



Darden prepared for 11 percent increase in its seafood costs over next 18 months

SEAFOOD.COM NEWS [Dow Jones] By Annie Gasparro - February 2, 2011 - NEW YORK, Darden Restaurants Inc. (DRI) said its scale and diversity will help it face rising commodity costs head on and continue to outperform its casual-dining peers.

While smaller competitors are closing in, Darden, which serves pasta, seafood and steak at its Olive Garden, Red Lobster and Longhorn Steakhouse restaurants, said the industry's major chains can expect to see annualized sales growth of 5% to 6% over the next 10 years.

Chief Executive Clarence Otis, speaking at the company's annual investor conference Tuesday, said major chains have "advantages that show up on both the sales side and the cost management side" that will allow them to take market share from smaller players as the economy improves.

In particular, Darden is banking on operational cost savings to offset rising beef and seafood costs so that it doesn't have to take too much of a price increase on its menu.

Beef and seafood make up 44% of Darden's basket. Over the next 18 months, the company expects its beef costs, much of which are locked in at a lower-than-market price, to be up 9%, and seafood to be up 11%.

Combined with other commodities inflation, Darden estimates a 4.5% to 5% inflationary hit for fiscal 2012. But the company said it can offset that with 1% to 1.5% cost savings through its multi-year "supply chain innovation" effort. The result: a net cost inflation for 2012 of 3.5% to 4%, compared with this year's estimated 0.3%.

Barry Moullet, senior vice president of purchasing and supply chain, said the company has a history of lowering food and energy costs through supply chain capabilities, and expects its current efforts can generate annualized savings of \$40 million to \$45 million.

Brad Richmond, Darden's chief financial officer, said he's not worried about pricing hits. "If you look at this economic period we've gone through, we didn't do a lot of the discounting the industry did, and we maintained a better position with our guests" and were still able to bring in "a very strong bottom-line return."

While domestically, it remains a company-owned business, Darden is looking to build at least 60 international restaurants in the Middle East over the next five years partnering with experienced restaurant franchisees. However, the company doesn't expect the initiative to have a meaningful impact on profits for several years.

Darden is also considering bringing its food into the consumer packaged goods industry, John Caron, chief marketing officer, said. With Darden having been originally spun off from General Mills, Caron said, "it's sort of in our DNA."

The big key to growth going forward will be pulling up its lagging Red Lobster chain, which Darden thinks can eventually generate positive same-store sales of 2% to 3% annually. But its estimated fiscal third-quarter same-store sales are negative 1%.

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Ken Coons

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[Email comments to kencoons@seafood.com](mailto:kencoons@seafood.com)

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