DARDEN RESTAURANTS INC
Form 10-K
July 20, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended May 27, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to
Commission File Number: 1-13666
DARDEN RESTAURANTS, INC.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Florida | 59-3305930 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 1000 Darden Center Drive, Orlando, Florida | 32837 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (407) 245-4000
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, without par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
Indicate by check mark if the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | Smaller reporting company | o |
| | | Emerging growth company | o |

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.¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of Common Stock held by non-affiliates of the Registrant based on the closing price of $80.24 per share as reported on the New York Stock Exchange on November 24, 2017, was approximately: $9,897,066,000.

Number of shares of Common Stock outstanding as of May 27, 2018: 123,540,453 (excluding 1,263,682 shares held in the Company’s treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement for its Annual Meeting of Shareholders on September 19, 2018, to be filed with the Securities and Exchange Commission no later than 120 days after May 27, 2018, are incorporated by reference into Part III of this Report.

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Cautionary Statement Regarding Forward-Looking Statements

Statements set forth in or incorporated into this report regarding the expected net increase in the number of our restaurants, U.S. same-restaurant sales, total sales growth and capital expenditures in fiscal 2019, and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as “may,” “will,” “expect,” “intend,” “anticipate,” “continue,” “estimate,” “project,” “believe,” “plan,” “outlook” or similar expressions, are forward-looking statements within th meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. In addition to the risks and uncertainties of ordinary business obligations, and those described in information incorporated into this report, the forward-looking statements contained in this report are subject to the risks and uncertainties described in Item 1A below under the heading “Risk Factors.”

PART I
Item 1. BUSINESS

Introduction
Darden Restaurants, Inc. is a full-service restaurant company, and as of May 27, 2018, we owned and operated 1,746 restaurants through subsidiaries in the United States and Canada under the Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, Bahama Breeze®, Seasons 52® and Eddie V's Prime Seafood® trademarks. We served nearly 390 million meals in fiscal 2018. As of May 27, 2018, we also had 71 restaurants operated by independent third parties pursuant to area development and franchise agreements. The following table details the number of company-owned and operated restaurants, as well as those operated under franchise agreements, as of May 27, 2018:

| Number of restaurants | Olive Garden | LongHorn Steakhouse | Cheddar's Scratch Kitchen | Yard House | The Capital Grille (2) | Bahama Breeze | Seasons 52 | Eddie V's | Total |
|---|---|---|---|---|---|---|---|---|---|
| Owned and operated: | | | | | | | | | |
| United States (1) | 850 | 504 | 156 | 72 | 58 | 39 | 42 | 19 | 1,740 |
| Canada | 6 | — | — | — | — | — | — | — | 6 |
| Total | 856 | 504 | 156 | 72 | 58 | 39 | 42 | 19 | 1,746 |
| Franchised: | | | | | | | | | |
| United States (3) | 5 | 16 | 14 | — | — | 1 | — | — | 36 |
| Middle East | 4 | 2 | — | — | — | — | — | — | 6 |
| Latin America | 24 | 2 | — | — | 2 | — | — | — | 28 |
| Malaysia | 1 | — | — | — | — | — | — | — | 1 |
| Total | 34 | 20 | 14 | — | 2 | 1 | — | — | 71 |

(1) Includes three restaurants that are owned jointly by us and third parties, and managed by us.
(2) Includes one company-owned The Capital Burger restaurant.
(3) Includes Puerto Rico.

Darden Restaurants, Inc. is a Florida corporation incorporated in March 1995, and is the parent company of GMRI, Inc., also a Florida corporation. GMRI, Inc. and certain other of our subsidiaries own and operate our restaurants. GMRI, Inc. was originally incorporated in March 1968 as Red Lobster Inns of America, Inc. We were acquired by General Mills, Inc. in 1970 and became a separate publicly held company in 1995 when General Mills distributed all of our outstanding stock to the stockholders of General Mills. Our principal executive offices and restaurant support center are located at 1000 Darden Center Drive, Orlando, Florida 32837, telephone (407) 245-4000. Our corporate website address is www.darden.com. We make our reports on Forms 10-K, 10-Q and 8-K, Section 16 reports on Forms 3, 4 and 5, and all amendments to those reports available free of charge on our website the same day as the reports are filed with or furnished to the Securities and Exchange Commission. Information on our website is not deemed to be incorporated by reference into this Form 10-K. Unless the context indicates otherwise, all references to "Darden," "the Company," "we," "our" or "us" include Darden Restaurants, Inc., GMRI, Inc. and our respective subsidiaries.
On April 24, 2017, we completed the acquisition of Cheddar's Scratch Kitchen for $799.8 million in total consideration. The acquired operations of Cheddar's Scratch Kitchen included 140 company-owned restaurants and 25 franchised restaurants. On August 28, 2017, we completed the acquisition of 11 Cheddar's Scratch Kitchen franchised restaurants from an existing franchisee. The results of operations, financial position and cash flows of Cheddar's Scratch Kitchen are included in our consolidated financial statements as of the date of acquisition. For additional information, see Note 2 of the Notes to Consolidated Financial Statements (Part II, Item 8 of this report).
On November 9, 2015, we completed the spin-off of Four Corners Property Trust, Inc. (Four Corners) with the pro rata distribution of 1 share of common stock for every 3 shares of Darden common stock to Darden shareholders. The separation included the transfer of 418 restaurant properties and 6 LongHorn Steakhouse restaurants to Four Corners.

We have a 52/53 week fiscal year ending the last Sunday in May. Our fiscal year 2018 ended May 27, 2018 and consisted of 52 weeks, fiscal 2017 ended May 28, 2017 and consisted of 52 weeks, and fiscal 2016 ended May 29, 2016 and consisted of 52 weeks.

The following description of our business should be read in conjunction with the information in Part II of this report under the caption "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8 - Financial Statements and Supplementary Data."

Segment Information

We manage our restaurant brands in North America as operating segments. The brands operate principally in the U.S. within full-service dining. We aggregate our operating segments into reportable segments based on a combination of the size, economic characteristics and sub-segment of full-service dining within which each brand operates. We have four reportable segments: 1) Olive Garden, 2) LongHorn Steakhouse, 3) Fine Dining (which includes The Capital Grille and Eddie V's) and 4) Other Business (which includes Cheddar's Scratch Kitchen, Yard House, Seasons 52, Bahama Breeze and results from our franchise operations). External sales are derived principally from food and beverage sales, we do not rely on any major customers as a source of sales and the customers and long-lived assets of our reportable segments are predominantly in the U.S. There were no material transactions among reportable segments. Additional information about our segments, including financial information, is included in Note 6 of the Notes to Consolidated Financial Statements (Part II, Item 8 of this report).

Restaurant Brands

Olive Garden

Olive Garden is an internally-developed brand and is the largest full-service dining Italian restaurant operator in the United States. Olive Garden offers a variety of Italian foods featuring fresh ingredients presented simply with a focus on flavor and quality, and a broad selection of imported Italian wines. In 1982, Olive Garden opened its first restaurant in Orlando, Florida.

Most dinner menu entrée prices range from $9.00 to $18.50, and most lunch menu entrée prices range from $7.00 to $14.00. The price of each entrée includes as much fresh salad or soup and breadsticks as a guest desires. During fiscal 2018, the average check per person (defined as total sales divided by number of entrées sold) was approximately $18.50, with alcoholic beverages accounting for 6.7 percent of Olive Garden's sales. Olive Garden maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.

LongHorn Steakhouse

LongHorn Steakhouse is a full-service steakhouse restaurant with locations primarily in the eastern United States, operating in an atmosphere inspired by the American West. LongHorn Steakhouse opened its first restaurant in 1981 and we acquired LongHorn Steakhouse in October 2007 as part of the RARE Hospitality International, Inc. (RARE) acquisition. LongHorn Steakhouse restaurants feature a variety of menu items including signature fresh steaks and chicken, as well as salmon, shrimp, ribs, pork chops, burgers and prime rib.

Most dinner menu entrée prices range from $12.00 to $28.00, and most lunch menu entrée prices range from $8.00 to $16.00. The price of most entrées includes a side and/or salad and as much freshly baked bread as a guest desires. During fiscal 2018, the average check per person was approximately $21.50, with alcoholic beverages accounting for 9.6 percent of LongHorn Steakhouse's sales. LongHorn Steakhouse maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.

Cheddar's Scratch Kitchen

Cheddar's Scratch Kitchen is a full service restaurant operating in Texas and throughout the southern, midwestern and mid-Atlantic regions of the United States. The casual dining menu features modern classics and American favorites cooked from scratch. Cheddar's Scratch Kitchen opened its first restaurant in 1979 and we acquired Cheddar's Scratch Kitchen in April 2017.

Most lunch and dinner menu entrée prices at Cheddar's Scratch Kitchen range from $6.99 to $19.99. During fiscal 2018, the average check per person was approximately $13.75, with alcoholic beverages accounting for 9.0 percent of Cheddar's Scratch Kitchen's sales. Cheddar's Scratch Kitchen features different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.

Yard House

Yard House is a full-service restaurant operating in metropolitan areas across the United States and is known for great food, classic rock and over 100 draft beer offerings. The American menu includes more than 100 chef driven items with a wide range of

appetizers, snacks, burgers and steaks, street tacos, salads, sandwiches and a generous selection of vegetarian dishes. Yard House opened its first restaurant in 1996 and we acquired Yard House in August 2012.
Yard House design elements create a contemporary, yet casual, "come as you are" environment. Most lunch and dinner menu entrée prices at Yard House range from $9.00 to $36.00. During fiscal 2018, the average check per person was approximately $33.00, with alcoholic beverages accounting for 36.0 percent of Yard House's sales. Yard House maintains different menus and selections of craft beers across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.

The Capital Grille
The Capital Grille is a fine dining restaurant with locations in major metropolitan cities in the United States featuring relaxed elegance and style. The Capital Grille opened its first restaurant in 1990 and we acquired The Capital Grille in October 2007 as part of the RARE acquisition. Nationally acclaimed for dry aging steaks on the premises, The Capital Grille is also known for fresh seafood flown in daily and culinary specials created by its chefs. The restaurants feature an award-winning wine list offering over 350 selections, personalized service, a comfortable club-like atmosphere, and premiere private dining rooms.
Most dinner menu entrée prices range from $18.00 to $64.00 and most lunch menu entrée prices range from $18.00 to $33.00. During fiscal 2018, the average check per person was approximately $82.00, with alcoholic beverages accounting for 29.0 percent of The Capital Grille's sales. The Capital Grille offers different menus for dinner and lunch and varies its wine list to reflect geographic differences in consumer preferences, prices and selections.
Bahama Breeze
Bahama Breeze is an internally-developed full-service restaurant brand operating primarily in the eastern United States, that offers guests the feeling of a Caribbean escape, with food, drinks and atmosphere found in the islands. The menu features distinctive, Caribbean-inspired fresh seafood, chicken and steaks as well as handcrafted tropical cocktails. In 1996, Bahama Breeze opened its first restaurant in Orlando, Florida.
Most lunch and dinner menu entrée prices at Bahama Breeze range from $7.00 to $24.00. During fiscal 2018, the average check per person was approximately $29.50, with alcoholic beverages accounting for 23.7 percent of Bahama Breeze's sales. Bahama Breeze maintains different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.
Seasons 52
Seasons 52 is an internally-developed full-service restaurant brand operating primarily in the eastern United States, with a casually sophisticated, fresh grill and wine bar that offers a seasonally changing menu inspired by the appeal of a local farmer's market. The menu includes an international collection of more than 100 wines, with 52 available by the glass, along with exceptional signature handcrafted cocktails. In 2003, Seasons 52 opened its first restaurant in Orlando, Florida.
Most dinner menu entrée prices at Seasons 52 range from $14.50 to $32.50, and most lunch entrée prices range from $10.00 to $32.50. During fiscal 2018, the average check per person was approximately $44.50, with alcoholic beverages accounting for 24.9 percent of Seasons 52's sales. Seasons 52 maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections.
Eddie V's
Eddie V's is a fine dining restaurant with locations in major metropolitan cities in the United States with a sophisticated and contemporary ambiance, featuring live nightly music in the V-Lounge. The menu is inspired by the great classic restaurants of New Orleans, San Francisco and Boston, with an emphasis on prime seafood creations, USDA prime beef and chops, and fresh oyster bar selections. The atmosphere provides a comfortable dining experience "where your pleasure is our sole intention." Eddie V's opened its first restaurant in 2000 and we acquired Eddie V's in November 2011.

