

Darden Restaurants (DRI)

\$84.14 (As of 08/11/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: B

Summary

Shares of Darden have underperformed the industry so far this year. The dismal performance can be primarily attributed to the coronavirus-induced woes. Also, the company's same-restaurant sales were negatively impacted due to the same. Notably, for the weeks ended Jun 7, Jun 14, and Jun 21, same-restaurant sales were down 38.7%, 31.8%, and 29.6%, respectively. Nonetheless, the company stated that it has enough liquidity to survive the coronavirus pandemic for some time. Also increased focus on its sales-building initiatives and technology-driven moves are likely to aid the company going forward. Notably, earnings estimates for 2020 have increased over the past 30 days, depicting analysts optimism regarding the stock growth potential.

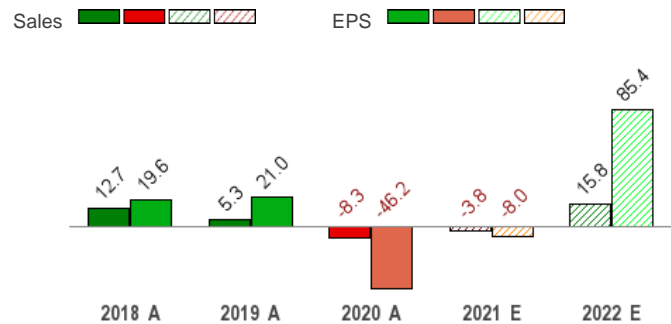
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.41 - \$26.15
20 Day Average Volume (sh)	2,200,402
Market Cap	\$10.9 B
YTD Price Change	-22.8%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Bottom 35% (165 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.3%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	09/17/2020
Earnings ESP	-13.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,032 E	2,039 E	2,362 E	2,195 E	8,698 E
2021	1,530 E	1,750 E	2,157 E	2,092 E	7,513 E
2020	2,134 A	2,056 A	2,347 A	1,270 A	7,807 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.18 E	\$1.06 E	\$1.83 E	\$1.36 E	\$5.34 E
2021	\$0.02 E	\$0.31 E	\$1.41 E	\$1.08 E	\$2.88 E
2020	\$1.38 A	\$1.12 A	\$1.90 A	-\$1.24 A	\$3.13 A

*Quarterly figures may not add up to annual.

P/E TTM	26.6
P/E F1	29.2
PEG F1	2.9
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

Overview

Founded in 1968 and based in Orlando, FL, Darden Restaurants is one of the largest casual dining restaurant operators worldwide. The company has operations in the United States and Canada with more than 1,700 restaurants.

Beginning fourth-quarter fiscal 2015, the company began reporting its business under four segments: Olive Garden (57.5% of total revenues in fiscal fourth-quarter 2019), LongHorn Steakhouse (23.1%), Fine Dining (4.9%) and Other Business (14.5%).

Fine Dining, includes The Capital Grille and Eddie V's while the Other Business segment comprises of Cheddar's Scratch Kitchen, Yard House, Seasons 52, Bahama Breeze, consumer packaged goods and franchise revenues. Notably, all the company owned restaurants fall under full-service segment of the restaurant industry.

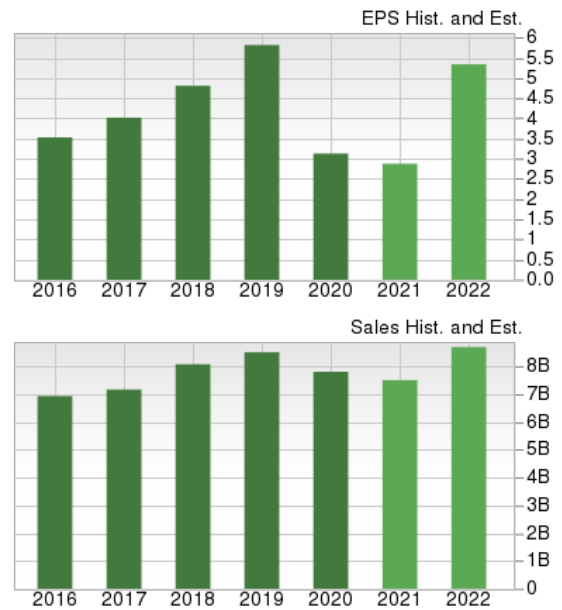
Florida-based Olive Garden is the largest full-service Italian restaurant in America. The brand features a menu, which has a variety of Italian food made with fresh ingredients.

