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Darden's Sept Sales Key In Gauging Casual-Dining Momentum

By Paul Ziobro

NEW YORK -(Dow Jones)- After signs that casual-dining bounced from summertime lows, investors are looking to Darden Restaurants Inc.'s (DRI) fiscal first-quarter earnings on Tuesday to see if momentum held up.

Darden, an industry bellwether that operates Olive Garden, Red Lobster and other concepts, could post some sales weakness for its latest quarter, as the casual-dining industry faced a brutal summer of high unemployment and consumer unease. FactSet Estimates shows analysts expect Darden's same-store sales to fall 2.1% for the quarter.

Still, analysts say any positive comments showing any incremental improvement in September could lift shares of other casual diners, while the opposite could deflate the latest rally and push off the recovery further. As one investor put it to Sterne Agee & Leach Inc. analyst Lynn Collier, "the fireworks are going to start on Tuesday."

Data from Knapp-Track, which tracks sales at more than 10,000 casual-dining restaurants, suggest the sales malaise bottomed in July, when same-store sales fell 8.3%, and improved to a 5.4% decline in August.

September trends are unclear, as high unemployment, which hit 9.7% in August, could continue to crimp sales.

A residual effect from the cash-for-clunkers program could also affect September sales, says Tom Forte, Telsey Advisory Group analyst. New-car buyers now face the first monthly payments for their cars, which could put a dent in their dining-out budget.

Executives at some chains have hinted that while September sales didn't boom, they didn't get materially worse - a victory in an environment where less-bad trends are good. Restaurant chains hope they can continue to see same-store sales gradually improve in coming months, when they face easy comparisons from last year when diners were shell-shocked by the aftermath of the financial meltdown.

"I've got to believe that people's psyche will be a little bit better than it was last year," P.F. Chang Co-Chief Executive Robert Vivian said Tuesday at a Bank of America/Merrill Lynch investor conference.

Analysts say recovering sales are key for the next leg in recovery at casual- dining chains, which endured deep cost cuts earlier this year to bolster profits, sparking a rally. Yet many analyst remain cautious on the group following the run-up.

Analysts expect Darden to post a profit of \$93.7 million, or 66 cents a share, up from \$86.7 million, or 61 cents, last year, according to Thompson Reuters. Revenue is seen rising slightly to \$1.79 billion.

Even with weak sales, Darden should benefit from falling costs for items like wheat and seafood, and controlling other expenses. "All of that will translate into earnings that's mostly in-line," said Collier, of Sterne Agee & Leach Inc.

MKM Partners analyst Stephen Anderson said the latest quarter could provide an opening for Darden to raise fiscal 2010 guidance, which analysts thought was conservative when issued last quarter. The company may decide to hold off for another quarter, however, due to a cloudy sales outlook.

Darden shares were recently up 13 cents at \$35.21. Shares have risen about 6% in the last month and about 25% so far this year.