# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended November 24, 2019**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ______ to ______**

**1-13666**
**Commission File Number**

# DARDEN RESTAURANTS, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Florida** | **59-3305930** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **1000 Darden Center Drive** | |
| **Orlando, Florida** | **32837** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**407-245-4000**
**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, without par value** | **DRI** | **New York Stock Exchange** |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

Number of shares of common stock outstanding as of December 16, 2019: 121,510,096.

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**Cautionary Statement Regarding Forward-Looking Statements**

Statements set forth in or incorporated into this report regarding the expected increase in the number of our restaurants, U.S. same-restaurant sales, capital expenditures and our annual effective tax rate in fiscal 2020 and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as "may," "will," "expect," "intend," "anticipate," "continue," "estimate," "project," "believe," "plan", "outlook" or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This statement is included for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. The most significant of these uncertainties are described in Darden's Form 10-K, Form 10-Q (including this report) and Form 8-K reports.

# PART I
# FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## DARDEN RESTAURANTS, INC.
## CONSOLIDATED STATEMENTS OF EARNINGS
**(In millions, except per share data)**
**(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Sales | $ 2,056.4 | $ 1,973.4 | $ 4,190.3 | $ 4,034.8 |
| Costs and expenses: | | | | |
| Food and beverage | 583.0 | 563.3 | 1,186.3 | 1,146.6 |
| Restaurant labor | 692.3 | 662.4 | 1,396.1 | 1,341.7 |
| Restaurant expenses | 375.6 | 361.0 | 748.0 | 718.9 |
| Marketing expenses | 66.3 | 58.0 | 135.0 | 124.5 |
| General and administrative expenses | 91.3 | 95.1 | 189.3 | 199.6 |
| Depreciation and amortization | 87.6 | 82.8 | 173.8 | 163.5 |
| Impairments and disposal of assets, net | 0.1 | 2.7 | 0.1 | 2.8 |
| Total operating costs and expenses | $ 1,896.2 | $ 1,825.3 | $ 3,828.6 | $ 3,697.6 |
| Operating income | 160.2 | 148.1 | 361.7 | 337.2 |
| Interest, net | 13.1 | 12.8 | 24.2 | 25.9 |
| Other (income) expense, net | 153.3 | — | 153.3 | — |
| Earnings (loss) before income taxes | (6.2) | 135.3 | 184.2 | 311.3 |
| Income tax expense (benefit) | (31.6) | 19.4 | (13.0) | 26.5 |
| Earnings from continuing operations | $ 25.4 | $ 115.9 | $ 197.2 | $ 284.8 |
| Losses from discontinued operations, net of tax expense (benefit) of $(0.7), $0.7, $(0.9) and $(0.4), respectively | (0.7) | (0.3) | (1.9) | (3.0) |
| Net earnings | $ 24.7 | $ 115.6 | $ 195.3 | $ 281.8 |
| Basic net earnings per share: | | | | |
| Earnings from continuing operations | $ 0.21 | $ 0.94 | $ 1.61 | $ 2.30 |
| Losses from discontinued operations | (0.01) | (0.01) | (0.02) | (0.03) |
| Net earnings | $ 0.20 | $ 0.93 | $ 1.59 | $ 2.27 |
| Diluted net earnings per share: | | | | |
| Earnings from continuing operations | $ 0.21 | $ 0.92 | $ 1.59 | $ 2.26 |
| Losses from discontinued operations | (0.01) | — | (0.02) | (0.02) |
| Net earnings | $ 0.20 | $ 0.92 | $ 1.57 | $ 2.24 |
| Average number of common shares outstanding: | | | | |
| Basic | 122.2 | 123.9 | 122.5 | 123.9 |
| Diluted | 123.7 | 125.8 | 124.1 | 125.8 |

See accompanying notes to our unaudited consolidated financial statements.

# DARDEN RESTAURANTS, INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## (In millions)
## (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Net earnings | $ 24.7 | $ 115.6 | $ 195.3 | $ 281.8 |
| Other comprehensive income (loss): | | | | |
| Foreign currency adjustment | 5.5 | 0.2 | 5.5 | 0.6 |
| Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of $0.1, $(0.1), $(0.1) and $(0.1), respectively | (2.7) | (2.3) | (5.6) | 6.3 |
| Net unamortized gain (loss) arising during the period, including amortization of unrecognized net actuarial (loss) gain, net of taxes of $32.5, $0.0, $32.5 and $0.0, respectively, related to pension and other post-employment benefits | 97.7 | (0.2) | 97.8 | (0.4) |
| Other comprehensive income (loss) | $ 100.5 | $ (2.3) | $ 97.7 | $ 6.5 |
| Total comprehensive income | $ 125.2 | $ 113.3 | $ 293.0 | $ 288.3 |

See accompanying notes to our unaudited consolidated financial statements.

**DARDEN RESTAURANTS, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(In millions)**

| | November 24, 2019 (Unaudited) | May 26, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 157.3 | $ 457.3 |
| Receivables, net | 56.8 | 88.3 |
| Inventories | 212.2 | 207.3 |
| Prepaid income taxes | 42.9 | 41.6 |
| Prepaid expenses and other current assets | 66.3 | 98.1 |
| Total current assets | $ 535.5 | $ 892.6 |
| Land, buildings and equipment, net of accumulated depreciation and amortization of $2,565.0 and $2,482.6, respectively | 2,730.6 | 2,552.6 |
| Operating lease right-of-use assets | 4,029.0 | — |
| Goodwill | 1,199.4 | 1,183.7 |
| Trademarks | 950.8 | 950.8 |
| Other assets | 297.4 | 313.1 |
| Total assets | $ 9,742.7 | $ 5,892.8 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 340.2 | $ 332.6 |
| Accrued payroll | 137.1 | 175.3 |
| Accrued income taxes | 11.0 | 11.6 |
| Other accrued taxes | 60.8 | 54.2 |
| Unearned revenues | 390.3 | 428.5 |
| Other current liabilities | 618.1 | 471.9 |
| Total current liabilities | $ 1,557.5 | $ 1,474.1 |
| Long-term debt | 928.2 | 927.7 |
| Deferred income taxes | 182.1 | 156.9 |
| Operating lease liabilities - non-current | 4,306.2 | — |
| Deferred rent | — | 354.4 |
| Other liabilities | 495.0 | 587.1 |
| Total liabilities | $ 7,469.0 | $ 3,500.2 |
| Stockholders' equity: | | |
| Common stock and surplus | $ 1,690.0 | $ 1,685.0 |
| Retained earnings | 584.5 | 806.6 |
| Accumulated other comprehensive income (loss) | (0.5) | (98.2) |
| Unearned compensation | (0.3) | (0.8) |
| Total stockholders' equity | $ 2,273.7 | $ 2,392.6 |
| Total liabilities and stockholders' equity | $ 9,742.7 | $ 5,892.8 |

See accompanying notes to our unaudited consolidated financial statements.

# DARDEN RESTAURANTS, INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
### For the Three and Six Months Ended November 24, 2019 and November 25, 2018
### (In millions)
### (Unaudited)

| | Common Stock And Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Unearned Compensation | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at August 25, 2019 | $ 1,692.9 | $ 789.9 | $ — | $ (101.0) | $ (0.5) | $ 2,381.3 |
| Net earnings | — | 24.7 | — | — | — | 24.7 |
| Other comprehensive income (loss) | — | — | — | 100.5 | — | 100.5 |
| Dividends declared ($0.88 per share) | — | (109.1) | — | — | — | (109.1) |
| Stock option exercises (0.0 shares) | 1.6 | — | — | — | — | 1.6 |
| Stock-based compensation | 8.0 | — | — | — | — | 8.0 |
| Repurchases of common stock (1.2 shares) | (16.3) | (119.8) | — | — | — | (136.1) |
| Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares) | 2.0 | — | — | — | — | 2.0 |
| Other | 1.8 | (1.2) | — | — | 0.2 | 0.8 |
| Balance at November 24, 2019 | $ 1,690.0 | $ 584.5 | $ — | $ (0.5) | $ (0.3) | $ 2,273.7 |
| | | | | | | |
| Balance at May 26, 2019 | $ 1,685.0 | $ 806.6 | $ — | $ (98.2) | $ (0.8) | $ 2,392.6 |
| Net earnings | — | 195.3 | — | — | — | 195.3 |
| Other comprehensive income (loss) | — | — | — | 97.7 | — | 97.7 |
| Dividends declared ($1.76 per share) | — | (217.5) | — | — | — | (217.5) |
| Stock option exercises (0.2 shares) | 10.8 | — | — | — | — | 10.8 |
| Stock-based compensation | 15.6 | — | — | — | — | 15.6 |
| Repurchases of common stock (2.0 shares) | (27.2) | (203.7) | — | — | — | (230.9) |
| Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares) | 4.0 | — | — | — | — | 4.0 |
| Other | 1.8 | 3.8 | — | — | 0.5 | 6.1 |
| Balance at November 24, 2019 | $ 1,690.0 | $ 584.5 | $ — | $ (0.5) | $ (0.3) | $ 2,273.7 |
| | | | | | | |
| Balance at August 26, 2018 | $ 1,667.4 | $ 693.5 | $ (7.8) | $ (76.4) | $ (1.5) | $ 2,275.2 |
| Net earnings | — | 115.6 | — | — | — | 115.6 |
| Other comprehensive income (loss) | — | — | — | (2.3) | — | (2.3) |
| Dividends declared ($0.75 per share) | — | (93.1) | — | — | — | (93.1) |
| Stock option exercises (0.2 shares) | 6.8 | — | — | — | — | 6.8 |
| Stock-based compensation | 7.2 | — | — | — | — | 7.2 |
| Repurchases of common stock (0.6 shares) | (7.5) | (53.5) | — | — | — | (61.0) |
| Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares) | 1.6 | — | — | — | 0.4 | 2.0 |
| Other | — | — | — | — | (0.1) | (0.1) |
| Balance at November 25, 2018 | $ 1,675.5 | $ 662.5 | $ (7.8) | $ (78.7) | $ (1.2) | $ 2,250.3 |
| | | | | | | |
| Balance at May 27, 2018 | $ 1,631.9 | $ 657.6 | $ (7.8) | $ (85.2) | $ (1.7) | $ 2,194.8 |
| Net earnings | — | 281.8 | — | — | — | 281.8 |
| Other comprehensive income (loss) | — | — | — | 6.5 | — | 6.5 |
| Dividends declared ($1.50 per share) | — | (186.6) | — | — | — | (186.6) |
| Stock option exercises (0.9 shares) | 38.4 | — | — | — | — | 38.4 |
| Stock-based compensation | 12.8 | — | — | — | — | 12.8 |
| Repurchases of common stock (0.9 shares) | (11.6) | (80.7) | — | — | — | (92.3) |
| Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares) | 3.3 | — | — | — | 0.4 | 3.7 |
| Other | 0.7 | (9.6) | — | — | 0.1 | (8.8) |
| Balance at November 25, 2018 | $ 1,675.5 | $ 662.5 | $ (7.8) | $ (78.7) | $ (1.2) | $ 2,250.3 |

See accompanying notes to our unaudited consolidated financial statements.