LongHorn Steakhouse is a full-service steakhouse restaurant, with locations primarily in the eastern United States. The brand offers signature fresh steaks and chicken as well as salmon, shrimp, ribs, pork chops, burgers and prime rib.

Cheddar's Scratch Kitchen is a full-service restaurant operating in Texas and throughout the southern, mid-western and mid-Atlantic regions of the United States. The casual dining menu features modern classics and American favorites cooked from scratch.

On Nov 9, 2015, Darden completed the spin-off of Four Corners Property Trust, Inc.

On Apr 24, 2017, the company completed the acquisition of the Cheddar's Scratch Kitchen for \$799.8 million in total consideration. The acquired operations of Cheddar's Scratch Kitchen included 140 company-owned restaurants and 25 franchised restaurants. On Aug 28, 2017, Darden completed the acquisition of 11 Cheddar's Scratch Kitchen franchised restaurants from an already existing franchisee.



Reasons To Buy:

▲ **Impressive Earnings Surprise:** We are encouraged by Darden's impressive earnings surprise. Notably, the company's earnings met/surpassed the Zacks Consensus Estimate for 23 straight quarters. In fourth-quarter fiscal 2020, the company reported adjusted loss per share of \$1.24 per share, narrower than the Zacks Consensus Estimate of a loss of \$1.59. The company's relentless efforts to augment the basic operating factors of the business — food, service and ambiance — bode well.

Cheddar's acquisition, various sales boosting initiatives along with the cost saving efforts undertaken by the company are expected to drive growth

▲ **Cheddar's a Long-term Growth Driver:** Darden's acquisition of the small restaurant chain, Cheddar's Scratch Kitchen (Cheddar's), in April 2017 has added an undisputed casual dining value to the company's portfolio of differentiated brands. It also helped Darden to further enhance its scale. Further, management made significant operational readjustment to the brand, which is expected to reap long-term benefits. Apart from making good progress with the integration of Cheddar's, the company seems to gain more confidence in its outcome. Over the current fiscal year, Darden plans to make significant non-guest facing changes, which is anticipated to have an impact on restaurant level execution. Moving forward, the company considers Cheddar a significant prospect for long-term growth.

▲ **Brand Renaissance Plan for Olive Garden and Other Initiatives to Boost the Top Line:** In order to boost the performance of the Olive Garden brand, the company implemented a set of initiatives under its Brand Renaissance Plan. These included simplifying kitchen systems, improving sales planning and scheduling, operational excellence to improve guest experience, developing new core menu items, allowing customization and making smarter promotional investments. The revamped restaurants are already generating high same-restaurant sales and returns. Meanwhile, the company is also focusing on technology-driven initiatives like the system-wide rollout of tablets in order to capitalize on the digitization, which has rapidly penetrated the U.S. fast-casual restaurant sector. This initiative has been providing a boost to the company's sales for the past few quarters.

During the fourth quarter of 2020, the company rolled out online ordering facility for Cheddar's as well as for other brands that did not have this facility earlier. This also included online sales of alcohol for all brands. Moreover to reduce friction and enhance consumer convenience in the digital platform, the company initiated streamlining of order pickup process and payment methods. Backed by these initiatives, online ordering at Olive Garden and LongHorn grew more than 300% and 400% compared to the prior year - representing 58% and 49% of To Go sales, respectively.

