

DARDEN RESTAURANTS INC

Form 8-K

December 18, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report: December 18, 2018

(Date of earliest event reported)

DARDEN RESTAURANTS, INC.
(Exact name of registrant as specified in its charter)
Commission File Number: 1-13666

Florida 59-3305930
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)
1000 Darden Center Drive, Orlando, Florida 32837
(Address of principal executive offices, including zip code)
(407) 245-4000
(Registrant's telephone number, including area code)
Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act (17 CFR 230.405) or Rule 12b-2 of the Exchange Act (17 CFR 240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On December 18, 2018, Darden Restaurants, Inc. (the Company) issued a news release entitled “Darden Restaurants Reports Fiscal 2019 Second Quarter Results and Increases Financial Outlook for the Full Fiscal Year,” a copy of which is furnished as Exhibit 99.1 to this Current Report on Form 8-K. In addition, the slide presentation accompanying the Company’s conference call will be posted on the Company’s website.

As provided in General Instruction B.2 of Form 8-K, the information in this Item 2.02 in this Current Report on Form 8-K, including Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section. The information in this Item 2.02 of this Current Report on Form 8-K shall not be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended (the Securities Act), except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description of Exhibit
99.1	<u>News release dated December 18, 2018, entitled “Darden Restaurants Reports Fiscal 2019 Second Quarter Results and Increases Financial Outlook for the Full Fiscal Year.”</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DARDEN RESTAURANTS, INC.

By: /s/ Ricardo Cardenas

Ricardo Cardenas

Senior Vice President and Chief Financial Officer

Date: December 18, 2018

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> Next question.

Operator: Our next question is from the line of Justin Post with Bank of America-Merrill Lynch. Please go ahead.

<Q>: Great. Thank you. A couple for you. Could you just remind us, you mentioned in your prepared remarks how much the comp from last year may have helped this quarter. So we can think about modeling next quarter. Second,

Hotels.com nice acceleration there. You talked about the city mix and stuff, but any improvements in your marketing efficiency or is this driven by kind of more marketing spend? And then maybe talk about the conversion improvements. And lastly, because Google just becomes a bigger issue as they launch new products, could you tell us or how you want to frame the percent of traffic that comes to your transaction sites and TripAdvisor from Google and whether you see any risk there. Thank you.

<A Dara Khosrowshahi President & Chief Executive Officer>: Sure, Mike. I'll talk the last two questions and then if you can talk on the comps.

<A Michael Adler Chief Financial Officer & Executive Vice President>: Sure.

<A Dara Khosrowshahi President & Chief Executive Officer>: As far as Hotels.com goes, the Hotels.com growth rates have been driven both by increased traffic and conversion but because conversion is such a large part of the equation there, we are seeing relative marketing efficiencies on a year-on-year basis getting better. So whereas let's say last year we had to quote unquote buy growth for Hotels.com, your seeing Hotels.com now grow top line and bottom line at a much more balanced way. There's always some deleverage that we see with Hotels.com because the emerging markets, Asia Pacific regions, the Latin American regions, et cetera, are growing faster than the domestic regions and those regions in general have lower efficiency. So there's kind of a mathematical inefficiency that is part of the equation. But the growth that we're seeing in Hotels.com is much more balanced than the growth let's say that we saw last year. It's top line it's strong bookings growth, really good revenue growth, very attractive OIBA growth as well.

As far as Google goes, the percentage of the traffic, the transactions on TA, that's not something that we disclose. Although, we have said that Google is a pretty substantial source of traffic for us. Google tends to be a pretty expensive channel as far as paid traffic goes, CPC kind of clicks go.

But on the free side, on SEO, obviously there's a substantial amount of traffic that TripAdvisor gets from organic search. And organic search in general is a larger contributor for Expedia and Hotels.com as we build up our SEO efforts. And also Google kind of increases its efforts in increasing the quality of organic traffic. So Google, big traffic generator for us and something that we always watch. It's a balance, which is you always want to increase the traffic that you're getting from Google. But at the same time, what we're trying to do is develop other channels with loyalty programs at Expedia for example like Expedia Rewards Program, which is growing pretty quickly. The Hotels.com Welcome Rewards program, investments we're making in social media to build Facebook as a channel, the investments that we're making in mobile to build mobile as a channel. So the goal here is for us to have a very balanced set of traffic as far as direct, Google, TripAdvisor, mobile, et cetera with those.