Most dinner menu entrée prices at Eddie V's range from $27.00 to $96.00. During fiscal 2018, the average check per person was approximately $98.00, with alcoholic beverages accounting for 32.1 percent of Eddie V's sales. Eddie V's maintains different menus for dinner and varies its wine list to reflect geographic differences in consumer preferences, prices and selections.

The following table shows our growth and lists the number of restaurants owned and operated by each of our brands as of the end of the fiscal years indicated. The table excludes our restaurants operated by independent third parties pursuant to area development and franchise agreements. The final column in the table lists our total sales from continuing operations for the fiscal years indicated.

| Fiscal Year | Olive Garden | LongHorn Steakhouse | Cheddar's Scratch Kitchen | Yard House | The Capital Grille (3) | Bahama Breeze | Seasons 52 | Eddie V's | Total Restaurants (1)(2) | Total Sales (in millions) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1999 | 464 | | | | | 6 | | | 470 | $1,490.2 |
| 2000 | 469 | | | | | 11 | | | 480 | $1,615.7 |
| 2001 | 477 | | | | | 16 | | | 493 | $1,780.0 |
| 2002 | 496 | | | | | 22 | | | 518 | $1,966.1 |
| 2003 | 524 | | | | | 25 | 1 | | 550 | $2,097.5 |
| 2004 | 543 | | | | | 23 | 1 | | 567 | $2,359.3 |
| 2005 | 563 | | | | | 23 | 3 | | 589 | $2,542.4 |
| 2006 | 582 | | | | | 23 | 5 | | 610 | $2,775.8 |
| 2007 | 614 | | | | | 23 | 7 | | 644 | $2,965.2 |
| 2008 | 653 | 305 | | | 32 | 23 | 7 | | 1,020 | $3,997.5 |
| 2009 | 691 | 321 | | | 37 | 24 | 8 | | 1,081 | $4,593.1 |
| 2010 | 723 | 331 | | | 40 | 25 | 11 | | 1,130 | $4,626.8 |
| 2011 | 754 | 354 | | | 44 | 26 | 17 | | 1,196 | $4,980.3 |
| 2012 | 792 | 386 | | | 46 | 30 | 23 | 11 | 1,289 | $5,327.1 |
| 2013 | 828 | 430 | | 44 | 49 | 33 | 31 | 12 | 1,431 | $5,921.0 |
| 2014 | 837 | 464 | | 52 | 54 | 37 | 38 | 15 | 1,501 | $6,285.6 |
| 2015 | 846 | 480 | | 59 | 54 | 36 | 43 | 16 | 1,534 | $6,764.0 |
| 2016 | 843 | 481 | | 65 | 54 | 37 | 40 | 16 | 1,536 | $6,933.5 |
| 2017 | 846 | 490 | 140 | 67 | 56 | 37 | 41 | 18 | 1,695 | $7,170.2 |
| 2018 | 856 | 504 | 156 | 72 | 58 | 39 | 42 | 19 | 1,746 | $8,080.1 |

(1) Includes only restaurants included in continuing operations. Excludes other restaurant brands operated by us in these years that are no longer owned by us, and restaurants that were classified as discontinued operations.

(2) Includes company-owned synergy restaurants as follows: one in fiscal 2011, one in fiscal 2012, four in fiscal 2013, and four in fiscal 2014. We converted the four synergy restaurants to Olive Garden restaurants in the first quarter of fiscal 2015.

(3) Includes one The Capital Burger restaurant in fiscal 2018.

Strategy

We believe that capable operators of strong multi-unit brands have the opportunity to increase their share of the restaurant industry's full-service segment. Generally, the restaurant industry is considered to be comprised of three segments: quick service, fast casual, and full service. All of our restaurants fall within the full-service segment, which is highly fragmented and includes many independent operators and small chains. We believe we have strong brands, and that the breadth and depth of our experience and expertise sets us apart in the full-service restaurant industry. This collective capability is the product of investments over many years in areas that are critical to success in our business, including restaurant operations excellence, brand management excellence, supply chain, talent management and information technology, among other things.

During fiscal 2018, our operating philosophy remained focused on improving the core operational fundamentals of the business by providing an outstanding guest experience rooted in culinary innovation, attentive service, engaging atmosphere, and integrated marketing. Darden enables each brand to reach its full potential by leveraging its scale, insight, and experience in a way that protects uniqueness and competitive advantages. Additionally, brands can capitalize on insights to deliver customized one-to-one customer relationship marketing. We hold ourselves accountable for operating our restaurants with a sense of urgency to achieve our commitments to all of our stakeholders.

Recent and Planned Restaurant Growth

During fiscal 2018, we added 51 net new company-owned restaurants in the United States, including the Cheddar's Scratch Kitchen franchised restaurants acquired in August 2017. Our fiscal 2018 actual restaurant openings and closings, fiscal 2019 projected openings, and approximate capital investment, square footage and dining capacity, by brand, are shown below:

| | Actual - Fiscal 2018 | | | Projected - Fiscal 2019 | Pro-Forma New Restaurants | | |
|---|---|---|---|---|---|---|---|
| | Restaurant Openings | Acquired (1) | Restaurant Closings | New Restaurant Openings | Capital Investment Range (3) (in millions) | Square Feet (4) | Dining Seats (5) |
| Olive Garden | 12 | — | 2 | 11 - 13 | $3.5- $4.5 | 7,700 | 240 |
| LongHorn Steakhouse | 15 | — | 1 | 13 - 15 | $2.5- $3.5 | 5,500 | 190 |
| Cheddar's Scratch Kitchen | 5 | 11 | — | 5 - 6 | $3.0 -$4.0 | 8,000 | 280 |
| Yard House | 5 | — | — | 5 - 7 | $6.0- $7.0 | 11,500 | 380 |
| The Capital Grille (2) | 2 | — | — | 0 - 1 | $6.0- $7.0 | 9,500 | 250 |
| Bahama Breeze | 2 | — | — | 2 - 3 | $5.0- $6.0 | 9,000 | 360 |
| Seasons 52 | 1 | — | — | 1 - 2 | $5.5- $6.5 | 9,000 | 300 |
| Eddie V's | 2 | — | 1 | 2 - 3 | $7.5- $8.5 | 9,000 | 250 |
| Totals | 44 | 11 | 4 | 45 - 50 | | | |

(1) Includes the 11 Cheddar's Scratch Kitchen franchised restaurants acquired on August 28, 2017.

(2) Fiscal 2018 restaurant openings include one The Capital Burger restaurant. Pro-forma new restaurant data excludes The Capital Burger.

(3) Includes cash investments for building, equipment, furniture and other construction costs; excludes internal capitalized overhead, pre-opening expenses, tenant allowance and future lease obligations. Olive Garden, LongHorn Steakhouse and Cheddar's Scratch Kitchen capital investments are based on costs associated with land-only leases; The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House capital investments are based on ground and building leases. Actual costs can vary significantly depending on the specific location.

(4) Includes all space under the roof, including the coolers and freezers.

(5) Includes bar dining seats and patio seating, but excludes bar stools.

The actual number of openings for each of our brands for fiscal 2019 will depend on many factors, including our ability to locate appropriate sites, negotiate acceptable purchase or lease terms, obtain necessary local governmental permits, complete construction, and recruit and train restaurant management and hourly personnel. Our objective is to continue to expand all of our restaurant brands.

We consider location to be a critical factor in determining a restaurant's long-term success, and we devote significant effort to the site selection process. Prior to entering a market, we conduct a thorough study to determine the optimal number and placement of restaurants. Our site selection process incorporates a variety of analytical techniques to evaluate key factors. These factors include trade area demographics, such as target population density and household income levels; competitive influences in the trade area; the site's visibility, accessibility and traffic volume; and proximity to activity centers such as shopping malls, hotel/motel complexes, offices and universities. Members of senior management evaluate, inspect and approve each restaurant site prior to its acquisition. Constructing and opening a new restaurant typically takes approximately 180 days on average after permits are obtained and the site is acquired.

We systematically review the performance of our restaurants to ensure that each one meets our standards. When a restaurant falls below minimum standards, we conduct a thorough analysis to determine the causes, and implement marketing and operational plans to improve that restaurant's performance. If performance does not improve to acceptable levels, the restaurant is evaluated for relocation, closing or conversion to one of our other brands. Permanent closures are typically due to economic changes in trade areas, the expiration of lease agreements, or site concerns. Accordingly, we continue to evaluate our site locations in order to minimize the risk of future closures or asset impairment charges.

Restaurant Operations

We believe that high-quality restaurant management is critical to our long-term success. Our restaurant management structure varies by brand and restaurant size. We issue detailed operations manuals covering all aspects of restaurant operations,

as well as food and beverage manuals which detail the preparation procedures of our recipes. The restaurant management teams are responsible for the day-to-day operation of each restaurant and for ensuring compliance with our operating standards.
Each Olive Garden restaurant is led by a general manager, and each LongHorn Steakhouse restaurant is led by a managing partner. Each also has three to five additional managers, depending on the operating complexity and sales volume of the restaurant. In addition, each restaurant typically employs an average of 80 to 120 hourly team members, most of whom work part-time. Restaurant general managers or managing partners report to a director of operations who is responsible for approximately seven to ten restaurants. Each director of operations of Olive Garden and LongHorn Steakhouse reports to a Senior Vice President of Operations who is responsible for up to one hundred restaurants. Restaurants are visited regularly by operations management, including officer level executives, to help ensure strict adherence to all aspects of our standards.

Each Cheddar’s Scratch Kitchen restaurant is led by a managing partner. Each also has two to six managers and one to two culinary managers. In addition, each restaurant typically employs an average of 65 to 150 hourly team members, most of whom work part-time. The managing partner of each restaurant reports directly to a director of operations, who has operational responsibility for approximately three to ten restaurants. Restaurants are visited regularly by operations management, including officer level executives, to help ensure strict adherence to all aspects of our standards.
Each Bahama Breeze and Yard House restaurant is led by a general manager, and each The Capital Grille, Seasons 52 and Eddie V’s restaurant is led by a managing partner. Each also has two to eight managers. Each The Capital Grille, Yard House, Seasons 52 and Eddie V’s restaurant has one to three executive chefs, and one to two sous chefs, and each Bahama Breeze restaurant has one to three culinary managers. In addition, each restaurant typically employs an average of 65 to 200 hourly team members, most of whom work part-time. The general manager or managing partner of each restaurant reports directly to a director of operations, who has operational responsibility for approximately three to ten restaurants. Restaurants are visited regularly by operations management, including officer level executives, to help ensure strict adherence to all aspects of our standards.
Our Learning and Employee Development team in partnership with each brand’s training leader, together with senior operations executives, is responsible for developing and maintaining our operations training programs. These efforts include a 10 to 12-week training program for management trainees and continuing development programs for all levels of leadership. The emphasis of the training and development programs varies by restaurant brand, but includes leadership, restaurant business management and culinary skills. We also use a highly structured training program to open new restaurants, including deploying training teams experienced in all aspects of restaurant operations. The opening training teams typically begin work one and a half weeks prior to opening and remain at the new restaurant for up to three weeks after the opening. They are re-deployed as appropriate to enable a smooth transition to the restaurant’s operating staff.
We maintain performance measurement and incentive compensation programs for our management-level team members. We believe that our leadership position, strong results-oriented culture and various short-term and long-term incentive programs, including stock-based compensation, enhances our ability to attract and retain highly motivated restaurant managers.
Quality Assurance
Our Total Quality Department helps ensure that all restaurants provide safe, high-quality food in a clean and safe environment. Through rigorous supplier and risk-based product evaluations, we purchase only products that meet or exceed our product specifications. We rely on independent third parties to inspect and evaluate our suppliers and distributors. Suppliers that produce “high-risk” products are subject to a food safety evaluation by Darden personnel at least annually. We require our suppliers to maintain sound manufacturing practices and operate with the comprehensive Hazard Analysis and Critical Control Point (HACCP) food safety programs and risk-based preventative controls adopted by the U.S. Food and Drug Administration. These programs focus on preventing hazards that could cause food-borne illnesses by applying scientifically-based controls to analyze hazards, identify and monitor critical control points, and establish corrective actions when monitoring shows that a critical limit has not

been met. We require routine food safety verification for high-risk products from our suppliers. Our total quality managers and third party auditors visit each restaurant regularly throughout the year to review food handling and to provide education and training in food safety and sanitation. The total quality managers also serve as a liaison to regulatory agencies on issues relating to food safety.