**DARDEN RESTAURANTS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In millions)**
**(Unaudited)**

| | Six Months Ended | |
|---|---|---|
| | November 24, 2019 | November 25, 2018 |
| Cash flows—operating activities | | |
| Net earnings | $ 195.3 | $ 281.8 |
| Losses from discontinued operations, net of tax | 1.9 | 3.0 |
| Adjustments to reconcile net earnings from continuing operations to cash flows: | | |
| Depreciation and amortization | 173.8 | 163.5 |
| Impairments and disposal of assets, net | 0.1 | 2.8 |
| Stock-based compensation expense | 28.0 | 31.6 |
| Change in current assets and liabilities | (86.8) | (90.0) |
| Contributions to pension and postretirement plans | (13.1) | (0.9) |
| Deferred income taxes | (8.4) | 10.8 |
| Change in deferred rent | — | 18.7 |
| Change in other assets and liabilities | 6.8 | 3.2 |
| Pension settlement charge | 147.1 | — |
| Other, net | (1.6) | 9.4 |
| Net cash provided by operating activities of continuing operations | $ 443.1 | $ 433.9 |
| Cash flows—investing activities | | |
| Purchases of land, buildings and equipment | (256.5) | (233.0) |
| Proceeds from disposal of land, buildings and equipment | 4.3 | 0.8 |
| Cash used in business acquisitions, net of cash acquired | (37.0) | — |
| Purchases of capitalized software and other assets | (10.8) | (11.5) |
| Other, net | (9.7) | 1.9 |
| Net cash used in investing activities of continuing operations | $ (309.7) | $ (241.8) |
| Cash flows—financing activities | | |
| Proceeds from issuance of common stock | 14.8 | 41.7 |
| Dividends paid | (215.7) | (186.0) |
| Repurchases of common stock | (230.9) | (92.3) |
| Proceeds from issuance of short-term debt | — | 132.0 |
| Repayments of short-term debt | — | (87.0) |
| Principal payments on capital and financing leases | (2.5) | (3.2) |
| Other, net | 0.5 | 0.1 |
| Net cash used in financing activities of continuing operations | $ (433.8) | $ (194.7) |
| Cash flows—discontinued operations | | |
| Net cash provided by (used in) operating activities of discontinued operations | 0.4 | (4.6) |
| Net cash provided by (used in) discontinued operations | $ 0.4 | $ (4.6) |
| | | |
| Decrease in cash and cash equivalents | (300.0) | (7.2) |
| Cash and cash equivalents - beginning of period | 457.3 | 146.9 |
| Cash and cash equivalents - end of period | $ 157.3 | $ 139.7 |

**DARDEN RESTAURANTS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**
**(In millions)**
**(Unaudited)**

| | Six Months Ended | |
|---|---|---|
| | November 24, 2019 | November 25, 2018 |
| Cash flows from changes in current assets and liabilities | | |
| Receivables, net | 7.3 | 3.2 |
| Inventories | (4.8) | (4.1) |
| Prepaid expenses and other current assets | (5.0) | (9.9) |
| Accounts payable | (5.2) | 10.5 |
| Accrued payroll | (38.2) | (37.7) |
| Prepaid/accrued income taxes | (1.9) | (0.4) |
| Other accrued taxes | 6.4 | 0.2 |
| Unearned revenues | (38.2) | (28.5) |
| Other current liabilities | (7.2) | (23.3) |
| Change in current assets and liabilities | $ (86.8) | $ (90.0) |

See accompanying notes to our unaudited consolidated financial statements.

**DARDEN RESTAURANTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**Note 1. Basis of Presentation**

Darden Restaurants, Inc. (we, our, Darden or the Company) owns and operates full-service dining restaurants in the United States and Canada under the trade names Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, Seasons 52®, Bahama Breeze®, and Eddie V's Prime Seafood®. As of November 24, 2019, through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for 3 joint venture restaurants managed by us and 33 franchised restaurants. We also have 32 franchised restaurants in operation located in Latin America and the Middle East.

We have prepared these consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. We operate on a 52/53-week fiscal year which ends on the last Sunday in May. Our fiscal year ending May 31, 2020 will contain 53 weeks of operation, with the 53rd week occurring in our fiscal fourth quarter. Operating results for interim periods presented are not necessarily indicative of results that may be expected for the full fiscal year.

These statements should be read in conjunction with the consolidated financial statements and related notes to consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 26, 2019. We prepare our consolidated financial statements in conformity with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and costs and expenses during the reporting period. Actual results could differ from those estimates.

We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

On July 29, 2019, we completed the acquisition of five Cheddar's Scratch Kitchen restaurants (four operating and one closed) and certain assets and liabilities from WOW Food Concepts, LLC, an existing franchisee. The acquisition was funded with cash on hand for $37.8 million in total consideration, of which $19.0 million was allocated to land, buildings and equipment. The results of operations of these restaurants are included in our consolidated financial statements from the date of acquisition. Pro-forma financial information of the combined entities for periods prior to the acquisition is not presented due to the immaterial impact of the financial results of the acquired restaurants on our consolidated financial statements.

**Recently Adopted Accounting Standards**

As of May 27, 2019, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) (ASC 842) which replaced existing lease guidance with comprehensive lease measurement and recognition guidance and expanded disclosure requirements. This new guidance requires lessees to recognize on the balance sheet a liability based on the present value of minimum lease payments and a corresponding right-of-use asset. We adopted this guidance using the modified retrospective transition method which means we did not adjust the balance sheet for comparative periods but recorded a $3.8 million cumulative-effect adjustment to retained earnings as of May 27, 2019. We elected the package of practical expedients which allowed us to not reassess previous accounting conclusions regarding lease identification, lease classification and initial direct costs. We elected the land easement practical expedient which allowed us to not evaluate our existing land easements for lease accounting treatment. We elected the short-term lease recognition exemption which provided the option to not recognize right-of-use assets and related liabilities that arise from certain leases with terms of 12 months or less. We also elected the accounting policy election to not separate lease and non-lease components for real estate leases entered into after adoption. See Note 14.

As of May 27, 2019, we adopted FASB ASU 2017-12, Derivatives and Hedging (Topic 815). The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The adoption of this guidance did not have a material impact on our consolidated financial statements.

**DARDEN RESTAURANTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## Note 2. Revenue Recognition

Deferred revenue liabilities from contracts with customers included on our accompanying consolidated balance sheets is comprised of the following:

| (in millions) | November 24, 2019 | May 26, 2019 |
|---|---|---|
| **Unearned revenues** | | |
| Deferred gift card revenue | $ 412.4 | $ 453.6 |
| Deferred gift card discounts | (23.4) | (26.4) |
| Other | 1.3 | 1.3 |
| Total | $ 390.3 | $ 428.5 |
| | | |
| **Other liabilities** | | |
| Deferred franchise fees - non-current | $ 3.6 | $ 3.9 |

The following table presents a rollforward of deferred gift card revenue.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Beginning balance | $ 410.2 | $ 404.3 | $ 453.6 | $ 443.1 |
| Activations | 127.4 | 133.7 | 243.8 | 251.6 |
| Redemptions and breakage | (125.2) | (126.4) | (285.0) | (283.1) |
| Ending balance | $ 412.4 | $ 411.6 | $ 412.4 | $ 411.6 |

## Note 3. Supplemental Cash Flow Information

Cash paid for interest and income taxes are as follows:

| | Six Months Ended | |
|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 |
| Interest, net of amounts capitalized | $ 26.8 | $ 24.9 |
| Income taxes, net of refunds | (4.7) | 12.3 |

Non-cash investing activities are as follows:

| | Six Months Ended | |
|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 |
| Increase in land, buildings and equipment through accrued purchases | $ 50.9 | $ 51.3 |

## Note 4. Income Taxes

The effective income tax rate for continuing operations for the quarter ended November 24, 2019 was a 509.7 percent benefit compared to an effective income tax rate expense of 14.3 percent for the quarter ended November 25, 2018. The effective income tax rate for continuing operations for the six months ended November 24, 2019 was a 7.1 percent benefit compared to an effective income tax rate expense of 8.5 percent for the six months ended November 25, 2018. The effective income tax rate change for the quarter and six months ended November 24, 2019 was primarily due to lower earnings before income taxes for fiscal 2020 driven primarily by a pension settlement charge recorded during the quarter ended November 24, 2019.

Included in our remaining balance of unrecognized tax benefits is $11.0 million related to tax positions for which it is reasonably possible that the total amounts could change within the next twelve months based on the outcome of examinations or as a result of the expiration of the statute of limitations for specific jurisdictions.

**DARDEN RESTAURANTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## Note 5. Net Earnings per Share

Outstanding stock options, restricted stock and equity-settled performance stock units granted by us represent the only dilutive effect reflected in diluted weighted average shares outstanding, none of which impact the numerator of the diluted net earnings per share computation. Stock options, restricted stock and equity-settled performance stock units excluded from the calculation of diluted net earnings per share because the effect would have been anti-dilutive, are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Anti-dilutive stock-based compensation awards | 0.7 | 0.4 | 0.5 | 0.2 |

## Note 6. Segment Information

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, Cheddar's Scratch Kitchen, Yard House, The Capital Grille, Seasons 52, Bahama Breeze and Eddie V's in North America as operating segments. The brands operate principally in the U.S. within full-service dining. We aggregate our operating segments into reportable segments based on a combination of the size, economic characteristics and sub-segment of full-service dining within which each brand operates. We have four reportable segments: (1) Olive Garden, (2) LongHorn Steakhouse, (3) Fine Dining and (4) Other Business.

The Olive Garden segment includes the results of our company-owned Olive Garden restaurants in the U.S. and Canada. The LongHorn Steakhouse segment includes the results of our company-owned LongHorn Steakhouse restaurants in the U.S. The Fine Dining segment aggregates our premium brands that operate within the fine-dining sub-segment of full-service dining and includes the results of our company-owned The Capital Grille and Eddie V's restaurants in the U.S. The Other Business segment aggregates our remaining brands and includes the results of our company-owned Cheddar's Scratch Kitchen, Yard House, Seasons 52 and Bahama Breeze restaurants in the U.S and results from our franchise operations.

External sales are derived principally from food and beverage sales. We do not rely on any major customers as a source of sales, and the customers and long-lived assets of our reportable segments are predominantly in the U.S. There were no material transactions among reportable segments.

