



Darden Restaurants Inc. (DRI)

Updated April 19th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$152	5 Year CAGR Estimate:	6.9%	Market Cap:	\$18.4 B
Fair Value Price:	\$135	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/06/23
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	05/01/23
Dividend Yield:	3.2%	5 Year Price Target	\$181	Years Of Dividend Growth:	2
Dividend Risk Score:	X	Retirement Suitability Score:	X	Rating:	Hold

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 serve restaurants. Darden Restaurants Inc. has a \$18.4 billion market capitalization and a 10-year dividend CAGR of 15.0% before the COVID-19 pandemic. However, recently the company has been very aggressive in increasing its dividend.

On March 23rd, 2023, Darden Restaurants Inc. reported the third quarter results for Fiscal Year (FY)2023, ending on February 26, 2023. The company completes its fiscal year at the end of May. The company saw total sales of \$2.8 billion for the quarter, an increase of 13.8%, driven by a blended same-restaurant sales increase of 11.7% and sales from 35 new restaurants compared to the third quarter of FY2022. Olive Garden, LongHorn Steakhouse, and Fine Dining saw a sales increase of 12.3%, 10.8%, and 11.7% year-over-year (YoY), respectively. Total operating cost was up 13% compared to the third quarter of FY2022. Driven by higher food and beverage cost and restaurant labor. Net earnings were profitable at \$286.6 million for the quarter and up 16% compared to 3Q2022, in which the company earned \$247 million. On a per-share basis, the company made \$2.34 per share for the quarter, up from \$1.93 per share compared last year, increasing by 21.2%. During the quarter, the company repurchased approximately 0.87 million shares of its common stock for a total cost of approximately \$124 million. As of the end of the fiscal third quarter, the company had approximately \$687 million remaining under the current \$1 billion repurchase authorization. For the nine months, Sales are up 9.8%, compared to the nine months of FY2022. However, net earnings are down (0.6)% compared to the nine months of 2022. This is due to higher cost, which is up 11.1% year over year.

In the report, the management team provided an FY2023 financial outlook. Management expects total sales of approximately \$10.45 to \$10.5 billion. They expect to earn between \$7.85 and \$8.00 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.14	\$2.47	\$2.63	\$3.53	\$4.02	\$4.81	\$5.82	\$3.13	\$4.31	\$7.40	\$7.95	\$10.64
DPS	\$1.79	\$1.97	\$1.97	\$2.00	\$2.24	\$2.52	\$3.00	\$2.64	\$1.55	\$4.40	\$4.85	\$7.13
Shares¹	131.0	133.0	129.0	129.0	126.0	126.0	125.0	125.0	131.2	129.0	129.0	129.0

Darden Restaurants, Inc. has grown operating margins for the past five years. 2014 operating margin was 4.6%, which increased to 9.9% at the end of 2022. This performance was attributable to revenue growth, outpacing selling, general, and administrative expenses. However, the operating margin is currently sitting at a 12.1% rate. After FY2022, we forecast 6% earnings-per-share growth annually over the next five years, which will give the company expected earnings of \$10.64 per share for 2028. Net margin has also been increasing over the past few years, which will help with earnings growth.

¹ Share count is in millions

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.77	18.16	22.32	19.22	22.12	18.17	20.0	24.4	33.3	17.0	19.1	17.0
Avg. Yld.	3.9%	3.8%	3.5%	2.9%	2.5%	2.8%	2.7%	3.4%	1.1%	3.5%	3.2%	3.9%

Darden Restaurants Inc. is estimated to grow earnings by 6% over the next five years. This is much lower than in the past five years of earnings growth of 12.9%. Revenue grew at 5.9% CAGR in the previous five years, and operating profit grew at an 18.7% CAGR. Darden Restaurants Inc. has traded at a historical 10-year average P/E of 20.5x. However, we believe 17x is a reasonable approximation of fair value moving forward, given that we are headed for a recession and given that interest rates have risen rapidly. We determine the fair value of Darden Restaurants Inc. to be \$135 based on the EPS of \$7.95 for FY2023. Thus, the company looks to be a little overvalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