Purchasing and Distribution

Our ability to ensure a consistent supply of safe, high-quality food and supplies at competitive prices to all of our restaurant brands depends on reliable sources of procurement. Our purchasing staff sources, negotiates and purchases food and supplies from more than 1,500 suppliers whose products originate in more than 35 countries. Suppliers must meet our requirements and strict quality control standards in the development, harvest, catch and production of food products. Competitive bids, long-term contracts and strategic supplier relationships are routinely used to manage availability and cost of products. We believe that our significant scale is a competitive advantage and our purchasing team leverages this purchasing capability. Our purchasing staff travels routinely within the United States and internationally to source top-quality food products at competitive prices. We believe that we have established excellent long-term relationships with key suppliers and usually source our product directly from producers (not brokers or middlemen). We actively support several national minority supplier organizations to ensure that Darden incorporates women- and minority-owned businesses in all of its purchasing decisions.

We continue to drive automation of our supply chain by working with our suppliers, logistics partners and distributors to improve optimization with information visibility. Through our subsidiary, Darden Direct Distribution, Inc. (Darden Direct), and long-term agreements with our third party national distribution companies, we maintain inventory ownership of food and supplies in warehouses primarily dedicated to Darden where practical to do so. Darden Direct further enables our purchasing staff to integrate demand forecasts into long-term agreements driving efficiencies in production economics when we collaborate with suppliers. Because of the relatively rapid turnover of perishable food products, inventories in the restaurants have a modest aggregate dollar value in relation to sales.

Advertising and Marketing

Integrated marketing is a key element of our strategy, and our scale enables us to be a leading advertiser in the full-service dining segment of the restaurant industry. Olive Garden leverages the efficiency of national network television advertising. Olive Garden supplements this with cable, local television and digital advertising. LongHorn Steakhouse uses local television and digital advertising to build engagement and loyalty by market. Cheddar’s Scratch Kitchen, The Capital Grille, Yard House, Bahama Breeze, Seasons 52 and Eddie V’s do not use television advertising, but rely on local and digital marketing. Our restaurants appeal to a broad spectrum of consumers and we use advertising to build awareness and strengthen our brands. We implement periodic promotions as appropriate to maintain and increase our sales and profits, as well as increase frequency of visitation by our guests. We also rely on outdoor billboard, direct mail and email advertising, as well as radio, newspapers, digital coupons, search engine marketing and social media such as Facebook® and Instagram®, as appropriate, to attract, engage and retain our guests. We have developed and consistently use sophisticated consumer marketing research techniques to monitor guest satisfaction and evolving food service trends and expectations.

In fiscal 2018, we continued a multi-year effort to implement new technology platforms that allow us to digitally engage with our guests and team members and strengthen our marketing and analytics capabilities in an increasingly connected society. We also continued making improvements to our online and mobile ordering system for Olive Garden and LongHorn Steakhouse. In addition, we continued working on developing sophisticated customer relationship management programs, data analytics, and data-driven marketing approaches to effectively and efficiently target our existing and potential guests across our portfolio of brands. This enables us to tailor messaging and offerings depending on guest visit history, preferences and brand loyalty.

In fiscal 2018, Olive Garden continued to leverage Spanish language advertising to increase awareness and visits from Hispanic consumers.

Employees

At the end of fiscal 2018, we employed over 180,000 people (team members) in the United States and Canada. Of these team members, approximately 170,000 were hourly restaurant personnel. The remainder were restaurant management personnel located in the restaurants or in the field, or were located at our restaurant support center facility in Orlando, Florida. Our executives have an average of 15 years of experience with us. The restaurant general managers and managing partners average 12 years with us. We believe that we provide working conditions and compensation that compare favorably with those of our competitors. Most team members, other than restaurant management and corporate management, are paid on an hourly basis. None of our team members are covered by a collective bargaining agreement. We consider our employee relations to be good.

As a full-service restaurant company, food is always top of mind, but our team members make the difference - they are at the heart of everything we do. We believe the guest experience can never exceed the team member experience, so we hire the best and retain them by fostering an environment of respect, where diversity of thought and background is valued and everyone has the opportunity to develop and grow their careers. We offer our team members flexible work schedules, competitive wages and benefits.

Consistent with one of our core values of diversity, we are committed to attracting, retaining, engaging and developing a workforce that mirrors the diversity of our guests. Approximately 50 percent of our restaurant team members are minorities and more than 55 percent are female. We also achieved a 100 percent score on the Human Rights Campaign’s Corporate Equality Index for our business practices and policies toward our lesbian, gay, bisexual and transgender team members. Additionally, we employ members of five generations of the United States population - Matures, Baby Boomers, Generation X, Millennials and Centennials.

During fiscal 2018, we received additional recognition for our employment practices, including: being included on Forbes' 2018 List of the Best Employers for Diversity; being named to Glassdoor's 2018 List of the 100 Best Places to Work, based entirely on employee feedback shared anonymously on Glassdoor over the past year; and Olive Garden and The Capital Grille being awarded the People Report's 2018 Best Practices Award in recognition of having the best workplace culture in casual dining and fine dining, respectively.

Consistent with our core values of respect and caring and teamwork, in fiscal 1999, we established a program called Darden Dimes to help fellow Darden team members in need. Darden Dimes provides short-term financial grants to team members experiencing financial need caused by unexpected emergencies or catastrophic natural disasters. Participating team members donate as little as 10 cents from each paycheck to the Darden Dimes fund, which raises and grants more than $1.5 million annually.

We succeed because of our people, and with our success come rewards, recognition and great opportunities for our team members. We invest in their careers every step of the way by providing the tools they need to succeed in their current roles, to grow personally and professionally, and to deliver exceptional experiences to our guests each day. With thousands of leadership positions across our restaurants, we provide a pathway and training for thousands of individuals across the country to advance from entry-level jobs into management roles. In addition, our geographic footprint often puts us in a position to offer our restaurant team members jobs in their current roles when personal circumstances require relocation. This is one of the reasons Darden enjoys the lowest annual turnover rates for hourly team members in the industry.

Information Technology and Cybersecurity

We strive for leadership in the restaurant business by using technology as a competitive advantage and as an enabler of our strategy. We have implemented technology-enabled business solutions to improve financial control, cost management, guest service and employee effectiveness, as well as enable e-commerce. These solutions are designed to be used across restaurant brands, yet are flexible enough to meet the unique needs of each restaurant brand. Our strategy is to fully integrate systems to drive operational efficiencies and enable restaurant teams to focus on restaurant operations excellence.

Restaurant hardware and software support for all of our restaurant brands is provided or coordinated from the restaurant support center facility in Orlando, Florida. Our data network sends and receives business data to and from the restaurants throughout the day and night, providing timely and extensive information on business activity in every location. Our data center contains sufficient computing power to process information from all restaurants quickly and efficiently. Our information is processed in a secure environment to protect both our data and the physical computing assets. We guard against business interruption by maintaining a disaster recovery plan, which includes storing critical business information off-site, testing the disaster recovery plan at a host-site facility and providing on-site power backup. We use internally developed proprietary software, as well as purchased software, with proven, non-proprietary hardware.

We maintain a robust system of data protection and cyber security resources, technology and processes. We remain constantly vigilant of new and emerging risks and ever-changing legal and compliance requirements and make strategic continued investment in those systems to keep Company, customer and team member data secure. We monitor risks of sensitive information compromise at our business partners where relevant and reevaluate those relationships if necessary. We provide annual security awareness training to our management and restaurant service center team members.

Our management believes that our current systems and practice of implementing regular updates will position us well to support current needs and future growth. We use a strategic information systems planning process that involves senior management and is integrated into our overall business planning. We provide data protection and cybersecurity reports to the Audit Committee of the Company's Board of Directors on a quarterly basis and periodically to the full Board of Directors. Information systems projects are prioritized based upon strategic, financial, regulatory and other business advantage criteria.

Competition

The restaurant industry is intensely competitive with respect to the type and quality of food, price, service, restaurant location, personnel, brand, attractiveness of facilities, availability of carryout and home delivery, internet and mobile ordering capabilities and effectiveness of advertising and marketing. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and consumers' discretionary purchasing power. We compete within each market with national and regional chains and locally-owned restaurants for guests, management and hourly personnel and suitable real estate sites. We also face growing competition from the supermarket industry, which offers "convenient meals" in the form of improved entrées and

side dishes from the deli section. In addition, improving product offerings at fast casual restaurants and quick-service restaurants and expansion of home delivery services, together with negative economic conditions, could cause consumers to choose less expensive alternatives. We expect intense competition to continue in all of these areas.
Other factors pertaining to our competitive position in the industry are addressed under the sections entitled "Purchasing and Distribution," "Advertising and Marketing" and "Information Technology and Cybersecurity" in this Item 1 and in our Risk Factors in Item 1A of this Form 10-K.

Trademarks and Service Marks

We regard our Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, The Capital Burger ®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood®, Darden® and Darden Restaurants® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and as being important to our marketing efforts. Our policy is to pursue registration of our important service marks and trademarks and to vigorously oppose any infringement of them. Generally, with appropriate renewal and use, the registration of our service marks and trademarks will continue indefinitely.

Franchises, Joint Ventures and New Business Development

As of May 27, 2018, we operated 1,746 restaurants through subsidiaries in the United States and Canada. We own all of those locations, except for 3 restaurants managed by us and owned by joint ventures. We control the joint ventures' use of our service marks and the joint ventures pay management fees to us, which are not material to our consolidated financial statements.

As of May 27, 2018, franchisees operated 36 franchised restaurants in the United States and 35 franchised restaurants outside of the United States. We have area development, franchise and/or license agreements in place with unaffiliated operators to develop and operate Olive Garden, LongHorn Steakhouse, The Capital Grille and Bahama Breeze restaurants in the following regions:

- United States,
- Middle East (Kuwait, Saudi Arabia and the United Arab Emirates),
- Mexico,
- Central and South America (Brazil, El Salvador and Panama),
- Caribbean (Jamaica, Bahamas, Cayman Islands, Dominican Republic and Barbados), and
- Malaysia.

The open and operating franchised restaurants are all reflected in the table under the "Introduction" section of this Item 1. We do not have an ownership interest in any of these franchisees, but we receive fees under the area development and franchise agreements and royalty income under the franchise or license agreements. The amount of income we derive from our franchise arrangements is not material to our consolidated financial statements.

We license the sales and distribution of several items including Olive Garden salad dressings, salad croutons, LongHorn Steakhouse seasoning and Olive Garden seasoning through various channels including wholesale distribution chains and major grocery chains. The amount of income we derive from these licensing arrangements is not material to our consolidated financial statements.

Seasonality

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are highest in the winter and spring, followed by the summer, and lowest in the fall. Holidays, changes in the economy, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Government Regulation

We are subject to various federal, state, local and international laws affecting our business. Each of our restaurants must comply with licensing requirements and regulations by a number of governmental authorities, which include health, safety and fire agencies in the state or municipality in which the restaurant is located. The development and operation of restaurants depend on selecting and acquiring suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations. To date, we have not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

During fiscal 2018, 12.3 percent of our sales were attributable to the sale of alcoholic beverages. Regulations governing their sale require licensure by each site (in most cases, on an annual basis), and licenses may be revoked or suspended for cause at any time. These regulations relate to many aspects of restaurant operation, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, and storage and dispensing of alcoholic beverages. The failure of a restaurant to obtain or retain these licenses would adversely affect the restaurant's operations. We also are subject in certain states to "dram-shop" statutes, which generally provide an injured party with recourse against an establishment that serves alcoholic beverages to an intoxicated person who then causes injury to himself or a third party. We carry liquor liability coverage as part of our comprehensive general liability insurance.