▲ **Initiatives to Attract Guests at LongHorn and Other Units:** At LongHorn, the company strives to attract its guests by focusing on core menu, culinary innovation and providing regional flavors. It is also working on its marketing strategy to improve execution; customer relationship management and digital advertising as well as a strong promotional pipeline that leverage the segment's expertise. Further, the company continues to focus on strengthening its in-restaurant execution through investments in quality and simplification of operations in order to augment the guest experience. Sales are being driven by various initiatives undertaken and personalized services, which are likely to aid long-term growth as well.

▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Darden Restaurants stated it has enough liquidity to survive the coronavirus pandemic for some time. As of May 31, 2020, the company's cash balance totaled nearly \$763.3 million. Moreover, the company has access to \$750.0-million credit facility, reaching the liquidity mark to more than \$1.5 billion. Also lately, the company has been generating positive cash flow, adding to the positives. As of May 31, the company's long-term debt stands at \$928.8 million, compared with \$927.7 million at the end of May 26, 2019. At the end of the fourth-quarter fiscal 2020, the company had total debt-to-capital ratio of 0.34, which indicates that its debt levels are manageable.

Reasons To Sell:

▼ **Coronavirus to Hurt Performance:** The coronavirus pandemic is likely to hurt the company's results in the coming quarters. The company provided same-store sales update for the first quarter to date through Jun 21. The company's same-restaurant sales declined 33.2% in the period. Moreover, for the weeks ended Jun 7, Jun 14, and Jun 21, same-restaurant sales were down 38.7%, 31.8%, and 29.6%, respectively. For the fiscal first quarter to date through Jun 21, same-restaurant sales were down 31.3%, 24.3%, 48.1% and 42.3% at Olive Garden, LongHorn Steakhouse, Fine Dining and Other Business, respectively.

High costs, coronavirus outbreak, a tricky consumer spending environment in the U.S. restaurant space along with the company's limited international presence raise concerns.

▼ **Dismal Q1 Outlook:** Due to uncertainty regarding business on account of the pandemic, the company provided first-quarter guidance instead of the full year. The company expects total sales of nearly 70% of prior-year sales. EBITDA is anticipated at \$75 million. Earnings per share from continuing operations are anticipated to be either greater than or equal to \$0.00. The company expects to open 35-40 net new restaurants and total capital spending of \$250 to \$300 million in fiscal 2021.

▼ **Margins Likely to Be Under Pressure:** Higher labor costs due to increased wages and costs incurred due to the implementation of the Affordable Care Act are expected to continue to keep profits under pressure. Further, the non-franchised model makes the company susceptible to increased expenses. Since all the restaurants are owned and operated by Darden, instead of signing franchise agreements and putting the burden of costs into the franchisee, the company is solely responsible for the expenses of operating the business.

Given the menu alterations to support the To Go mix, the company witnessed high food and beverage costs during the fourth quarter. This was primarily due to an increase in packaging expenses and beef costs.

▼ **Limited International Presence:** Darden's restaurants are located in the United States and Canada, and the company has no exposure in international markets. While several other fast casual restaurateurs are capitalizing on the emerging market potential, Darden seems to be slow on this front. We believe that the company needs to expand its presence beyond the United States in order to offset the impact of cutthroat competition in the saturated domestic market.

▼ **Industry Susceptible to Consumer Discretionary Spending:** Darden operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. Darden, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If the company does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other retailers.

Last Earnings Report

Darden Q4 Earnings Beat Estimates, Revenues Miss

Darden Restaurants reported fourth-quarter fiscal 2020 results, wherein the bottom line surpassed the Zacks Consensus Estimate, while the top line lagged the same. The company reported better-than-expected earnings for the sixth straight quarter.

The company reported adjusted loss per share of \$1.24 per share, narrower than the Zacks Consensus Estimate of loss of \$1.59. In the prior-year quarter, the company had reported adjusted earnings per share of \$1.76.

Total sales of \$1,270.1 million missed the consensus mark of \$1,301 million. Moreover, sales declined 43% from the prior-year quarter on account of negative blended same-restaurant sales of 47.7%. Results in the quarter were impacted by the coronavirus pandemic.

