THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EAT - Q2 2019 Brinker International Inc Earnings Call

EVENT DATE/TIME: JANUARY 29, 2019 / 3:00PM GMT

OVERVIEW:

EAT reported 2Q19 revenues of $791m. Expects FY19 adjusted EPS to be $3.75-3.95.

CORPORATE PARTICIPANTS

Joseph G. Taylor *Brinker International, Inc. - Senior 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

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

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

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

David Sterling Palmer *RBC Capital Markets, LLC, Research Division - MD of Food & Restaurants and Consumer 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 *JP Morgan Chase & Co, Research Division - Senior Restaurant Analyst*

Karen Holthouse *Goldman Sachs Group Inc., Research Division - VP*

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

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

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

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

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

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brinker International Q2 F 2019 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, and good morning, everyone. Welcome to the Earnings Call for Brinker International's Second Quarter of Fiscal Year 2019. Leading our call this morning will be Wyman Roberts, Chief Executive Officer and President of Chili's; 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 is our practice, Wyman and Joe will first make prepared comments related to our strategic initiatives and operating performance. We will then open the call for your questions.

Before beginning our comments, please let me remind everyone of our safe harbor regarding forward-looking statements. During our call, management may discuss certain items, which are not based entirely on historical facts. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more commonly described in this morning's press release and the company's filings with the SEC. And of course, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations.

And with that, I will call -- turn the call over to Wyman.

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

All right. Thanks, Mika. Good morning, everyone. As you saw in this morning's press release, Q2 was a solid quarter for Brinker with positive comp sales of 2.7% driven by positive comp traffic of 2.8% and adjusted earnings per share of $0.89. We're pleased with our progress across the business. The positive momentum at both brands has enabled us to raise some elements of our guidance for the fiscal year, and Joe will give you more specifics on that in a moment.

Chili's continues to grow the business and gain market share with comp sales and traffic both up 2.9% for the quarter, significantly outperforming the category. As we keep getting better at executing our traffic-driving strategy, our results keep getting better. Q2 marks our fifth consecutive quarter of sequential sales improvements with the last 3 in positive territory, and this momentum continues into the third quarter as we maintain our positive gap to the industry.

Maggiano's also delivered a solid quarter during the important holiday season with comp sales up 1.8% and traffic up 1.3%. All aspects of the Maggiano's business, dining room, banquets, takeout and catering, performed well. This 25-year-old brand set more than 100 sales records during the quarter, including a record-breaking sales day across the brand at more than $3 million and the busiest day in a single restaurant at nearly $116,000 in our 22-year-old Tyson's Corner, Virginia location. And Maggiano's was recently named America's Favorite Casual-Dining Chain by Market Force edging out tough competition across the industry. That speaks to the power of the brand and the strength of the business. As we look to the future of Maggiano's, we're excited to explore new potential growth areas. We just opened our first franchise location at the Dallas Fort Worth Airport, and it's been a big hit. And later this year, we'll open our second airport location.

At Chili's, our sustained momentum is being driven by several key factors, specifically, value, takeout and most importantly, improved operational execution. We've talked with you for a while about our goal to optimize our on-menu value platform. We knew we needed a strong value platform at our foundation and that ours were in need of a refresh. 3 for $10 is a relevant and compelling offer that's sustainable into the foreseeable future. The platform is highly motivating from a consumer's perspective. It's at the right level of preference, and it's driving traffic because it meets the needs of our lunch, our dinner as well as our takeout guests. The offerings are full portion and high-quality products, and the platform is flexible enough to keep it fresh, so guest satisfaction and intent to return are very strong. It's simple for our operators to execute consistency -- consistently, and our margins are solid. In fact, our food margins relative to the industry are some of the best.

The second big traffic driver for us is our takeout business. To-go sales grew 20% in Q2 driven by a significant rise in e-commerce as well as more effective marketing support, improvements in packaging and better execution of the to-go experience. Consumers love the variety in our menu, couple that with the seamless experience we give them from order to check out to pay to takeout, and you can't take -- get takeout any easier or more affordable than with Chili's curbside. We're meeting our guest needs, and we're delivering a great guest experience. So at 12% of our business today, we believe takeout still has plenty of upside, and we plan to leverage that.

Finally, and perhaps most importantly, our operational momentum is bringing guests back into our restaurants. Our guests are telling us our execution and quality are significantly better even with the higher volumes. Today, we're seeing some of the best guest metrics we've ever seen. At the same time, we're delivering the best traffic growth we've seen in 10 years at Chili's. We attribute these results for our commitment to clear the deck for our operators and let them focus on their team members and guests. We believe our ongoing commitment to keeping operations simple and getting it right for every guest will have long-term impact on bringing guests back.

With a compelling value platform, growing takeout business and continued operational momentum, in addition to a marketing strategy that has never been as effective and efficient as it is today, we feel confident we have the strong foundation to sustain our improved performance and continue to take share. I'm impressed by our marketing team's innovative thinking as evidenced by their ability to drive traffic and sales with much lower weight levels. Additionally, we've grown our loyalty database to over 6 million members, and we know there's significant opportunity to leverage that connection going forward.

All these foundational elements have upside we're ready to capitalize on, which makes us comfortable with our line of sight to continue to grow the business and take share. And as we look longer-term at the future of our business, we're actively pursuing big ideas to overcome challenges facing our industry and create new ways to grow the business. We're fortunate we can lean into the depth of talent in our own team to lead both near- and long-term growth strategies. Ellie Doty, a truly talented marketer, has taken the helm of Chili's marketing. Under her leadership, this strong team is positioned to leverage the upside in traditional and digital media and are excited about what they're bringing to the table. This has freed up the visionary of Steve Provost and his team to go all in on a longer-term strategy, addressing the big disruptors facing our industry and to pave the way to move into an uncertain future with confidence.

As our strategy continues to gain traction, we're growing the business and outperforming the industry in sales and traffic. And I'd really like to thank Chili's and Maggiano's operations teams who have worked hard to demonstrate that every guest counts and our restaurant support team for delivering best-in-class systems that help our operators run great shifts. This team is focused on getting better every day and living our passion of making people feel special. And those just aren't words to us; it's our commitment to each other and to our guests. We see abundant opportunity as we look forward to continue to take share and grow the business, and we're excited about what the future holds for this great business.