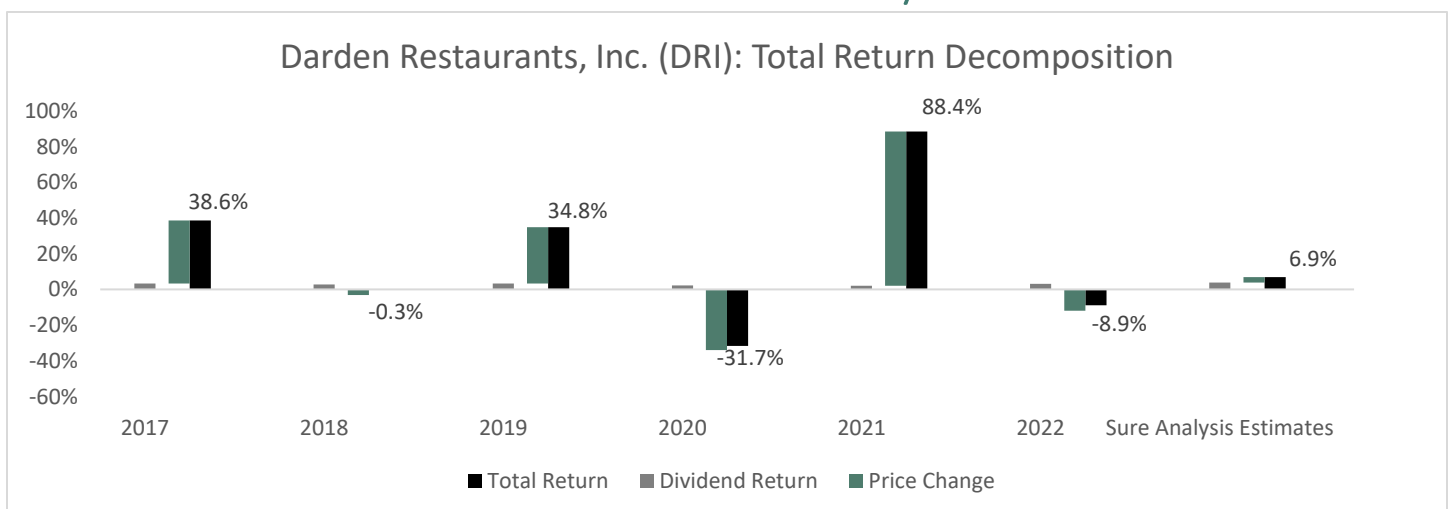
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	57%	80%	75%	57%	56%	52%	52%	84%	36%	59%	61%	67%

Darden Restaurants Inc. generates stable free cash flow and has demonstrated a record of managing costs while improving sales. Darden has \$377.5 million in cash and cash equivalents, decreasing by (10.2)% compared to what was reported for the quarter ending on May 29, 2022. The company's debt/equity ratio of 2.3, which is a higher ratio than 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, suggesting 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 suspended the dividend as all its locations had to resort to take-out only. But the dividend is now higher than it was pre-COVID-19.

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. We rate the company as a hold given the projected 6.9% annualized total return for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5327	5921	6286	6764	6934	7170	8080	8510	7807	9630
Gross Profit	1239	1304	1295	1423	1541	1569	1745	1849	1408	1995
Gross Margin	23.3%	22.0%	20.6%	21.0%	22.2%	21.9%	21.6%	21.7%	18.0%	20.7%
SG&A Exp.	540	625	665	674	623	627	662	661	614	466
D&A Exp.	241	278	304	319	290	273	313	337	356	368
Operating Profit	457	401	325	430	628	669	770	852	438	1160
Op. Margin	8.6%	6.8%	5.2%	6.4%	9.1%	9.3%	9.5%	10.0%	5.6%	12.0%
Net Profit	476	412	286	710	375	479	596	713	-52	953
Net Margin	8.9%	7.0%	4.6%	10.5%	5.4%	6.7%	7.4%	8.4%	-0.7%	9.9%
Free Cash Flow	-126	439	324	158	526	580	583	779	227	854
Income Tax	76	37	-9	-21	90	155	2	64	-112	139

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6937	7083	5995	4583	5292	5470	5893	9946	10656	10136
Cash & Equivalents	88	98	536	275	233	147	457	763	1215	421
Acc. Receivable	38	40	47	44	43	40	40	23	68	40
Inventories	357	197	164	175	179	205	207	207	191	271
Goodwill & Int.	1482	1447	1447	1447	2152	2135	2135	1843	1844	1917
Total Liabilities	4877	4926	3661	2631	3191	3275	3500	7615	7843	7938
Accounts Payable	297	233	199	242	250	277	333	249	305	367
Long-Term Debt	2661	2686	1467	440	937	927	928	1199	930	929
Total Equity	2060	2157	2334	1952	2102	2195	2393	2331	2813	2198
D/E Ratio	1.29	1.25	0.63	0.23	0.45	0.42	0.39	0.51	0.33	0.42

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.4%	4.1%	10.9%	7.1%	9.7%	11.1%	12.6%	-0.7%	6.1%	9.2%
Return on Equity	21.1%	13.6%	31.6%	17.5%	23.6%	27.7%	31.1%	-2.2%	24.5%	38.0%
ROIC	9.5%	6.0%	16.4%	12.1%	17.6%	19.4%	22.1%	-1.5%	17.3%	27.7%
Shares Out.	131.0	133.0	129.0	129.0	126.0	126.0	125.0	125.0	131.0	129.0
Revenue/Share (\$)	44.99	47.19	52.15	53.62	56.91	64.13	67.87	63.63	54.60	74.65
FCF/Share (\$)	3.34	2.43	1.22	4.07	4.60	4.62	6.21	1.85	7.02	6.62

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. <https://suredividend.typeform.com/to/xYFki7>

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