone's got pricing powder, if you will, that's kept dry, it's us. We haven't priced at all. If you look at our differences between us and the industry on sales versus traffic, we've been playing the traffic game, and we've been really kind of significantly outperforming and working on the traffic piece and keeping our pricing powder dry.

And so if we need to go a little more aggressive to a pricing situation, we think we can. Again, it's our last option. Frankly, we like to keep the restaurants busy. We like to give guests great value propositions. And so -- but we feel comfortable that if this thing were to play itself out a little longer than we think it will or be a little more difficult to manage, that we have more pricing flexibility in our -- and we absolutely have more than, I think, a lot of other people do.

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

Makes sense. There might be an expectation for higher prices from the consumer, so it will be interesting to see how that plays out. And...

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

Well, they're seeing that, John. And they're not -- and they're -- I think that one of the things you have to -- there's -- the consumer sentiment during the pandemic was -- the consumer was fairly lenient during the pandemic on pricing. I think as things go back to normal, there were 2 things that they kind of gave permission to: one was pricing and one was selection. And a lot of people took price and cut options.

And consumers kind of understood it. There was a pandemic. There was all this -- but I think in the future, they're not going to just kind of like carry those -- those are things I don't think they carry forward. I think they're going to want convenience and everything else, but I don't think they're going to just say, "Oh well, it's okay that you've overpriced and cut my selection." And we didn't do either of those things. So that's why we're -- we feel really good about where we're positioned.

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

Understood. And the second part of the question and you touched on it was regards to cost of sales. And whether it's a base commodity or it's shipping costs or what have you, including labor that exists, a driver in the warehouse side, all the things that we're reading about, there does seem to be some underlying COGS pressure that is coming, if not necessarily for you in the very near term because of contracts, it might be, I don't know, 6 or 12 or 18 months away, depending on what your contracts are. Could you kind of look forward a little bit beyond the fourth quarter and kind of talk about the COGS environment, maybe highlight some of the more major commodities to make us comfortable with your fiscal '22 exposure?

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

Yes, John, again, I do think there are some pressures that are existing out there. The commentary around those spot pressures is what you typically will see out there, doesn't come into play, as you say, in the next couple of quarters because of the contracting positions we've built. So we are protected really across all of our major commodity components for the rest of this fiscal year.

And then you build a lot of protections into the proteins and things of that nature as you get through the calendar year and even out into the beginnings of calendar '22. I mean there are -- their distribution channels are still unwinding and those do have impacts from time to time. Again, the nationwide distribution channels that we've established and the relationships we have with those broadline -- mainline carriers are very solid and are in place and are delivering for the restaurants.

So again, scale matters and support systems matter in this case. And we have just an excellent supply chain group, particularly when it comes to the logistical side of the equation. So it can be an all hands on deck, experience is different time to time, but we're working through all of those issues and are not seeing the broad-based disruptions that you hear about from some folks. So really pleased with the way that they're performing there. But -- and again, that supply chain will sort itself out. I think the disruptions are sporadic more than systemic and will correct themselves as they kind of move forward.

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

Yes. I think, John, two other things you got to remember with us. Well, first, the distribution issues are really, again, more market-based and not national, and the team is doing a good job to deal with those market-based issues. And then the beauty of -- especially the Chili's menu is broad-based use of proteins, very flexible and a lot of chicken breast. And again, the commodity market looks fairly good. Looks like it's going to be another good year. It doesn't look like -- the grain harvest looks solid. So those are the things that typically would get you concerned about the longer term.

If we're looking out into the future, the things that drive commodity costs longer term tend to be droughts. And it's looking like it's going to be a good harvest. And so those things bode well. And then we'll get through some of these labor issues better than most.

Operator

And the next question is coming from Jeffrey Bernstein.

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

From Barclays. Just following up on some earlier comments. Wyman, you mentioned that your goal would be, from an off-premise perspective, to hold on, I guess, maybe in the low 30% range versus your pre pandemic of 20%. So clearly, that's a healthy 10% incrementality if you believe it's incremental to your in-store.

So I'm just wondering if that was to play out in terms of that 10% incremental sales. How do you think about that in terms of the margin outlook? It would seem like even before COVID, obviously getting 10% more sales would help you leverage your fixed costs and give you a better margin. But through COVID, it seems like everyone's talking about doing more with less and being more efficient. So where do you see that incremental sales flowing through from a maybe margin upside perspective, whether it's relative to historical highs or however you think about that incrementality? And then I had one follow-up.

