Darden Restaurants Inc. (DRI)

Updated October 2nd, 2019 by Felix Martinez

Key Metrics

Current Price:	$116	**5 Year CAGR Estimate:**	10.3%	**Volatility Percentile:**	62.0%
Fair Value Price:	$115	**5 Year Growth Estimate:**	7.8%	**Momentum Percentile:**	65.6%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Growth Percentile:**	76.0%
Dividend Yield:	3.0%	**5 Year Price Target**	$168	**Valuation Percentile:**	54.3%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	67.9%

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 franchisees operated restaurants. Darden Restaurants Inc. has a market capitalization of $14.4 billion and a 10-year dividend growth CAGR of 15.0%.

On September 19, 2019, Darden Restaurants Inc. reported 1st quarter report for the fiscal year 2020. The company saw total sales increase by 3.5% to $2.13 billion. This increase in sales compared to 1Q19 of $2.06 billion, was driven by the addition of 40 net new restaurants and a blended same-restaurant sales increase of 0.9%. Longhorn Steakhouse lead the pack and saw a 2.6% increase in same-restaurant sales by brand. Bahama Breeze came in last with a -4.2% decrease in same-restaurant sales. Net earnings saw an improvement of 2.65% of $170.6 million vs $166.2 million in 1Q19. This produced basic net earnings of $1.39 per share for this quarter vs $1.34 for first quarter last fiscal year for a 3.7% increase year-over-year. In addition, the Company repurchased approximately 0.8 million shares of its common stock for a total cost of approximately $95 million. Darden management also authorized a new share buyback program of up to $500 million of its outstanding common stock.

The company also reaffirmed all aspects of its financial outlook for fiscal 2020. They see total sales growth of 5.3% to 6.3%, and earnings-per-share coming in between $6.30 to $6.45. For this analysis, we will be using earnings-per-share of $6.40 for full year fiscal 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.91	$3.41	$3.58	$3.14	$1.38	$2.64	$3.53	$4.02	$4.81	$5.82	**$6.40**	**$9.32**
DPS	$1.00	$1.28	$1.72	$2.00	$2.20	$2.20	$2.10	$2.24	$2.52	$3.00	**$3.52**	**$4.94**
Shares[1]	144.6	134.6	129.0	130.3	123.3	126.7	126.2	125.4	123.5	123.1	**123.5**	**120.0**

Darden Restaurants, Inc. had grown operating margins for the past 5 years. 2014 operating margin was 5.2% and this increased to 10.0% at the end of the 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. As a result of share repurchases and estimated sales growth of 5.8%, we forecast 7.8% earnings-per-share growth annually over the next five years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.6	13.4	13.5	16	36.5	21.2	18.5	17.8	18.4	18.9	**18.1**	**18.0**
Avg. Yld.	2.7%	2.8%	3.6%	4.0%	4.4%	3.9%	3.2%	3.1%	2.9%	2.7%	**3.0%**	**2.9%**

[1] Share count is in millions

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Darden Restaurants Inc. is estimated to grow earnings 7.8% over the next 5 years. In the past 5 years, revenue grew at 5.9% CAGR and operating profit grew at an 18.7% CAGR.

Darden Restaurants Inc. traded at a historical 10-year average P/E of 18.7x. We believe this is a reasonable approximation of fair value moving forward given its current solid operating metrics. As such we determine the fair value of Darden Restaurants Inc. to be $115. Thus, at the current price, the company is near fair value territory.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2025**
Payout	34%	38%	48%	64%	159%	83%	59%	56%	52%	52%	**55%**	**53%**

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 1.97x free cash flow and the debt/equity ratio of 3.1 suggests a sustainable debt position.

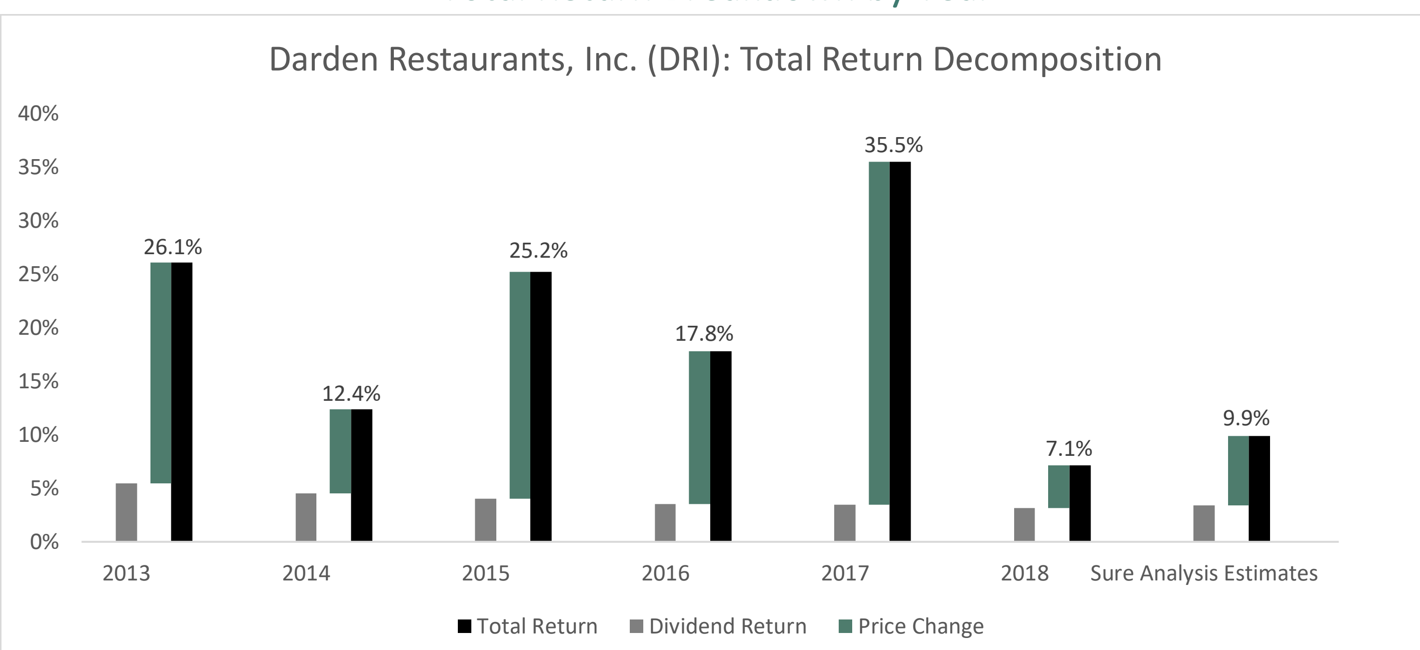
Darden Restaurants Inc. had also managed to maintain profitability and dividends during the financial crisis. In 2009, dividend yield was 3.1% ($0.80 per share) while earnings-per-share were $2.65 which suggests that although the business is exposed to consumption and economic cycles, Darden Restaurants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

Final Thoughts & Recommendation

Darden Restaurants Inc. is a well-managed company that 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, we have a hold rating on Dardens Restaurant Inc. based on the fact that the company is right on fair value territory. A recommended buy would be a price that is 10% less than our fair value estimate which gives us a price of $104. The company 5-year total returns CAGR is 9.9% attributed to a dividend yield of 3.0%, EPS growth of 7.8% and P/E multiple compression of -0.1% to reflect the expected annual total return for the next 5 years.

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.