



FEATURED OPTIONS RADAR REPORT



Put Buyers See Restaurant Trends Weakening with Consumer Confidence

Ticker/Price: DRI (\$120)

Analysis:

Darden (DRI) shares rebounded with markets last week and after reporting earnings but options positioning remains cautious with 2000 October \$100 puts bought on 6/21 and still has 2900 July \$110 puts in open interest. DRI shares recently held lows just above a key volume profile node and VWAP off the 2020 lows, but below \$107 could set up for a move to \$95 as a 50% retracement of the 2020/2021 range. Darden owns and operates 1,834 restaurants through Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, Seasons 52®, Bahama Breeze® and Eddie V's Prime Seafood® trademarks. The company is investing in their own restaurants including new menus and revamped portion sizes, and better tech in their To Go business to help the customer experience overall. DRI is executing on its post-COVID margin expansion opportunity, improving its value proposition pricing below industry inflation and sees room for accelerated unit growth to gain market share versus independent closures. DRI has a market cap of \$14.65B and trades 14.75X Earnings, 1.57X Sales and 31.8X FCF with a 3.67% dividend yield. Revenues are seen growing 6.9% in 2023 with 4% EPS growth. Sentiment on the latest earnings call was more cautious than previous quarters citing a higher inflationary environment yet its scale continue to allow it to have advantages to peers. Despite consumer confidence being at a sixty year low DRI is not seeing any slowdowns signs in either the high or low-end. Recent data shows that full service restaurants in particular will face greater headwinds over the coming quarters and there is early evidence (June) of some industry-wide softening, especially in brands that serve more moderate incomes. Analysts have an average target of \$140 with short interest low at 3.9% of the float. Most firms reduced price targets last week but continue to favor Darden as a strong operator to peers, but the weaker environment is likely to hit all names.

Hawk Vision:



Hawk's Perspective: DRI is recovering to right near trend resistance and despite it being a favored operator it will face tough headwinds the next few quarters though a richer valued and weaker operator like **QSR** is likely a better short target.

Confidence Ranking: \$\$