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Less EPS upside, but casual dining stocks still look pretty good

We're broadly still constructive on our casual dining coverage, albeit with upside capped by cost inflation concerns: Casual dining stocks have sold off (down an average of 8% over the last month) as investors have become wary of a sector with little-to-no improvement in 2-year SSS over the last 10-12 weeks—especially as inflationary pressures are building. Even with inflation rising and consensus estimates higher since March (see third bullet), we forecast modest upside to Street numbers. Furthermore, we see valuation as unchallenging—particularly for Brinker at 9x our FY22e FCF. For Darden Restaurants, which reports F4Q earnings and provides FY22 guidance this Thursday, we are forecasting near-term sales and EPS upside (F4Q through F1H22) before inflation becomes a bigger limit to margins (see more on pages 3 and 4).

Revenue growth has not meaningfully accelerated since late March—and certainly as much as other consumer segments (e.g. retail): From Jan/Feb to March/April the acceleration was 10pp in fast food, over 20pp in casual dining and over 30pp in fine dining (see Figure 3). While multi-year sales levels per restaurant are positive for fast food and casual dining, the recovery has seemingly stalled at current levels over the last three months. We are left to theorize why. Potential reasons for the slowing recovery include: 1) labor constraints to service capacity, 2) consumers increasingly turn spending to other things that are—at the margin—more available or comfortable since March, 3) diminishing stimulus benefit (mid-March), 4) reopening of many independent and smaller chains (rebounding supply), and 5) still some remaining discomfort by some consumers with regard to eating in a restaurant.

Higher consensus estimates leave us with more modest EPS upside, but valuation levels are less challenging: Calendar 2022 consensus EPS estimates have risen roughly 5%, 10%, 17% and for DRI, EAT, and TXRH since each company's last earnings report (mid-March for DRI and late April for TXRH and EAT). While our CY22 EPS estimates were 6%, 16% and 15% above consensus calendar 2022e EPS just a few months ago, for DRI, TXRH and EAT respectively, our base case upside is now only 4%, 3% and 4% for these three names today. Although TXRH's valuation (at 23x 2022e P/E and 15x '22 EV/EBITDA) reflects excitement about recent momentum, we view Outperform-rated DRI (17x CY22 P/E and 2.6% dividend yield) and EAT (10x CY22 P/E and 11% FCF yield) as less challenging (see pages 5-7 for more discussion).

See Pgs. 2-15 for our six part framework to think about casual dining as well as our earnings revisions and valuation thoughts for DRI, TXRH, and EAT…

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Our EPS changes and stock views ahead of Darden earnings

DRI—Expecting near-term upside before inflation and limited pricing dampens margin upside in calendar F2H22

For Darden, we are increasing our numbers for the May quarter significantly while thinking about potential FY22 guidance that may be provided in ~2 weeks. We see significant upside to the fine dining segment for Darden, with recent KnappTrack data showing high-end steakhouses to be +11% vs. 2019, a 6pp acceleration over April. While our SSS and EPS estimates are roughly 1-3pp and 4-5pp above consensus levels, much of that upside is in the near-term due to conservative guidance and Street estimates (combined with contracted input costs). By F2H, input cost pressure could begin to rise as contracts roll off. Furthermore, the company will be keen to preserve earnings power for FY23 (and keep that year within the targeted 10-15% TSR growth range).

TXRH—Momentum has its price

With this note we are increasing our SSS and EPS estimates for Texas Roadhouse as a result of strong near-term SSS, sticky off-premise sales, and relatively good cost control on labor and food costs. Our 2Qe SSS is now 21% on a 2-year stacked basis (prev. 19%; cons. 14%) and EPS is now $1.13 (vs. cons. $0.95). Our 2021e and 2022e EPS go up ~5pp and 3pp, respectively, reflecting a more rapid-than-expected and sustained SSS strength, labor productivity, and incremental off-premise business. We remain more cautious than consensus on restaurant-level-margin given the Company's reticence to price aggressively, our cautious inflationary protein outlook in 2022, and conservative consensus labor inflation assumptions in both 2022 and 2023 (consensus assuming 4% labor inflation CAGRs in 2022 and 2023 vs. 7-9% in 2017-2019 and 5.5% just before COVID, see more detail later on in note).

