Darden Restaurants Inc. (DRI)

Updated July 15th, 2019 by Ignatius Quek

Key Metrics

Current Price:	$125	**5 Year CAGR Estimate:**	7.5%	**Volatility Percentile:**	63.4%
Fair Value Price:	$103	**5 Year Growth Estimate:**	8.3%	**Momentum Percentile:**	65.3%
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Growth Percentile:**	83.4%
Dividend Yield:	2.9%	**5 Year Price Target**	$152	**Valuation Percentile:**	29.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	42.9%

Overview & Current Events

Darden Restaurants Inc. is a restaurant company with a portfolio of brands including Olive Garden, LongHorn Steakhouse, Cheddar's Scratch Kitchen, Yard House, The Capital Grille, Seasons 52, Bahama Breeze, and Eddie V's. The company employs 165,000 team members and as of fiscal year ending May 26, 2019 it owned and operated over 1,700 restaurants in the United States and Canada and 71 franchisee operated restaurants. Darden Restaurants Inc. has a market capitalization of $15.3 billion and a 10-year dividend growth CAGR of 12.1%.

On June 20, 2019 Darden Restaurants Inc. reported fourth quarter and fiscal year 2019 results for the period ending May 26, 2019. Reported sales for the quarter were $2.23 billion which was 4.5% growth over the same quarter of fiscal year 2018 and same store sales grew 1.6%. Net earnings were $217.9 million, 0.5% higher than the same quarter of fiscal year 2018. Fiscal year 2019 sales were $8.5 billion which was 5.3% growth against last year and same store sales grew 2.5%. Net earnings were $729.6 million and diluted earnings per share were $5.73 (19.6% higher than the last year). This improvement to net earnings was significant due to a reduction in effective tax rate from 16.7% to 8.4%. Management had provided dilute net earnings per share guidance between $5.76 and $5.80 for fiscal year 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	**2024**
EPS	$2.84	$3.39	$3.57	$3.13	$2.15	$5.47	$2.90	$3.80	$4.73	$5.73	**$6.30**	**$9.40**
DPS	$1.00	$1.28	$1.72	$2.00	$2.20	$2.20	$2.10	$2.24	$2.52	$3.13	**$3.52**	**$5.17**
Shares	142.4	140.3	133.2	131.6	133.2	129.7	129.3	126.0	126.0	125.4	**124.0**	**119.9**

Darden Restaurants, Inc. had demonstrated increased operating margins for the past 5 years. 2014 operating margin was 4.9% and this increased to 9.8% at the end of fiscal year 2019. This performance was attributable to revenue growth outpacing the growth in selling, general and administrative expenses. As a percentage of sales, selling, general and administrative expenses were 10.6% of revenue in 2014, steadily declining to 7.8% in 2019. On June 20, 2018, Darden Restaurants Inc. announced a $500 million share repurchase program and the company's free cash flow of $807 million in fiscal year 2019 would enable the company to pay dividends and repurchase shares. As a result of share repurchases and estimated sales growth of 5%, we forecast next 5 year EPS growth of 8.3%.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	11.5	12.0	12.1	14.4	20.9	9.1	21.4	18.7	18.6	19.2	**19.5**	**16.1**
Avg. Yld.	3.0%	3.1%	4.0%	4.4%	4.9%	4.4%	3.4%	3.1%	2.9%	2.8%	**2.8%**	**3.4%**

Darden Restaurants Inc. is estimated to grow earnings 8.3% over the next 5 years. In the past 5 years, revenue grew at 4.7% CAGR and operating profit grew at a 17.8% CAGR. The company would likely benefit from this core business profit growth and the full benefit of reduced corporate tax rate in fiscal year 2019. Darden Restaurants Inc. traded at a historical P/E of 16.1x in the past 10 years. We believe this is a reasonable approximation of fair value moving forward. As such we determine the fair value of Darden Restaurants Inc. to be $103, 18% lower than the current price of $124.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
Payout	35.2%	37.7%	48.2%	63.9%	102.4%	40.2%	72.4%	58.9%	53.3%	54.6%	**55.9%**	**45.0%**

Darden Restaurants Inc. generates stable free cash flow and has demonstrated a record of being able to manage costs while improving sales. Its debt level is 1.15x free cash flow and the debt/equity ratio of 1.5 suggests a sustainable debt position. For 2024, due to expectations of lower growth, the payout ratio is lowered slightly to 55%.