Mike, you want to talk about comps?

<A Michael Adler Chief Financial Officer & Executive Vice President>: Sure. So last year in Q2, we gave two data points, Justin. First was that OIBA was hurt approximately \$12 million due to the volcano. In addition, we said that our room night growth was impacted we thought by about 200 bps. Going back to the volcano and the OIBA insight that we gave last year and as we've discussed this I think a couple times, we do have additional headwinds from the investments that we're making that are largely offsetting kind of that good guy in our numbers this year. So I would look more closely to the 200 bp room night impact from last year to help guide you.

<Q>: Great. Thank you. Appreciate it.

<A>: Thank you.

<A>: Welcome. Next question.

Operator: Thank you. Our next question is from the line of Scott Kessler with Standard & Poor's. Please go ahead.

<Q Scott Kessler Standard & Poors Investment Advisory, Inc.>: Thanks a lot. Two quick questions. The first is I'm curious to know how you're thinking about China these days? Especially given that a number of your relatively recent investments and acquisitions focused on the market were and are associated with TripAdvisor. I'm

also wondering if you think Air Asia and the partnership could potentially be important not only for the region generally but also for China? And secondly, we were just talking about Google and I'm wondering if you've had an opportunity to look at the company's Hotel Finder experiment offering? And if you had any initial thoughts on that? Especially given that looks like your advertising is embedded within the offering. Thanks.

<A Dara Khosrowshahi President & Chief Executive Officer>: Yeah, as far as China goes, we're it's we look at the market with very big eyes as far as the size of the market goes. It's going to be the second largest travel market very quickly. Online adoption is increasing in China. Credit card adoption is increasing in China and you're getting a middle class whereas three, four years ago the only traveler in China was really a business traveler. You're also getting now middle class leisure traveler that's not only traveling within China but is starting to travel outside of China. As you can tell, while we're building up a nice business travel business in Egecia, which is doing quite well, leisure travel is the big driver in our business and to the extent that the Chinese leisure traveler starts to have money to spend. That's something that's very attractive us to.

And I think compared to most multinational travel companies, I love our position in China. We've got eLong as a very important investment of ours. We control eLong. We've got a terrific management team there. And Guangfu the CEO; Mike Doyle, the CFO. And a new partner in Tencent, which has made a strategic investment in eLong which should provide eLong with a second hopefully boost of growth by aiming that kind of Tencent traffic to the eLong customer and teaching that Tencent customer about eLong and the services that eLong has to offer. So we're very bullish on the transactional side.

And then on the TripAdvisor side, we've been investing quite consistently over the past three, four years. TripAdvisor for China is Daodao is a site we call Daodao and we also own the second largest metasearch business in China now in Kuxun. Baidu actually bought control of the largest metasearch player in China, which shows you how attractive that segment is as well. So both on the media side and on the transactional side, China's an area that we've been investing in for a number of years. And it's not an easy market. I'd say we're never satisfied with our results there. But the direction is unmistakably up. It's a very dynamic market. So with lots of challenges, but I'd say so far so good as far as our efforts in China go.

As far as the Google Hotel Finder experiment, I was actually playing with it a little before this call. Seems like a neat concept. It's quick, it's clean. It's typical Google design. All I'd say is I'd expect lots more changes from Google. As far as that Hotel Finder experiment. I think what's important for us is that it is fundamentally a metasearch, advertiser type product. We are playing in it. Our competitors will play in it. We found that as it relates to metasearch because of the depth and breadth of inventory and the brands that we have, that's a channel that we play very well in. We're able to buy metasearch traffic at attractive rates and we don't expect that to change for a Google metasearch product. And we welcome innovation in the space and we'll watch what they do.

<Q>: Great. Thanks.

<A>: You're welcome.

<A>: Next question.

Operator: Our next question is from the line of Michael Millman with Millman Research Associates. Please go ahead.

<Q>: Thank you. You mentioned that the hoteliers are concerned about the outlook, but can you tell us what you've been seeing in leisure travel through July? Also, could you handicap the Texas decision as to what that might mean? And maybe how the economics play out if you have to charge [audio gap] taxes to occupants? And [audio gap] you [audio gap] car rental business compared to last year on availability and price. And to what extent is any changes that you're seeing in contract terms between yourself and the car rental companies.

