Darden Restaurants Inc. (DRI)

Updated March 27th, 2025 by Felix Martinez

Key Metrics

Current Price:	$206	**5 Year Annual Expected Total Return:**	3.7%	**Market Cap:**	$24.3 B
Fair Value Price:	$162	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	04/10/25
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	05/01/25
Dividend Yield:	2.7%	**5 Year Price Target**	$216	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Sector:** Consumer Discretionary		**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 $24.3 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 March20th, 2025, Darden Restaurants Inc. reported the third quarter results for Fiscal Year (FY)2025. The company completes its fiscal year at the end of May. The company reported strong financial results for the third quarter of fiscal 2025, with total sales rising 6.2% year-over-year to $3.2 billion. This growth was driven by a 0.7% increase in same-restaurant sales and the acquisition of 103 Chuy's restaurants and 40 net new locations. Olive Garden and LongHorn Steakhouse posted same-restaurant sales growth of 0.6% and 2.6%, respectively, while Fine Dining and Other Business segments saw slight declines. Reported diluted net earnings per share were $2.74, with adjusted earnings per share at $2.80, reflecting a 6.9% increase after excluding Chuy's transaction-related costs. The company also repurchased $53 million worth of its common stock during the quarter.

Darden's Board of Directors declared a quarterly cash dividend of $1.40 per share, payable on May 1, 2025, to shareholders of record as of April 10, 2025. The company continued its share repurchase program, with $548 million remaining under its $1 billion authorization. Segment performance showed growth across all divisions, with Olive Garden generating $1.33 billion in sales and $306.6 million in profit, while LongHorn Steakhouse reported $768.1 million in sales and $149.3 million in profit. Fine Dining and Other Business segments also contributed to overall revenue and profit gains, bolstered by holiday and Valentine's Day sales.

Darden updated its full-year fiscal 2025 outlook, projecting total sales of approximately $12.1 billion and same-restaurant sales growth of 1.5%. The company plans to open 50 to 55 new restaurants, with capital expenditures expected to reach $650 million. Inflation is anticipated to be around 2.5%, while the effective tax rate is estimated at 12.5%. Adjusted diluted net earnings per share from continuing operations are forecasted between $9.45 and $9.52, excluding Chuy's transaction and integration costs.

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***	***$6.49***
Shares[1]	129.0	129.0	126.0	126.0	125.0	125.0	131.2	129.0	129.0	122.9	***120.8***	***170.0***

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.

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which will give the company expected earnings of $12.71 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	2025	2030
Avg. P/E	22.32	19.22	22.12	18.17	20.0	24.4	33.3	17.0	17.0	16.9	***21.7***	***17.00***
Avg. Yld.	3.5%	2.9%	2.5%	2.8%	2.7%	3.4%	1.1%	3.5%	3.1%	3.5%	***2.7%***	***3.0%***

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 24.9%. Darden Restaurants Inc. has traded at a historical 10-year average P/E of 21.7x. 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 overvalued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

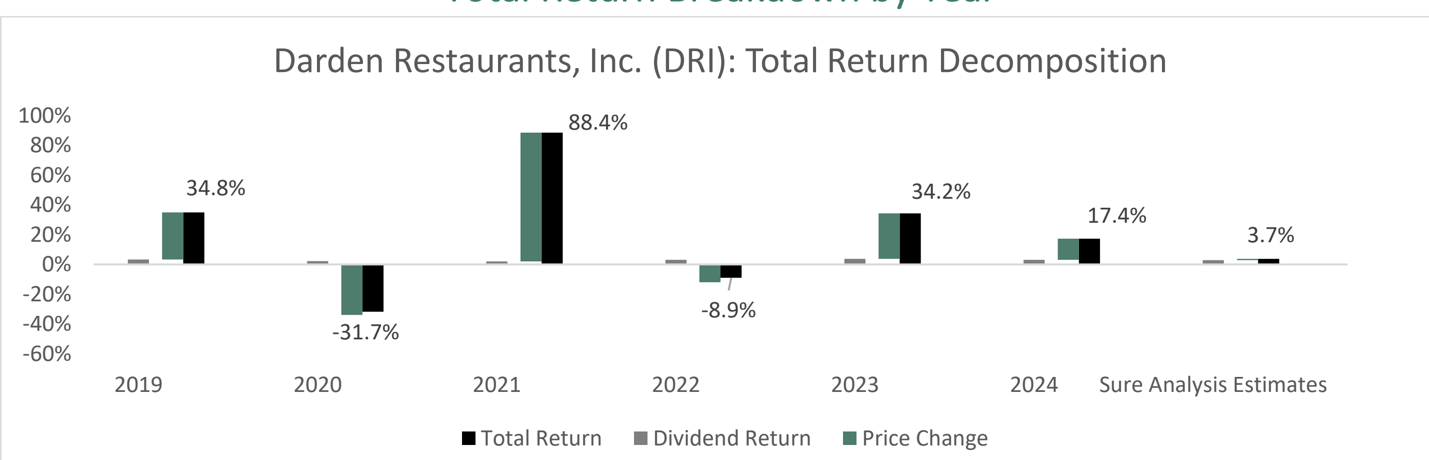
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	75%	57%	56%	52%	52%	84%	36%	59%	61%	59%	***59%***	***51%***

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 3.7% 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.

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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
Operating 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
Accounts Receivable	47	44	43	40	40	23	68	40	80	42
Inventories	164	175	179	205	207	207	191	271	288	291
Goodwill & Int. Ass.	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
Shareholder's 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.