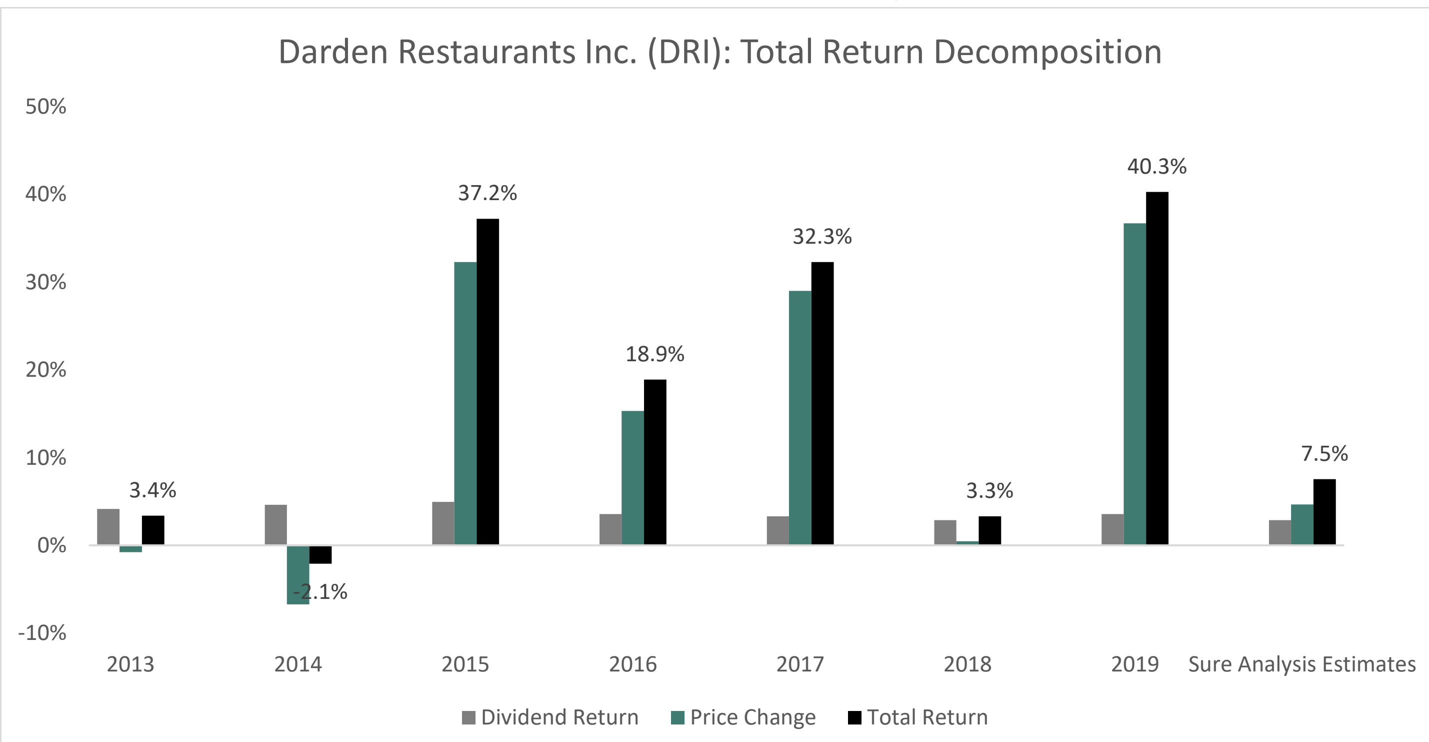
Darden Restaurants Inc. had also managed to maintain profitability and dividends during the financial crisis. In 2009 dividend yield was 3.1% ($0.80 per share) while earnings-per-share were $2.65 which suggests that although the business is exposed to consumption and economic cycles, Darden Restaurants Inc. is be able to weather a crisis.