So now I'll turn the call over to Joe to walk you through some numbers. Joe?

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

Thanks, Wyman, and good morning, everyone. Before moving the call to your questions, let me highlight some particular aspects of our quarterly operating performance and update to some of our previously provided annual guidance.

The second quarter marked the 1-year anniversary of the launch of our traffic-focus strategy, and the results reported this morning represent further progress in its execution by our operators with growth both in top line and bottom line performance. Brinker's company of restaurant sales grew 2.5%, increasing our total revenues to $791 million for the quarter. Central to this improvement is the continued growth in Chili's top line with positive comp sales for the quarter of 2.9% driven by market share-gaining traffic of also 2.9%. These results represent a positive GAAP to the casual dining industry of over 1% for comp sales and close to 4% for traffic.

During the quarter, Chili's maintained a positive GAAP to its peer group in comp sales and traffic in all regions of the country with particular strength in our important markets in the Southwest, New England and California. Comp sales were positive for both lunch and dinner as well as for both weekday and weekend occasions. We continue to grow both dine-in and off-premise sales with an acceleration in Chili's year-over-year to-go growth to just over 20%. The quarterly Chili's comp sales results also reflect our efforts to better balance the underlying impact of check-in traffic with positive net price of 90 basis points, offsetting a similar amount of negative mix. Remembering net price is impacted by year-over-year change in comp expense, our target menu price remains close to 1.5%.

As we mentioned on the last quarterly call, the Chili's menu introduced in early October reconstituted our on-menu value offerings, built around the 3 for $10 meal, our lunch combos and the new $25 3-course meal for 2. Following this menu introduction, Chili's experienced sequential improvement and positive comp sales in each month of the quarter.

Maggiano's played a strong supporting role to the overall Brinker results, once again delivering a quality holiday performance. Quarterly comp sales of positive 1.8%, effectively lapped the similar quarterly performance the prior year. Like Chili's, the brand also delivered positive sales throughout the quarter. As Wyman mentioned, the second quarter was the fifth consecutive quarter of sequential improvement in comp sales for Brinker. We believe the traction we are gaining in the fundamentals of our business, coupled with the incremental effectiveness of our marketing and value-oriented offerings, provide us the capacity to further grow the top line as we move through the remainder of this fiscal year.

Our restaurant operating margin for the quarter was 12.4%, a 250 basis point reduction when compared to second quarter of last fiscal year. Let me unpack that change as it is a combination of factors, most of which are contemplated in our operating and financial strategies. We have previously discussed the margin impact from our sale leaseback transactions and the change in revenue recognition related to franchise advertising contributions now recognized outside of restaurant operating margin in franchise and other revenues. Those 2 factors represent approximately 180 of the 250 basis point change. The favorable guest response to our value offerings did impact cost of sales margin, resulting in a 40-basis-point increase in that component overall.

Restaurant labor costs increased through the quarter as incremental hours moved back into the business and hourly wage rates increased by just under 3%. Improved restaurant-level performance also translated into higher manager bonuses that impacted margin by 30 basis points, a cost we are happy to pay. In addition, employee health insurance claims, which can fluctuate quarter-to-quarter, experienced a year-over (sic) [year-over-year] increase of $2 million in the second quarter and reduced margins by 20 basis points.

We do see opportunities to improve our top line flow-through with significant operational focus on better managing restaurant-level expenses as we adjust to increasing guest levels. As we move into our higher-volume third and fourth quarters, we anticipate further sales leverage favorably impacting restaurant operating margins.

While I will review several upward revisions to our annual guidance momentarily, we are not changing our guidance on restaurant operating margin. That being said, we do expect the decrease in our full year restaurant operating margin to be close to the upper end of the guidance range we've provided on the August call, a decrease of 160 to 180 basis points and the annual restaurant operating margin percentage.

Driven by the stronger top line performance of our brands, we've made the following revisions to our annual guidance: the comp sales growth guidance for Brinker is increased to positive 1.75% to 2.5% for the fiscal year; revenues are now estimated to be up 2.0% to 2.75%; our annual effective tax rate is estimated to be between 10% and 12%; and we are increasing our fiscal year adjusted earnings per share guidance range upward by $0.05 to a range of $3.75 to $3.95.

During our second quarter call last year, we commented that quarter was notable for the beginning of the implementation of our current traffic-centric strategy, and that we believe positive comp sales and sequential growth were attainable. One year later, we've experienced exactly that combination. We continue to believe this strategy has the ability to deliver positive results for the foreseeable future.

Let me also echo Wyman's thanks to our team members working every day in our restaurants and here in Dallas to deliver these positive results for our business.

With that said, I'll turn the call over to Kate to moderate our Q&A period. Thanks, Kate.

QUESTIONS AND ANSWERS

Operator

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

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

It's Chris O'Cull with Stifel. Joe, I apologize if I missed this, but why does the company expect the year-over-year decline in restaurant margin to be at the higher end of the range given the comp trends have been a little better than expected?

THOMSON REUTERS

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

Again, as we've -- again, we're talking about restaurant operating margins, so some of the investments we're making back into our business have the impact in that area. We do make up for some of that investment when you look at further down the P&L and all the way through the tax rate. So improvements you're seeing in leverage in the P&L and improvements you see in tax rate are directly reflective of that top line growth strategy, some of the credits that come on the tax side from that strategy and the opportunity to leverage some of the other fixed costs. So sales leverage will move back into the business as we move through the second half of the higher volume and as we continue to make operational improvements on the margin. So again, as we look at the business today and our beliefs around where it's heading, we still see that guidance range to be operative.

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

And you mentioned that you expect to have tighter cost controls or some programs you're looking at to address some of the industry challenges, which I assume means the wage pressure and the labor cost inflation. Can you describe some of these programs that you think will have the most impact in the back half of the year?

