Darden Restaurants Inc. (DRI)

Updated September 23rd, 2023 by Felix Martinez

Key Metrics

Current Price:	$144	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$17.59 B
Fair Value Price:	$150	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	10/09/23
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	11/01/23
Dividend Yield:	3.7%	**5 Year Price Target**	$199	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 $17.59 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 September 21st, 2023, Darden Restaurants Inc. reported the first quarter results for Fiscal Year (FY)2024, ending on August 27, 2023. The company completes its fiscal year at the end of May. In this quarter, the company reported several notable financial highlights, demonstrating impressive growth and resilience compared to the same fiscal quarter the previous year. Total sales surged by 11.6% to reach $2.7 billion, driven by a combination of factors, including a 5.0% increase in blended same-restaurant sales and the contribution of 77 new company-owned Ruth's Chris Steak House restaurants and 46 other net new restaurants. This robust performance is underscored by notable same-restaurant sales growth in key segments, such as Olive Garden at 6.1% and LongHorn Steakhouse at 8.1%. Reported diluted net earnings per share from continuing operations for the quarter were $1.60, with adjusted diluted net earnings per share (excluding $0.18 of Ruth's Chris transaction and integration costs) increasing by 14.1% to $1.78.

Darden President & CEO Rick Cardenas expressed satisfaction with the first quarter results, emphasizing the company's successful strategy, which has led to growth in market share, improved profit margins, and significant investments in the business while returning capital to shareholders. The company also demonstrated prudent financial management by repurchasing $143 million of its outstanding common stock during the quarter, further strengthening its position. Looking ahead, Darden reiterated its full-year financial outlook for fiscal 2024, projecting adjusted diluted net earnings per share from continuing operations in the range of $8.55 to $8.85. This projection incorporates Ruth's Chris operating results but excludes anticipated transaction and integration related costs of approximately $55 million, pre-tax.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.47	$2.63	$3.53	$4.02	$4.81	$5.82	$3.13	$4.31	$7.40	$8.00	***$8.80***	***$11.78***
DPS	$1.97	$1.97	$2.00	$2.24	$2.52	$3.00	$2.64	$1.55	$4.40	$4.84	***$5.24***	***$7.70***
Shares[1]	133.0	129.0	129.0	126.0	126.0	125.0	125.0	131.2	129.0	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 11.4% rate. After FY2023, we forecast 6% earnings-per-share growth annually over the next five years, which will give the company expected earnings of $11.78 per share for 2029. Net margin has also been increasing over the past few years, which will help with earnings growth.

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[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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.16	22.32	19.22	22.12	18.17	20.0	24.4	33.3	17.0	17.0	***16.3***	***17.0***
Avg. Yld.	3.8%	3.5%	2.9%	2.5%	2.8%	2.7%	3.4%	1.1%	3.5%	3.1%	***3.7%***	***3.8%***

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 8.6%. 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 21.2x. 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 $150 based on the EPS of $8.80 for FY2024. Thus, the company looks to be a little undervalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

