Darden Restaurants Inc. (DRI)

Updated December 19th, 2019 by Felix Martinez

Key Metrics

Current Price:	$109	**5 Year CAGR Estimate:**	10.9%	**Market Cap:**	$14.26 B
Fair Value Price:	$111	**5 Year Growth Estimate:**	7.8%	**Ex-Dividend Date:**	01/09/20
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	02/03/20
Dividend Yield:	3.2%	**5 Year Price Target**	$162	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	17.3%

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 $14.26 billion and a 10-year dividend growth CAGR of 15.0%.

On December 19, 2019, Darden Restaurants Inc. reported 2nd quarter results for the fiscal year 2020. Total sales increased by 4.2% to $2.06 billion, driven by the addition of 37 net new restaurants and a blended same-restaurant sales increase of 2.0%. Longhorn Steakhouse saw same-restaurant sales increased by 6.7% and Olive Garden by 1.5%. However, the two worst performers were Seasons 52, which saw a decrease in same-restaurant sales of -3.5% and Bahama Breeze, which saw a negative 3.4% decrease year-over-year. The Company reported adjusted earnings of $1.12, which is an increase of 21.7% compared to 2Q19.

The Company repurchased approximately $136 million and nearly $231 million of its outstanding common stock for the quarter and year-to-date, respectively.

The Company also reaffirmed all aspects of its financial outlook for fiscal 2020. They see an overall 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 $6.38 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	$2.86	$3.41	$3.58	$3.14	$2.47	$2.63	$3.53	$4.02	$4.81	$5.82	***$6.38***	**$9.29**
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]	142.0	140.0	133.0	131.0	133.0	129.0	129.0	126.0	126.0	125.0	***125.0***	***125.0***

Darden Restaurants, Inc. has grown operating margins for the past five years. 2014 operating margin was 5.2%, and this increased to 8.38% 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	13.4	13.	12.9	14.8	18.2	22.3	19.2	22.1	18.2	20.0	***17.1***	***17.4***
Avg. Yld.	2.5%	3.3%	4.1%	3.9%	3.8%	3.5%	2.9%	2.5%	2.8%	2.7%	***3.2%***	***3.1%***

[1] Share count is in millions

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Darden Restaurants Inc. is estimated to grow earnings by 7.8% over the next five years. This is lower than in the past five years of earnings growth of 19.4%. Also, in the previous five 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 17.4x. We believe this is a reasonable approximation of fair value moving forward, given its current robust operating metrics. As such, we determine the fair value of Darden Restaurants Inc. to be $111. Thus, at the current price, the company is slightly below fair value territory.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	35%	38%	48%	64%	89%	84%	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. The company debt/equity ratio of 3.28 suggests a sustainable debt position.

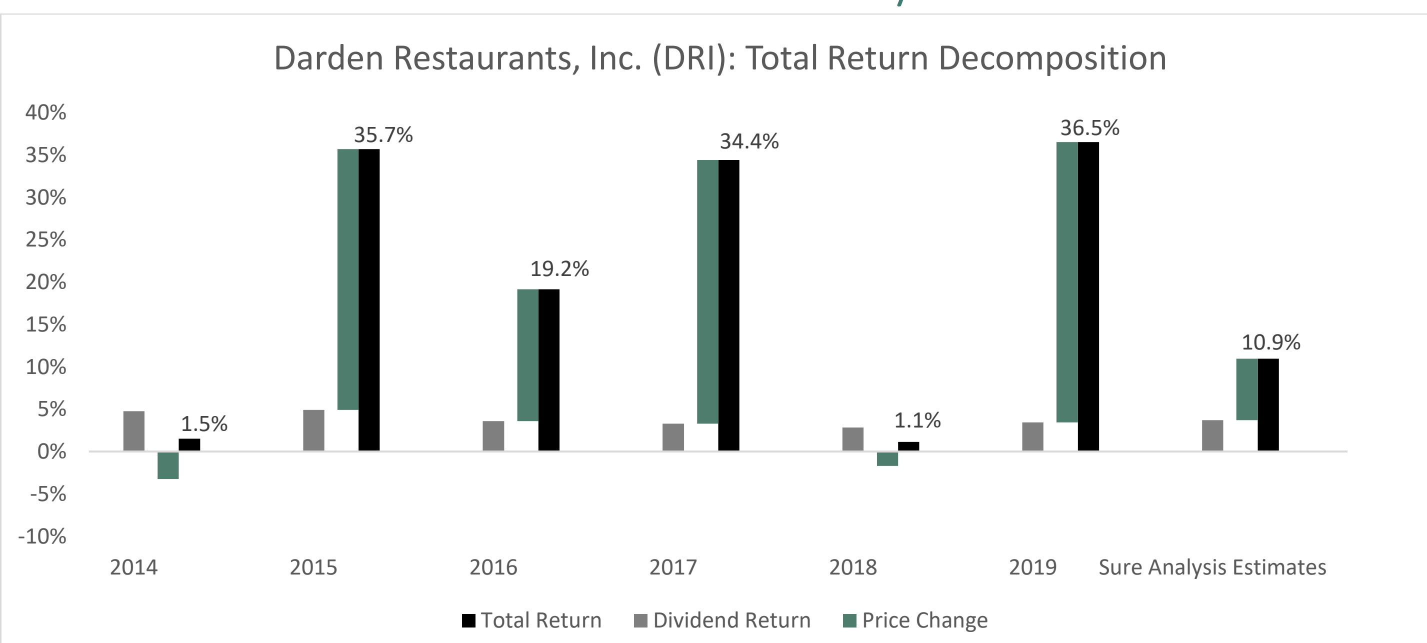
Darden Restaurants Inc. had also managed to maintain profitability and dividends during the financial crisis. In 2009, the dividend yield was 3.1% ($0.80 per share) while earnings-per-share were $2.65 which suggests that although the business is exposed to consumption and economic cycles, Darden Restaurants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

We have changed our hold rating on Darden Restaurant Inc., from last quarter report, to buy based on the fact that the company stock price dropped 6.26% after announcing second-quarter results. The company 5-year total returns CAGR is 10.9% attributed to a dividend yield of 3.23%, EPS growth of 7.8%, and P/E multiple expansion of 0.4% to reflect the expected annual total return for the next five 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.