Quarter Ending 05/2020

Report Date	Jun 25, 2020
Sales Surprise	-0.85%
EPS Surprise	25.30%
Quarterly EPS	-1.24
Annual EPS (TTM)	3.16

Sales by Segments

Darden reports business under four segments — Olive Garden, LongHorn Steakhouse, Fine Dining that includes The Capital Grille and Eddie V's, and Other Business.

Sales at Olive Garden decreased 34% year over year to \$730.8 million. Comps declined 8.6% at the segment, against the prior-quarter's comp growth of 2.1%.

Sales at Fine Dining declined 60.1% to \$61.7 million. Comps at The Capital Grille fell 13.6% against growth of 4.2% in the previous quarter. Further, Eddie V's reported comps decline of 15.2%, against a 3.9% improvement in the prior quarter.

Sales at Other Business slumped 61.8% year over year to \$184.7 million. Moreover, comps at Seasons 52 declined 18.7% against a comps growth of 3% in the prior quarter. Comps at Yard House were down 17.3% against 1.8% increase in the previous quarter. Moreover, comps fell 20.1% at Bahama Breeze compared with a decline of 0.5% in the preceding quarter.

At LongHorn Steakhouse, sales were down 39.5% to \$292.9 million. Comps at the segment decreased 8.8%, against comps growth of 3.9% in the year-ago quarter.

In the reported quarter, comps at Cheddar's decreased 17.1% compared with a decline of 1.6% in the prior-year quarter.

Operating Highlights & Net Income

In the fiscal fourth quarter, total operating costs and expenses decreased 6.9% year over year to \$1,862.2 million. The decline can be attributed to an overall decrease in food and beverage costs, restaurant expenses, and labor costs.

Balance Sheet

Cash and cash equivalents as of May 31, 2020, totaled \$763.3 million, down from \$457.3 million as of May 26, 2019.

Inventories totaled \$206.9 million at the end of the reported quarter. Long-term debt as of May 31, 2020, was \$928.8 million, up from \$927.7 million as of May 26, 2019.

First-quarter 2021 Guidance

Due to uncertainty regarding the future business on account of the pandemic, the company provided first-quarter guidance instead of the full year. The company expects total sales of nearly 70% of prior-year sales. EBITDA is anticipated at \$75 million. Earnings per share from continuing operations are anticipated either greater than or equal to \$0.00.

The company expects to open 35-40 net new restaurants and total capital spending of \$250 to \$300 million in fiscal 2021.

Business Updates

The company provided business updates for first-quarter fiscal 2021 to date through Sunday, Jun 21. Blended same-restaurant sales fell 33.2% during the period. Darden, Olive Garden, LongHorn Steakhouse, Fine Dining and Other Business same-restaurant sales declined 33.2%, 31.3%, 24.3%, 48.1% and 42.3%, respectively.

Valuation

Darden shares are down 22.9% year-to-date and 30.5% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 2.6%, but Zacks Retail-Wholesale sector are up by 26.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down by 10.1%, but sector is up by 37.1%.

The S&P 500 index is up 4.1% in the year-to-date period and 15% in the past year.

The stock is currently trading at 24.96X forward 12-month earnings, which compares to 31.3X for the Zacks sub-industry, 33.4X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.59x and as low as 5.2x, with a 5-year median of 18.07x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 26.11x forward 12-months earnings.

The table below shows summary valuation data for DRI.