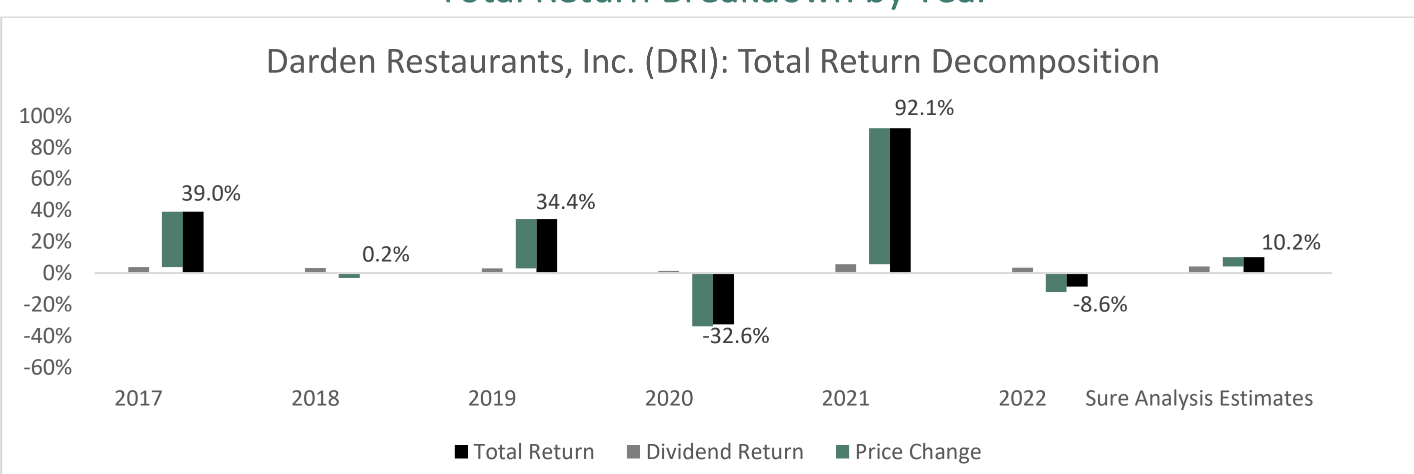
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	2029
Payout	80%	75%	57%	56%	52%	52%	84%	36%	59%	61%	***60%***	***65%***

Darden Restaurants Inc. generates stable free cash flow and has demonstrated a record of managing costs while improving sales. Darden has $367 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 in the high side. 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 buy given the projected 10.2% annualized total return for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5921	6286	6764	6934	7170	8080	8510	7807	9630	10,490
Gross Profit	1304	1295	1423	1541	1569	1745	1849	1408	1995	2,083
Gross Margin	22.0%	20.6%	21.0%	22.2%	21.9%	21.6%	21.7%	18.0%	20.7%	
SG&A Exp.	625	665	674	623	627	662	661	614	466	504
D&A Exp.	278	304	319	290	273	313	337	356	368	388
Operating Profit	401	325	430	628	669	770	852	438	1160	1191
Op. Margin	6.8%	5.2%	6.4%	9.1%	9.3%	9.5%	10.0%	5.6%	12.0%	
Net Profit	412	286	710	375	479	596	713	-52	953	982
Net Margin	7.0%	4.6%	10.5%	5.4%	6.7%	7.4%	8.4%	-0.7%	9.9%	
Free Cash Flow	439	324	158	526	580	583	779	227	854	952
Income Tax	37	-9	-21	90	155	2	64	-112	139	137

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7083	5995	4583	5292	5470	5893	9946	10656	10136	10240
Cash & Equivalents	98	536	275	233	147	457	763	1215	421	368
Acc. Receivable	40	47	44	43	40	40	23	68	40	80
Inventories	197	164	175	179	205	207	207	191	271	288
Goodwill & Int.	1447	1447	1447	2152	2135	2135	1843	1844	1917	1844
Total Liabilities	4926	3661	2631	3191	3275	3500	7615	7843	7938	8040
Accounts Payable	233	199	242	250	277	333	249	305	367	426
Long-Term Debt	2686	1467	440	937	927	928	1199	930	929	885
Total Equity	2157	2334	1952	2102	2195	2393	2331	2813	2198	2202
D/E Ratio	1.25	0.63	0.23	0.45	0.42	0.39	0.51	0.33	0.42	0.40

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	10.9%	7.1%	9.7%	11.1%	12.6%	-0.7%	6.1%	9.2%	9.6%
Return on Equity	13.6%	31.6%	17.5%	23.6%	27.7%	31.1%	-2.2%	24.5%	38.0%	44.6%
ROIC	6.0%	16.4%	12.1%	17.6%	19.4%	22.1%	-1.5%	17.3%	27.7%	31.6%
Shares Out.	133.0	129.0	129.0	126.0	126.0	125.0	125.0	131.0	129.0	122.9
Revenue/Share ($)	47.19	52.15	53.62	56.91	64.13	67.87	63.63	54.60	74.65	85.34
FCF/Share ($)	2.43	1.22	4.07	4.60	4.62	6.21	1.85	7.02	6.62	7.74

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