Final Thoughts & Recommendation

Darden Restaurants Inc. is a well-managed company which has introduced successful marketing and value driven promotional campaigns to customers through a digital transformation strategy relying on data analytics and leveraging its network of more than 1,700 stores. However, Darden Restaurants Inc. is trading near 5-year highs at $125 and the fair value estimate for this company is $103, representing a 21% premium.

We have a hold rating on Dardens Restaurant Inc. based on the 5 year price target of $152, the 5 year total returns CAGR is 7.5% attributed to a dividend yield of 2.9%, EPS growth of 8.3% and PE multiple compression of -3.7% to reflect the slower growth expected.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4,627	4,980	5,327	5,921	6,286	6,764	6,934	7,170	8,080	8,510
Gross Profit	1,077	1,194	1,239	1,304	1,295	1,423	1,541	1,569	1,745	1,849
Gross Margin	23.3%	24.0%	23.3%	22.0%	20.6%	21.0%	22.2%	21.9%	21.6%	21.7%
SG&A Exp.	480	539	540	625	665	674	623	627	652	661
D&A Exp.	206	219	241	278	304	319	290	273	313	337
Operating Profit	275	341.1	355	274	309	368	622	678	767	833
Op. Margin	5.9%	6.8%	6.7%	4.6%	4.9%	5.4%	9.0%	9.4%	9.5%	9.8%
Net Profit	405	476	476	412	286	710	375	479	596	713
Net Margin	8.7%	9.6%	8.9%	7.0%	4.6%	10.5%	5.4%	6.7%	7.4%	8.4%
Free Cash Flow	224	194	56	84	141	578	592	623	569	807
Income Tax	52	71	76	37	(9)	(21)	90	155	2	64

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5,276	5,467	5,944	6,937	7,101	5,995	4,583	5,292	5,470	5,893
Cash & Equivalents	249	71	71	88	98	536	275	233	147	457
Acc. Receivable	53	65	71	85	84	78	64	76	84	88
Inventories	221	300	404	357	197	164	175	179	205	207
Goodwill & Int.	971	971	1,004	1,482	1,447	1,447	1,447	2,152	2,135	2,135
Total Liabilities	3,382	3,530	4,102	4,877	4,944	3,661	2,631	3,191	3,275	3,500
Accounts Payable	246	251	261	297	233	199	242	250	277	333
Long-Term Debt	1,409	1,407	1,454	2,496	2,481	1,452	440	937	927	928
Total Equity	1,894	1,936	1,842	2,060	2,157	2,334	1,952	2,102	2,195	2,393
D/E Ratio	1.79	1.82	2.23	2.37	2.29	1.57	1.35	1.52	1.49	1.46

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.7%	8.7%	8.0%	5.9%	4.0%	11.8%	8.2%	9.1%	10.9%	12.1%
Return on Equity	21.4%	24.6%	25.8%	20.0%	13.3%	30.4%	19.2%	22.8%	27.2%	29.8%
ROIC	12.2%	14.2%	14.4%	9.0%	6.2%	18.7%	15.7%	15.8%	19.1%	21.5%
Shares Out.	142	140	133	132	133	130	129	126	126	125
Revenue/Share ($)	32.49	35.50	39.99	44.99	47.19	52.15	53.62	56.91	64.13	67.87
FCF/Share ($)	1.57	1.38	0.42	0.64	1.06	4.45	4.58	4.95	4.51	6.44

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise. 2019 refers to fiscal year period ending May 26, 2019.