Darden Restaurants Inc. (DRI)

Updated January 18th, 2022 by Felix Martinez

Key Metrics

Current Price:	$143	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$18.3 B
Fair Value Price:	$151	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	04/08/22
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	05/03/22
Dividend Yield:	3.1%	**5 Year Price Target**	$222	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	25%

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 the fiscal year ending May 31, 2022, it owns and operates over 1,800 restaurants in the United States and Canada and 71 franchisees served restaurants. Darden Restaurants Inc. has an $18.3 billion market capitalization and a 10-year dividend growth CAGR of 15.0% before the COVID-19 pandemic.

On December 17, 2021, Darden Restaurants Inc. reported second-quarter and first six months results for Fiscal Year (FY)2022, ending on November 28, 2021. The Company saw total sales of $2.27 billion for the quarter, an increase of 37%, driven by a blended same-restaurant sales increase of 34.4% and 34 net new restaurants compared to the second quarter of FY2021. However, total operating costs and expenses were up 32.1%, driven by food and beverage costs and restaurant labor versus 2Q21. But operating income for the quarter was up 101.2%, compared to the second quarter of FY2021. Net earnings were profitable to $193.2 million for the quarter compared to 2Q20, in which the Company earned $96.0 million. On a per-share basis, the Company made $1.48 per share for the quarter, up from $0.73 per share compared to last year, increasing 102.7%. For the six months of the fiscal year, revenue, operating income, and net income are up 43.8%, 195.4%, and 221%, respectively.

Overall, the management team is very confident in how the teams continued to operate effectively in a challenging environment. During the quarter, the Company repurchased approximately 1.8 million shares of its common stock for a total cost of roughly $266 million. At the end of the second quarter, the Company had about $761 million remaining under the current repurchase authorization.

In the report, the management team provided an FY2022 financial outlook. Management expects to have total sales of approximately $9.55 to $9.70 billion, a 9% - 11% growth pre-COVID. They expect to earn between $7.35 and $7.60 per share for the entire year. Thus, we will use the midpoint for our fair value calculation and future return expectations.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.58	$3.14	$2.47	$2.63	$3.53	$4.02	$4.81	$5.82	$3.13	$4.31	***$7.57***	***$11.12***
DPS	$1.54	$1.79	$1.97	$1.97	$2.00	$2.24	$2.52	$3.00	$2.64	$1.55	***$4.40***	***$6.47***
Shares[1]	133.0	131.0	133.0	129.0	129.0	126.0	126.0	125.0	125.0	131.2	***131.1***	***131.1***

Darden Restaurants, Inc. has grown operating margins for the past five years. 2014 operating margin was 4.6%, which increased to 9% at the end of 2021. This performance was attributable to revenue growth, outpacing selling, general, and administrative expenses. However, currently, the operating margin is sitting at a 12% rate. After FY2022, we forecast 8% earnings-per-share growth annually over the next five years, which will give the Company expected earnings of $11.12 per share for 2027. This is because regulations will become more lenient, and consumers will have more confidence and demand to start eating out.

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[1] Share count is in millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.94	14.77	18.16	22.32	19.22	22.12	18.17	20.0	24.4	30.8	***18.9***	***20.0***
Avg. Yld.	4.1%	3.9%	3.8%	3.5%	2.9%	2.5%	2.8%	2.7%	3.4%	1.1%	***3.1%***	***2.9%***

Darden Restaurants Inc. is estimated to grow earnings by 8% over the next five years. This is much lower than in the past five years of earnings growth of 19.4%. In the previous five years, revenue grew at 5.9% CAGR, and operating profit grew at an 18.7% CAGR. Darden Restaurants Inc. has traded at a historical 10-year average P/E of 17.4x. However, we believe 20x is a reasonable approximation of fair value moving forward, given that in recent years the multiple was often above 20x. As such, we determine the fair value of Darden Restaurants Inc. to be $151 based on the EPS of $7.57 for FY2022. Thus, the company looks to be slightly undervalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