<A Dara Khosrowshahi President & Chief Executive Officer>: Okay, as far as the trends in July go it's a little bit early to call out the trends. I'd say when you look at the RevPAR trends that we're seeing from Smith Travel Research, they're getting a little bit deeper than what we saw let's say early in the quarter. Part of that may be a comps issue. Part of that might be a tiny bit more uncertainty coming out of leisure travel. And I think it's way too

early to call a trend. But I'd say in general leisure travel continues to be strong on a year-on-year basis. It's only a question of how strong. Is the strength going to build into the second half of the year? Is it going to hold? Is it going to get a little bit weaker? I'd say in July we probably based on the industry numbers we see a hint of weakness but Michael I think it's too early to make a call.

We're certainly confident about our own roadmap, investments that we're making especially the international growth that we have coming across our various segments. So we think we're pretty well positioned for the balance of the year.

As far as the car channel goes I'd say so far the summer's been pretty good. In general we prepare for fleet sizes to be pretty restricted during most summers. I think this summer, some of the car companies did not sell off their fleets because they weren't sure about some of the supply coming in from Japan. So they held onto their fleet. So fleet sizes in this summer relative to demand were pretty healthy, which made for very good availability for us. Plenty of availability for opaque cars, et cetera. So I'd say that the car business for us has been healthy on a revenue basis, has been healthy on a transaction basis. Yield as far as revenue per car in general has been a little bit weaker although our opaque business has been stronger because of the availability. So in general, I'd say car for us has been a nice bright spot especially Hotwire.com as a company. Mike, you want to talk a bit about Texas?

<A Michael Adler Chief Financial Officer & Executive Vice President>: Sure. So we disagree with the San Antonio decision that you refer to as it's contrary to earlier rulings that have actually been made by two courts already in Texas and we will appeal the ruling in San Antonio. We believe that we're not subject to the hotel occupancy taxes in San Antonio and we will continue to vigorously defend our position. And I guess we haven't reminded folks of this in a while but we've obtained 24 dismissals of these types of matters historically, 12 of which were based on a finding that the OTAs aren't subject to hotel taxes or the local government lacked standing to pursue their claims, et cetera. And we have won cases in a host of states, California, Ohio, Kentucky, Missouri, North Carolina, Oklahoma and Alabama. And we also have had seven U.S. federal courts rule in our favor. So we continue to believe very strongly in our position. And do not expect this to result in anything significant for us.

<A Dara Khosrowshahi President & Chief Executive Officer>: And, Michael, just to finish off the answers to your questions. The relationships with the car companies are very solid and there really have been no fundamental changes to our relationships with them. It's been strong relationships for the past couple years. And we don't expect anything to change there.

<Q>: Great. Thank you very much.

<A>: You're very welcome. Next question.

Operator: Next question is from the line of Kevin Crissey with UBS. Please go ahead.

<Q Kevin Crissey UBS Securities LLC>: Hello, guys. Thanks for your time. Can you talk about whether you've seen your customers come back from being back having American inventory back on the site? The airlines are talking about how they've taken share back to their website to direct channels.

<A Dara Khosrowshahi President & Chief Executive Officer>: Sure. As far as customers and American in the store, it's definitely had a positive effect on our air volumes even though our air volumes continue to be challenged by the average air ticket prices going up. Air volumes are better on quarter-on-quarter basis. And package volumes as well have been better on a quarter-on-quarter basis. I'd say that American being off was certainly not good for our product as far as Expedia goes. But we didn't see a fundamental kind of effect, a follow on effect on Expedia as far as hotel business, other air tickets being purchased, the car business, et cetera. So I wonder whether consumers didn't fundamentally notice it, whether American was off the site for too short a time, we didn't see kind of any fundamental traffic changes to the site, et cetera. So I can't really say as to are customers coming back with AMR in the store. I don't think they went away. They just had the quality of the inventory wasn't as good, which hurt air volumes.