Our management uses segment profit as the measure for assessing performance of our segments. Segment profit includes revenues and expenses directly attributable to restaurant-level results of operations (sometimes referred to as restaurant-level earnings). These expenses include food and beverage costs, restaurant labor costs, restaurant expenses and marketing expenses (collectively "restaurant and marketing expenses"). In the first quarter of fiscal 2020, we changed our internal management reporting related to non-cash lease-related expenses, as these are expenses for which our operating segments are no longer being evaluated. This change reallocates non-cash lease-related expenses from our operating segments to the corporate level for restaurant expenses (which is a component of segment profit) and depreciation and amortization. Additionally, our lease-related right-of-use assets are not managed or evaluated at the operating segment level, but rather at the corporate level. Fiscal 2019 segment profit and depreciation and amortization have been restated for comparability.

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The following tables reconcile our segment results to our consolidated results reported in accordance with GAAP.

| (in millions)<br>For the three months ended November 24, 2019 | Olive Garden | LongHorn Steakhouse | Fine Dining | Other Business | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | $ 1,023.6 | $ 447.3 | $ 154.8 | $ 430.7 | $ — | $ 2,056.4 |
| Restaurant and marketing expenses | 833.3 | 375.4 | 124.4 | 383.0 | 1.1 | 1,717.2 |
| Segment profit | $ 190.3 | $ 71.9 | $ 30.4 | $ 47.7 | $ (1.1) | $ 339.2 |
| | | | | | | |
| Depreciation and amortization | $ 36.0 | $ 17.0 | $ 8.1 | $ 24.5 | $ 2.0 | $ 87.6 |
| Impairments and disposal of assets, net | 0.4 | 1.2 | — | — | (1.5) | 0.1 |

| (in millions)<br>For the six months ended November 24, 2019 | Olive Garden | LongHorn Steakhouse | Fine Dining | Other Business | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | $ 2,113.8 | $ 897.5 | $ 291.1 | $ 887.9 | $ — | $ 4,190.3 |
| Restaurant and marketing expenses | 1,694.6 | 751.1 | 240.4 | 775.8 | 3.5 | 3,465.4 |
| Segment profit | $ 419.2 | $ 146.4 | $ 50.7 | $ 112.1 | $ (3.5) | $ 724.9 |
| | | | | | | |
| Depreciation and amortization | $ 72.1 | $ 33.8 | $ 15.9 | $ 48.5 | $ 3.5 | $ 173.8 |
| Impairments and disposal of assets, net | 1.8 | 1.2 | — | — | (2.9) | 0.1 |
| Purchases of land, buildings and equipment | 112.1 | 41.7 | 35.5 | 64.0 | 3.2 | 256.5 |

| (in millions)<br>For the three months ended November 25, 2018 | Olive Garden | LongHorn Steakhouse | Fine Dining | Other Business | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | $ 998.1 | $ 412.6 | $ 146.7 | $ 416.0 | $ — | $ 1,973.4 |
| Restaurant and marketing expenses | 814.6 | 345.5 | 117.8 | 365.0 | 1.8 | 1,644.7 |
| Segment profit | $ 183.5 | $ 67.1 | $ 28.9 | $ 51.0 | $ (1.8) | $ 328.7 |
| | | | | | | |
| Depreciation and amortization | $ 34.7 | $ 16.8 | $ 7.2 | $ 22.6 | $ 1.5 | $ 82.8 |
| Impairments and disposal of assets, net | 2.4 | 0.3 | — | — | — | 2.7 |

| (in millions)<br>For the six months ended November 25, 2018 | Olive Garden | LongHorn Steakhouse | Fine Dining | Other Business | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Sales | $ 2,050.1 | $ 842.9 | $ 276.7 | $ 865.1 | $ — | $ 4,034.8 |
| Restaurant and marketing expenses | 1,649.6 | 704.3 | 227.6 | 746.1 | 4.1 | 3,331.7 |
| Segment profit | $ 400.5 | $ 138.6 | $ 49.1 | $ 119.0 | $ (4.1) | $ 703.1 |
| | | | | | | |
| Depreciation and amortization | $ 68.3 | $ 33.5 | $ 14.4 | $ 44.5 | $ 2.8 | $ 163.5 |
| Impairments and disposal of assets, net | 2.5 | 0.3 | — | — | — | 2.8 |
| Purchases of land, buildings and equipment | 96.3 | 38.3 | 17.9 | 78.7 | 1.8 | 233.0 |

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Reconciliation of segment profit to earnings from continuing operations before income taxes:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Segment profit | $ 339.2 | $ 328.7 | $ 724.9 | $ 703.1 |
| Less general and administrative expenses | (91.3) | (95.1) | (189.3) | (199.6) |
| Less depreciation and amortization | (87.6) | (82.8) | (173.8) | (163.5) |
| Less impairments and disposal of assets, net | (0.1) | (2.7) | (0.1) | (2.8) |
| Less interest, net | (13.1) | (12.8) | (24.2) | (25.9) |
| Less other (income) expense, net | (153.3) | — | (153.3) | — |
| Earnings (loss) before income taxes | $ (6.2) | $ 135.3 | $ 184.2 | $ 311.3 |

**Note 7. Impairments and Disposal of Assets, Net**

Impairments and disposal of assets, net, in our accompanying consolidated statements of earnings are comprised of the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Restaurant impairments | $ 1.7 | $ 2.6 | $ 3.1 | $ 2.7 |
| Disposal (gains) losses | (1.0) | 0.1 | (2.4) | 0.1 |
| Other | (0.6) | — | (0.6) | — |
| Impairments and disposal of assets, net | $ 0.1 | $ 2.7 | $ 0.1 | $ 2.8 |

Restaurant impairments for the quarter and six months ended November 24, 2019 were primarily related to underperforming restaurants. Disposal (gains) losses were related to a sale-leaseback, disposal of closed locations, and sale of liquor licenses. Other was related to a lease revaluation.

**Note 8. Stockholders' Equity**

**Accumulated Other Comprehensive Income (Loss) (AOCI)**

The components of accumulated other comprehensive income (loss), net of tax, for the quarter and six months ended November 24, 2019 are as follows:

| (in millions) | Foreign Currency Translation Adjustment | Unrealized Gains (Losses) on Derivatives | Benefit Plan Funding Position | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| Balance at August 25, 2019 | $ (1.0) | $ 6.1 | $ (106.1) | $ (101.0) |
| Gain (loss) | 5.5 | (3.0) | (12.7) | (10.2) |
| Reclassification realized in net earnings | — | 0.3 | 110.4 | 110.7 |
| Balance at November 24, 2019 | $ 4.5 | $ 3.4 | $ (8.4) | $ (0.5) |
| | | | | |
| Balance at May 26, 2019 | $ (1.0) | $ 9.0 | $ (106.2) | $ (98.2) |
| Gain (loss) | 5.5 | (5.1) | (12.7) | (12.3) |
| Reclassification realized in net earnings | — | (0.5) | 110.5 | 110.0 |
| Balance at November 24, 2019 | $ 4.5 | $ 3.4 | $ (8.4) | $ (0.5) |

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The components of accumulated other comprehensive income (loss), net of tax, for the quarter and six months ended November 25, 2018 are as follows:

| (in millions) | Foreign Currency Translation Adjustment | Unrealized Gains (Losses) on Derivatives | Benefit Plan Funding Position | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| Balance at August 26, 2018 | $ (1.2) | $ 12.0 | $ (87.2) | $ (76.4) |
| Gain (loss) | 0.2 | (2.3) | — | (2.1) |
| Reclassification realized in net earnings | — | — | (0.2) | (0.2) |
| Balance at November 25, 2018 | $ (1.0) | $ 9.7 | $ (87.4) | $ (78.7) |
| | | | | |
| Balances at May 27, 2018 | $ (1.6) | $ 3.4 | $ (87.0) | $ (85.2) |
| Gain (loss) | 0.6 | 11.4 | — | 12.0 |
| Reclassification realized in net earnings | — | (5.1) | (0.4) | (5.5) |
| Balance at November 25, 2018 | $ (1.0) | $ 9.7 | $ (87.4) | $ (78.7) |

The following table presents the amounts and line items in our consolidated statements of earnings where adjustments reclassified from AOCI into net earnings were recorded.

| | | Amount Reclassified from AOCI into Net Earnings | | | |
|---|---|---|---|---|---|
| | | Three Months Ended | | Six Months Ended | |
| (in millions) AOCI Components | Location of Gain (Loss) Recognized in Earnings | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Derivatives | | | | | |
| Commodity contracts | (1) | $ (0.2) | $ 0.2 | $ (0.6) | $ 0.4 |
| Equity contracts | (2) | — | — | 1.0 | 4.9 |
| Interest rate contracts | (3) | (0.1) | (0.1) | (0.1) | (0.1) |
| Total before tax | | $ (0.3) | $ 0.1 | $ 0.3 | $ 5.2 |
| Tax (expense) benefit | | — | (0.1) | 0.2 | (0.1) |
| Net of tax | | $ (0.3) | $ — | $ 0.5 | $ 5.1 |
| | | | | | |
| Benefit plan funding position | | | | | |
| Recognized net actuarial loss - pension/postretirement plans | (4) | $ (147.9) | $ (0.7) | $ (148.8) | $ (1.3) |
| Recognized net actuarial gain - other plans | (5) | 0.8 | 0.9 | 1.6 | 1.7 |
| Total before tax | | $ (147.1) | $ 0.2 | $ (147.2) | $ 0.4 |
| Tax (expense) benefit | | 36.7 | — | 36.7 | — |
| Net of tax | | $ (110.4) | $ 0.2 | $ (110.5) | $ 0.4 |

(1) Primarily included in food and beverage costs and restaurant expenses. See Note 11 for additional details.
(2) For fiscal 2020, included in general and administrative expenses. For fiscal 2019, included in restaurant labor costs and general and administrative expenses. See Note 11 for additional details.
(3) Included in interest, net on our consolidated statements of earnings.
(4) Included in the computation of net periodic benefit costs - pension and postretirement plans, which is a component of restaurant labor expenses and general and administrative expenses and other (income) expense, net. See Note 9 for additional details.
(5) Included in the computation of net periodic benefit costs - other plans, which is a component of general and administrative expenses.

