Darden Restaurants Inc. (DRI)

Updated January 6th, 2025 by Felix Martinez

Key Metrics

Current Price:	$188	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$21.2 B
Fair Value Price:	$161	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	01/10/25
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date:**	02/03/25
Dividend Yield:	2.9%	**5 Year Price Target**	$216	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**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 190,000 team members, and as of the fiscal year ending May 31, 2024, it owns and operates over 2,000 restaurants in the United States and Canada. Darden Restaurants Inc. has a $21.2 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 December 19th, 2024, Darden Restaurants Inc. reported the second quarter results for Fiscal Year (FY)2025, ending on November 24th, 2024. The company completes its fiscal year at the end of May. Total sales increased by 6.0% to $2.9 billion, driven by a 2.4% blended same-restaurant sales growth and contributions from 103 newly acquired Chuy's restaurants and 39 net new locations. Notably, LongHorn Steakhouse posted a robust 7.5% same-restaurant sales growth, while Olive Garden grew by 2.0%. However, Fine Dining experienced a decline of 5.8%. Adjusted diluted net earnings per share increased by 10.3% to $2.03, excluding transaction costs related to Chuy's acquisition. During the quarter, the company repurchased $142 million in shares.

Segment performance highlighted growth in key areas. Olive Garden's quarterly sales reached $1.29 billion, with a segment profit of $277.1 million, while LongHorn Steakhouse generated $710.1 million in sales and $134.2 million in profit. Fine Dining experienced a slight decline in both sales and profits compared to the prior year, while the Other Business segment, which includes Chuy's, reported significant growth, contributing $79.2 million in segment profit. Year-to-date figures also indicated strong performance across consolidated Darden and major brands, emphasizing effective execution and long-term focus by leadership teams.

Darden declared a quarterly dividend of $1.40 per share and updated its fiscal 2025 outlook. Expectations include total sales of $12.1 billion, 1.5% same-restaurant sales growth, and the opening of 50 to 55 new locations. Adjusted diluted net earnings per share are projected between $9.40 and $9.60, excluding Chuy's acquisition-related costs. The company remains committed to disciplined capital spending, strategic growth, and delivering shareholder value.

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	***$9.48***	***$12.69***
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 11.7% at the end of 2024. Earnings growth is 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

which will give the company expected earnings of $12.69 per share for 2030. Net margin has also been at a good level 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	***19.8***	***17.0***
Avg. Yld.	3.5%	2.9%	2.5%	2.8%	2.7%	3.4%	1.1%	3.5%	3.1%	3.5%	***2.9%***	***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 16.2%. 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 $161 based on the EPS of $9.48 for FY2025. Thus, the company looks to be overvalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

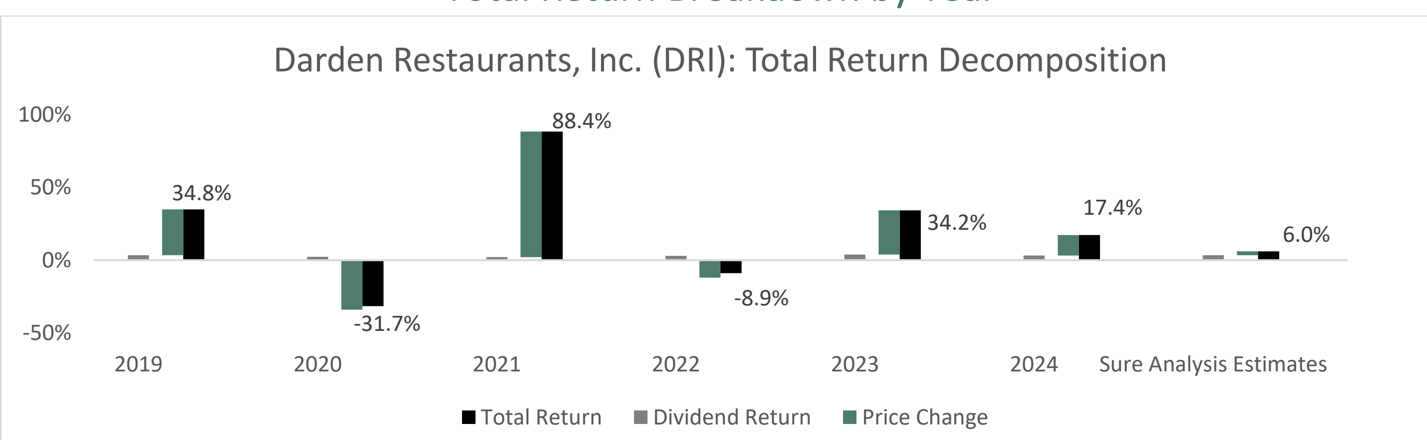
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	75%	57%	56%	52%	52%	84%	36%	59%	61%	59%	***59%***	***65%***