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

Yes, Jeff, great question. I do think that's kind of center to our organic growth story, right? It's this -- the leverage that we get through higher sales, a lot of that higher sales are going to be coming through off-premise. And it's a combination, it delivers great margins in and of itself, and then it also allows us to leverage the fixed costs and grow the margins from that aspect as well. Without getting specific to what the numbers are, that's the strategy, and we're very excited about it and it's playing itself out as we would expect.

We're also not just counting on that. We're also, as you've mentioned, as others have said, there are other things we've evaluated aggressively to rethink, to make sure that we're as efficient as possible while we support our restaurant operators to deliver great guest experiences. And some of those things are proving to be sustainable as we get back to kind of more historic levels of dining and traffic, and that's encouraging.

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

Got it. And then just from a cost perspective, maybe you could just address quickly marketing and G&A. Marketing, it seems like it will be down year-over-year pretty significantly with a lot less maybe national television of late. So just your outlook on the continued favorability. And then as it relates to just underlying G&A, what you kind of think of as the normalized core spend as we now wrap on '21 and look into fiscal '22, whether you think about it as relative to revenue or opportunities from that G&A perspective?

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

Yes, I'll hit marketing and I'll let Joe touch on G&A. So I think what's sometimes missed in our story is we didn't just cut marketing, we have rethought our marketing approach. And so while if you were to look at maybe the national network television line item yet significantly down. But we've reinvested and we feel like the model we've been running this last year with the pandemic is pretty much the model we will run going forward.

So we're not -- we didn't just cut those dollars and not reinvest them. Now they show up in different places in our P&L so it's not as easy as just the national network line. But those places we were invested in are obviously places we feel much better about the return and we can measure that return. And so it's in those much more effective channels of marketing. And so we don't anticipate having to -- or going back to a very aggressive television campaign, if you will, on a national basis. We like the model that we're using today.

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

And then on the G&A side of the equation, Jeff, I think from a rule of thumb, without getting specific to future fiscal years, I think 4% is a good benchmark for you to thinking about. The thing I like about G&A from a strategic standpoint is it is very leverageable. So I think there is some opportunity there to that number as we kind of move forward.

And remember, already embedded in that G&A number is significant technology spend that is important to drive the business going forward. We obviously have all of the compensation programs across all -- across the support staff embedded into that program. So when we think about how you invest into the business, we're going to have the flexibility to do what we need to do on the G&A side of the equation to drive development, to drive technology, to really grow the initiatives without having to alter that structure as you kind of move forward. So I think there's some -- definitely, it will be one of the points of leverageability as you build those volumes, as you go towards that $3.5 million average volume level.

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

Yes. Another thing we did this year, Jeff, kind of along those same lines, if you think about manager bonus, doesn't show up in G&A but it shows up in the labor line. And we paid manager bonuses out at a higher level this year, significantly higher by the time the whole fiscal year is done than we did last year. So through the pandemic, we kept them whole at bonus levels even though obviously, we were making a lot less money. And we did that.

And so next year, as you try and project out next year, we don't have a big hole to fill with regard to manager bonuses. We anticipate and want to play them even more, but it's not like we cut bonuses way down. So now as we grow into next year and things get back to normal, we got this significant gap to close. And so we feel good again about how we've maintained our cost structure and supported our people through the pandemic. And then what that bodes for as sales and traffic kind of come back, not having to kind of, again, fill some holes.

Operator

And the next question is coming from David Palmer.

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

Evercore ISI. A question on restaurant margins. The margin implied by your guidance in the fourth quarter would seem to imply new peak levels already. I don't know if you think if you could endorse this, but it seems like it will be near 17% for the quarter, which would be better than your -- than what we see in our model for past fourth quarter peak margins.

Obviously, it's a weird time, staffing levels, partially reopened restaurants, so obviously, these may not be indicative of where things would settle out as you get to a fully reopened restaurant base and society gets fully reopened. But how are you thinking about where your margins can be versus fiscal past peak of around 15% on an accounting adjusted basis? What are some gives and takes as you're thinking about the -- your margins and where they can go?

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

Yes, David. I'm not going to argue at all with your math on the guidance and the perceived margin that you put forward there. I think again, we're very optimistic about it. In fact, I'm more optimistic today than I was a year ago, obviously. But as we continue to see the strategy unfold and the fact that it does drive the incrementality from a margin standpoint, I'm comfortable with the target being able to get back into those ranges over time. We'll talk again more specific for future fiscal year. But definitely, upward trajectory is involved.