And then I'd also add as far as air volumes relative to supplier direct. In general, as we our customer is a our leisure customer is fairly price sensitive to the extent air ticket prices go up and air tickets have certainly been going

up on a year-on-year basis. We see some of our customers mix out. Whether they drive to their destination, et cetera, who knows. And obviously, we see our corporate business continue to be strong. So I think that mixed shift is something that's perfectly reasonable and it's something we've seen again and again and again with rising air ticket prices. Rising air ticket prices hurt our volume to the extent that the comps on air ticket prices ease up in the back half of the year. I think that the comps on our volume will ease up as well.

<Q>: And how are you technology-wise doing the quote direct connect for American through a GDS. So have you figured that out yet?

<A **Dara Khosrowshahi President & Chief Executive Officer**>: We're still working with American and the GDS on our connectivity strategy and once we have something else to discuss we'll certainly discuss it publicly. But as you can imagine those relationships and the work that we're doing are quite confidential.

<Q>: Okay. Thank you.

<A **Dara Khosrowshahi President & Chief Executive Officer**>: You're welcome.

<A>: Next question.

Operator: Our final question is from the line of Bill Lennan with Monness, Crespi, Hardt. Please go ahead.

<Q **Bill Lennan Monness, Crespi, Hardt & Co., Inc.**>: Hi. I have a two-parter about share gains. First, do you think you're regaining share or at least slowing the rate of loss on hotel room nights to Booking.com in Europe is part one. And part two is what's the secret sauce of share shift in Europe? Is it the demand side on the website and the rewrites you've been doing or is it on supply side with better relationships with hotels? Thanks.

<A>: Sure. As to the question of whether we're regaining share versus Booking.com, I guess we'll know the answer to that question in a couple of weeks. It's not for us to speculate. I would say that this is this travel market is an enormous market. It's a \$900 billion plus dollar marketplace on a worldwide basis. The Asia Pacific regions, the Latin American regions and even the European regions for us are wide open with lots of share for us to take from offline agents, from traditional channels and from our online competitors. And what we found is that to the extent that we as a company execute better that share is there for us to take.

And with Hotels.com, with the replatforming, with the team that's performing very well we're seeing very solid acceleration. We're seeing similar acceleration in our private label business. That team is performing very well. They're driving conversion, they have a great product, they are acquiring lots and lots of new customers in Europe and driving the business there.

So when we look at what's the secret sauce? I would say the secret sauce is having a good front to back product. That means a great consumer front end that is fast, that makes it very easy for consumers to find what they're looking for and then a product on the back end that is terrific product. The right hotels in the city center at the right prices with special deals, et cetera, with content in local language, lots of reviews, et cetera. The list goes on and on and on.

There isn't any one factor that I think outweighs the rest. I think front to back you have to be good. I would say that if we look at our business I'd say on the supply side we have been better for longer. And I think the demand side is catching up to that as we make the investments in IT in technology, et cetera. And once it all comes together and we certainly see that with Hotels.com and we're seeing that with our private label business, we see it with Egencia, we see it with Venere, when the front and the back of the house come together, you see terrific results. And I don't think we're at the point where our gains are necessarily Priceline or Booking.com's losses. I think it's a great market. Tons of people are coming online. And there's plenty of room for many, many winners in this market.

<Q>: Okay. And just as a follow up, when you do do you have any even if it's anecdotal chatter from the market when you do win a hotel over that seemed to come over to your side what do they say? What has changed in terms of supply that makes hotels happier to do business with you than say 18 months ago?

<A Dara Khosrowshahi President & Chief Executive Officer>: I think it's volume. There are a lot of hotels that we didn't knock on their doors. Maybe they were smaller hotels. Maybe didn't understand the merchant model. Maybe we weren't focusing on the secondary and tertiary markets where those hotels resided. So we're knocking on their doors. And I think now, we are just much better on the execution front as far as sending demand to those hotels. And what they care about, we are a variable demand marketing channel. They want volume to the extent we can get them volume they'll typically give us the supply at the market rates. And the market rates right now are balanced and fair. And if you bring them volume at a reasonable price that's what partnership is all about. And I think that's the challenge for us to execute better on getting volume to our hotel partners on a worldwide basis.

<Q>: Great. Thank you very much.

<A>: You're very welcome.

Operator: Thank you. And that does conclude the question-and-answer session. I would now like to turn the call back over to Mr. Pickerill for closing remarks. Please go ahead.