**Note 9. Retirement Plans**

Components of net periodic benefit cost are as follows:

| | Defined Benefit Plans | | | |
|---|---|---|---|---|
| | Three Months Ended | | Six Months Ended | |
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Interest cost | $ 1.6 | $ 2.2 | $ 3.2 | $ 4.6 |
| Expected return on plan assets | (2.0) | (2.8) | (4.0) | (5.6) |
| Pension settlement expense | 147.1 | — | 147.1 | — |
| Recognized net actuarial loss | 0.8 | 0.7 | 1.7 | 1.3 |
| Net periodic benefit cost | $ 147.5 | $ 0.1 | $ 148.0 | $ 0.3 |

| | Postretirement Benefit Plan | | | |
|---|---|---|---|---|
| | Three Months Ended | | Six Months Ended | |
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Interest cost | $ 0.1 | $ 0.2 | $ 0.3 | $ 0.4 |
| Amortization of unrecognized prior service credit | (1.1) | (1.2) | (2.3) | (2.4) |
| Recognized net actuarial loss | 0.3 | 0.4 | 0.7 | 0.8 |
| Net periodic benefit credit | $ (0.7) | $ (0.6) | $ (1.3) | $ (1.2) |

In April 2018, our Benefit Plans Committee approved the termination of our primary non-contributory defined benefit pension plan (the Retirement Income Plan for Darden Restaurants, Inc.). Plan participants who had not yet begun receiving their benefit payments were provided the opportunity to receive their full accrued benefits from plan assets by either (i) electing immediate lump sum distributions or annuities or (ii) deferring commencement of their benefits to a later date. Deferred benefits have been transferred to a third-party annuity provider. During the second quarter of fiscal 2020, we made a funding contribution of approximately $12.2 million to fully fund the benefit obligation. In November of fiscal 2020 the benefit obligation to plan participants was settled, resulting in a pre-tax pension settlement charge of $147.1 million.

**Note 10. Stock-Based Compensation**

We grant stock options for a fixed number of shares to certain employees with an exercise price equal to the fair value of the shares at the date of grant. We also grant restricted stock, restricted stock units, and performance stock units with a fair value generally determined based on our closing stock price on the date of grant. In addition, we grant cash settled stock units (Darden stock units) which are classified as liabilities and are marked to market as of the end of each period.

The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes option pricing model were as follows.

| | Stock Options Granted | |
|---|---|---|
| | Six Months Ended | |
| | November 24, 2019 | November 25, 2018 |
| Weighted-average fair value | $ 19.94 | $ 18.78 |
| Dividend yield | 3.0% | 3.2% |
| Expected volatility of stock | 22.5% | 22.6% |
| Risk-free interest rate | 1.9% | 2.9% |
| Expected option life (in years) | 6.3 | 6.4 |
| Weighted-average exercise price per share | $ 124.24 | $ 107.05 |

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The weighted-average grant date fair value of performance-based restricted stock units and the related assumptions used in the Monte Carlo simulation to record stock-based compensation are as follows:

| | Granted in Fiscal Year Ended | |
|---|---|---|
| | Six Months Ended | |
| | November 24, 2019 | November 25, 2018 |
| Dividend yield (1) | 0.0% | 0.0% |
| Expected volatility of stock | 23.1% | 23.4% |
| Risk-free interest rate | 1.8% | 2.7% |
| Expected option life (in years) | 2.9 | 2.9 |
| Weighted-average grant date fair value per unit | $ 124.41 | $ 115.07 |

(1) Assumes a reinvestment of dividends.

The following table presents a summary of our stock-based compensation activity for the three months ended November 24, 2019.

| (in millions) | Stock Options | Restricted Stock/ Restricted Stock Units | Equity-Settled Performance Stock Units | Cash-Settled Darden Stock Units |
|---|---|---|---|---|
| Outstanding beginning of period | 2.60 | 0.28 | 0.60 | 1.20 |
| Awards granted | 0.31 | 0.06 | 0.18 | 0.19 |
| Awards exercised/vested | (0.25) | (0.04) | (0.22) | (0.28) |
| Awards forfeited | — | (0.01) | (0.01) | (0.04) |
| Outstanding end of period | 2.66 | 0.29 | 0.55 | 1.07 |

We recognized expense from stock-based compensation as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Stock options | $ 1.5 | $ 1.3 | $ 2.8 | $ 2.5 |
| Restricted stock/restricted stock units | 1.7 | 1.7 | 3.5 | 3.0 |
| Equity-settled performance stock units | 3.9 | 3.5 | 7.7 | 6.0 |
| Cash-settled Darden stock units | 5.8 | 6.5 | 12.4 | 18.8 |
| Employee stock purchase plan | 0.5 | 0.4 | 0.9 | 0.7 |
| Director compensation program/other | 0.4 | 0.3 | 0.7 | 0.6 |
| Total stock-based compensation expense | $ 13.8 | $ 13.7 | $ 28.0 | $ 31.6 |

**Note 11. Derivative Instruments and Hedging Activities**

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as provided by FASB ASC Topic 815, Derivatives and Hedging, and those utilized as economic hedges. We use financial derivatives to manage interest rate and compensation risks inherent in our business operations. To the extent our cash-flow hedging instruments are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria required by Topic 815 of the FASB ASC, changes in the derivatives' fair value are not included in current earnings, but are included in accumulated other comprehensive income (loss), net of tax. These changes in fair value will be reclassified into earnings at the time of the forecasted transaction. Ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period in which it occurs. To the extent the cash flow hedge accounting criteria are not met, the derivative contracts are utilized as economic hedges and changes in the fair value of such contracts are recorded currently in earnings in the period in which they occur.

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By using these instruments, we expose ourselves, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We minimize this credit risk by entering into transactions with high quality counterparties. We currently do not have any provisions in our agreements with counterparties that would require either party to hold or post collateral in the event that the market value of the related derivative instrument exceeds a certain limit. As such, the maximum amount of loss due to counterparty credit risk we would incur at November 24, 2019, if counterparties to the derivative instruments failed completely to perform, would approximate the values of derivative instruments currently recognized as assets on our consolidated balance sheet. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, commodity prices, or the market price of our common stock. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

We periodically enter into commodity futures, swaps and option contracts (collectively, commodity contracts) to reduce the risk of variability in cash flows associated with fluctuations in the price we pay for commodities, such as natural gas and diesel fuel. For certain of our commodity purchases, changes in the price we pay for these commodities are highly correlated with changes in the market price of these commodities. For these commodity purchases, we designate commodity contracts as cash flow hedging instruments. For the remaining commodity purchases, changes in the price we pay for these commodities are not highly correlated with changes in the market price, generally due to the timing of when changes in the market prices are reflected in the price we pay. For these commodity purchases, we utilize these commodity contracts as economic hedges. Our commodity contracts currently extend through May 2020.

We enter into equity forward contracts to hedge the risk of changes in future cash flows associated with the unvested, unrecognized Darden stock units. The equity forward contracts will be settled at the end of the vesting periods of their underlying Darden stock units, which range between three and five years and currently extend through July 2024. The contracts were initially designated as cash flow hedges to the extent the Darden stock units are unvested and, therefore, unrecognized as a liability in our financial statements. The forward contracts can only be net settled in cash. As the Darden stock units vest, we will de-designate that portion of the equity forward contract that no longer qualifies for hedge accounting, and changes in fair value associated with that portion of the equity forward contract will be recognized in current earnings. We periodically incur interest on the notional value of the contracts and receive dividend equivalents on the underlying shares. These amounts are recognized currently in earnings as they are incurred or received.

We entered into equity forward contracts to hedge the risk of changes in future cash flows associated with recognized, employee-directed investments in Darden stock within the non-qualified deferred compensation plan. We did not elect hedge accounting with the expectation that changes in the fair value of the equity forward contracts would offset changes in the fair value of Darden stock investments in the non-qualified deferred compensation plan within general and administrative expenses in our consolidated statements of earnings. These contracts currently extend through September 2023.

The notional and fair values of our derivative contracts are as follows:

| | | | | Fair Values | | | |
|---|---|---|---|---|---|---|---|
| (in millions, except per share data) | Number of Shares Outstanding | Weighted-Average Per Share Forward Rates | Notional Values | Derivative Assets (1) | | Derivative Liabilities (1) | |
| | November 24, 2019 | | | November 24, 2019 | May 26, 2019 | November 24, 2019 | May 26, 2019 |
| Equity forwards: | | | | | | | |
| Designated | 0.3 | $101.59 | $ 34.2 | $ 0.7 | $ — | $ — | $ 0.3 |
| Not designated | 0.5 | $82.77 | $ 43.0 | 1.1 | — | — | 0.5 |
| Total equity forwards | | | | $ 1.8 | $ — | $ — | $ 0.8 |
| Commodity contracts | N/A | N/A | $ 5.7 | $ — | $ 0.1 | $ 0.4 | $ 0.1 |
| Total derivative contracts | | | | $ 1.8 | $ 0.1 | $ 0.4 | $ 0.9 |

(1) Derivative assets and liabilities are included in receivables, net and other current liabilities, as applicable, on our consolidated balance sheets.

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The effects of derivative instruments accounted for as cash flow hedging instruments in the consolidated statements of earnings are as follows:

| | Amount of Gain (Loss) Recognized in AOCI (effective portion) | | Amount of Gain (Loss) Reclassified from AOCI to Earnings (effective portion) | | Amount of Gain (Loss) Recognized in Earnings (ineffective portion) | |
|---|---|---|---|---|---|---|
| | Three Months Ended | | Three Months Ended | | Three Months Ended | |
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Equity (1)(2) | $ (3.3) | $ (2.8) | $ — | $ — | $ 0.1 | $ (0.3) |
| Commodity (3) | 0.4 | 0.6 | (0.2) | 0.2 | — | — |
| Interest rate (4) | — | — | (0.1) | (0.1) | — | — |
| Total | $ (2.9) | $ (2.2) | $ (0.3) | $ 0.1 | $ 0.1 | $ (0.3) |

| | Amount of Gain (Loss) Recognized in AOCI (effective portion) | | Amount of Gain (Loss) Reclassified from AOCI to Earnings (effective portion) | | Amount of Gain (Loss) Recognized in Earnings (ineffective portion) | |
|---|---|---|---|---|---|---|
| | Six Months Ended | | Six Months Ended | | Six Months Ended | |
| (in millions) | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Equity (1)(2) | $ (4.3) | $ 11.0 | $ 1.0 | $ 4.9 | $ (0.1) | $ (0.3) |
| Commodity (3) | (1.0) | 0.5 | (0.6) | 0.4 | — | — |
| Interest rate (4) | — | — | (0.1) | (0.1) | — | — |
| Total | $ (5.3) | $ 11.5 | $ 0.3 | $ 5.2 | $ (0.1) | $ (0.3) |

(1) In fiscal 2020, location of the gain (loss) reclassified from AOCI to earnings as well as the gain (loss) recognized in earnings for the ineffective portion of the hedge is general and administrative expenses.
(2) In fiscal 2019, location of the gain (loss) reclassified from AOCI to earnings as well as the gain (loss) recognized in earnings for the ineffective portion of the hedge is restaurant labor expenses and general and administrative expenses.
(3) Location of the gain (loss) reclassified from AOCI to earnings as well as the gain (loss) recognized in earnings for the ineffective portion of the hedge is food and beverage costs and restaurant expenses.
(4) Location of the gain (loss) reclassified from AOCI to earnings is interest, net.