We also are subject to federal and state minimum wage laws and other laws governing such matters as overtime, tip credits, working conditions, safety standards, and hiring and employment practices.

Since 1995, Darden has had a Tip Rate Alternative Commitment (TRAC) agreement with the Internal Revenue Service. TRAC requirements, which include increased educational and other efforts in each restaurant to increase the reporting compliance of employees with respect to cash tips, are applied across all of our brands. Compliance with TRAC requirements reduces the likelihood of potential employer-only FICA tax assessments related to cash tips that are unreported by employees at Darden's covered units.

We are subject to federal and state environmental regulations, but these rules have not had a material effect on our operations. During fiscal 2018, there were no material capital expenditures for environmental control facilities and no material expenditures for this purpose are anticipated.

Our facilities must comply with the applicable requirements of the Americans with Disabilities Act of 1990 (ADA) and related state accessibility statutes. Under the ADA and related state laws, we must provide equivalent service to disabled persons and make reasonable accommodation for their employment, and when constructing or undertaking significant remodeling of our restaurants, we must make those facilities accessible.

We continue to monitor the status of the health care reform law enacted by Congress in March of 2010 (Affordable Care Act) and related rules and regulations.

We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content.

We are subject to laws relating to information security, privacy, cashless payments and consumer credit, protection and fraud. An increasing number of governments and industry groups worldwide have established data privacy laws and standards for the protection of personal information, including social security numbers, financial information (including credit card numbers), and health information. As a merchant and service provider of point-of-sale services, we are also subject to the Payment Card Industry Data Security Standard issued by the Payment Card Industry Council (PCI DSS).

See Item 1A "Risk Factors" below for a discussion of risks relating to federal, state and local regulation of our business, including in the areas of health care reform, data privacy and environmental matters.

Sustainability

Darden's commitment to sustainability is a key component of providing great service and food to our guests. It is an element that separates us from our competitors and a contributor to our business success. Our approach is both integrated and strategic and spans the enterprise from the commodities we source to the operation of our restaurants.

We focus on running our restaurants efficiently, and we continually reduce water and energy use. We have reduced our use of these resources 18% and 22%, respectively, from fiscal 2010, when we began tracking this data, through fiscal 2017. Darden has also established an aspirational goal to send zero waste to landfill over time. We have made significant progress and doubled (compared to fiscal 2010) our diversion rate to 31% reduction in landfill waste in fiscal 2017 compared to fiscal 2010, achieved through a combination of recycling efforts, organic waste diversion and food donation through the Darden Harvest program. The achievement of these goals helps to distinguish Darden as a sustainability leader in the food service industry and beyond.

We also focus on sustainability in today's evolving food culture. In 2016, Darden's Food Principles were publicly shared, which outline our commitment to guests in areas of sourcing, food safety, sustainability and animal welfare. Darden's Food Principles is a statement that connects each of these strategic business efforts in a guest-centered platform, including sourcing and ingredient commitments to our guests. We have set commitments related to the following food attributes: antibiotics, partially-hydrogenated oils (PHOs), cage-free eggs, and gestation crate-free pork. We are on track to meet the commitments, and we continue to monitor progress with our suppliers.

Conservation is a competitive advantage - it continues to lower our operating costs over time, insulate our supply chain, and help us attract and retain the most qualified employees - all increasing the success of our business.

More information about our sustainability strategy, our commitment to our guests on Food Principles and our progress to date is available at www.darden.com.

Darden Foundation and Community Affairs

We are recognized for a culture that rewards caring for and responding to people. That defines service for Darden. The Darden Restaurants, Inc. Foundation (Foundation) works to bring to life this spirit of service through its philanthropic support of charitable organizations across the country as well as the volunteer involvement of our team members. The Foundation does this by focusing its philanthropic efforts on programs that enhance the communities in which our team members and guests live and work. In addition, Darden Restaurant Support Center team members are eligible for 16 hours per calendar year of paid time for approved community service activities during scheduled work hours.

In fiscal 2018, the Foundation awarded approximately $3.7 million in grants to national organizations as well as local nonprofits including Second Harvest Food Bank of Central Florida and the Heart of Florida United Way. These organizations provide service to the public through disaster preparedness, hunger relief, community engagement, and the promotion of career opportunities in the culinary industry.

The Foundation’s funding helps support the National Restaurant Association Education Foundation’s ProStart program, a national high school program that introduces students to the restaurant industry and provides them with an industry-driven curriculum on topics ranging from culinary techniques to management skills. The Foundation’s $250,000 annual contribution also supports the Opportunity Youth-Restaurant ready program to engage and encourage disconnected young people to pursue a path to employment and improve their quality of life.

We are a proud member of the American Red Cross’ Annual Disaster Giving Program which enables the Red Cross to respond to the needs of individuals and families impacted by disasters anywhere in the United States. In addition to financial support, our restaurants regularly donate meals to feed first responders and victims of natural disasters. In fiscal 2018, the Foundation provided $750,000 to the American Red Cross, including $250,000 to support the organization’s Hurricane Harvey relief efforts. The Foundation also provided $50,000 to Heart of Florida United Way to support Hurricane Maria victims in Puerto Rico.

The Foundation strengthened its partnership with Feeding America in fiscal 2018 with a $2.0 million grant to provide food to hungry families in the communities where we do business. The Foundation’s contribution will support food banks across the country and help provide meals for people facing hunger. This donation will mark a total of $5.8 million that the Foundation and Darden have contributed to the Feeding America network.

In 2003, we began the Darden Harvest program as a mechanism for getting fresh and healthy food to people who need it. Each day, across every one of our restaurants, we collect surplus, wholesome food that is not served to guests and, rather than discarding the food, we prepare it for donation to local nonprofit feeding partners. In fiscal 2018, Darden contributed approximately 7 million pounds of food, the equivalent of more than 5.8 million meals provided to people in need across the communities served by our restaurants. As an added benefit of the Darden Harvest program, we are able to divert millions of pounds of surplus food from waste streams every year, making the Darden Harvest program a key part of our goal to one day send zero waste to landfills.

More information about the Foundation and its efforts to enhance the quality of life in the communities where we do business is available on our website at www.darden.com.

Executive Officers of the Registrant

Our executive officers as of the date of this report are listed below.

Eugene I. (Gene) Lee, Jr., age 57, has been our President and CEO since February 2015. Prior to that, Mr. Lee served as President and Interim CEO since October 2014, and as President and COO of the Company from September 2013 to October 2014. He served as President, Specialty Restaurant Group from our acquisition of RARE in October 2007 to September 2013.

Prior to the acquisition, he served as RARE's President and COO from January 2001 to October 2007. From January 1999 until January 2001, he served as RARE's Executive Vice President and COO.

Matthew R. Broad, age 58, has been our Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary since October 2015. Prior to joining Darden, he served as Executive Vice President, General Counsel and Chief Compliance Officer for OfficeMax, Incorporated from October 2004 to December 2013. Prior to that, he was Associate General Counsel with Boise Cascade Corporation from September 1989 to October 2004.

Todd A. Burrowes, age 55, has been our President, LongHorn Steakhouse since July 2015. He rejoined the Company after serving as President, Ruby Tuesday Concept and Chief Operations Officer of Ruby Tuesday, Inc. from June 2013 to July 2015. Prior to that, he served as Executive Vice President of Operations for LongHorn Steakhouse from May 2008 until June 2013. He joined the Company in 2002 as Regional Manager of LongHorn Steakhouse before being promoted to Director of Management Training. In 2004, he was promoted to Regional Vice President of Operations for LongHorn Steakhouse.

Ricardo (Rick) Cardenas, age 50, has been our Senior Vice President, Chief Financial Officer since March 2016. He was Senior Vice President, Chief Strategy Officer of the Company from July 2015 to March 2016, prior to which he served as Senior Vice President, Finance, Strategy and Technology from July 2014 to July 2015. He was Executive Vice President of Operations for LongHorn Steakhouse from June 2013 to July 2014 and Senior Vice President of Operations for LongHorn Steakhouse's Philadelphia Division from June 2012 to June 2013. He served as Senior Vice President of Finance for Red Lobster, which the Company previously owned, from June 2010 to June 2012. Mr. Cardenas originally joined the Company in 1984 as an hourly employee and served in various positions of increasing responsibility, including Vice President of Finance for Olive Garden, prior to the positions described above.

David C. George, age 62, has been our Executive Vice President and Chief Operating Officer since January 2018, prior to which he was our President, Olive Garden and Executive Vice President, Darden Restaurants since March 2016. He served as President, Olive Garden from January 2013 through March 2016 and he served as our President, LongHorn Steakhouse from October 2007, when we acquired RARE, until January 2013. Prior to the acquisition, he served as RARE's President of LongHorn Steakhouse from May 2003 until October 2007. From October 2001 until May 2003, he was RARE's Senior Vice President of Operations for LongHorn Steakhouse and from May 2000 until October 2001 was RARE's Vice President of Operations for The Capital Grille.

Daniel J. Kiernan, age 57, has been our President, Olive Garden since January 2018, prior to which he was our Executive Vice President of Operations for Olive Garden since March 2011. He began his career with Olive Garden in 1992 as a Manager in Training and has held a series of roles of increasing responsibility with Olive Garden, serving as a General Manager from February 1993 to August 1994, as Director of Operations from August 1994 to June 2002, as Senior Vice President of the Chicago Division from June 2002 to May 2008 and as Senior Vice President, Operations Excellence from May 2008 to March 2011.

Sarah H. King, age 48, was named our Senior Vice President, Chief Human Resources Officer in March 2017. Prior to joining Darden, Sarah spent 19 years with Wyndham Worldwide Corporation in various human resources leadership positions worldwide. Most recently, from 2010 through 2017, she served as Executive Vice President, Human Resources for Wyndham Vacation Ownership.

John W. Madonna, age 42, has been our Senior Vice President, Corporate Controller since January 2016, prior to which he served as our Senior Vice President, Accounting since January 2015. Prior to that, he was a Director in Corporate Reporting from June 2010 through June 2013 when he was promoted to Senior Director, Corporate Reporting and then to Vice President of Corporate Reporting in March 2014. He joined the Company in 2005 as Manager, Corporate Reporting. He joined the LongHorn Steakhouse team in 2009 as Manager, Financial Planning &

Analysis.

Douglas J. Milanes, age 54, has been our Senior Vice President, Chief Supply Chain Officer since May 2015, prior to which he served as Senior Vice President, Purchasing since January 2013. Prior to joining Darden, Doug served as Vice President, Global Procurement and Operations for Pfizer Inc. from January 2008 to July 2012 and as Chief Financial Officer for Pfizer's Capsugel Division from 2005 to 2008.

Richard L. Renninger, age 50, has been our Senior Vice President, Chief Development Officer since July 2016. Prior to joining Darden, he was Chief Development Officer for First Watch Restaurants, Inc., from September 2012 to June 2016. Prior to that, he served as Executive Vice President & Chief Development Officer for OSI Restaurant Partners (now Bloomin' Brands, Inc.) from January 2008 to March 2012 and Senior Vice President of Real Estate and Development from June 2005 to January 2008. Prior to joining OSI, he served as Vice President of Real Estate for RARE from July 2002 to June 2005.

Item 1A. RISK FACTORS

Various risks and uncertainties could affect our business. Any of the risks described below or elsewhere in this report or our other filings with the Securities and Exchange Commission could have a material impact on our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

We rely heavily on information technology in our operations, and insufficient guest or employee facing technology or a failure to maintain a continuous and secure cyber network, free from material failure, interruption or security breach, could harm our ability to effectively operate our business and/or result in the loss of respected relationships with our guests or employees.