Alan Pickerill, Vice President of Investor Relations: Okay. Just want to say thanks to everybody for joining us on the call today and for the questions. A replay will be available on the IR site shortly after we finish up. We appreciate your interest in Expedia and look forward to seeing you again next quarter. Dara, you want to make any final comments?

Dara Khosrowshahi President & Chief Executive Officer>: Just thanks to the Expedia employees who are listening on the call. We had a good quarter in the right direction. We've got a lot of work to do. Thanks to everyone's efforts, and for investors, thank you for your support.

Operator: Ladies and gentlemen, this concludes the Expedia Second Quarter Earnings Conference Call. If you'd like to listen to a replay of today's conference, please dial 1-800-406-7325 or 303-590-3030 with the access code of 4457052. ACT would like to thank you for your participation. You may now disconnect.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This transcript contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance. These forward-looking statements are based on management's expectations as of July 28, 2011 and assumptions which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. The use of words such as intends and expects, among others, generally identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements and may include statements relating to future revenues, expenses, margins, profitability, net income / (loss), earnings per share and other measures of results of operations and the prospects for future growth of Expedia, Inc.'s business.

Actual results and the timing and outcome of events may differ materially from those expressed or implied in the forward-looking statements for a variety of reasons, including, among others: declines or disruptions in the travel industry; changes in our relationships and contractual agreements with travel suppliers or supplier intermediaries; risks relating to the announced spin-off of our TripAdvisor business; increases in the costs of maintaining and enhancing our brand awareness; changes in search engine algorithms and dynamics, or search engine disintermediation; our inability to adapt to technological developments or to maintain our existing technologies; our ability to expand successfully in international markets; changes in senior management; volatility in our stock price; changing laws, rules and regulations and legal uncertainties relating to our business; unfavorable new, or adverse application of existing, tax laws, rules or regulations; adverse outcomes in legal proceedings to which we are party; provisions in certain credit card processing agreements that could adversely impact our liquidity and financial positions; fluctuations in our effective tax rate; our inability to access the capital markets when necessary; risks related to our long term indebtedness; fluctuations in foreign exchange rates; risks related to the failure of counterparties to perform on financial obligations; potential liabilities resulting from our processing, storage, use and disclosure of personal data; the integration of current and acquired businesses; the risk that our intellectual property is not protected from copying or use by others, including competitors; and other risks detailed in our public filings with the SEC, including our annual report on Form 10-K for the year ended December 31, 2010 and subsequent quarterly reports on Form 10-Q. Except as required by law, we undertake no obligation to update any forward-looking or other statements in this transcript, whether as a result of new information, future events or otherwise.

Additional Information about the TripAdvisor Spin-Off

As previously announced, Expedia intends to spin-off its TripAdvisor Media Group businesses into a separate publicly-traded company. In connection with the proposed spin-off, Expedia has filed a preliminary proxy statement/prospectus with the SEC. Stockholders of Expedia are urged to read the definitive proxy statement/prospectus, when it becomes available, because it will contain important information about Expedia, the proposed spin-off transaction and related matters. Investors and security holders can obtain free copies of the definitive proxy statement/prospectus when it becomes available by contacting Investor Relations, Expedia, 333 108th Avenue N.E., Bellevue, Washington 98004 (Telephone: (425) 679-3555). Investors and security holders can also obtain free copies of the proxy statement/prospectus and other documents filed by Expedia and TripAdvisor with the SEC in connection with the proposed spin-off transaction at the SEC's web site at www.sec.gov.

In addition to the proxy statement/prospectus, Expedia files annual, quarterly and current reports, proxy statements and other information with the SEC, each of which should be available at the SEC's web site at www.sec.gov. You may also read and copy any reports, statements and other information filed by Expedia at the SEC public reference room at 100 F Street NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information.

Expedia and its directors, executive officers and certain members of management and other employees may be deemed to be participants in the solicitation of proxies of Expedia's stockholders to approve the proposed spin-off transaction. Such individuals may have interests in the transaction as described in Expedia's proxy statement/prospectus, including as a result of current holdings of options, restricted share units or shares of Expedia's stock and future holdings of options, restricted share units or shares of TripAdvisor's stock, which will be impacted in the transaction. Information regarding Expedia and the equity interests of its directors and officers who

may be deemed to be participants in the solicitation of proxies is contained in Expedia's preliminary proxy statement/prospectus, filed with the SEC on July 27, 2011.