The effects of derivatives not designated as hedging instruments in the consolidated statements of earnings are as follows:

| | Amount of Gain (Loss) Recognized in Earnings | | | |
|---|---|---|---|---|
| (in millions) | Three Months Ended | | Six Months Ended | |
| Location of Gain (Loss) Recognized in Earnings on Derivatives | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Food and beverage costs and restaurant expenses | $ — | $ — | $ 0.3 | $ — |
| Restaurant labor expenses | — | 0.3 | — | 7.3 |
| General and administrative expenses | (1.2) | (0.2) | (0.6) | 10.2 |
| Total | $ (1.2) | $ 0.1 | $ (0.3) | $ 17.5 |

Based on the fair value of our derivative instruments designated as cash flow hedges as of November 24, 2019, we expect to reclassify $0.9 million of net gains on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next 12 months based on the maturity of our equity forward contracts. However, the amounts ultimately realized in earnings will be dependent on the fair value of the contracts on the settlement dates.

**Note 12. Fair Value Measurements**

The fair values of cash equivalents, receivables, net, accounts payable and short-term debt approximate their carrying amounts due to their short duration.

The following tables summarize the fair values of financial instruments measured at fair value on a recurring basis as of November 24, 2019 and May 26, 2019.

Items Measured at Fair Value at November 24, 2019

| (in millions) | | Fair value of assets (liabilities) | Quoted prices in active market for identical assets (liabilities) (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| Derivatives: | | | | | |
| Commodities futures, swaps & options | (1) | $ (0.4) | $ — | $ (0.4) | $ — |
| Equity forwards | (2) | $ 1.8 | $ — | $ 1.8 | $ — |
| Total | | $ 1.4 | $ — | $ 1.4 | $ — |

Items Measured at Fair Value at May 26, 2019

| (in millions) | | Fair value of assets (liabilities) | Quoted prices in active market for identical assets (liabilities) (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| Derivatives: | | | | | |
| Equity forwards | (2) | $ (0.8) | $ — | $ (0.8) | $ — |
| Total | | $ (0.8) | $ — | $ (0.8) | $ — |

(1) The fair value of our commodities futures, swaps and options is based on closing market prices of the contracts, inclusive of the risk of nonperformance.
(2) The fair value of equity forwards is based on the closing market value of Darden stock, inclusive of the risk of nonperformance.

The carrying value and fair value of long-term debt as of November 24, 2019, was $928.2 million and $993.2 million, respectively. The carrying value and fair value of long-term debt as of May 26, 2019, was $927.7 million and $955.7 million, respectively. The fair value of long-term debt, which is classified as Level 2 in the fair value hierarchy, is determined based on market prices or, if market prices are not available, the present value of the underlying cash flows discounted at our incremental borrowing rates.

The fair value of non-financial assets measured at fair value on a non-recurring basis, which is classified as Level 3 in the fair value hierarchy, is determined based on appraisals or sales prices of comparable assets and estimates of future cash flows. As of November 24, 2019, long-lived assets held and used with a carrying amount of $3.0 million related to two underperforming restaurants and one held-for-sale restaurant, were determined to have no fair value resulting in an impairment of $3.0 million. As of May 26, 2019, long-lived assets held and used with a carrying amount of $21.7 million, primarily related to seven underperforming restaurants, were determined to have a fair value of $2.5 million resulting in an impairment charge of $19.2 million.

**Note 13. Commitments and Contingencies**

As collateral for performance on contracts and as credit guarantees to banks and insurers, we are contingently liable for guarantees of subsidiary obligations under standby letters of credit. As of November 24, 2019 and May 26, 2019, we had $67.4 million and $75.9 million, respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. As of November 24, 2019 and May 26, 2019, we had $25.0 million and $21.6 million, respectively, of surety bonds related to other payments. Most surety bonds are renewable annually.

**DARDEN RESTAURANTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

As of November 24, 2019 and May 26, 2019, we had $143.2 million and $151.6 million, respectively, of guarantees associated with leased properties that have been assigned to third parties. These amounts represent the maximum potential amount of future payments under the guarantees. The fair value of the maximum potential future payments discounted at our weighted-average cost of capital as of November 24, 2019 and May 26, 2019, amounted to $116.8 million and $123.2 million, respectively. We did not record a liability for the guarantees, as the likelihood of the third parties defaulting on the assignment agreements was deemed to be remote. In the event of default by a third party, the indemnity and default clauses in our assignment agreements govern our ability to recover from and pursue the third party for damages incurred as a result of its default. We do not hold any third-party assets as collateral related to these assignment agreements, except to the extent that the assignment allows us to repossess the building and personal property. These guarantees expire over their respective lease terms, which range from fiscal 2020 through fiscal 2034.

We are subject to private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employees and others related to operational issues common to the restaurant industry, and can also involve infringement of, or challenges to, our trademarks. While the resolution of a lawsuit, proceeding or claim may have an impact on our financial results for the period in which it is resolved, we believe that the final disposition of the lawsuits, proceedings and claims in which we are currently involved, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity.

**Note 14. Leases**

The majority of our restaurant locations, as well as our restaurant support center, are subject to a lease. We evaluate our leases at the commencement of the lease to determine the classification as an operating or finance lease. For operating leases, upon adoption of ASC 842, we recognized operating lease liabilities based on the present value of minimum lease payments over the remaining expected lease term and corresponding right-of-use assets. We recognize lease expense related to operating leases on a straight-line basis. For finance leases, we record finance lease liabilities at an amount equal to the present value of the minimum lease payments over the remaining expected lease term and corresponding right-of-use assets. Amortization expense and interest expense related to finance leases are included in depreciation and amortization and interest, net, respectively, in our consolidated statements of earnings. Sale-leasebacks are transactions through which we sell assets (such as restaurant properties) at fair value and subsequently lease them back. The resulting leases generally qualify and are accounted for as operating leases. Failed sale-leaseback transactions are generally classified as finance leases and result in retention of the “sold” assets within land, buildings and equipment with a finance lease liability equal to the amount of proceeds received recorded as a component of other liabilities on our consolidated balance sheets.

Within the provisions of certain of our leases, there are rent holidays and escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in lease expense on a straight-line basis for operating leases over the expected lease term. The lease term commences on the date when we have the right to control the use of the leased property, which is typically before lease payments are due under the terms of the lease. Many of our leases have renewal periods totaling 5 to 20 years, exercisable at our option, and require payment of property taxes, insurance and maintenance costs in addition to the lease payments. At lease inception, we include option periods that we are reasonably assured to exercise as failure to renew the lease would impose an economic penalty. The consolidated financial statements reflect the same lease term for amortizing leasehold improvements as we use to determine finance versus operating lease classifications. Variable lease expense is generally based on sales levels and is accrued at the point in time we determine that it is probable that such sales levels will be achieved. Landlord allowances are recorded as an adjustment to the right-of-use assets. Gains and losses on sale-leaseback transactions are recognized immediately.

**DARDEN RESTAURANTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

The components of lease expense in the consolidated statement of earnings are as follows:

| | Three Months Ended | Six Months Ended |
|---|---|---|
| (in millions) | November 24, 2019 | November 24, 2019 |
| Operating lease expense | $ 98.8 | $ 196.6 |
| Finance lease expense | | |
| Amortization of leased assets | 2.1 | 3.6 |
| Interest on lease liabilities | 4.0 | 7.3 |
| Variable lease expense | 1.4 | 2.9 |
| Total lease expense | $ 106.3 | $ 210.4 |

The components of lease assets and liabilities on the consolidated balance sheet are as follows:

| (in millions) | Balance Sheet Classification | November 24, 2019 |
|---|---|---|
| Operating lease right-of-use assets | Operating lease right-of-use assets | $ 4,029.0 |
| Finance lease right-of-use assets | Land, buildings and equipment, net | 188.0 |
| Total lease assets, net | | $ 4,217.0 |
| | | |
| Operating lease liabilities - current | Other current liabilities | $ 152.1 |
| Finance lease liabilities - current | Other current liabilities | 6.8 |
| Operating lease liabilities - non-current | Operating lease liabilities - non-current | 4,306.2 |
| Finance lease liabilities - non-current | Other liabilities | 320.8 |
| Total lease liabilities | | $ 4,785.9 |

Supplemental cash flow information related to leases:

| | Six Months Ended |
|---|---|
| (in millions) | November 24, 2019 |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | $ 182.0 |
| Operating cash flows from finance leases | 7.3 |
| Financing cash flows from finance leases | 2.5 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 106.6 |
| Right-of-use assets obtained in exchange for new finance lease liabilities | 139.3 |

The weighted-average remaining lease terms and discount rates as of November 24, 2019 are as follows:

| | November 24, 2019 | |
|---|---|---|
| (in millions) | Weighted-Average Remaining Lease Term (Years) | Weighted-Average Discount Rate (1) |
| Operating leases | 17.2 | 4.2% |
| Finance leases | 19.4 | 5.0% |

(1) We cannot determine the interest rate implicit in our leases. Therefore, the discount rate represents our incremental borrowing rate and is determined based on the risk-free rate, adjusted for the risk premium attributed to our corporate credit rating for a secured or collateralized instrument.

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The annual maturities of our lease liabilities as of November 24, 2019 are as follows:

(in millions)

| Fiscal Year | Operating Leases | Finance Leases |
|---|---|---|
| Six months ended May 31, 2020 | $ 185.4 | $ 11.5 |
| 2021 | 377.9 | 24.9 |
| 2022 | 379.9 | 25.1 |
| 2023 | 384.0 | 25.6 |
| 2024 | 386.4 | 25.9 |
| 2025 | 390.9 | 26.1 |
| Thereafter | 4,448.2 | 391.3 |
| Total future lease commitments (1) | $ 6,552.7 | $ 530.4 |
| Less imputed interest | (2,094.4) | (202.8) |
| Present value of lease liabilities (2) | $ 4,458.3 | $ 327.6 |

(1) Of the $6.55 billion of total future operating lease commitments and $530.4 million of total future finance lease commitments, $2.99 billion and $307.0 million, respectively, are noncancelable.
(2) Excludes approximately $182.7 million of net present value of lease payments related to 36 real estate leases signed, but not yet commenced.

The annual future lease commitments under capital lease and financing lease obligations and noncancelable operating leases, including those related to restaurants reported as discontinued operations, for each of the five fiscal years subsequent to May 26, 2019 and thereafter is as follows:

(in millions)

| Fiscal Year | Capital | Financing | Operating |
|---|---|---|---|
| 2020 | $ 8.9 | $ 12.2 | $ 372.9 |
| 2021 | 8.9 | 12.4 | 355.0 |
| 2022 | 8.8 | 12.6 | 326.7 |
| 2023 | 8.9 | 12.8 | 299.8 |
| 2024 | 8.7 | 13.0 | 262.7 |
| Thereafter | 81.4 | 128.0 | 1,434.0 |
| Total future lease commitments | $ 125.6 | $ 191.0 | $ 3,051.1 |
| Less imputed interest (at 6.5%), (various) | (41.6) | (99.7) | |
| Present value of future lease commitments | $ 84.0 | $ 91.3 | |
| Less current maturities | (4.1) | (2.7) | |
| Obligations under capital and financing leases, net of current maturities | $ 79.9 | $ 88.6 | |

**Note 15. Subsequent Events**

On December 18, 2019, the Board of Directors declared a cash dividend of $0.88 per share to be paid February 3, 2020 to all shareholders of record as of the close of business on January 10, 2020.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The discussion and analysis below for the Company, which contains forward-looking statements, should be read in conjunction with the unaudited financial statements, the notes to such financial statements and the "Forward-Looking Statements" included elsewhere in this Form 10-Q.

