



Bulls Target Darden Calls for Earnings Breakout

Ticker/Price: DRI (\$111.20)

Analysis:

Darden Restaurants (DRI) traded 8.5X daily call volume on 3/4 as sizable buys came in for 3,000 April \$110 calls \$4.40 to \$4.55 while 1,340 March \$110 calls saw sweep buys aggressively \$2.45 to \$2.60 as well. DRI saw 640 October \$125 calls open on 3/1 as an adjustment from April \$105 calls, and has some open interest from December buys in July \$110 and \$115 calls for 1,000X and 500X respectively. The \$13.78B owner of Olive Garden, Yard House, Bahama Breeze, and Longhorn Steakhouse trades 17.55X Earnings, 1.66X Sales, 39.5X FCF and 12X EBITDA with a 2.7% dividend yield. DRI is next set to post earnings 3-21 and shares have closed higher 7 of the last 10 reports with an 8.1% average six quarter move. DRI is seen hitting 5.4% revenue growth and 18% EPS growth for FY19 and 7%/11.4% in FY20. It has seen ROIC steadily climb to 10.5% in 2018 and at 0.4X Debt/EBITDA it has a strong balance sheet. On the chart shares held well above the uptrend line in the Q4 selloff and also above the supportive rising 89 week MA, now coiled under \$113.50 for a breakout move that measures to a \$130 target. Short interest is at 5.3% of the float down 11.8% Q/Q. Wedbush started shares Neutral on 1-31 with a \$110 target on valuation. Loop Capital was out positive on 1/17 seeing an upbeat tone at the ICR Conference with a favorable backdrop of wage growth and strong employment and a best-in-class position among casual diners to gain market share given superior operations. BAML raised to Buy on 1-11 with a \$120 target noting the company is positioned to leverage its size and brand strength and its data analytics & customer insights positions the company for an industry shift towards scale. Hedge Fund ownership fell 0.84% in Q4 filings, Point-72, Bridgewater, and Melvin Capital all new buyers of note.

Hawk Vision:



Trading Strategy: DRI is a good combination of strong fundamentals, nice chart set-up, and institutional sized call buying. I set an alert above the recent high to consider entry.

Confidence Ranking: \$\$