We rely heavily on information systems across our operations, including for e-commerce, marketing programs, employee engagement, management of our supply chain, the point-of-sale processing system in our restaurants, and various other processes and transactions. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends significantly on the reliability, security and capacity of these systems. In addition, we must effectively respond to changing guest expectations and new technological developments. Disruptions, failures or other performance issues with guest facing technology systems could impair the benefits that they provide to our business and negatively affect our relationship with our guests. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, a material network breach in the security of these systems as a result of a cyber attack, or any other failure to maintain a continuous and secure cyber network could result in substantial harm or inconvenience to our company, our employees or our guests. This could include the theft of our intellectual property, trade secrets or sensitive financial information, or the improper use of personal information or other “identity theft” of either guest or employee information. Some of these essential business processes that are dependent on technology are outsourced to third parties. While we make efforts to ensure that our providers are observing proper standards and controls, we cannot guarantee that breaches or failures caused by these outsourced providers will not occur.

Any such failures, disruptions or data privacy breaches may cause delays in guest service, reduce efficiency in our operations, require significant capital investments to remediate the problem, result in customer, employee or advertiser dissatisfaction or otherwise result in negative publicity that could harm our reputation. We could also be subjected to litigation, regulatory investigations or the imposition of penalties. As privacy and information security laws and regulations change and cyber risks evolve, we may incur additional costs to ensure we remain in compliance and protect guest, employee and Company information.

A failure to maintain food safety throughout the supply chain and food-borne illness concerns may have an adverse effect on our business.

Food safety is a top priority, and we dedicate substantial resources to ensuring that our guests enjoy safe, quality food products. Even with strong preventative interventions and controls, food safety issues could be caused at the source or by food suppliers or distributors and, as a result, be out of our control and require prompt action to mitigate impact. In addition, regardless of the source or cause, any report of food-borne illnesses such as E. coli, hepatitis A, norovirus or salmonella, and other food safety issues including food tampering or contamination, at one of our restaurants could adversely affect the reputation of our brands and have a negative impact on our sales. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

The inability to hire, train, reward and retain restaurant team members or an inability to adequately monitor and proactively respond to employee dissatisfaction may impact our ability to achieve our operating, growth and financial objectives.

Our future growth depends substantially on our ability to recruit and retain high-quality team members to work in and manage our restaurants. Adequate staffing of qualified restaurant team members is a critical factor impacting our guests' experience in our restaurants. Maintaining adequate staffing in our existing restaurants and hiring and training staff for our new restaurants requires precise workforce planning. The low level of unemployment in the United States is resulting in aggressive competition for talent, wage inflation and pressure to improve benefits and workplace conditions to remain competitive. A shortage of quality candidates, failure to recruit and retain new team members in a timely manner or higher than expected turnover levels all could affect our ability to open new restaurants, grow sales at existing restaurants or meet our labor cost objectives. An inability to adequately monitor and proactively respond to team member dissatisfaction could lead to poor guest satisfaction, higher turnover, litigation and unionization which could jeopardize our ability to meet our growth targets.

A failure to recruit, develop and retain effective leaders or the loss or shortage of personnel with key capacities and skills could impact our strategic direction and jeopardize our ability to meet our growth targets.

Our future growth depends substantially on the contributions and abilities of key executives and other leadership team members. We must continue to recruit, retain and motivate management team members in order to maintain our current business and support our projected growth. Changes in senior management could expose us to significant changes in strategic direction and initiatives. A failure to maintain appropriate organizational capacity and capability to support leadership excellence (adequate resources, innovative skill sets and expectations) and build adequate bench strength required for growth or a loss of key skill sets could jeopardize our ability to meet our growth targets.

Litigation, including allegations of illegal, unfair or inconsistent employment practices, may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees, guests, suppliers, shareholders, government agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. These actions and proceedings may involve allegations of illegal, unfair or inconsistent employment practices, including wage and hour violations and employment discrimination; guest discrimination; food safety issues including poor food quality, food-borne illness, food tampering, food contamination, and adverse health effects from consumption of various food products or high-calorie foods (including obesity); other personal injury; violation of "dram shop" laws (providing an injured party with recourse against an establishment that serves alcoholic beverages to an intoxicated party who then causes injury to himself or a third party); trademark infringement; violation of the federal securities laws; or other concerns. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend litigation may be significant. There may also be adverse publicity associated with litigation that could decrease guest acceptance of our brands, regardless of whether the allegations are valid or we ultimately are found liable. Litigation could impact our operations in other ways as well. Allegations of illegal, unfair or inconsistent employment practices, for example, could adversely affect employee acquisition and retention. As a result, litigation may adversely affect our business, financial condition and results of operations.

Unfavorable publicity, or a failure to respond effectively to adverse publicity could harm our reputation and adversely impact our guest counts and sales.

The good reputation of our restaurant brands is a key factor in the success of our business. Actual or alleged incidents at any of our restaurants could result in negative publicity that could harm our brands. Even incidents occurring at restaurants operated by our competitors or in the supply chain generally could result in negative publicity that could harm the restaurant industry overall and, indirectly, our own brands. Negative publicity may result from allegations of illegal, unfair or inconsistent employment practices, employee dissatisfaction, guest discrimination, illness, injury, or any of the other matters discussed above that could give rise to litigation. Regardless of whether the allegations or complaints are valid, unfavorable publicity relating to a limited number of our restaurants, or to only a single restaurant, could adversely affect public perception of the entire brand. Negative publicity also may result from health concerns including food safety and flu outbreaks, publication of government or industry findings concerning food products, environmental disasters, crime incidents, data privacy breaches, scandals involving our employees, or operational problems at our restaurants, all of which could make our brands and menu offerings less appealing to our guests and negatively impact our guest counts and sales. Adverse publicity and its effect on overall consumer perceptions of our brands, or our failure to respond effectively to adverse publicity, could have a material adverse effect on our business.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business.
There has been a marked increase in the use of social media platforms and similar devices which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects, or business. The harm may be immediate without affording us an opportunity for redress or correction. The dissemination of information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy.

Many of our competitors are expanding their use of social media and new social media platforms are rapidly being developed, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance. As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests. We also continue to invest in other digital marketing initiatives that allow us to reach our guests across multiple digital channels and build their awareness of, engagement with, and loyalty to our brands. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues, increased employee engagement or brand recognition. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.
We are subject to a number of risks relating to public policy changes and federal, state and local regulation of our business, including in the areas of health care reform, environmental matters, minimum wage, unionization, data privacy, menu labeling, immigration requirements and taxes, and an insufficient or ineffective response to government regulation may impact our cost structure, operational efficiencies and talent availability.
The restaurant industry is subject to extensive federal, state, local and international laws and regulations. The development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites, which are subject to building, zoning, land use, environmental, traffic and other regulations and requirements. We are subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards and the sale of alcoholic beverages. We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are subject to federal, state, and local laws governing employment practices and working conditions. These laws cover wage and hour practices, labor relations, paid and family leave, workplace safety, and immigration, among others. The myriad of laws and regulations being passed at the state and local level creates unique challenges for a multi-state employer as different standards apply to different locations, sometimes with conflicting requirements. We must continue to monitor and adapt our employment practices to comply with these various laws and regulations.

We also are subject to federal and state laws which prohibit discrimination and other laws regulating the design and operation of facilities, such as the ADA. Compliance with these laws and regulations can be costly and increase our exposure to litigation and governmental proceedings, and a failure or perceived failure to comply with these laws could result in negative publicity that could harm our reputation. New or changing laws and regulations relating to union organizing rights and activities may impact our operations at the restaurant level and increase our labor costs. We are subject to a variety of federal, state and local laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. There also has been increasing focus by United States and overseas governmental authorities on other environmental matters, such as climate change, the reduction of greenhouse gases and water consumption. This increased focus may lead to new initiatives directed at regulating a yet to be specified array of environmental matters. Legislative, regulatory or other efforts to combat climate change or other environmental concerns could result in future increases in the cost of raw materials, taxes, transportation and utilities, which could decrease our operating profits and necessitate future investments in facilities and equipment.

We are subject to laws relating to information security, privacy, cashless payments and consumer credit, protection and fraud. An increasing number of governments and industry groups worldwide have established data privacy laws and standards for the protection of personal information, including social security numbers, financial information (including credit card numbers), and health information. Compliance with these laws and regulations can be costly, and any failure or perceived failure to comply with these laws or any breach of our systems could harm our reputation or lead to litigation, which could adversely affect our financial condition.

The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or an insufficient or ineffective response to significant regulatory or public policy issues, could negatively impact our cost structure, operational efficiencies and talent availability, and therefore have an adverse effect on our results of operations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. Compliance with these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

A majority of our restaurants are operated in leased properties and we are committed to long-term and non-cancelable leases that we may want to cancel, and may be unable to renew the leases that we may want to extend at the end of their terms.

As of May 27, 2018, 1,655 of our 1,746 restaurants operating in the United States and Canada operate in leased locations. If we close a restaurant in a leased location, we may remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent for the balance of the lease term. Additionally, the potential losses associated with our inability to cancel leases may result in our keeping open restaurant locations that are performing significantly below targeted levels. As a result, ongoing lease obligations at closed or underperforming restaurant locations could impair our results of operations. In addition, at the end of the lease term and expiration of all renewal periods, we may be unable to renew the lease without substantial additional cost, if at all. As a result, we may be required to close or relocate a restaurant, which could subject us to construction and other costs and risks, and may have an adverse effect on our operating performance.

We may be subject to increased labor and insurance costs.

Our restaurant operations are subject to United States and Canadian federal, state and local laws governing such matters as minimum wages, working conditions, overtime and tip credits. As federal, state and local minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees, but also the wages paid to employees at wage rates that are above minimum wage. Labor shortages, increased employee turnover and health care and other benefit mandates could also increase our labor costs. This in turn could lead us to increase prices which could impact our sales. Conversely, if competitive pressures or other factors prevent us from offsetting increased labor costs by increases in prices, our profitability may decline. In addition, the current premiums that we pay for our insurance (including workers' compensation, general liability, property, health, and directors' and officers' liability) may increase at any time, thereby further increasing our costs. The dollar amount of claims that we actually experience under our workers' compensation and general liability insurance, for which we carry high per-claim deductibles, may also increase at any time, thereby further increasing our costs. Further, the decreased availability of property and liability insurance has the potential to negatively impact the cost of premiums and the magnitude of uninsured losses.

Our inability or failure to execute on a comprehensive business continuity plan following a major natural disaster such as a hurricane or manmade disaster, including terrorism, at our corporate facility could have a materially adverse impact on our business.

Many of our corporate systems and processes and corporate support for our restaurant operations are centralized at one Florida location. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including hurricanes and other natural disasters, and back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims.

Health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases may have an adverse effect on our business.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as norovirus, avian flu or "SARS," H1N1 or "swine flu," or other diseases. To the extent that a virus or disease is food-borne, or perceived to be food-borne, future outbreaks may adversely affect the price and availability of certain food products and cause our guests to eat less of a product, or could reduce public confidence in food handling and/or public assembly. For example, public concern over avian flu may cause fear about the consumption of chicken, eggs and other products derived from poultry. The inability to serve poultry-based products would restrict our ability to provide a variety of menu items to our guests. If we change a restaurant menu in response to such concerns, we may lose guests who do not prefer the new menu, and we may not be able to attract a sufficient new guest base to produce the sales needed to make the restaurant profitable. We also may have different or additional competitors for our intended guests as a result of such a change and may not be able to successfully compete against such competitors. If a virus is transmitted by human contact, our employees or guests could become infected, or could choose, or be advised, to avoid gathering in public places, any of which could adversely affect our restaurant guest traffic and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also could be adversely affected if the World Health Organization and/or the Centers for Disease Control were to restrict travel to affected geographic areas where we source our products, thus possibly impacting the continuity of supply. Additionally, jurisdictions in which we have restaurants may impose mandatory closures, seek voluntary closures or impose restrictions on operations. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may adversely affect our business.