To facilitate review of our discussion and analysis, the following table sets forth our financial results for the periods indicated. All information is derived from the unaudited consolidated statements of earnings for the quarter and six months ended November 24, 2019 and November 25, 2018.

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | % Chg | November 24, 2019 | November 25, 2018 | % Chg |
| Sales | $ 2,056.4 | $ 1,973.4 | 4.2 % | $ 4,190.3 | $ 4,034.8 | 3.9 % |
| Costs and expenses: | | | | | | |
| Food and beverage | 583.0 | 563.3 | 3.5 | 1,186.3 | 1,146.6 | 3.5 |
| Restaurant labor | 692.3 | 662.4 | 4.5 | 1,396.1 | 1,341.7 | 4.1 |
| Restaurant expenses | 375.6 | 361.0 | 4.0 | 748.0 | 718.9 | 4.0 |
| Marketing expenses | 66.3 | 58.0 | 14.3 | 135.0 | 124.5 | 8.4 |
| General and administrative expenses | 91.3 | 95.1 | (4.0) | 189.3 | 199.6 | (5.2) |
| Depreciation and amortization | 87.6 | 82.8 | 5.8 | 173.8 | 163.5 | 6.3 |
| Impairments and disposal of assets, net | 0.1 | 2.7 | (96.3) | 0.1 | 2.8 | (96.4) |
| Total costs and expenses | $ 1,896.2 | $ 1,825.3 | 3.9 | $ 3,828.6 | $ 3,697.6 | 3.5 |
| Operating income | 160.2 | 148.1 | 8.2 | 361.7 | 337.2 | 7.3 |
| Interest, net | 13.1 | 12.8 | 2.3 | 24.2 | 25.9 | (6.6) |
| Other (income) expense, net | 153.3 | — | NM | 153.3 | — | NM |
| Earnings (loss) before income taxes | (6.2) | 135.3 | NM | 184.2 | 311.3 | (40.8) |
| Income tax expense (benefit) (1) | (31.6) | 19.4 | NM | (13.0) | 26.5 | NM |
| Earnings from continuing operations | $ 25.4 | $ 115.9 | (78.1) | $ 197.2 | $ 284.8 | (30.8) |
| Losses from discontinued operations, net of tax | (0.7) | (0.3) | NM | (1.9) | (3.0) | NM |
| Net earnings | $ 24.7 | $ 115.6 | (78.6)% | $ 195.3 | $ 281.8 | (30.7)% |
| Diluted net earnings per share: | | | | | | |
| Earnings from continuing operations | $ 0.21 | $ 0.92 | (77.2)% | $ 1.59 | $ 2.26 | (29.6)% |
| Losses from discontinued operations | (0.01) | — | NM | (0.02) | (0.02) | NM |
| Net earnings | $ 0.20 | $ 0.92 | (78.3)% | $ 1.57 | $ 2.24 | (29.9)% |
| | | | | | | |
| (1) Effective tax rate | NM | 14.3% | | (7.1)% | 8.5% | |

NM- Not meaningful. Percentage increases and decreases over 100 percent were not considered meaningful.

The following table details the number of company-owned restaurants currently reported in continuing operations that were open at the end of the second quarter of fiscal 2020, compared with the number open at the end of fiscal 2019 and the end of the second quarter of fiscal 2019.

| | November 24, 2019 | May 26, 2019 | November 25, 2018 |
|---|---|---|---|
| Olive Garden (1) | 867 | 866 | 858 |
| LongHorn Steakhouse | 518 | 514 | 510 |
| Cheddar's Scratch Kitchen (2) | 166 | 161 | 158 |
| Yard House | 79 | 79 | 75 |
| The Capital Grille (3) | 59 | 58 | 58 |
| Seasons 52 | 45 | 44 | 42 |
| Bahama Breeze | 42 | 42 | 41 |
| Eddie V's | 23 | 21 | 20 |
| Total | 1,799 | 1,785 | 1,762 |

(1) Includes six locations in Canada.
(2) Includes four restaurants acquired on July 29, 2019.
(3) Includes one The Capital Burger restaurant.

## OVERVIEW OF OPERATIONS

### *Financial Highlights - Consolidated*

Our sales from continuing operations were $2.06 billion and $4.19 billion for the second quarter and first six months of fiscal 2020, compared to $1.97 billion and $4.03 billion for the second quarter and first six months of fiscal 2019. The increases of 4.2 percent and 3.9 percent in sales for the second quarter and first six months of fiscal 2020 were driven by revenue from the addition of 37 net new company-owned restaurants since the second quarter of fiscal 2019 and combined Darden same-restaurant sales increase of 2.0 percent and 1.5 percent for the second quarter and first six months of fiscal 2020.

For the second quarter of fiscal 2020, our net earnings from continuing operations were $25.4 million compared to $115.9 million for the second quarter of fiscal 2019, and our diluted net earnings per share from continuing operations were $0.21 for the second quarter of fiscal 2020 compared to $0.92 for the second quarter of fiscal 2019. For the first six months of fiscal 2020, our net earnings from continuing operations were $197.2 million compared to $284.8 million for the first six months of fiscal 2019, and our diluted net earnings per share from continuing operations were $1.59 for the first six months of fiscal 2020 compared to $2.26 for the first six months of fiscal 2019. Our diluted per share results from continuing operations for the second quarter and first six months of fiscal 2020 were adversely impacted by approximately $0.90 due to a pension settlement charge and approximately $0.01 due to an international structure simplification.

### *Outlook*

We expect fiscal 2020 sales from continuing operations to increase between 5.3 percent and 6.3 percent, driven by the impact of the 53$^{rd}$ week in fiscal 2020, combined Darden same-restaurant sales growth of 1.0 percent to 2.0 percent and approximately 50 new restaurants. In fiscal 2020, we expect our annual effective tax rate to be between 10.0 percent and 11.0 percent and we expect capital expenditures incurred to build new restaurants, remodel and maintain existing restaurants and technology initiatives to be between $450.0 million and $500.0 million.

**SALES**

The following table presents our sales by brand for the periods indicated.

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | November 24, 2019 | November 25, 2018 | % Chg | SRS (1) | November 24, 2019 | November 25, 2018 | % Chg | SRS (1) |
| Olive Garden | $ 1,023.6 | $ 998.1 | 2.6 % | 1.5 % | $ 2,113.8 | $ 2,050.1 | 3.1 % | 1.9 % |
| LongHorn Steakhouse | $ 447.3 | $ 412.6 | 8.4 % | 6.7 % | $ 897.5 | $ 842.9 | 6.5 % | 4.7 % |
| Cheddar's Scratch Kitchen | $ 159.2 | $ 152.8 | 4.2 % | (1.2)% | $ 324.9 | $ 321.8 | 1.0 % | (3.4)% |
| Yard House | $ 152.9 | $ 143.3 | 6.7 % | 0.7 % | $ 312.3 | $ 292.5 | 6.8 % | (0.7)% |
| The Capital Grille | $ 116.3 | $ 112.5 | 3.4 % | 1.8 % | $ 217.2 | $ 210.6 | 3.1 % | 1.5 % |
| Seasons 52 | $ 60.6 | $ 59.2 | 2.4 % | (3.5)% | $ 118.5 | $ 116.0 | 2.2 % | (3.8)% |
| Bahama Breeze | $ 51.9 | $ 52.8 | (1.7)% | (3.4)% | $ 118.4 | $ 118.7 | (0.3)% | (3.9)% |
| Eddie V's | $ 38.5 | $ 34.2 | 12.6 % | 0.5 % | $ 73.9 | $ 66.1 | 11.8 % | 0.8 % |

(1) Same-restaurant sales is a year-over-year comparison of each period's sales volumes for a 52-week year and is limited to restaurants open at least 16 months.

Olive Garden's sales increases for the second quarter and first six months of fiscal 2020 were primarily driven by U.S. same-restaurant sales increases combined with revenue from new restaurants. The increase in U.S. same-restaurant sales for the second quarter of fiscal 2020 resulted from a 2.7 percent increase in average check partially offset by a 1.2 percent decrease in same-restaurant guest counts. The increase in U.S. same-restaurant sales for the first six months of fiscal 2020 resulted from a 2.9 percent increase in average check offset by a 1.0 percent decrease in same-restaurant guest counts.

LongHorn Steakhouse's sales increases for the second quarter and first six months of fiscal 2020 were primarily driven by same-restaurant sales increases combined with revenue from new restaurants. The increase in same-restaurant sales for the second quarter of fiscal 2020 resulted from a 3.5 percent increase in average check combined with a 3.2 percent increase in same-restaurant guest counts. The increase in U.S. Same-restaurant sales for the first six months of fiscal 2020 resulted from a 3.0 percent increase in average check combined with a 1.7 percent increase in same-restaurant guest counts.

In total, Cheddar's Scratch Kitchen, Yard House, The Capital Grille, Seasons 52, Bahama Breeze and Eddie V's generated sales for the second quarter and first six months of fiscal 2020, which were approximately 4.5 percent and 3.5 percent above last fiscal year's second quarter and first six months, respectively. The sales increases for the second quarter and first six months of fiscal 2020 were primarily driven by the incremental sales from new restaurants. Sales growth for the second quarter of fiscal 2020 also reflected same-restaurant sales increases at Yard House, The Capital Grille and Eddie V's partially offset by same-restaurant sales decreases at Cheddar's Scratch Kitchen, Bahama Breeze and Seasons 52. Sales growth for the first six months of fiscal 2020 also reflected same-restaurant sales increases at The Capital Grille and Eddie V's partially offset by same-restaurant sales decreases at Cheddar's Scratch Kitchen, Yard House, Bahama Breeze and Seasons 52.