Darden Restaurants Inc. generates stable free cash flow and has demonstrated a record of managing costs while improving sales. Darden has $192 million in cash and cash equivalents, decreasing compared to what was reported for the quarter ending on May 26, 2024. The company's debt/equity ratio of 2.5, 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 2,000 restaurants. We rate the company as a hold given the projected 6.0% annualized total return for the next five years.

Total Return Breakdown by Year



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.

Darden Restaurants Inc. (DRI)

Updated January 6th, 2025 by Felix Martinez

Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	6286	6764	6934	7170	8080	8510	7807	9630	10490	11390
Gross Profit	1295	1423	1541	1569	1745	1849	1408	1995	2083	2410
Gross Margin	20.6%	21.0%	22.2%	21.9%	21.6%	21.7%	18.0%	20.7%	19.9%	21.2%
SG&A Exp.	665	674	623	627	662	661	614	466	504	624
D&A Exp.	304	319	290	273	313	337	356	368	388	460
Operating Profit	325	430	628	669	770	852	438	1160	1191	1327
Op. Margin	5.2%	6.4%	9.1%	9.3%	9.5%	10.0%	5.6%	12.0%	11.4%	11.7%
Net Profit	286	710	375	479	596	713	-52	953	982	1028
Net Margin	4.6%	10.5%	5.4%	6.7%	7.4%	8.4%	-0.7%	9.9%	9.4%	9.0%
Free Cash Flow	324	158	526	580	583	779	227	854	952	984
Income Tax	-9	-21	90	155	2	64	-112	139	137	145

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	5995	4583	5292	5470	5893	9946	10656	10136	10240	11320
Cash & Equivalents	536	275	233	147	457	763	1215	421	368	195
Acc. Receivable	47	44	43	40	40	23	68	40	80	42
Inventories	164	175	179	205	207	207	191	271	288	291
Goodwill & Int.	1447	1447	2152	2135	2135	1843	1844	1917	1844	2631
Total Liabilities	3661	2631	3191	3275	3500	7615	7843	7938	8040	9080
Accounts Payable	199	242	250	277	333	249	305	367	426	400
Long-Term Debt	1467	440	937	927	928	1199	930	929	885	1509
Total Equity	2334	1952	2102	2195	2393	2331	2813	2198	2202	2242
D/E Ratio	0.63	0.23	0.45	0.42	0.39	0.51	0.33	0.42	0.40	0.67

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	10.9%	7.1%	9.7%	11.1%	12.6%	-0.7%	6.1%	9.2%	9.6%	9.5%
Return on Equity	31.6%	17.5%	23.6%	27.7%	31.1%	-2.2%	24.5%	38.0%	44.6%	46.3%
ROIC	16.4%	12.1%	17.6%	19.4%	22.1%	-1.5%	17.3%	27.7%	31.6%	29.9%
Shares Out.	129.0	129.0	126.0	126.0	125.0	125.0	131.0	129.0	122.9	120.8
Revenue/Share ($)	52.15	53.62	56.91	64.13	67.87	63.63	54.60	74.65	85.34	94.29
FCF/Share ($)	1.22	4.07	4.60	4.62	6.21	1.85	7.02	6.62	7.74	8.14

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