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

Hey, Chris, Wyman. I think the biggest thing we're seeing, and it's -- we're already seeing it through the second quarter, is just the impact that simplification and focus has allowed our operators to deliver a stronger P&L. With the stability that we now have kind of engaging in this strategy now for several quarters, it allows operators to get their cadence right, to get their systems down even better. And we're starting to see much more consistent delivery of P&Ls throughout the quarters. So that's probably the biggest thing. I mean, we've got a lot of other programs that we're working on that, frankly, we'd like to keep a little bit more confidential to ourselves and that we think will help mitigate. But those are -- the biggest thing we can do is just gear our operators the clear line of sight on, hey, what's coming, so that they can operate and hold the business model intact without a lot of changes.

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

And I think specific to labor -- okay.

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

Go ahead, Joe. Sorry.

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

Chris, I'd just add specific to labor, again, we're seeing wage rates perform right in line with our expectations for the year. We're working all other areas of the labor line. Clearly, in second quarter, sometimes -- in second quarter, you saw this with impact of employee health insurance claims. I mean, that's a fluctuating cost that is based strictly on experience and -- was based mainly on experience and when you see a $2 million quarter-over-quarter delta like we did, that can have an impact on the margins, but it's not something that is necessarily systemic to every quarter going forward.

Operator

Our next question today is coming from Gregory Francfort. (Operator Instructions)

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

It's Greg from Bank of America. I just had 2 questions on the 3 for $10 and the move you made on the menu. One, can you maybe quantify how much margin pressure that was during the quarter? And then I think you talked about that preference being at the right rate where you want it longer term. Have you seen that stabilizing within the quarter? Or maybe what's been the trend as you kind of have move that onto the menu?

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

Hey, Greg, Wyman, yes. So again, what we talk about with 3 for $10 is this -- our desire really for quite a while now is to make sure that there's value embedded in the base menu. And we've had these value platforms that we have written for quite a while, for years. The 2 for $20 was a value platform we wrote for many, many years and then our lunch combo platform. And we just needed to refresh. And so what we did with 3 for $10, we bring it in as a new platform, and that has proven to be a very compelling offer for us. The thing -- the beauty of it is it works across all of our dayparts. So there's not a need from a marketing perspective to be out there with multiple messages. And then we're able to offset the impact of that with some changes now to those other platforms. So 2 for $20 a couple of years ago is now 2 for $25. Lunch combos that used to start at $6 are now at $8. So we've been able to mitigate much of the pressure to the cost of sales -- to cost of sales through those kind of changes in the other platforms. And obviously, you can see through our results, it hasn't -- those changes, net-net still provide a much more compelling traffic-driving alternative for our guests. I think Mika mentioned that the higher cost of sales number was -- or Joe mentioned, that it was in that 30%...

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

40 basis points.

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

40 basis points. Given our significant increase in traffic, it's a much -- that's a very manageable cost of sale impact. The preference is in the low- to mid-teens, which, again, for us, you're going to need something that has breadth, and that's great. And the fact that it's working, again, against a lunch check average, that's -- a $10 price point is pretty good. Against dinner, there may be some trade. Against takeout, the beverage component of that doesn't have as much trading implication because beverage incidence on takeout is pretty low, anyway, so it's a great value proposition for our guests that doesn't really have as much trade implication. So we have a pretty good understanding, obviously, of all the margin giveback. But when you just look at our cost of sales as a component, you'll see we lead the industry in cost of sales. It's very favorable. And so that's not -- that's an area we have -- we had some room to give a little bit back, and we're doing that. But it's much -- it's very manageable.

Operator

Our next question today is coming from Sara Senatore. (Operator Instructions)

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

Bernstein. And I have a question and a follow-up, if I may. The question on the margins, to your point, you do have very attractive food margins versus the industry. I guess, at the risk of sort of being glass half-empty, I guess, what does that say about the value proposition to the customer? Just insofar, sometimes high food margins can be a reflection of perhaps less value proposition. And so would we expect to see structurally just more pressure going forward on the COGS line? And then a follow-up, please.

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

Sara, I think, obviously, the COGS is an important aspect of the value proposition, what you're putting on there, but it's also balanced with what you charge. And obviously, when you put a price point out there like we're putting out there, for example, with 3 for $10, and again, it's not the bulk of our guests that are eating that offer. But if you're a value-oriented guest, that's a compelling offer, unmatched, I think, in the industry, and I don't know if many can match it. I think the thing that's probably surprising to many is that we can do this and be really strong across the P&L and continue to maintain good margin, especially within cost of sale. So what we do know about our value ratings and our value positioning as a brand at Chili's is that it's -- we're one of the strongest in the industry. And that's a combination of what you pay for what you get, and we're committed to actually improving that. Part of the value proposition with 3 for $10 that is just being discovered by a lot of consumers is the quality of the food that's being offered. So again, when we first started that message, there were a lot of consumers that assumed that to put an offer out there like that was going to require us to either reduce portions or reduce quality of the product, and the exact opposite is actually true. We've invested in the quality of the product. We've invested in the portioning on some of those items. And so what we're seeing now is the intent to return from those guests that are experiencing it. And it always starts with your heavier users, but now with lighter users come into the mix, and we changed their initial perception of that offer that we're seeing, obviously, the sustained ability to drive traffic. And we think that will continue to grow. So that's kind of how we look at the whole value platform and the positioning within the brand.

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

Great. And that's actually a good segue to my follow-up question, which was just -- and to the extent that you have customers coming in and using this menu, do you have any indication about your ability to either trade them up at some point or to increase frequency but in a way that -- where they aren't exclusively using that menu? Just trying to understand the extent to which you're using value to drive traffic can be a stepping-stone to, call it, more profitable traffic versus just sort of retaining them at this -- for -- from a value perspective.