**COSTS AND EXPENSES**

The following table sets forth selected operating data as a percent of sales for the periods indicated. All information is derived from the unaudited consolidated statements of earnings for the quarter and six months ended November 24, 2019 and November 25, 2018.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | November 24, 2019 | November 25, 2018 | November 24, 2019 | November 25, 2018 |
| Sales | 100.0 % | 100.0% | 100.0 % | 100.0% |
| Costs and expenses: | | | | |
| Food and beverage | 28.4 | 28.5 | 28.3 | 28.4 |
| Restaurant labor | 33.7 | 33.6 | 33.3 | 33.3 |
| Restaurant expenses | 18.3 | 18.3 | 17.9 | 17.8 |
| Marketing expenses | 3.2 | 2.9 | 3.2 | 3.1 |
| General and administrative expenses | 4.4 | 4.8 | 4.5 | 4.9 |
| Depreciation and amortization | 4.3 | 4.2 | 4.1 | 4.1 |
| Impairments and disposal of assets, net | — | 0.1 | — | 0.1 |
| Total operating costs and expenses | 92.2 % | 92.5% | 91.4 % | 91.6% |
| Operating income | 7.8 | 7.5 | 8.6 | 8.4 |
| Interest, net | 0.6 | 0.6 | 0.6 | 0.6 |
| Other (income) expense, net | 7.5 | — | 3.7 | — |
| Earnings (loss) before income taxes | (0.3) | 6.9 | 4.4 | 7.7 |
| Income tax expense | (1.5) | 1.0 | (0.3) | 0.7 |
| Earnings from continuing operations | 1.2 % | 5.9% | 4.7 | 7.1 |

*Quarter Ended November 24, 2019 Compared to Quarter Ended November 25, 2018*

- Food and beverage costs decreased as a percent of sales primarily due to a 0.8% impact from pricing and cost savings initiatives partially offset by a 0.7% impact from unfavorable menu mix and inflation.
- Restaurant labor costs increased as a percent of sales primarily due to a 1.3% impact from inflation partially offset by a 0.7% impact from price leverage, a 0.3% impact from sales leverage related to favorable menu mix and a 0.2% impact from improved productivity.
- Marketing expenses increased as a percent of sales primarily resulting from a shift in the timing of marketing expenses at LongHorn Steakhouse due to promotional changes and increased media spending at Cheddar’s Scratch Kitchen.
- General and administrative expenses decreased as a percent of sales primarily driven by a 0.2% impact related to lower management incentive expense and a 0.2% impact related to sales leverage.

*Six Months Ended November 24, 2019 Compared to Six Months Ended November 25, 2018*

- Food and beverage costs decreased as a percent of sales primarily due to a 1.0% impact from pricing and cost savings initiatives partially offset by a 0.9% impact from unfavorable menu mix and inflation.
- Restaurant labor costs were flat as a percent of sales as a 0.7% impact from price leverage, a 0.3% impact from sales leverage related to favorable menu mix and a 0.2% impact from improved productivity were offset by a 1.3% impact from inflation.
- General and administrative expenses decreased as a percent of sales primarily driven by a 0.2% impact related to lower management incentive expense and a 0.2% impact related to sales leverage.

**OTHER (INCOME) EXPENSE, NET**

Other (income) expense, net was $153.3 million of expense for the second quarter and first six months of fiscal 2020 compared with $0.0 for the second quarter and first six months of fiscal 2019. The expense increase was primarily due to a pre-tax pension settlement charge resulting from the termination of our primary non-contributory defined benefit pension plan.

**INCOME TAXES**

The effective income tax rate for continuing operations for the quarter ended November 24, 2019 was a 509.7 percent benefit compared to an effective income tax rate expense of 14.3 percent for the quarter ended November 25, 2018. The effective income tax rate for continuing operations for the six months ended November 24, 2019 was a 7.1 percent benefit compared to an effective income tax rate expense of 8.5 percent for the six months ended November 25, 2018. The effective income tax rate change for the quarter and six months ended November 24, 2019 was primarily due to lower earnings before income taxes for fiscal 2020 driven primarily by a pension settlement charge recorded during the quarter ended November 24, 2019.

**LOSSES FROM DISCONTINUED OPERATIONS**

On an after-tax basis, losses from discontinued operations for the second quarter and first six months of fiscal 2020 were $0.7 million ($0.01 per diluted share) and $1.9 million ($0.02 per diluted share) compared with losses from discontinued operations for the second quarter and first six months of fiscal 2019 of $0.3 million ($0.00 per diluted share) and $3.0 million ($0.02 per diluted share).

**SEGMENT RESULTS**

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, Cheddar's Scratch Kitchen, Yard House, The Capital Grille, Seasons 52, Bahama Breeze and Eddie V's in North America as operating segments. We aggregate our operating segments into reportable segments based on a combination of the size, economic characteristics and sub-segment of full-service dining within which each brand operates. Our four reportable segments are: (1) Olive Garden, (2) LongHorn Steakhouse, (3) Fine Dining and (4) Other Business (see Note 6 to our unaudited consolidated financial statements in Part I, Item 1 of this report).

Our management uses segment profit as the measure for assessing performance of our segments. Beginning in fiscal 2020 we changed the allocation of non-cash real estate-related expenses from our operating segments to corporate. Fiscal 2019 segment profit has been restated to conform to the current year presentation.

The following table presents segment profit margin for the periods indicated.

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Segment | November 24, 2019 | November 25, 2018 | Change | November 24, 2019 | November 25, 2018 | Change |
| Olive Garden | 18.6% | 18.4% | 20 BP | 19.8% | 19.5% | 30 BP |
| LongHorn Steakhouse | 16.1% | 16.3% | (20) BP | 16.3% | 16.4% | (10) BP |
| Fine Dining | 19.6% | 19.7% | (10) BP | 17.4% | 17.7% | (30) BP |
| Other Business | 11.1% | 12.3% | (120) BP | 12.6% | 13.8% | (120) BP |

The increase in Olive Garden's segment profit margin for the second quarter and first six months of fiscal 2020 was driven primarily by leveraging positive same-restaurant sales. The decrease in LongHorn Steakhouse's segment profit margin for the second quarter and first six months of fiscal 2020 was due to food cost inflation, primarily beef, as well as a shift in the timing of media spend as a result of promotional changes. The decrease in Fine Dining's segment profit margin for the second quarter and first six months of fiscal 2020 was driven primarily by new restaurant labor inefficiencies and incremental pre-opening expenses. The decrease in Other Business' segment profit margin for the second quarter and first six months of fiscal 2020 was driven by incremental marking expense, primarily at Cheddar's Scratch Kitchen and margin impact from negative same-restaurant sales.

**SEASONALITY**

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are highest in the winter and spring, followed by the summer, and lowest in the fall. Holidays, changes in the economy, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flows generated from operating activities are our principal source of liquidity, which we use to finance capital expenditures for new restaurants and to remodel and maintain existing restaurants, to pay dividends to our shareholders and to repurchase shares of our common stock. Since substantially all of our sales are for cash and cash equivalents, and accounts payable are generally paid in 5 to 60 days, we are able to carry current liabilities in excess of current assets. In addition to cash flows from operations, we use a combination of long-term and short-term borrowings to fund our capital needs.

We currently manage our business and financial ratios to target an investment-grade bond rating, which has historically allowed flexible access to financing at reasonable costs. Our publicly issued long-term debt currently carries the following ratings:

- Moody's Investors Service "Baa2";
- Standard & Poor's "BBB"; and
- Fitch "BBB".

Our commercial paper has ratings of:

- Moody's Investors Service "P-2";
- Standard & Poor's "A-2"; and
- Fitch "F-2".

These ratings are as of the date of the filing of this Form 10-Q and have been obtained with the understanding that Moody's Investors Service, Standard & Poor's and Fitch will continue to monitor our credit and make future adjustments to these ratings to the extent warranted. The ratings are not a recommendation to buy, sell or hold our securities, may be changed, superseded or withdrawn at any time and should be evaluated independently of any other rating.

We maintain a $750.0 million revolving credit agreement (Revolving Credit Agreement) with Bank of America, N.A. (BOA), as administrative agent, and the lenders and other agents party thereto. The Revolving Credit Agreement is a senior unsecured credit commitment to the Company and contains customary representations and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default usual for credit facilities of this type. As of November 24, 2019, we were in compliance with all covenants under the Revolving Credit Agreement.

The Revolving Credit Agreement matures on October 27, 2022, and the proceeds may be used for working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. Loans under the Revolving Credit Agreement bear interest at a rate of LIBOR plus a margin determined by reference to a ratings-based pricing grid (Applicable Margin), or the base rate (which is defined as the highest of the BOA prime rate, the Federal Funds rate plus 0.500 percent, and the Eurocurrency Rate plus 1.00 percent) plus the Applicable Margin. Assuming a "BBB" equivalent credit rating level, the Applicable Margin under the Revolving Credit Agreement will be 1.000 percent for LIBOR loans and 0 percent for base rate loans. As of November 24, 2019, we had no outstanding balances under the Revolving Credit Agreement.

As of November 24, 2019, our outstanding long-term debt consisted principally of:

- $500.0 million of unsecured 3.850 percent senior notes due in May 2027;
- $96.3 million of unsecured 6.000 percent senior notes due in August 2035;
- $42.8 million of unsecured 6.800 percent senior notes due in October 2037; and
- $300.0 million of unsecured 4.550 percent senior notes due in February 2048.

The interest rate on our $42.8 million senior notes due in October 2037 is subject to adjustment from time to time if the debt rating assigned to such series of notes is downgraded below a certain rating level (or subsequently upgraded). The maximum adjustment is 2.000 percent above the initial interest rate and the interest rate cannot be reduced below the initial interest rate. As of November 24, 2019, no such adjustments are made to this rate.

We may from time to time repurchase our remaining outstanding debt in privately negotiated transactions. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements and other factors.

From time to time we enter into interest rate derivative instruments. See Note 11 to our unaudited consolidated financial statements in Part I, Item 1 of this report, which is incorporated by reference.

Net cash flows provided by operating activities of continuing operations increased to $443.1 million for the first six months of fiscal 2020, from $433.9 million for the first six months of fiscal 2019.

Net cash flows used in investing activities of continuing operations were $309.7 million for the first six months of fiscal 2020, compared to $241.8 million for the first six months of fiscal 2019. Capital expenditures increased to $256.5 million for the first six months of fiscal 2020 from $233.0 million for the first six months of fiscal 2019 reflecting an increase in new restaurant construction and remodel activity during fiscal 2020. Net cash flows used in investing activities for fiscal 2020 also reflect net cash used of $37.0 million in the acquisition of Cheddar's Scratch Kitchen restaurants from an existing franchisee.

Net cash flows used in financing activities of continuing operations were $433.8 million for the first six months of fiscal 2020, compared to $194.7 million for the first six months of fiscal 2019. Net cash flows used in financing activities for the first six months of fiscal 2020 included share repurchases of $230.9 million and dividends paid of $215.7 million. Net cash flows used in financing activities for the first six months of fiscal 2019 reflected dividends paid of $186.0 million and share repurchases of $92.3 million partially offset by net proceeds from the issuance of short-term debt of $45.0 million and proceeds from the exercise of employee stock options. Dividends declared by our Board of Directors totaled $1.76 per share for the first six months of fiscal 2020, compared to $1.50 per share for the same period in fiscal 2019.