I would mention, too, as it relates to the fourth quarter, remember, that is a 53rd week, which does create a leverageable event in that in that last week. But even taking that into consideration, it would not surprise me to see, again, comparing back to pre-COVID days, your fourth quarter margins demonstrating the ability to leverage and move that margin up nicely above where we were in the past.

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

Great. And just a question on complexity. I think there's some questions on this call that touched on a little bit but I think there's a little bit of an implicit worry. One of your answers, Wyman, you even touched on it, that you're comfortable with 1 brand. But when I think about things getting to maybe 2 virtual brands and your own brand has -- is fully up and running. The stress is on the kitchen. You can imagine a Saturday night, maybe there being moments where you're freaking out about capacity.

And I think some others have worried aloud about a company like yours pursuing the strategy that you do pursue in that it will jeopardize that on-premise experience. So how are you feeling about that today? And are you still as confident as ever that you have the capacity to deliver when you get particularly to a busy Saturday night?

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

Yes. Well, first, David, we are in some busy Saturday nights. I mean we're setting records right now. And we have 2 virtual brands in a number of restaurants. And so we're learning the lesson that you're asking about and it's a critical lesson, right? And we're feeling good about where we're at. We got some work to do still to just really ensure that exactly the issue you're talking about is dealt with and that we're giving operators all the tools they need and the systems in place to execute and that's what we're doing.

And that's, again, the beauty of the scale, the beauty of the resources we have here, both supply chain and our culinary people and our op support people and the great operators we have. So it's not to be taken lightly and we don't take it lightly. And that's why sometimes, I think people might be a little bit -- we wonder why we're just not rolling out the next virtual brand tomorrow. And it's like, oh, we want to make sure it's absolutely locked down and that we can support our operators so that on those busy nights, we've got Mother's Day coming up. I mean, you've got to be able to say, yes, this is doable.

The good news is with these higher volumes, they get labor. They get additional labor in that kitchen. And so we can give them an additional person. And sometimes, it can just be a dedicated person to just doing that. If you're doing enough volume on a virtual brand, you're going to have a dedicated cook just focused on that. So all the other stuff still happens without really being impacted if you set the system up correctly. So that's -- but it's really, I think, the critical question.

Operator

And the next question is coming from Andrew Strelzik.

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

BMO. Two quick ones for me. I'm sorry if I missed this, but on the unit growth side, did you say how long you think it will take to build the development pipeline to get to that kind of 20-ish openings that you talked about?

And then the second thing on virtual brands. Obviously, you've talked about It's Just Wings, $150 million-plus. But just broadly speaking, for a virtual brand to kind of warrant a national rollout, is there a sales threshold that you kind of think about either at launch or from a sales perspective, like over time, that you kind of think about in terms of warranting that level of rollout?

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

So Andrew, as it relates to the development side of the question, I expect it to be a stair step over the next couple of fiscal years. I think we will look to build that pipeline a little bit further than where we've been at. Next fiscal year '22 and then '23, I think there's some -- they're working hard on the opportunities there to see it come in line with what I was talking about there. So we'll definitely continue to move closer as we go through this next fiscal year -- 2 fiscal years.

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

And then I don't know, Andrew...

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

Sales lines on the virtual brand side of the equation.

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

Yes. There's -- in terms of when do we see the opportunity. Give me that question one more time, Andrew. I wasn't quite tracking with you.

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

Yes. I guess I'm just wondering if there's kind of a minimum sales threshold that you think about from a virtual brand perspective, that it would then warrant a national rollout.

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

Sure, absolutely. And we've -- yes, and we have those targets. And I don't know why, let's just say, less than $100 million. I don't know. I'm just putting a number out there now, but you want it to be significant, for all the reasons we just talked about, in terms of adding that complexity in the restaurant. You don't want people to have to work hard at something that doesn't sell. So what that number is exactly but it'd have to be significant. We think $150 million is significant, but we're also trying to grow that.

So to go through the effort and do it right with the systems in place, you'd want it to be significant. Then you've got this issue of, okay, well, in some restaurants, you may not see those levels of volumes. And so do you -- we still have that opportunity to say, "Oh, you know what, that's a market that doesn't do as well in that virtual brand. So let's not burden that restaurant with that." And maybe we'll find another virtual brand that does better there or maybe we just take that load off of them.

So we're going through that whole process. And it's -- again, it's inorganic, it's kind of a learning process that we will continue to kind of work our way through. But yes, it has to be significant. We don't want to mess with something that's not really going to make a difference.

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

All right. That was our last question. So thank you, everybody. We appreciate you joining us on the call today and look forward to updating you on our fourth quarter results in August.

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

Thank you, everybody.

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

Thanks.

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.