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

Sure, sure. Well, again, the big thing is just looking at absolute preference and mix, right? So when you're looking at an offering that's in the low teens, it's not like we're trading the bulk of our guests into this offer. So that's the first thing. So that's not -- the risk there isn't as great. So -- and then, obviously, we are, at every opportunity, looking for people to add on whether it's through additional appetizers. Obviously, we're very excited about our Margarita selections and the value propositions we have there as well as just selection. So yes, our operators do a great job of continuing to move people and our marketers with regard to merchandising to move people and to market maybe some higher-margin items and some higher-priced items but also making sure that, that value component is there for those consumers that are really looking for maybe that lower-priced alternative. And that's the beauty of the Chili's menu. It gives you -- the selection gives you value in multiple different ways.

Operator

Our next question today is coming from Andrew Strelzik. (Operator Instructions)

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

BMO. I guess, I have 2 questions. My first one, we've heard from some of your peers that have historically pursued a value-centric strategy that they're either going to be shifting away from discounting or taking more price, those types of things, to protect the margins. And I'm assuming, from a top line perspective, that could be a benefit to Chili's, and certainly, you didn't -- wouldn't want to derail some of the top line momentum that you've seen so far. But I'm wondering, have you thought about taking a little extra price? Or I guess, how do you reflect on those opportunities for Chili's to maybe protect the margins in the near term at all?

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

Well, again, I think, Andrew, you want to look at our margins overall. So our margin structure overall is fairly strong, especially when you look at cost of sales. I will say that some of the commentary around the promotional strategies and what's going on in the industry is a little bit -- you got to put everything in context, right? So if there's a concept out there that has an unlimited offering, a lunch value proposition every day on their menu at a very compelling price, an early dinner strategy with a very compelling low price and a dinner strategy on their menu at a very compelling price, well then, the need for LTO is probably not -- it shouldn't be very high because their overall value is baked in, which is not a bad strategy. That's kind of what we're talking about. So there's more similarity than differences. It's just how people talked about where their value platform lays. But at the end of the day, I look at cost of sales as kind of a barometer for, hey, what are they giving for what are they getting, and then I'll look at absolute price points to determine the compelling nature in terms of breadth of the target. And that's what we're doing, and we will continue to look at pricing in a way that continues to keep our margin structure intact, but also we're focused on driving traffic. We think that for too long, this industry -- and you're starting to see it now, you're hearing people talk about comp sales growth with negative traffic growth that they haven't talked about in a while. And I think they're rationalizing that, but I think that's a slippery slope that when people are -- and we've been down that slope, so this isn't one that we don't talk about without some experience. How long can you continue to drive sales growth with traffic declines? That's a very interesting question, one we're not ready to kind of deal with right now. We want to continue to move traffic forward.

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

That makes sense. That's very helpful color. And my second question is just, on the to-go impact, when you turned on the marketing, I believe it was in November, did you see a notable change in the trajectory of -- or I guess, an acceleration in the growth rate, which, obviously, has been very strong? And you said accelerated. And the plan around marketing that going forward, is that going to be pulsed in and out? Or is that going to be more consistent? Any color on that will be helpful.

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

Well, the answer to your first question is yes. The answer to your second question is we probably don't want to share that. So -- but obviously, if it was successful. And again, the beauty of a strategy that works up a base menu platform is -- and that the offer like 3 for $10 allowed us to talk about the compelling offer in a to-go environment without adding additional media weight, and in reality, we cut weight fairly significantly in the second quarter and drove these results, it tells you that there's, again, other margin opportunities for us on the P&L outside of cost of sales that we are going to continue to look at. So the beauty of a compelling message that works across lunch, dinner and to-go is that we can now add those other specifics to the message, if you will, without having to create a new campaign, without having to buy a separate media strategy for it. And that's something we're excited about and that the marketing team is already leaning heavily into.

Operator

Our next question today is coming from Nicole Miller. (Operator Instructions)

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

A couple of quick questions. In terms of the regional performance, when you talk about the Southwest, is there anything you would say specific to Texas being just -- Texas specifically within the regional performance of being a little bit better or the same? And what was the gap to Knapp for the Chili's same-store sales, please?

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

In a reverse order, the gap to Knapp was in that 1% range as it was for the -- some of the other indexes. And traffic, again, you're at that 4% range, again, an accelerating gap there. Texas, yes, was a great market for us. And obviously, we look across the Southwest. Legacy market, strong market and the performance there is -- was notable differences in both comp and traffic.

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

But I will add, Nicole,, we've seen breadth. The strength of the performance isn't just driven by Texas. Really, breadth of our performance and our gaps to the competitors, as Joe mentioned in his comments, is consistent across of the country, really. And we've seen solid growth and pickup. If you look at our franchisees number, as an example, so really strong quarter for our franchisees who are, again, aligned and excited about this strategy. It's an interesting comment with a lot of the pressure you're seeing in franchise organizations around margins. We have none of that happening within our organization. Franchisees are very happy. And again, I think just an indicator of how the strategy is playing out through their P&Ls.

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

Excellent. That's very helpful. And then just thinking about -- you talked a lot about the employees that you do have across the country. How do you align the store-level incentives? There's a lot going out the door off-premise. And then there's still the in-store sales and a lot of the things you want to do in terms of simplification and focus. So I'm just curious if you've changed how you align incentives or where your focus is in that regard?

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

The biggest change we've made to kind of the operational level KPIs, if you will, or targets has been around traffic. And again, we want the whole organization aligned around the strategy about driving traffic at Chili's, and so we've put a little bit more emphasis there. But our operational targets are balanced around sales, around profitability at the restaurant level and around guest experience. And those metrics are tracked daily, basically, and our operators have a really clear and clean visibility into how they're performing. And again, this quarter, one of the challenges that we faced on our labor line was that we paid much higher bonuses this year than last year. And that's a good thing. And that was -- that's something that we now fill that bucket up of a manager bonus back to target, and that's something that we won't have to deal with as much going forward.

Operator

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

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

Raymond James. I just had a few questions on your raised comp guidance and then a follow-up on margins, if I could. And really, on the average check expectations in the second half. Joe, could you help us with how we should think about the drag of comp loyalty expense on net versus gross pricing? And then also, do you expect mix to continue to be a negative until you lap the intro of 3 for $10? Or perhaps, there's another dynamic worth highlighting?