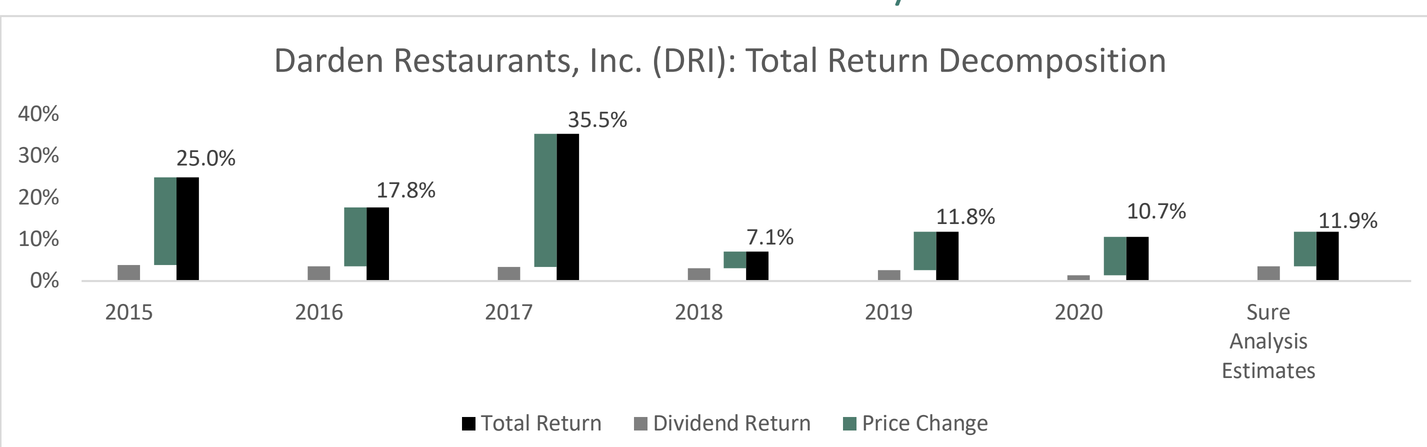
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	43%	57%	80%	75%	57%	56%	52%	52%	84%	32%	***58%***	***58%***

Darden Restaurants Inc. generates stable free cash flow and has demonstrated a record of managing costs while improving sales. Darden has $746.3 million in cash and cash equivalents, decreasing (38.6)% compared to what was reported for the quarter ending on May 30, 2021. The Company's debt/equity ratio of 1.9, which is the same ratio from the last report. 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. was able to weather the financial crisis. However, during the COVID-19 pandemic, The Company had suspended the dividend as all its locations had to resort to take-out only.

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 1,800 stores. During the pandemic, the Company had to draw on its $750 million credit fully, and it had to suspend its dividend but has since reinstated it. We rate the Company as a Buy given the attractive projected 11.9% annualized total return.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5327	5921	6286	6764	6934	7170	8080	8510	7807	7196
Gross Profit	1239	1304	1295	1423	1541	1569	1745	1849	1408	1494
Gross Margin	23.3%	22.0%	20.6%	21.0%	22.2%	21.9%	21.6%	21.7%	18.0%	20.8%
SG&A Exp.	540	625	665	674	623	627	662	661	614	487
D&A Exp.	241	278	304	319	290	273	313	337	356	351
Operating Profit	457	401	325	430	628	669	770	852	438	655
Op. Margin	8.6%	6.8%	5.2%	6.4%	9.1%	9.3%	9.5%	10.0%	5.6%	9.1%
Net Profit	476	412	286	710	375	479	596	713	-52	629
Net Margin	8.9%	7.0%	4.6%	10.5%	5.4%	6.7%	7.4%	8.4%	-0.7%	8.7%
Free Cash Flow	-126	439	324	158	526	580	583	779	227	925
Income Tax	76	37	-9	-21	90	155	2	64	-112	-56

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5944	6937	7083	5995	4583	5292	5470	5893	9946	10656
Cash & Equivalents	71	88	98	536	275	233	147	457	763	1215
Acc. Receivable	71	38	40	47	44	43	40	40	23	68
Inventories	404	357	197	164	175	179	205	207	207	191
Goodwill & Int.	1089	1482	1447	1447	1447	2152	2135	2135	1843	1844
Total Liabilities	4102	4877	4926	3661	2631	3191	3275	3500	7615	7843
Accounts Payable	261	297	233	199	242	250	277	333	249	305
Long-Term Debt	2066	2661	2686	1467	440	937	927	928	1199	930
Total Equity	1842	2060	2157	2334	1952	2102	2195	2393	2331	2813
D/E Ratio	1.12	1.29	1.25	0.63	0.23	0.45	0.42	0.39	0.51	0.33

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.3%	6.4%	4.1%	10.9%	7.1%	9.7%	11.1%	12.6%	-0.7%	6.1%
Return on Equity	25.2%	21.1%	13.6%	31.6%	17.5%	23.6%	27.7%	31.1%	-2.2%	24.5%
ROIC	12.8%	9.5%	6.0%	16.4%	12.1%	17.6%	19.4%	22.1%	-1.5%	17.3%
Shares Out.	133.0	131.0	133.0	129.0	129.0	126.0	126.0	125.0	125.0	131.0
Revenue/Share ($)	39.99	44.99	47.19	52.15	53.62	56.91	64.13	67.87	63.63	54.60
FCF/Share ($)	-0.95	3.34	2.43	1.22	4.07	4.60	4.62	6.21	1.85	7.02

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.