On September 18, 2019, our Board of Directors authorized a new share repurchase program under which we may repurchase up to $500.0 million of our outstanding common stock. This repurchase program does not have an expiration and replaces all other outstanding share repurchase authorizations. During the quarter and six months ended November 24, 2019, we repurchased 1.2 million and 2.0 million shares of our common stock, respectively, compared to 0.6 million and 0.9 million shares of our common stock, respectively, during the quarter and six months ended November 25, 2018. As of November 24, 2019, of the 195.3 million cumulative shares repurchased under current and previous authorizations, 184.0 million shares were retired and restored to authorized but unissued shares of common stock.

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, sales, costs or expenses, results of operations, liquidity, capital expenditures or capital resources. We believe that our Revolving Credit Agreement and internal cash generating capabilities will be sufficient to finance our ongoing capital expenditures, dividends, stock repurchase program and other operating activities through fiscal 2020.

It is possible that changes in circumstances existing as of our annual impairment test on the first day of the fourth quarter of fiscal 2019 or at other times in the future, or in the numerous estimates associated with management’s judgments, assumptions and estimates made in assessing the fair value of our goodwill, could result in an impairment loss of a portion or all of our goodwill or trademarks. If we recorded an impairment loss, our financial position and results of operations would be adversely affected and our leverage ratio for purposes of our credit agreement would increase. If such leverage ratio were to exceed the maximum permitted under our credit agreement, we would be in default under our credit agreement. As of November 24, 2019, a write down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately $1.10 billion would have been required to cause our leverage ratio to exceed the permitted maximum. Due to the seasonal nature of our business, a lesser amount of impairment in future quarters could cause our leverage ratio to exceed the permitted maximum.

**FINANCIAL CONDITION**

Our current assets totaled $535.5 million as of November 24, 2019, compared to $892.6 million as of May 26, 2019. The decrease was primarily due to a decrease in cash and cash equivalents primarily driven by the repurchase of our common stock and by dividends paid.

Our current liabilities totaled $1.56 billion as of November 24, 2019, compared to $1.47 billion as of May 26, 2019. The increase was primarily related to an increase in other current liabilities due to the operating lease liability recorded as a result of the adoption of the new lease accounting guidance, partially offset by a decrease in unearned revenues associated with gift card redemptions in excess of gift card sales as well as a decrease in accrued payroll related to the payment of annual incentive compensation.

**CRITICAL ACCOUNTING ESTIMATES**

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales, costs and expenses during the reporting period. Actual results could differ from those estimates. We have discussed the development, selection and disclosure of those estimates with the Audit Committee. Our critical accounting estimates have not changed materially from those previously reported in our Annual Report on Form 10-K for the fiscal year ended May 26, 2019.

## APPLICATION OF NEW ACCOUNTING STANDARDS

Information regarding application of new accounting standards is incorporated by reference from Note 1 to our unaudited consolidated financial statements in Part I, Item 1 of this report.

## FORWARD-LOOKING STATEMENTS

Statements set forth in or incorporated into this report regarding the expected increase in the number of our restaurants, projections for U.S. same-restaurant sales and capital expenditures in fiscal 2020, and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as “may,” “will,” “expect,” “intend,” “anticipate,” “continue,” “estimate,” “project,” “believe,” “plan,” “outlook” or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. In addition to the risks and uncertainties of ordinary business obligations, and those described in information incorporated into this report, the forward-looking statements contained in this report are subject to the risks and uncertainties described in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended May 26, 2019, which are summarized as follows:

- Insufficient guest or employee facing technology, or a failure to maintain a continuous and secure cyber network, free from material failure, interruption or security breach;
- Food safety and food-borne illness concerns throughout the supply chain;
- The inability to hire, train, reward and retain restaurant team members or an inability to adequately monitor and proactively respond to employee dissatisfaction;
- A failure to recruit, develop and retain effective leaders or the loss or shortage of key personnel, or an inability to adequately monitor and respond to employee dissatisfaction;
- Insufficient or ineffective response to legislation or government regulation may impact our cost structure, operational efficiencies and talent availability;
- Litigation, including allegations of illegal, unfair or inconsistent employment practices;
- Unfavorable publicity, or a failure to respond effectively to adverse publicity;
- An inability or failure to recognize, respond to and effectively manage the accelerated impact of social media;
- The inability to cancel long-term, non-cancelable leases that we may want to cancel or the inability to renew the leases that we may want to extend at the end of their terms;
- Labor and insurance costs;
- Our inability or failure to execute a comprehensive business continuity plan following a major natural disaster such as a hurricane or manmade disaster, including terrorism;
- Health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases;
- Intense competition, or an insufficient focus on competition and the consumer landscape;
- Changes in consumer preferences that may adversely affect demand for food at our restaurants;
- Our failure to drive both short-term and long-term profitable sales growth through brand relevance, operating excellence, opening new restaurants of existing brands and developing or acquiring new dining brands;
- A lack of suitable new restaurant locations or a decline in the quality of the locations of our current restaurants;
- Higher-than-anticipated costs to open, close, relocate or remodel restaurants;
- A failure to identify and execute innovative marketing and guest relationship tactics and ineffective or improper use of other marketing initiatives and increased advertising and marketing costs;
- A failure to address cost pressures, including rising costs for commodities, labor, health care and utilities used by our restaurants, and a failure to effectively deliver cost management activities and achieve economies of scale in purchasing;
- The impact of shortages or interruptions in the delivery of food and other products from third-party vendors and suppliers;
- Adverse weather conditions and natural disasters;
- Volatility in the market value of derivatives we may use to hedge commodity and broader market prices;

- Economic and business factors specific to the restaurant industry and other general macroeconomic factors including energy prices and interest rates that are largely out of our control;
- Disruptions in the financial markets that may impact consumer spending patterns, affect the availability and cost of credit and increase pension plan expenses;
- Risks associated with doing business with franchisees and licensees;
- Risks associated with doing business with business partners and vendors in foreign markets;
- Failure to protect our service marks or other intellectual property;
- Impairment of the carrying value of our goodwill or other intangible assets;
- Changes in tax laws or treaties and unanticipated tax liabilities; and
- A failure of our internal controls over financial reporting and future changes in accounting standards.

Any of the risks described above or elsewhere in this report or our other filings with the SEC could have a material impact on our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. Therefore, the above is not intended to be a complete discussion of all potential risks or uncertainties.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including fluctuations in interest rates, foreign currency exchange rates, compensation and commodity prices. To manage this exposure, we periodically enter into interest rate, foreign currency exchange rate, equity forward and commodity derivative instruments for other than trading purposes (see Note 11 to our unaudited consolidated financial statements in Part I, Item 1 of this report).

We use the variance/covariance method to measure value at risk, over time horizons ranging from one week to one year, at the 95 percent confidence level. As of November 24, 2019, our potential losses in future net earnings resulting from changes in equity forwards, commodity instruments and floating rate debt interest rate exposures were approximately $35.9 million over a period of one year. The value at risk from an increase in the fair value of all of our long-term fixed-rate debt, over a period of one year, was approximately $87.6 million. The fair value of our long-term fixed-rate debt outstanding as of November 24, 2019, averaged $992.4 million, with a high of $1.02 billion and a low of $963.5 million during the first six months of fiscal 2020. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows by targeting an appropriate mix of variable and fixed-rate debt.

## Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of November 24, 2019, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of November 24, 2019.

During the first quarter of fiscal 2020, in conjunction with our adoption of the new lease accounting guidance, we implemented a new lease accounting system and modified our related internal controls. There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II
# OTHER INFORMATION

## Item 1. Legal Proceedings

See the discussion of legal proceedings contained in the third paragraph of Note 13 to our unaudited consolidated financial statements in Part I, Item 1 of this report, which is incorporated herein by reference.

## Item 1A. Risk Factors

There have been no material changes to the risk factors contained in our Annual Report on Form 10-K for the year ended May 26, 2019.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information concerning our repurchase of shares of our common stock during the quarter ended November 24, 2019.

| (Dollars in millions, except per share data) | Total Number of Shares Purchased (1) (2) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3) |
|---|---|---|---|---|
| August 26, 2019 through September 29, 2019 | 158,121 | $ 120.92 | 158,121 | $ 481.4 |
| September 30, 2019 through October 27, 2019 | 599,337 | $ 112.90 | 599,337 | $ 413.7 |
| October 28, 2019 through November 24, 2019 | 209,595 | $ 113.06 | 209,595 | $ 390.0 |
| Total | 967,053 | $ 115.45 | 967,053 | $ 390.0 |

(1) All of the shares purchased during the quarter ended November 24, 2019 were purchased as part of our repurchase program. On September 18, 2019, our Board of Directors authorized a new share repurchase program under which the Company may repurchase up to $500.0 million of its outstanding common stock. This repurchase program, which was announced publicly in a press release issued on September 19, 2019, does not have an expiration, replaces the previously existing share repurchase authorization and eliminates the balance of approximately $183.3 million available for repurchase remaining under the previous authorization.

(2) The number of shares purchased includes shares withheld for taxes on vesting of restricted stock, shares delivered or deemed to be delivered to us on tender of stock in payment for the exercise price of options, and shares reacquired pursuant to tax withholding on option exercises. These shares are included as part of our repurchase program and deplete the repurchase authority granted by our Board. The number of shares repurchased excludes shares we reacquired pursuant to forfeiture of restricted stock.

(3) Repurchases are subject to prevailing market prices, may be made in open market or private transactions and may occur or be discontinued at any time. There can be no assurance that we will repurchase any shares.

**Item 6. Exhibits**

| Exhibit No. | Exhibit Title |
|---|---|
| 31(a) | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(b) | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(a) | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(b) | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DARDEN RESTAURANTS, INC.

Dated: January 2, 2020

By: /s/ Ricardo Cardenas

Ricardo Cardenas
*Senior Vice President and Chief Financial Officer*
*(Principal financial officer)*

**EXHIBIT 31(a)**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE**

**SARBANES-OXLEY ACT OF 2002**

I, Eugene I. Lee, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Darden Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 2, 2020

/s/ Eugene I. Lee, Jr.

Eugene I. Lee, Jr.
President and Chief Executive Officer

**EXHIBIT 31(b)**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE**

**SARBANES-OXLEY ACT OF 2002**

I, Ricardo Cardenas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Darden Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

January 2, 2020

/s/ Ricardo Cardenas

Ricardo Cardenas
Senior Vice President and Chief Financial Officer

**EXHIBIT 32(a)**

**CERTIFICATION PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Darden Restaurants, Inc. (Company) on Form 10-Q for the quarter ended November 24, 2019, as filed with the Securities and Exchange Commission (Report), I, Eugene I. Lee, Jr., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 2, 2020

/s/ Eugene I. Lee, Jr.

Eugene I. Lee, Jr.
President and Chief Executive Officer

EXHIBIT 32(b)

**CERTIFICATION PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Darden Restaurants, Inc. (Company) on Form 10-Q for the quarter ended November 24, 2019, as filed with the Securities and Exchange Commission (Report), I, Ricardo Cardenas, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 2, 2020

/s/ Ricardo Cardenas

Ricardo Cardenas

Senior Vice President and Chief Financial Officer