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

Yes. Brian, I think, a good question on this, because, again, it is a net price. The year-over-year change and our comp expense is a reduction or an increase to menu price. Menu price, again, as I mentioned, we are targeting that 1.5% range. We think that is a very sustainable and appropriate level of pricing from a menu standpoint, if you think about it on an annual basis. As we move through the rest of the fiscal year, I'm not going to take a pass that level, you'll see less of a comp impact to the pricing dynamic as we kind of move through the third quarter and then we start to lap the year-over-year increase in comp expense. So you will actually see a little more net price work its way back into the system based on that year-over-year lap and anticipated differential in comp expense. That's how we currently see the comp grow. Now again, we can -- we'll manage the business appropriately, and we think we have some -- a decent level of firepower if we choose to use it to drive the businesses, again, focusing on that traffic-driving dynamic of the strategy. Again, I think we've been fairly consistent in the discussion around the impact of our value offerings where they do tend to play out within restaurant operating margin is on that cost of sales and the mix dynamic of that cost of sales. So to the extent there is impact, that's where it would be. Again, they're very effective traffic drivers and you -- and again, thinking through the rest of the P&L and the sales leverage that goes with that, all the way down through the tax rate. And so one other thing I would point out on the tax rate that, that differential that we're now guiding to is a direct correlation to the top line growth. It's driven by tax credits that come primarily from the FICA Tip tax credit that is important to this industry, along with team member meals, the deductibility of those. And as both of those have increased on the cost side, either traffic from a tip standpoint or ship meals from a cost standpoint, we benefit on the tax line from those change. So it's -- you can't divorce the change in tax from the change in the top line.

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

Yes, that's a helpful highlight, Joe. And on the margin front, just 2 quick ones. First, the second quarter, the health insurance, was that because you were lapping unusually low insurance in fiscal second quarter of last year? Or was it up above normal in the current quarter?

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

Great question, Brian. And it was lower last year. So we had a benefit from a year-over-year change in health claims experience last year, which exacerbated the difference this year. So again, that -- actual claims experience. And particularly, if you get high dollar claims experience can have an impact on quarterly numbers, but it's not a -- shouldn't be viewed as a run rate situation.

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

Right. And the comparison on that, if you wanted to call it that, as we think about the second half of the year, are we -- did we have a normal level of claims activity in insurance in the second half of last year?

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

Last year was relatively normal, yes. We didn't see any meaningful good guys as it relates to our experience.

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

Okay, great. And then just last one. I wanted to ask about the guidance in incentive comp specifically. And I think back in the day when you originally set the guidance, Joe, you had said you got about $18 million across the P&L for normalized bonuses. The question is, has that figure changed in your updated guidance? And also, could you comment how much is incentive comp up year-on-year in the first half of the year?

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

We're not unpacking the specific dollar amount. I will say, we paid one of the higher level of manager bonuses in the second quarter than we've paid in several years. So we are seeing a nice movement in manager bonus. We anticipate continuing to see that level. Things are relatively consistent, with a slight, maybe, bias to the high side in the back half of the year to the number that we talked about at the earlier part of the year, and we'll see how that plays out. And again, there's several different components.

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

But I think the impact, Brian, to this year versus last year in that $18 million kind of investment was greater in the second quarter than it will be moving forward. So we paid a bigger chunk of that in the second quarter.

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

Yes. As you -- last year, the low -- the biggest decreases we saw on manager bonus were in the second and third quarters and not much in the fourth quarter. So when you -- again, when you think about the same dynamic if you talked about on employee health, the -- as we move to the fourth quarter when we start to reaccrue manager bonus in the fourth quarter of last year, your year-over-year lap isn't quite as big.

Operator

Our next question today is coming from Robert Derrington. (Operator Instructions)

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

Telsey Advisory. Wyman, by my calculation it looks like these past 2 quarters have been the best traffic trends you guys have had since, I think, fiscal 2006. Now that said, it's been against relatively easy traffic comps for Chili's. And as we go forward, those traffic comps get materially tougher, especially as you begin climbing over the 3 for $10. Is there sufficient firepower within the 3 for $10 as you roll over it that gives you confidence that you can continue to grow traffic at the rate that you have? Or should we be anticipating a modest slowdown from what the trends have been?

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

Bob, you're right. This has been the best traffic growth that we've seen in the brand in quite some time. The potential for us to continue it, we're optimistic about, for reasons that I stated before. One is when you get a value platform that's working well for you, it's -- this isn't like an LTO or a promotional message. They actually build over time as people become more familiar with them and they kind of see themselves out there in the environment. So we're optimistic about that. We also know there is additional firepower within the marketing organization, especially around things like loyalty, to-go, how we come to the market. So yes, we're confident that we can continue to drive traffic going forward.

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

And Bob, one thing to remind about as it relates to that, we start to lap into the utilization of 3 for $10 as we move into the fourth quarter, but it was not an on-the-menu utilization of 3 for $10. So I think the structural change we made in the menu and the value platform starting in October gives us a little bit more firepower as you kind of think through when those laps take place.

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

If I may, a real quick follow-up. Wyman, you've spoken about the opportunity within off-premise, and it's certainly shown some terrific growth as it relates to to-go. Any kind of color perspective on an update as you -- as it relates to third-party delivery?

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

Well, Bob, I mean, I think we, like many in the industry, have been engaged in delivery. We're cautious with it on 2 fronts, one is just the business model implications are significant with the fees that the third-party partners are charging; but almost more importantly, the impact it has on your operations, given that their integration into our systems isn't great and that from a technology standpoint, given that so many of these third parties are really priding themselves on being technology experts, we're challenging them to integrate better so that the impact it has to the operations side of the business is minimized. And then the -- and then obviously, we're really watching closely the quality of the experience at the guests' end of it. So we're engaged. We're engaged with all the big partners. We continue to look at it. We know that the convenience is not something that's going to go away. It's a consumer need that's, obviously, very high on the list right now. But we also are very cautious about making sure that how delivery works within the Chili's organization is handled in the appropriate way from all aspects of the business. Again, I would just like to remind people, we've been doing delivery at Maggiano's for 10 years. So we have our own delivery system. We understand the implications of delivery and -- both the positive and the negative. And so we just are looking to make sure that we're confident before we get too far out over our skis, if you will, on these partners.