Valuation Multiples - DRI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.96	31.3	33.4	22.8
	5-Year High	37.59	34.04	34.76	22.8
	5-Year Low	5.2	20.49	19.08	15.25
	5-Year Median	18.07	23.09	23.46	17.58
P/S F12M	Current	1.41	3.69	1.25	3.67
	5-Year High	1.74	3.93	1.25	3.67
	5-Year Low	0.46	2.81	0.82	2.53
	5-Year Median	1.31	3.32	0.97	3.05
P/CF	Current	14.6	21.67	14.83	15.68
	5-Year High	14.93	21.67	17.08	22.73
	5-Year Low	3.3	8.61	11.01	11.7
	5-Year Median	11.27	16.8	13.21	16.37

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
Bloomin Brands, Inc. (BLMN)	Neutral	3
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	3
Restaurant Brands International Inc. (QSR)	Neutral	3
Yum Brands, Inc. (YUM)	Neutral	3
Yum China Holdings Inc. (YUMC)	Neutral	3
Brinker International, Inc. (EAT)	Underperform	4

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	DRI	X Industry	S&P 500	QSR	YUM	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	C	B	A
Market Cap	10.93 B	377.06 M	23.61 B	16.84 B	27.94 B	20.28 B
# of Analysts	14	6	14	10	9	6
Dividend Yield	0.00%	0.00%	1.69%	3.75%	2.03%	0.67%
Value Score	D	-	-	C	C	C
Cash/Price	0.07	0.13	0.07	0.09	0.05	0.08
EV/EBITDA	60.95	12.32	13.32	13.17	19.25	13.00
PEG Ratio	2.86	4.54	2.95	2.90	2.41	4.89
Price/Book (P/B)	4.69	2.14	3.22	4.37	NA	6.18
Price/Cash Flow (P/CF)	14.67	8.73	12.79	11.14	22.96	17.48
P/E (F1)	29.34	37.85	22.02	26.54	29.76	46.44
Price/Sales (P/S)	1.40	0.79	2.57	3.23	5.09	2.53
Earnings Yield	3.42%	0.80%	4.29%	3.77%	3.35%	2.16%
Debt/Equity	2.23	1.28	0.77	3.54	-1.39	0.01
Cash Flow (\$/share)	5.73	1.81	6.94	4.98	4.04	3.08
Growth Score	F	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	12.20%	3.47%	10.41%	22.69%	0.02%	1.84%
Proj. EPS Growth (F1/F0)	-8.03%	-66.06%	-6.51%	-23.13%	-12.27%	-38.39%
Curr. Cash Flow Growth	-30.15%	3.07%	5.22%	2.55%	3.60%	10.09%
Hist. Cash Flow Growth (3-5 yrs)	2.15%	5.23%	8.55%	30.84%	-6.71%	25.34%
Current Ratio	0.61	0.95	1.34	1.73	1.63	1.34
Debt/Capital	69.07%	70.06%	44.59%	78.00%	NA	1.09%
Net Margin	-0.67%	0.24%	10.13%	11.82%	18.78%	6.33%
Return on Equity	16.68%	-8.26%	14.59%	26.85%	-12.42%	16.35%
Sales/Assets	0.79	0.88	0.51	0.23	0.97	1.18
Proj. Sales Growth (F1/F0)	-3.76%	-7.96%	-1.45%	-10.97%	-0.20%	-9.32%
Momentum Score	B	-	-	A	A	B
Daily Price Chg	3.20%	0.85%	-0.17%	1.31%	1.49%	1.66%
1 Week Price Chg	4.16%	3.68%	2.30%	-4.94%	-0.25%	4.12%
4 Week Price Chg	15.37%	7.49%	6.41%	-0.20%	5.13%	6.39%
12 Week Price Chg	10.97%	17.90%	15.42%	6.00%	6.72%	10.34%
52 Week Price Chg	-30.56%	-29.85%	2.88%	-25.97%	-20.86%	24.89%
20 Day Average Volume	2,200,402	310,796	2,007,486	1,646,293	1,762,638	1,557,779
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.55%	0.00%	0.00%
(F1) EPS Est 4 week change	1.13%	4.41%	1.84%	2.95%	11.18%	3.73%
(F1) EPS Est 12 week change	13.33%	14.74%	2.40%	8.79%	11.19%	7.59%
(Q1) EPS Est Mthly Chg	3.45%	10.56%	0.72%	3.24%	6.94%	-12.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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