Darden Restaurants Inc. (DRI)

Updated June 29th, 2024 by Felix Martinez

Key Metrics

Current Price:	$151	**5 Year CAGR Estimate:**	10.8%	**Market Cap:**	$18.1 B
Fair Value Price:	$162	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	07/10/24
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	08/01/24
Dividend Yield:	3.5%	**5 Year Price Target**	$216	**Years Of Dividend Growth:**	3
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 $18.1 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 June 20th, 2024, Darden Restaurants Inc. reported the fourth quarter results for Fiscal Year (FY)2024, ending on May 26th, 2024. The company completes its fiscal year at the end of May. In the fourth quarter, total sales rose 6.8% to $3.0 billion, primarily due to the addition of 80 Ruth's Chris Steak House locations and 37 other new restaurants. However, same-restaurant sales remained largely flat, with Olive Garden down 1.5%, LongHorn Steakhouse up 4.0%, and Fine Dining down 2.6%. Reported diluted net earnings per share from continuing operations were $2.58, but adjusted for Ruth's Chris transaction costs, it increased to $2.65, a 2.7% rise. Additionally, Darden repurchased $97.3 million of its outstanding common stock.

For fiscal year 2024, Darden saw an 8.6% increase in total sales to $11.4 billion, driven by a blended same-restaurant sales increase of 1.6% and the expansion of Ruth's Chris and other new locations. Olive Garden and LongHorn Steakhouse showed same-restaurant sales growth of 1.6% and 4.7%, respectively, while Fine Dining decreased by 2.4%. Reported diluted net earnings per share from continuing operations were $8.53, with an adjusted figure of $8.88 after excluding Ruth's Chris-related costs, marking an 11.0% increase. Darden's segment profit margins also reflected substantial gains, particularly in Fine Dining and LongHorn Steakhouse.

Looking ahead, Darden projects total sales between $11.8 billion and $11.9 billion for fiscal 2025, with same-restaurant sales growth of 1.0% to 2.0% and the opening of 45 to 50 new restaurants. The company expects capital spending between $550 million and $600 million, total inflation around 3.0%, and an effective tax rate of about 13%. Diluted net earnings per share from continuing operations are forecasted to be between $9.40 and $9.60, with approximately 119 million weighted average diluted shares outstanding. Additionally, Darden's Board of Directors declared a quarterly cash dividend of $1.40 per share, a 6.9% increase from the third quarter of fiscal 2024.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.63	$3.53	$4.02	$4.81	$5.82	$3.13	$4.31	$7.40	$8.00	$8.88	***$9.50***	***$12.71***
DPS	$1.97	$2.00	$2.24	$2.52	$3.00	$2.64	$1.55	$4.40	$4.84	$5.24	***$5.60***	***$8.23***
Shares[1]	129.0	129.0	126.0	126.0	125.0	125.0	131.2	129.0	129.0	120.0	***120.0***	***120.0***

Darden Restaurants, Inc. has grown operating margins for the past five years. 2019 operating margin was 10.0%, which increased to 9.4% at the end of 2023. This performance was attributable to revenue growth, outpacing selling, general, and administrative expenses. After FY2024, we forecast 6% earnings-per-share growth annually over the next five years,

[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.

which will give the company expected earnings of $12.71 per share for 2030. Net margin has also been increasing over the past few years, which will help with earnings growth.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	22.32	19.22	22.12	18.17	20.0	24.4	33.3	17.0	17.0	16.9	***15.9***	***17.0***
Avg. Yld.	3.5%	2.9%	2.5%	2.8%	2.7%	3.4%	1.1%	3.5%	3.1%	3.5%	***3.5%***	***3.8%***

Darden Restaurants Inc. is estimated to grow earnings by 6.0% over the next five years. This is lower than in the past five years of earnings growth of 14.7%. Darden Restaurants Inc. has traded at a historical 10-year average P/E of 21.0x. However, we believe 17x is a reasonable approximation of fair value moving forward, given that we are possibly headed for a recession and given that interest rates have risen rapidly. We determine the fair value of Darden Restaurants Inc. to be $162 based on the EPS of $9.50 for FY2025. Thus, the company looks to be a little undervalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

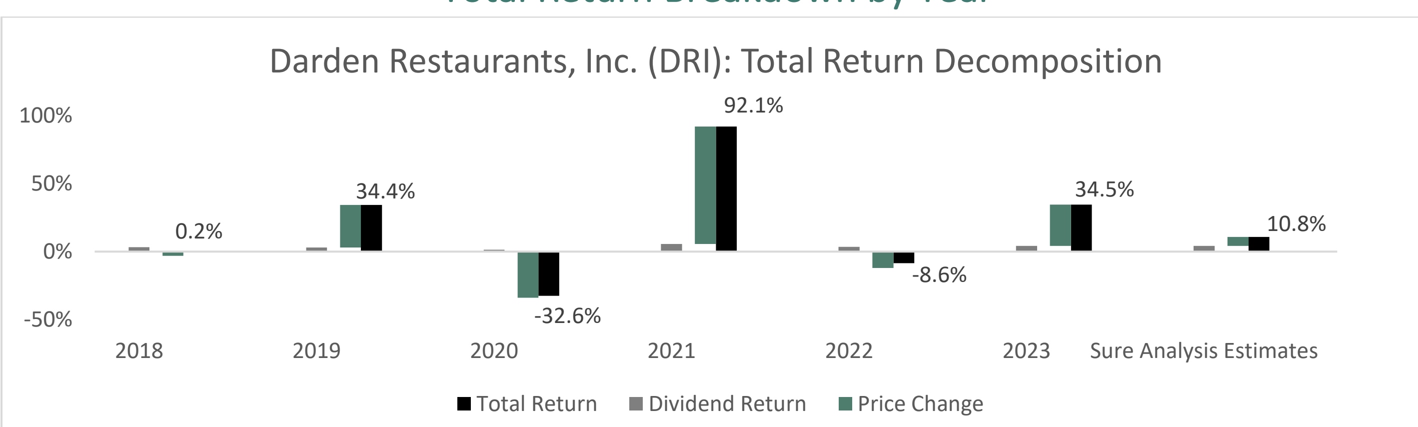
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	75%	57%	56%	52%	52%	84%	36%	59%	61%	59%	***59%***	***65%***

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 2.4, 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 2,022 restaurants. We rate the company as a buy given the projected 10.8% 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