Operator

Our next question today is coming from Peter Saleh. (Operator Instructions)

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

Great, from BTIG. So a couple of questions. I think this was kind of asked a little bit earlier. I just want to come back to it. Can you just talk about the marketing message maybe going forward? Are you guys going to stick with the value message? Or will you try to shift maybe to higher price points as we go forward or some more full-price items in the marketing and advertising message?

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

Peter, we probably don't want to give you too much specificity on kind of the marketing strategy around how the messaging is going to go. I think we know we have a compelling value platform, we know that it also allows us to kind of create new news within that platform, we know it works across different dayparts and functionality, so we can position it like we did over the holidays kind of around a to-go platform fairly easily. And then we also have alternatives, to your point, to talk about other aspects of the business, whether they are different food items or other aspects of the service or atmosphere. So those are all open to us, and we just kind of continue to evaluate. And also, they're channel-specific. More and more now, we're really leaning into alternative challenge -- channels. And as the traditional media becomes less and less affordable and effective, we really are evaluating how the alternative media and communication vehicles will work for us.

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

Great. And then on the delivery side, have you considered -- while we appreciate the margin pressure from, I guess, the fees that the third-party operators charge, have you considered maybe a strategy where you shift that cost to the consumer? Is that something you guys have tried? Does that work? Is that something you will look at going forward?

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

Yes. I mean, I think, Peter, those things are looked at and evaluated. I mean, obviously, the -- understanding the price elasticity of our guests is important, and I think that's what we as well as these third-party partners need to kind of become better educated on. I don't think casual dining has the same dynamics as others in the delivery world. And it just -- we all need to kind of educate ourselves on how do we cover these costs, incremental costs, in a way that keeps consumers engaged.

Operator

Our next question today is coming from John Ivankoe. (Operator Instructions)

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

With JPMorgan. In your prepared remarks you talked about potential big ideas to overcome challenges. And I think that was in the context of labor, correct me if I'm wrong about that. But could you give us an update about a couple of the things that you have talked about, certified shift leader, for example, if that's something that we're going forward with; if you do feel like you've fully optimized handhelds at this point; and if there's other technology that you could look at with Chili's or maybe things that you're seeing for others that could work for both of your brands that could make a difference in the relatively near term? And I would like to put that in the context of CapEx. I mean, I don't think we've talked about remodels on this call. If we can get an update in terms of what's going on with that program.

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

Okay. So let me hit some of the kind of disrupters we talked about, John. And you're right, labor is a big one. Convenience on the call before was another -- it's another area of obstruction, right, in terms of the category in this space, in terms of what we're looking at and trying to make sure that we bring our resources and some of our best thinking to it, and that's why we're making structural changes on our team, as I mentioned. So where we're at, specifically on things like certified shift leaders and changing the management structure, we're well into the process of rethinking how we staff management and bringing in a lot more of our hourly team members into the management position has had a real positive impact on mitigating some of our labor costs. They come in at a lower rate, but more importantly, they come in with this experience that we have had with them over years of being in our restaurant as either servers or back-of-the-house team members. And so we have a much better comfort level, and they have a much better comfort level with the operation and then their leadership tends to be accelerated up the curve, if you will. And we think that the long-term impact is just on, hey, we get a lower cost of entry, if you will, but we also get a stronger leader that stays longer. So the turnover becomes even lower, and our turnover has traditionally led the industry at management, and we have some more consistency within the model. So there's a lot of benefits that come through that program. But not the least of which is lowering some of the costs on the labor line. With regard to handhelds, we haven't moved forward out of where we're at today with that technology. We still believe in it. Frankly, we're just getting the technology right. And our commitment to our operators is that we won't move forward with a new technology until we really have it buttoned down. And that's been a -- something that we haven't been as good at as we need to be. We've rushed some technology ideas out into the field a little prematurely. And that's why I talked about delivery and integration of that technology being critical because as we start to focus on flow-through and managers delivering on P&L while delivering a great guest experience, the systems have to work. And right now, the technology on the handhelds just isn't consistent enough to where we roll it. We think we're working with our partners to get it there. And we're -- have a sense of urgency to do that. We think there is an upside to that, well, we know there is, but has to -- it has to be dependable. And that's our focus right now.

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

And if I could follow up. So are we then fully rolled out on certified shift leader? I mean, are we currently seeing that P&L impact? Or is that going to be more of a multiyear transition as you kind of work that new culture into the system?

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

Yes. It's -- that's kind of a replace strategy, right? So as we're replacing, we're moving it through. And it's moving through rapidly. But we're not at 100%, for sure, and we're -- but we were committed to the program, and we're seeing great results both, again, to mitigate some of the costs out of the business but also on how those new managers perform relative to managers we source maybe from outside the organization before. So that's -- those things are kind of in process. I'd say we're more than halfway there, but not -- but we're not 100%.

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

Okay, helpful. And then just something quickly on remodels and maybe if there's -- your kind of initial look on fiscal '20 CapEx as we build our out-years.

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

Well, the remodel program is continuing pretty much at the pace we anticipated, moving through the progression towards that approximately 240, 250 for this fiscal year. The response we're getting from team members, from guests is very encouraging. The relevancy and the look and feel that they like about the restaurants is solid. I think you all -- as we had indicated before, the impact, as it relates to our thinking around top line growth, starts to really work its way into the system from this point going forward as you get more of a base into that remodel. So we would expect them to increasingly favorably impact our comp sales growth as we move forward from this point. But -- and then obviously, the bigger impact is coming in the next 2 years as you get the remaining sector of the -- of that fleet done. So CapEx is right on target for where we expected it to be. I'm probably a little biased towards the upper end of that 140 to 150 range but no big delta changes as I talked about this time, John.

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

And that would presumably mean '20 versus '19. I mean, there's nothing really special that you would call out at this point as we think about '20?

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

No. I think when we talked about the reimage program, we -- before, we defined it as a kind of a 3-year program that would have a similar impact on year-over-year CapEx. So we're comfortable right where that is right now.