We face intense competition, and if we have an insufficient focus on competition and the consumer landscape, our business, financial condition and results of operations would be adversely affected.

The full-service dining sector of the restaurant industry is intensely competitive with respect to pricing, service, location, personnel, take-out and delivery options and type and quality of food, and there are many well-established competitors. We compete within each market with national and regional restaurant chains and locally-owned restaurants. We also face growing competition as a result of the trend toward convergence in grocery, deli and restaurant services, particularly in the supermarket industry which offers “convenient meals” in the form of improved entrées and side dishes from the deli section. We compete primarily on the quality, variety and value perception of menu items. The number and location of restaurants, type of brand, quality and efficiency of service, attractiveness of facilities and effectiveness of advertising and marketing programs are also important factors. We anticipate that intense competition will continue with respect to all of these factors. If we are unable to continue to compete effectively, our business, financial condition and results of operations would be adversely affected.

Our failure to drive both short-term and long-term profitable sales growth through brand relevance, operating excellence, opening new restaurants of existing brands, and acquiring new dining brands could result in poor financial performance.

As part of our business strategy, we intend to drive profitable sales growth by increasing same-restaurant sales at existing restaurants, continuing to expand our current portfolio of restaurant brands, and acquiring additional brands that can be expanded profitably. This strategy involves numerous risks, and we may not be able to achieve our growth objectives.

At existing brands, we may not be able to maintain brand relevance and restaurant operating excellence to achieve sustainable same-restaurant sales growth and warrant new unit growth. Existing brand short-term sales growth could be impacted if we are unable to drive near term guest count and sales growth, and long-term sales growth could be impacted if we fail to extend our existing brands in ways that are relevant to our guests. A failure to innovate and extend our existing brands in ways that are relevant to guests and occasions in order to generate sustainable same-restaurant traffic growth and produce non-traditional sales and earnings growth opportunities, insufficient focus on our competition, or failure to adequately address declines in the casual dining industry, could have an adverse effect on our results of operations. In addition, we may not be able to support sustained new unit growth or open all of our planned new restaurants, and the new restaurants that we open may not be profitable or as profitable as our existing restaurants. New restaurants typically experience an adjustment period before sales levels and operating margins normalize, and even sales at successful newly-opened restaurants generally do not make a significant contribution to profitability in their initial months of operation. The opening of new restaurants can also have an adverse effect on guest counts and sales levels at existing restaurants.

The ability to open and profitably operate restaurants is subject to various risks, such as the identification and availability of suitable and economically viable locations, the negotiation of acceptable lease or purchase terms for new locations, the need to obtain all required governmental permits (including zoning approvals and liquor licenses) on a timely basis, the need to comply with other regulatory requirements, the availability of necessary contractors and subcontractors, the ability to meet construction schedules and budgets, the ability to manage union activities such as picketing or hand billing which could delay construction, increases in labor and building material costs, the availability of financing at acceptable rates and terms, changes in weather or other acts of God that could result in construction delays and adversely affect the results of one or more restaurants for an indeterminate amount of time, our ability to hire and train qualified management personnel and general economic and business conditions. At each potential location, we compete with other restaurants and retail businesses for desirable development sites, construction contractors, management personnel, hourly employees and other resources. If we are unable to successfully manage these risks, we could face increased costs and lower than anticipated sales and earnings in future periods.

We also may not be able to identify and successfully acquire and integrate additional brands that are as profitable as our existing restaurants or that provide potential for further growth.

A lack of availability of suitable locations for new restaurants or a decline in the quality of the locations of our current restaurants may adversely affect our sales and results of operations.

The success of our restaurants depends in large part on their locations. As demographic and economic patterns change, current locations may not continue to be attractive or profitable. Possible declines in neighborhoods where our restaurants are located or adverse economic conditions in areas surrounding those neighborhoods could result in reduced sales in those locations. In addition, desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an

acceptable cost when we identify a particular opportunity for a new restaurant or relocation. The occurrence of one or more of these events could have a significant adverse effect on our sales and results of operations.
We may experience higher-than-anticipated costs associated with the opening of new restaurants or with the closing, relocating and remodeling of existing restaurants, which may adversely affect our results of operations.
Our sales and expenses can be impacted significantly by the number and timing of the opening of new restaurants and the closing, relocating and remodeling of existing restaurants. We incur substantial pre-opening expenses each time we open a new restaurant and other expenses when we close, relocate or remodel existing restaurants. The expenses of opening, closing, relocating or remodeling any of our restaurants may be higher than anticipated. An increase in such expenses could have an adverse effect on our results of operations.

A failure to identify and execute innovative marketing and guest relationship tactics, ineffective or improper use of other marketing initiatives, and increased advertising and marketing costs could adversely affect our results of operations.
If our competitors increase their spending on advertising and promotions, if our advertising, media or marketing expenses increase, if our advertising and promotions become less effective than those of our competitors, or if we do not adequately leverage technology and data analytic capabilities needed to generate concise competitive insight, we could experience a material adverse effect on our results of operations. A failure to sufficiently innovate, develop guest relationship initiatives, or maintain adequate and effective advertising could inhibit our ability to maintain brand relevance and drive increased sales.
As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests. These initiatives may not be successful, and pose a variety of other risks, as discussed above under the heading: "Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business."
A failure to address cost pressures, including rising costs for commodities, labor, health care and utilities used by our restaurants, and a failure to effectively deliver cost management activities and achieve economies of scale in purchasing could compress our margins and adversely affect our sales and results of operations.
Our results of operations depend significantly on our ability to anticipate and react to changes in the price and availability of food, ingredients, labor, health care, utilities and other related costs over which we may have little control. Operating margins for our restaurants are subject to changes in the price and availability of food commodities, including beef, pork, chicken, seafood, cheese, butter and produce. The introduction of or changes to tariffs on imported food products, such as shrimp, could increase our costs and possibly impact the supply of those products. We cannot predict whether we will be able to anticipate and react to changing food costs by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our operating results. We attempt to leverage our size to achieve economies of scale in purchasing, but there can be no assurances that we can always do so effectively. We are subject to the general risks of inflation.
Increases in minimum wage, health care and other benefit costs may have a material adverse effect on our labor costs. We operate in many states and localities where the minimum wage is significantly higher than the federal minimum wage. Increases in minimum wage may also result in increases in the wage rates paid for non-minimum wage positions
Our restaurants' operating margins are also affected by fluctuations in the price of utilities such as electricity and natural gas, whether as a result of inflation or otherwise, on which the restaurants depend for their energy supply. In addition, interruptions to the availability of gas, electric, water or other utilities, whether due to aging infrastructure, weather conditions, fire, animal damage, trees, digging accidents or other reasons largely out of our control, may adversely affect our operations. Our inability to anticipate and respond effectively to an adverse change in any of these factors could have a significant adverse effect on our sales and results of operations.
We may lose sales or incur increased costs if our restaurants experience shortages or interruptions in the delivery of food and other products from our third party vendors and suppliers.
Shortages or interruptions in the supply of food items and other supplies to our restaurants may be caused by inclement weather; natural disasters such as hurricanes, tornadoes, floods, droughts and earthquakes; the inability of

our vendors to obtain credit in a tightened credit market or remain solvent given disruptions in the financial markets; or other conditions beyond our control. Such shortages or interruptions could adversely affect the availability, quality and cost of the items we buy and the operations of our restaurants. We may have a limited number of suppliers for certain of our products. Supply chain risk could increase our costs and limit the availability of products that are critical to our restaurant operations. If we raise prices as a result of increased food costs or shortages, it may negatively impact our sales. If we temporarily close a restaurant or remove popular items from a restaurant's menu, that restaurant may experience a significant reduction in sales during the time affected by the shortage or thereafter as a result of our guests changing their dining habits.

Adverse weather conditions and natural disasters could adversely affect our restaurant sales.

Adverse weather conditions can impact guest traffic at our restaurants, cause the temporary underutilization of outdoor patio seating and, in more severe cases such as hurricanes, tornadoes or other natural disasters, cause temporary closures, sometimes for prolonged periods, which would negatively impact our restaurant sales. Changes in weather could result in construction delays, interruptions to the availability of utilities, and shortages or interruptions in the supply of food items and other supplies, which could increase our costs. Some climatologists predict that the long-term effects of climate change and global warming may result in more severe, volatile weather or extended droughts, which could increase the frequency and duration of weather impacts on our operations.

Volatility in the market value of derivatives we may use to hedge exposures to fluctuations in commodity and broader market prices may cause volatility in our gross margins and net earnings.

We use or may use derivatives to hedge price risk for some of our principal ingredient, labor and energy costs, including but not limited to coffee, butter, wheat, soybean oil, pork, beef, diesel fuel, gasoline and natural gas. Changes in the values of these derivatives may be recorded in earnings currently, resulting in volatility in both gross margin and net earnings. These gains and losses are reported as a component of cost of sales in our Consolidated Statements of Earnings included in our consolidated financial statements.

Certain economic and business factors specific to the restaurant industry and other general macroeconomic factors including unemployment, energy prices and interest rates that are largely beyond our control may adversely affect consumer behavior and our results of operations.

Our business results depend on a number of industry-specific and general economic factors, many of which are beyond our control. The full-service dining sector of the restaurant industry is affected by changes in international, national, regional and local economic conditions, seasonal fluctuation of sales volumes, consumer spending patterns and consumer preferences, including changes in consumer tastes and dietary habits, and the level of consumer acceptance of our restaurant brands. The performance of individual restaurants may also be adversely affected by factors such as demographic trends, severe weather including hurricanes, traffic patterns and the type, number and location of competing restaurants.

General economic conditions may also adversely affect our results of operations. Recessionary economic cycles, a protracted economic slowdown, a worsening economy, increased unemployment, increased energy prices, rising interest rates, a downgrade of the U.S. government's long-term credit rating, imposition of retaliatory tariffs on important U.S. imports and exports or other industry-wide cost pressures could affect consumer behavior and spending for restaurant dining occasions and lead to a decline in sales and earnings. Job losses, foreclosures, bankruptcies and falling home prices could cause guests to make fewer discretionary purchases, and any significant decrease in our guest traffic or average profit per transaction will negatively impact our financial performance. In addition, if gasoline, natural gas, electricity and other energy costs increase, and credit card, home mortgage and other borrowing costs increase with rising interest rates, our guests may have lower disposable income and reduce the frequency with which they dine out, may spend less on each dining out occasion or may choose more inexpensive restaurants.

Furthermore, we cannot predict the effects that actual or threatened armed conflicts, terrorist attacks, efforts to combat terrorism, heightened security requirements, or a failure to protect information systems for critical infrastructure, such as the electrical grid and telecommunications systems, could have on our operations, the economy or consumer confidence generally. Any of these events could affect consumer spending patterns or result in increased costs for us due to security measures.

Unfavorable changes in the above factors or in other business and economic conditions affecting our guests could increase our costs, reduce traffic in some or all of our restaurants or impose practical limits on pricing, any of which could lower our profit margins and have a material adverse effect on our sales, financial condition and results of operations.

Disruptions in the financial and credit markets may adversely impact consumer spending patterns, affect the availability and cost of credit and increase pension plan expenses.

Our ability to make scheduled payments or to refinance our debt and to obtain financing for acquisitions or other general corporate and commercial purposes will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. Turmoil in global credit markets could adversely impact the availability of credit already arranged, and the availability and cost of credit in the future. There can be no assurances that we will be able to arrange credit on terms we believe are acceptable or that permit us to finance our business with historical margins. A lack of credit could have an adverse impact on certain of our suppliers, landlords and other tenants in retail centers in which we are located. If these issues occur, they could negatively affect our financial results. Any new disruptions in the financial markets may also adversely affect the U.S. and world economy, which could negatively impact consumer spending patterns. Changes in the capital markets could also have significant effects on our pension plan. Our pension income or expense is affected by factors including the market performance of the assets in the master pension trust maintained for the pension plan for some of our employees, the weighted average asset allocation and long-term rate of return of our pension plan assets and the discount rate used to determine the interest cost component of our net periodic pension cost. If our pension plan assets do not achieve positive rates of return, or if our estimates and assumed rates are not accurate, our earnings may decrease because net periodic pension costs would rise and we could be required to provide additional funds to cover our obligations to employees under the pension plan.