Operator

Our next question today is coming from Jeffrey Bernstein. (Operator Instructions)

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

From Barclays. 2 questions. One, Wyman, you mentioned earlier in a response to a question about the slippery slope in terms of some players are getting comp growth but with traffic declines and how that's presumably concerning, and we would agree. Just wondering how you think about the -- I guess, of the trade-off because there's also a slippery slope seems like you guys are good on the comp and the traffic growth, but then you perhaps faced more of the margin pressure. So I'm just wondering how you decide which is more attractive or perhaps less painful because it would seem like on both fronts, you wouldn't be happy; you'd want kind of the grass-that-was-greener-type idea. And then I had a follow-up.

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

Yes, Jeff. Obviously, we want both, right? We want to get sales growth through traffic that translates to earnings growth, and we think that the path we're on does that. It -- again, quarter-to-quarter and some changes in the structure but when we look at the overall dynamics of the business, we think that's doable with kind of the approach we're taking. So I think in today's environment, if -- this is a good economic environment with unemployment and income growth the way it's kind of laid itself out, if you're not getting traffic growth in today's environment, I'd be concerned because as pressure mounts on the category and you don't have that established value proposition, that loyalty with your frequent guests and traffic- driving strategies, then what's going to happen if things start to turn. So that's the other way we kind of look at it. It's now the time to be really building your base and getting that loyal consumer into the house, so that if it starts to become a little bit tougher out there, you've got that loyalty and you built those -- that customer into your portfolio.

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

But I guess, at this point, it's okay to do it at the expense of margin just because, right, you want to be driving the traffic, first and foremost?

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

Yes. I mean, the margin give-up relative to the traffic growth is not that significant. Again, the margin pressure we're experiencing isn't driven primarily by the value propositions. It's really a structure -- a lot of the margin challenges, we're saying, it really -- a lot to do with financings and then some more onetime kind of ideas that are out there. So we're more than comfortable that the margin give-up that we're investing in, if you will, with this value proposition is manageable to do both.

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

Understood. And then, Joe, can you just clarify what you mentioned earlier? I mean, I was thinking of asking about the -- it just seemed like the fiscal '19 guidance, you raised the comp and the revenue, led the -- raised the earnings by $0.05, but the lower tax rate seemingly benefited fiscal '19 by what seems to be close to $0.15, which would imply kind of a $0.10 reduction in the underlying business, which, presumably, would be concerning with these comps. But your message earlier, if you could just clarify, I guess, you believe that the lower tax rate is favorably attributed to the sales growth, and therefore, you don't view it as -- you struggle to look at those independently? I'm just wondering how much of the tax rate reduction would you attribute to good things in terms of favorable sales versus just a lower tax rate, which is, obviously, lesser quality?

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

Well, again, I think the lower statutory tax rates were already worked into our numbers that you got at the beginning of the year. So the delta changes are almost -- are primarily driven by the operating business. And the biggest one we have is the FICA Tip Credit that, being a tax credit, has a meaningful impact on the ETR as you grow. Again, as you grow top line, volumes increase, obviously, what you would typically see were tips increasing as part of that dynamic. That credit has a relatively powerful impact on the ETR as we kind of go forward. And you're starting to see that play out in the business, and that is really what is driving the reguide that we gave you on the tax line. So they are directly linked. When I think about annual guidance from an EBITDA standpoint, again, I'm looking holistically at the business, we think that guidance is very appropriate increase. I think the best takeaway from that is indicative of the directional improvement we're seeing in the business. And as again, what we're committed to do is we want to continue to drive those improvements, improve our margins, get the sale leverage, and then the rest will speak for itself as it works its way through the bottom line and how those numbers actually come to fruition as we move throughout the year.

Operator

Our next question today is coming from David Palmer. (Operator Instructions)

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

RBC. I think the market is concerned that Chili's same-store sales trends will slow at least a little bit as it lapsed the initial launch of 3 for $10. And I think this is true particularly as industry comparisons also get tougher through the year. There's precedent for value messages like Olive Garden's starting in 99 -- $9.99 pastas and even Chili's old 2 for $20. Those contributed to sales over multiple years, but there's plenty of others that have failed to contributing in year 2. So just what gives you confidence you can make this something that can sustain momentum after the spring? And I'll have a follow-up.

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

Yes, David, I think it's just that. It's being positioned as a value platform, it's gaining momentum in terms of awareness levels, very -- and trial. Light user trial on that offer is very low. We know once people try it, the acceptance is extremely high and the intent to return is great. So we continue to also have additional -- I mean, it's not like that's the only thing we've got in our pocket, if you will, to continue the momentum. The most important thing, though, is just operational consistency, and the improvements that are being made in the restaurant day in and day out to drive operational consistency are meaningful and being recognized by the guest. And so when we think about what are the drivers to future growth, it's not just the viability of the value platform. It's that, coupled with, okay, where does your takeout strategy go from here, how does your operational momentum build to the future with regard to consistency and winning guests back from that perspective. So there's multiple elements to the Chili's growth story, if you will, that we're counting on, and we're confident it will allow us to continue to grow the business.

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

And just a small follow-up on pricing. I think you did a little less than 1% in the quarter, and you said your targeted amount is 1.5%. Does that mean that you're going to oscillate to either side of that 1.5% that you might have more pricing going forward?

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

Yes. And again, that 90 basis points is net pricing. So there is a year-over-year comp expense aspect to that. The menu pricing was closer to that target, 1.5%. We're -- we should be consistently in that range. At any given point in time, depending on timing of when you wrap pricing, you might get some fluctuations. But it's going to be in a pretty tight delta to that. And then the net price we talk about will give you some line of sight as to either the reduction or addition from the year-over-year comp change.

Operator

Our next question today is coming from Karen Holthouse. (Operator Instructions)

Karen Holthouse - *Goldman Sachs Group Inc., Research Division - VP*

Goldman Sachs. Most of my questions have been asked and answered, but just one quick housekeeping one. On the franchise and other line item in the model, what was the breakdown between royalties and other revenue?