We face a variety of risks associated with doing business with franchisees and licensees.

Certain of our domestic and all of our international locations other than in Canada are operated by franchisees or licensees. We believe that we have selected high-caliber operating partners and franchisees with significant experience in restaurant operations, and are providing them with training and support. However, the probability of opening, ultimate success and quality of any franchise or licensed restaurant rests principally with the franchisee or licensee. If the franchisee or licensee does not successfully open and operate its restaurants in a manner consistent with our standards, or guests have negative experiences due to issues with food quality or operational execution, our brand values could suffer, which could have an adverse effect on our business.

We face a variety of risks associated with doing business with business partners and vendors in foreign markets.

We are making efforts to expand our brands overseas through licensing and franchising relationships. There is no assurance that international operations will be profitable or that international growth will continue. Our international operations are subject to all of the same risks associated with our domestic operations, as well as a number of additional risks. These include, among other things, international economic and political conditions, foreign currency fluctuations, and differing cultures and consumer preferences. In addition, expansion into international markets could create risks to our brands and reputation.

We also are subject to governmental regulations throughout the world that impact the way we do business with our international franchisees and vendors. These include antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA Patriot Act, the Foreign Corrupt Practices Act, and applicable local law. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

Failure to protect our service marks or other intellectual property could harm our business.

We regard our Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, The Capital Burger ®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood®, Darden® and Darden Restaurants® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks in the United States and foreign jurisdictions. However, we are aware of names and marks identical or similar to our service marks being used from time to time by other persons. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Although we believe we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate, and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources.

Impairment of the carrying value of our goodwill or other intangible assets could adversely affect our financial condition and consolidated results of operations.

Goodwill represents the difference between the purchase price of acquired companies and the related fair values of net assets acquired. A significant amount of judgment is involved in determining if an indication of impairment of goodwill exists. Factors may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors would have a significant impact on the recoverability of these assets and negatively affect our financial condition and consolidated results of operations. We compute the amount of impairment by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. We are required to record a non-cash impairment charge if the testing performed indicates that goodwill has been impaired.

We evaluate the useful lives of our other intangible assets, primarily the LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, The Capital Grille®, Yard House® and Eddie V's Prime Seafood® trademarks, to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

As with goodwill, we test our indefinite-lived intangible assets (primarily trademarks) for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there could be an adverse effect on our financial condition and consolidated results of operations.

Failure of our internal controls over financial reporting and future changes in accounting standards may cause adverse unexpected operating results, affect our reported results of operations or otherwise harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Our growth and acquisition of other restaurant companies with procedures not identical to our own could place significant additional pressure on our system of internal control over financial reporting. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock, increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

A change in accounting standards can have a significant effect on our reported results and may affect our reporting of transactions before the change is effective. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing accounting rules or the questioning of current accounting practices may adversely affect our reported financial results. Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to, revenue recognition, fair value of investments, impairment of long-lived assets, leases and related economic transactions, derivatives, pension and post-retirement benefits, intangibles, self-insurance, income taxes, property and equipment, unclaimed property laws and litigation, and stock-based compensation are highly complex and involve many subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Restaurant Properties – Continuing Operations

As of May 27, 2018, we operated 1,746 restaurants in the United States and Canada (consisting of 856 Olive Garden, 504 LongHorn Steakhouse, 156 Cheddar's Scratch Kitchen, 72 Yard House, 58 The Capital Grille, 39 Bahama Breeze, 42 Seasons 52, and 19 Eddie V's), in the following locations:

| | | | |
|---|---|---|---|
| Alabama (33) | Illinois (55) | Montana (2) | Rhode Island (3) |
| Alaska (2) | Indiana (46) | Nebraska (8) | South Carolina (31) |
| Arkansas (15) | Iowa (14) | Nevada (15) | South Dakota (3) |
| Arizona (42) | Kansas (21) | New Hampshire (9) | Tennessee (63) |
| California (101) | Kentucky (32) | New Jersey (50) | Texas (183) |
| Colorado (24) | Louisiana (20) | New Mexico (10) | Utah (16) |
| Connecticut (15) | Maine (8) | New York (52) | Vermont (2) |
| Delaware (7) | Maryland (33) | North Carolina (64) | Virginia (52) |
| District of Columbia (3) | Massachusetts (40) | North Dakota (7) | Washington (21) |
| Florida (198) | Michigan (35) | Ohio (78) | West Virginia (13) |
| Georgia (110) | Minnesota (15) | Oklahoma (18) | Wisconsin (20) |
| Hawaii (1) | Mississippi (13) | Oregon (10) | Wyoming (2) |
| Idaho (6) | Missouri (42) | Pennsylvania (77) | Canada (6) |

Of these 1,746 restaurants open on May 27, 2018, 91 were located on owned sites and 1,655 were located on leased sites. The leases are classified as follows:

| | |
|---|---|
| Land-Only Leases (we own buildings and equipment) | 806 |
| Ground and Building Leases | 644 |
| Space/In-Line/Other Leases | 205 |
| Total | 1,655 |

Properties – General

We purchased several adjacent parcels of vacant land in Orange County, Florida, and relocated our restaurant support center to this site during fiscal 2010. The site includes a main headquarters building, data center and parking deck. In fiscal 2016, we completed a sale-leaseback of our restaurant support center buildings.

Our present restaurant sites and other facilities are not subject to mortgages or encumbrances securing money borrowed by us from outside sources. In our opinion, our current buildings and equipment generally are in good condition, suitable for their purposes and adequate for our current needs. See also Note 5 and Note 11 of the Notes to Consolidated Financial Statements (Part II, Item 8 of this report).

Item 3. LEGAL PROCEEDINGS

See the discussion of legal proceedings contained in the third paragraph of Note 16 of the Notes to Consolidated Financial Statements (Part II, Item 8 of this report).

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal United States market on which our common shares are traded is the New York Stock Exchange, where our shares are traded under the symbol DRI. As of June 30, 2018, there were approximately 10,318 holders of record of our common shares. The number of registered holders does not include holders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. The information concerning the dividends and high and low intraday sales prices for our common shares traded on the New York Stock Exchange for each full quarterly period during fiscal 2018 and 2017 is contained in Note 18 of the Notes to Consolidated Financial Statements (Part II, Item 8 of this report).

We have not sold any equity securities during the last fiscal year that were not registered under the Securities Act of 1933, as amended.

Since commencing our common share repurchase program in December 1995, we have repurchased a total of 191.4 million shares through May 27, 2018 under authorizations from our Board of Directors. The table below provides information concerning our repurchase of shares of our common stock during the quarter ended May 27, 2018:

| (Dollars in millions, except per share data) | Total Number of Shares Purchased (1) (2) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (3) |
|---|---|---|---|---|
| February 26, 2018 through April 1, 2018 | 213,186 | $ 86.45 | 213,186 | $ 243.8 |
| April 2, 2018 through April 29, 2018 | 76,052 | $ 86.93 | 76,052 | $ 237.2 |
| April 30, 2018 through May 27, 2018 | 24,843 | $ 88.21 | 24,843 | $ 235.0 |
| Total | 314,081 | $ 86.71 | 314,081 | $ 235.0 |

(1) All of the shares purchased during the quarter ended May 27, 2018 were purchased as part of our repurchase program. On June 20, 2018, our Board of Directors authorized a new share repurchase program under which the Company may repurchase up to $500.0 million of its outstanding common stock. This repurchase program, which was announced publicly in a press release issued on June 21, 2018, does not have an expiration, replaces the previously existing share repurchase authorization and eliminates the balance of approximately $221.9 million available for repurchase remaining under the previous authorization.

(2) The number of shares purchased includes shares withheld for taxes on vesting of restricted stock, shares delivered or deemed to be delivered to us on tender of stock in payment for the exercise price of options, and shares reacquired pursuant to tax withholding on option exercises. These shares are included as part of our repurchase program and deplete the repurchase authority granted by our Board. The number of shares repurchased excludes shares we reacquired pursuant to forfeiture of restricted stock.

(3) Repurchases are subject to prevailing market prices, may be made in open market or private transactions, and may occur or be discontinued at any time. There can be no assurance that we will repurchase any additional shares.

Comparison of Five-Year Total Return

| Company/Index | Indexed Returns May 2013 | May 2014 | May 2015 | May 2016 | May 2017 | May 2018 |
|---|---|---|---|---|---|---|
| Darden Restaurants, Inc. | $100.00 | $98.01 | $134.96 | $160.16 | $215.65 | $221.70 |
| S&P 500 Stock Index | $100.00 | $115.21 | $127.75 | $127.25 | $146.45 | $164.97 |
| S&P Composite 1500 Restaurant Sub-Index | $100.00 | $109.70 | $127.20 | $137.55 | $166.05 | $169.77 |

The annual changes for the five-year period shown in the graph on this page are based on the assumption that $100 had been invested in Darden Restaurants, Inc. common stock, the S&P 500 Stock Index and the S&P Composite 1500 Restaurant Sub Index on May 26, 2013, and that all dividends were reinvested. The cumulative dollar returns shown on the graph represent the value that such investments would have had for each period indicated. On November 9, 2015 we completed the spin-off of Four Corners Property Trust, Inc. (Four Corners) with the pro rata distribution of one share of Four Corners common stock for every three shares of Darden common stock to Darden shareholders. We reflect the effect of the spin-off of Four Corners in the cumulative total return of our common stock as a reinvested dividend.

Item 6. SELECTED FINANCIAL DATA

| (Dollars in millions, except per share data) | Fiscal Year Ended May 27, 2018 | May 28, 2017 | May 29, 2016 | May 31, 2015 (2) | May 25, 2014 |
|---|---|---|---|---|---|
| Operating Results (1) | | | | | |
| Sales | $8,080.1 | $7,170.2 | $6,933.5 | $6,764.0 | $6,285.6 |
| Costs and expenses: | | | | | |
| Food and beverage | 2,303.1 | 2,070.3 | 2,039.7 | 2,085.1 | 1,892.2 |
| Restaurant labor | 2,614.5 | 2,265.3 | 2,189.2 | 2,135.6 | 2,017.6 |
| Restaurant expenses | 1,417.1 | 1,265.2 | 1,163.5 | 1,120.8 | 1,080.7 |
| Marketing expenses | 252.3 | 239.7 | 238.0 | 243.3 | 252.3 |
| General and administrative | 409.8 | 387.7 | 384.9 | 430.2 | 413.1 |
| Depreciation and amortization | 313.1 | 272.9 | 290.2 | 319.3 | 304.4 |
| Impairments and disposal of assets, net | 3.4 | (8.4) | 5.8 | 62.1 | 16.4 |
| Total operating costs and expenses | $7,313.3 | $6,492.7 | $6,311.3 | $6,396.4 | $5,976.7 |
| Operating income | 766.8 | 677.5 | 622.2 | 367.6 | 308.9 |
| Interest, net | 161.1 | 40.2 | 172.5 | 192.3 | 134.3 |
| Earnings before income taxes | 605.7 | 637.3 | 449.7 | 175.3 | 174.6 |
| Income tax expense (benefit) | 1.9 | 154.8 | 90.0 | (21.1) | (8.6) |
| Earnings from continuing operations | $603.8 | $482.5 | $359.7 | $196.4 | $183.2 |
| Earnings (loss) from discontinued operations, net of tax expense (benefit) of $(4.8), $(4.2), $3.4, $344.8 and $32.3 | (7.8) | (3.4) | 15.3 | 513.1 | 103.0 |
| Net earnings | $596.0 | $479.1 | $375.0 | $709.5 | $286.2 |
| Basic net earnings per share: | | | | | |
| Earnings from continuing operations | $4.87 | $3.88 | $2.82 | $1.54 | $1.40 |
| Earnings (loss) from discontinued operations | $(0.06) | $(0.03) | $0.12 | $4.02 | $0.78 |
| Net earnings | $4.81 | $3.85 | $2.94 | $5.56 | $2.18 |
| Diluted net earnings per share: | | | | | |
| Earnings from continuing operations | $4.79 | $3.83 | $2.78 | $1.51 | $1.38 |
| Earnings (loss) from discontinued operations | $(0.06) | $(0.03) | $0.12 | $3.96 | $0.77 |
| Net earnings | $4.73 | $3.80 | $2.90 | $5.47 | $2.15 |
| Average number of common shares outstanding: | | | | | |
| Basic | 124.0 | 124.3 | 127.4 | 127.7 | 131.0 |
| Diluted | 126.0 | 126.0 | 129.3 | 129.7 | 133.2 |
| Financial Position | | | | | |
| Total assets | $5,469.6 | $5,292.3 | $4,419.4 | $5,837.3 | $6,958.7 |
| Land, buildings and equipment, net | $2,429.8 | $2,272.3 | $2,041.6 | $3,215.8 | $3,381.0 |
| Working capital (deficit) | $(830.9) | $(701.3) | $(530.0) | $(297.7) | $233.3 |
| Long-term debt, less current portion | $926.5 | $936.6 | $440.0 | $1,452.3 | $2,463.4 |
| Stockholders' equity | $2,194.8 | $2,101.7 | $1,952.0 | $2,333.5 | $2,156.9 |
| Stockholders' equity per outstanding share | $17.77 | $16.76 | $15.47 | $18.42 | $16.30 |