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

We typically don't provide all of the breakout. I think the bigger delta you saw in that, Karen, again, was the move of the franchisee advertising contributions, which is roughly in the $5 million range, moved into that category. So that was the bigger driver. There weren't too many other major deltas one way or the other as you look throughout the different components of that number.

Operator

Our next question today is coming from John Glass. (Operator Instructions)

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

It's Morgan Stanley. 2 questions. First is, how does the growth in the to-go business feed into the margin profile of the business? How do you look at the margin profile of to-go versus the dine-in business, particularly given beverage attachment rates? And just is 3 for $10 over-indexed in the to-go business? Or it is -- typically, is it at the rate that you would experience in the dine-in business?

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

Okay, John, it's comparable in terms of its mix. So again, very comparable across dayparts and to-go. With regards to to-go and its impact on overall margins, packaging is, obviously, your biggest pressure. And we've made some investments in packaging this year to make sure that the quality -- given the increased sales volumes with to-go, we've gotten what we think is better packaging and invested a little bit in that aspect of the business. But that's really the main difference. Overall, the labor component to it is probably if you could isolate every element maybe a little less. But overall, it's primarily the packaging that differentiates. And the check averages are solid on a per order basis, right? I mean, it's -- you don't have them sitting in your restaurant, so you don't know exactly how many people are eating the food that you're sending out. But the per order quantities are great, and what we're seeing is the use of the app and online ordering is really a big opportunity for us to be much more efficient as well as deliver a better guest experience.

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

And then just quickly on the bar business, you emphasized that in the last couple of years, enhancing the bars, enhancing the offerings in the bars. Has that growth in the bar business kept pace, exceeded or lagged the overall comp? And as you think about your value customer or somebody who's coming in for a 3 for $10, does that help the bar business or hurt the bar business based on, I guess, the relative sensitivity to price and overall check?

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

I think the bigger impact to the bar business, if you look at just like alcohol mix, is really the shift in lunch and dinner, right? And so as we -- so as you grow your lunch mix, obviously, there's a lot less alcohol being consumed during lunch daypart than the dinner daypart. So that probably has been the bigger impact as our 3 for $10 strategy has been a really good lunch strategy as well as dinner strategy, but really, it's helping move the lunch business forward. That's probably had the bigger impact on alcoholic beverage percentages. Overall sales, I think, are probably very comparable.

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

And just to be clear, does that mean the alc beverages is lower as a percentage of the sales as a year ago? Or is it still the same?

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

It's a touch lower, but the number of alcoholic beverages being sold is very similar to actually slightly up. The Margarita of the month program, again, a great initiative that we can own that has great brand equity associated with -- to it is, again, helping drive occasion, helping drive I, think, really loyalty and relevancy to the brand. So it's something we'll continue to utilize and lean into.

Operator

Our next question today is coming from Jeff Farmer. (Operator Instructions)

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

Gordon Haskett. Questions on the My Chili's Rewards. Curious what percent of Chili's transactions are executed by loyalty members, if you guys have that number?

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

Hey, Jeff, I'll have to take that back out for you at this point. So let me follow back up around with that.

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

Sure. We'll do that. Just maybe a little bit different tack on that question. So have you guys disclosed any estimated same-store sales contribution from the program? I know it's early days, but anything you guys have shared?

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

No, not really. We haven't unpacked in that regard, Jeff.

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

Okay. And then last question just to follow up on 3 for $10. I believe you said low-teens mix. I'm just curious if that mix had been -- has been stable over the last couple of quarters, or if it was potentially a high single-digit percentage of mix in the first quarter and has consistently grown into the second quarter and might be continuing to grow into the third quarter.

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

Pretty stable, Jeff.

Operator

Our next question today is coming from Stephen Anderson. (Operator Instructions)

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

From Maxim Group. Wanted to shift gears a little bit and talk about the balance sheet. I did notice, at the end of quarter, I saw a little bit of a tick-up on the long-term debt. Certainly, we're still down from where we were at the end of fiscal '18. But I just want to see if there's been some new borrowing under your credit facility and if you see potential for any additional pay-down on your existing debt.

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

There was -- if you're looking at, yes, first quarter, second quarter there's an uptick but very much in line and actually a tick below the 3.90 to 4x leverage range we provided you as part of the annual overview. I think we came in at 3.89%, so let's just say 3.9%, so right below end of that range. We're very comfortable with that. Again, a part of the component is the appropriate utilization of leverage. So I anticipated staying in that range as we move forward, Steve.

Operator

Our next question today is coming from Will Slabaugh. (Operator Instructions)

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

Stephens. I had a follow-up on to-go and delivery. It sounds like your to-go business continues to accelerate, I think you said, 20% versus 17%-or-so growth last quarter. So with that working, can you talk about how you're choosing to get the word out there and what seems to be the most effective? And then second, as a follow-up on delivery, I think last quarter, you mentioned something like 50-some-odd providers you were using throughout your systems. I'm curious if there's any appetite to narrow that down or potentially partner with another one that maybe could solve the sort of integration back of house or front of house.

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

Will, with regard to how we market to-go, again, we're using multiple channels. In the second quarter, we actually used some broader-based like national television, in conjunction with our messaging. So we do that, but obviously, we also use more direct channels, and they all seem to have a pretty good impact and effective -- and have been effective at getting the word out to the quality, as we've seen the growth, especially on our online and app usage on to-go really continue to be strong. With regard to the messaging or the consolidation of delivery partners, we are absolutely working with the big guys. I mean, we have all those little guys out there because in so many markets, the big guys just don't -- there's not one provider. We will see -- we anticipate consolidation pretty dramatically in this space over time, and we're working with the known big national guys to try and see if there is a system that does what we've talked about, integrates well within our system, delivers value to our guests and quality and then is financially viable and makes sense. So yes, we're continuing to work with all the major players in that aspect.

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

Okay. Thank you, everyone. With that, I think that's all the questions that we have. And we appreciate everyone joining us today on the call, and we appreciate your participation, and look forward to talking to you next time. Goodbye.

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

Thanks, everyone.

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

Thanks.

Operator

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