Item 6. SELECTED FINANCIAL DATA (continued)

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| (Dollars in millions, except per share data) | May 27, 2018 | May 28, 2017 | May 29, 2016 | May 31, 2015 (2) | May 25, 2014 |
| Other Statistics | | | | | |
| Cash flows from operations (1) | $1,019.8 | $916.3 | $820.4 | $874.3 | $555.4 |
| Capital expenditures (1) | $396.0 | $293.0 | $228.3 | $296.5 | $414.8 |
| Dividends paid | $313.5 | $279.1 | $268.2 | $278.9 | $288.3 |
| Dividends paid per share | $2.52 | $2.24 | $2.10 | $2.20 | $2.20 |
| Advertising expense (1) | $252.3 | $239.7 | $238.0 | $243.3 | $252.3 |
| Stock price: | | | | | |
| High | $100.11 | $89.14 | $75.60 | $70.38 | $55.25 |
| Low | $76.27 | $59.50 | $53.38 | $43.56 | $44.78 |
| Close | $87.88 | $87.95 | $67.48 | $65.54 | $49.55 |
| Number of employees | 180,656 | 178,729 | 150,942 | 148,892 | 206,489 |
| Number of restaurants (1) | 1,746 | 1,695 | 1,536 | 1,534 | 1,501 |

(1) Consistent with our consolidated financial statements, information has been presented on a continuing operations basis. Accordingly, all discontinued operations have been excluded.

(2) Fiscal year 2015 consisted of 53 weeks, while all other fiscal years consisted of 52 weeks.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis below for Darden Restaurants, Inc. (Darden, the Company, we, us or our) should be read in conjunction with our consolidated financial statements and related financial statement notes included in Part II of this report under the caption "Item 8 - Financial Statements and Supplementary Data." We operate on a 52/53-week fiscal year, which ends on the last Sunday in May. Fiscal 2018, which ended May 27, 2018, consisted of 52 weeks. Fiscal 2017, which ended May 28, 2017, consisted of 52 weeks and fiscal 2016, which ended May 29, 2016, consisted of 52 weeks.

### OVERVIEW OF OPERATIONS

Our business operates in the full-service dining segment of the restaurant industry. At May 27, 2018, we operated 1,746 restaurants through subsidiaries in the United States and Canada under the Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, Bahama Breeze®, Seasons 52® and Eddie V's Prime Seafood® trademarks. We own and operate all of our restaurants in the United States and Canada, except for 3 joint venture restaurants managed by us and 36 franchised restaurants. We also have 35 franchised restaurants in operation located in Latin America, the Middle East and Malaysia. All intercompany balances and transactions have been eliminated in consolidation.

On April 24, 2017, we completed the acquisition of Cheddar's Scratch Kitchen for $799.8 million in total consideration. The acquired operations of Cheddar's Scratch Kitchen included 140 company-owned restaurants and 25 franchised restaurants. On August 28, 2017, we completed the acquisition of 11 Cheddar's Scratch Kitchen franchised restaurants from an existing franchisee. The results of operations, financial position and cash flows of Cheddar's Scratch Kitchen are included in our consolidated financial statements as of the date of acquisition. See Note 2 of the Notes to Consolidated Financial Statements (Part II, Item 8 of this report) for further details.

We believe that capable operators of strong, multi-unit brands have the opportunity to increase their share of the restaurant industry's full-service segment. Generally, the restaurant industry is considered to be comprised of three segments: quick service, fast casual, and full service. All of our restaurants fall within the full-service segment, which is highly fragmented and includes many independent operators and small chains. We believe we have strong brands and that the breadth and depth of our experience and expertise sets us apart in the full-service segment of the restaurant industry. This collective capability is the product of investments over many years in areas that are critical to success in our business, including restaurant operations excellence, brand management excellence, supply chain, talent management and information technology, among other things.

With a focus on growing same-restaurant sales, we've implemented a "Back-to-Basics" approach rooted in strong operating fundamentals. We're focused on improving culinary innovation and execution inside each of our brands, delivering attentive service to each and every one of our guests, and creating an inviting and engaging atmosphere inside our restaurants. We support these priorities with smart and relevant integrated marketing programs that resonate with our guests. By delivering on these operational and brand-building imperatives, we expect to increase our market share through new restaurant and same-restaurant sales growth and deliver best-in-class profitability.

The Darden support structure enables our brands to achieve their ultimate potential through: (1) driving advantages in supply chain and general and administrative support; (2) applying insights collected from our significant guest and transactional databases to enhance guest relationships and identify new opportunities to drive sales growth; (3) relentlessly driving operating efficiencies and continuous improvement, operating with a sense of urgency and inspiring a performance-driven culture; and (4) our commitment to rigorous strategic planning.

We seek to increase profits by leveraging our fixed and semi-fixed costs with sales from new restaurants and increased guest traffic and sales at existing restaurants. To evaluate our operations and assess our financial performance, we monitor a number of operating measures, with a special focus on two key factors:

- Same-restaurant sales – which is a year-over-year 52-week comparison of each period's sales volumes for restaurants open at least 16 months, including recently acquired restaurants, regardless of when the restaurants were acquired; and

- Segment profit – which is restaurant sales, less food and beverage costs, restaurant labor costs, restaurant expenses and marketing expenses (sometimes referred to as restaurant-level earnings).

Increasing same-restaurant sales can improve segment profit because these incremental sales provide better leverage of our fixed and semi-fixed restaurant-level costs. A restaurant brand can generate same-restaurant sales increases through increases in guest traffic, increases in the average guest check, or a combination of the two. The average guest check can be impacted by menu price changes and by the mix of menu items sold. For each restaurant brand, we gather daily sales data and regularly analyze the guest traffic counts and the mix of menu items sold to aid in developing menu pricing, product offerings and promotional strategies. We focus on balancing our pricing and product offerings with other initiatives to produce sustainable same-restaurant sales growth. We compute same-restaurant sales using restaurants open at least 16 months because this period is generally required for new restaurant sales levels to normalize. Sales at newly opened restaurants generally do not make a significant contribution to profitability in their initial months of operation due to operating inefficiencies. Our sales and expenses can be impacted significantly by the number and timing of new restaurant openings and closings, and relocations and remodeling of existing restaurants. Pre-opening expenses each period reflect the costs associated with opening new restaurants in current and future periods.

Fiscal 2018 Financial Highlights

Our sales from continuing operations were $8.08 billion in fiscal 2018 compared to $7.17 billion in fiscal 2017. The 12.7 percent increase in sales from continuing operations was primarily driven by revenue from the 151 acquired Cheddar's Scratch Kitchen restaurants, a combined Darden same-restaurant sales increase of 2.3 percent, excluding Cheddar's Scratch Kitchen, and the addition of 40 net new company-owned restaurants.

Net earnings from continuing operations for fiscal 2018 were $603.8 million ($4.79 per diluted share) compared with net earnings from continuing operations for fiscal 2017 of $482.5 million ($3.83 per diluted share). Net earnings and diluted net earnings per share from continuing operations for fiscal 2018 increased 25.1 percent compared with fiscal 2017.

Our net loss from discontinued operations was $7.8 million ($0.06 per diluted share) for fiscal 2018, compared with a net loss from discontinued operations of $3.4 million ($0.03 per diluted share) for fiscal 2017. When combined with results from continuing operations, our diluted net earnings per share were $4.73 and $3.80 for fiscal 2018 and 2017, respectively.

Outlook

We expect fiscal 2019 sales from continuing operations to increase between 4.0 percent and 5.0 percent driven by combined Darden same-restaurant sales growth of 1.0 percent to 2.0 percent and approximately 45 to 50 new restaurants. In fiscal 2019, we expect our annual effective tax rate to be between 11.0 percent and 12.0 percent and we expect capital expenditures incurred to build new restaurants, remodel and maintain existing restaurants and technology initiatives to be between $425.0 million and $475.0 million.

In June 2018, we announced a quarterly dividend of $0.75 per share, payable on August 1, 2018. Based on the $0.75 quarterly dividend declaration, our expected annual dividend is $3.00 per share, which reflects an increase of 19.0 percent compared to our fiscal 2018 annual dividend. Dividends are subject to the approval of our Board of Directors and, accordingly, the timing and amount of our dividends are subject to change.

There are significant risks and challenges that could impact our operations and ability to increase sales and earnings. The restaurant industry is intensely competitive and sensitive to economic cycles and other business factors, including changes in consumer tastes and dietary habits. Other risks and uncertainties are discussed in Part I, Item 1A of this report.

RESULTS OF OPERATIONS FOR FISCAL 2018, 2017 AND 2016

To facilitate review of our results of operations, the following table sets forth our financial results for the periods indicated. All information is derived from the consolidated statements of earnings for the fiscal years ended May 27, 2018, May 28, 2017 and May 29, 2016:

| (in millions) | May 27, 2018 | May 28, 2017 | May 29, 2016 | Percent Change 2018 vs 2017 | Percent Change 2017 vs 2016 |
|---|---|---|---|---|---|
| Sales | $8,080.1 | $7,170.2 | $6,933.5 | 12.7 % | 3.4 % |
| Costs and expenses: | | | | | |
| Food and beverage | 2,303.1 | 2,070.3 | 2,039.7 | 11.2 % | 1.5 % |
| Restaurant labor | 2,614.5 | 2,265.3 | 2,189.2 | 15.4 % | 3.5 % |
| Restaurant expenses | 1,417.1 | 1,265.2 | 1,163.5 | 12.0 % | 8.7 % |
| Marketing expenses | 252.3 | 239.7 | 238.0 | 5.3 % | 0.7 % |
| General and administrative expenses | 409.8 | 387.7 | 384.9 | 5.7 % | 0.7 % |
| Depreciation and amortization | 313.1 | 272.9 | 290.2 | 14.7 % | (6.0 )% |
| Impairments and disposal of assets, net | 3.4 | (8.4 ) | 5.8 | NM | NM |
| Total operating costs and expenses | $7,313.3 | $6,492.7 | $6,311.3 | 12.6 % | 2.9 % |
| Operating income | 766.8 | 677.5 | 622.2 | 13.2 % | 8.9 % |
| Interest, net | 161.1 | 40.2 | 172.5 | NM | (76.7)% |
| Earnings before income taxes | 605.7 | 637.3 | 449.7 | (5.0 )% | 41.7 % |
| Income tax expense (1) | 1.9 | 154.8 | 90.0 | (98.8)% | 72.0 % |
| Earnings from continuing operations | $603.8 | $482.5 | $359.7 | 25.1 % | 34.1 % |
| Earnings (loss) from discontinued operations, net of tax | (7.8 ) | (3.4 ) | 15.3 | NM | NM |
| Net earnings | $ | | | | |