EAT—Sizzling with margin fear

For Brinker, our stock thesis has morphed from one of very significant EPS upside to one of a combination of slight valuation and EPS upside. Brinker's equity value trades at 9x free cash flow—almost as cheap as it has ever been in spite of lower debt leverage (EVRe <3x debt/EBITDA by the end of this calendar year vs. recent history ~4x). We are largely maintaining our FY22e and FY23e SSS and EPS but shifting the quarters somewhat as a result of price realization timing and the launch of a 2nd virtual brand. In many ways we see Brinker proceeding with a prudent long-term strategy that has it focused on long-term value (3 for $10), building digital and off-premise business and capturing modest marketing and in-restaurant efficiencies. We look forward to Brinker's F4Q EPS on August 18th and Analyst Day on September 15th. See our Day 2 takeaways from the Evercore ISI Consumer and Retail Summit where we spoke with CEO Wyman Roberts here.

See more extensive discussion of base, upside and downside scenarios for TXRH, EAT and DRI on pages 5-7.

We still see modest EPS upside largely based on stronger sales momentum and weaker flow-through assumptions vs. consensus

Figure 1: Summary of estimate changes, price targets, target multiples, and upside to current prices

	Price	Target	Target Multiple	Upside	CY21 EPS (new)	CY21 EPS (old)	Delta	CY22 EPS (new)	CY22 EPS (old)	Delta
DRI	$133	$165	20x	24%	$6.36	$5.50	16%	$7.77	$7.55	3%
TXRH	$92	$110	26x	20%	$3.49	$3.33	5%	$4.03	$3.90	3%
EAT	$57	$80	13x	39%	$4.51	$4.41	2%	$5.60	$5.68	(1%)

Source: Evercore ISI Research

A six part framework to think about casual dining

In our view, the casual dining sub-segment can be an area of significant alpha creation for those investors that can position correctly today—we recommend DRI and EAT—and adjust positions to emerging sub-themes. We see these themes or key variables as 1) Input cost contracts versus sustained inflation...what gives first? 2) Labor readiness for the demand of reopened seats, 3) Consumer preference as seats reopen and pent-up demand is satisfied, 4) Stickiness of off-premise demand gains and drivers for off-premise, 5) Labor productivity identified and potential for long-term margin gains (net of reinvestment as on-premise business returns), and 6) Long-term marketing efficiency as a result of partial restoration of traditional media (particularly as digital connectivity has increased during the pandemic). Overall, we see these variables as reasons to prefer quality chains that have the ability to fill reopened seats (top preference chains), serve these customers (staffed earlier due to preferred employer status, identify productivity and sustain lower levels of inflation (purchasing scale). While Darden and Texas Roadhouse score better than Brinker across these attributes there is a quality-bias to our coverage and we generally see Chili's operations and supply chain as underrated among investors (and advantaged versus most competitor peers, including independent restaurants). While we believe sustained labor and input inflation will limit upside scenarios we also see expectations and valuations more modest. As a result we maintain our Outperform ratings for Darden and Brinker and view Darden as our top pick in the sector today.

Variable 1: Input cost contracts versus sustained inflation

While we hear plenty of stories about the local restaurant operator with product shortages (e.g. no wings) or 20-50% YOY inflation in key costs. For those big chains with floating rate exposure, we could see input inflation touch the low double digits by late 3Q. For example, we expect this to be the case for Burger King US. That said, the average mega-chain has a goal of relative stability and visibility in its costs—this is made possible with captive suppliers, system distribution agreements and other hedging practices. For Darden, McDonald's and Brinker, we are hearing of a 3%-type inflation today and this remaining through much of 2H21. Of course, contracts can only last for so long—so the key variable will be where input costs are closer to 4Q21. By then, the labor shortage impact to supply chains (and the restaurants themselves) should be less acute. By the end of the year, the question of transitory vs. sustained inflation should become more clear—just as contracts are beginning to roll off.

The higher the levels of sustained inflation, the more we would avoid casual dining in favor of global franchised names like MCD, YUM and DPZ and even high pricing-power company-operated names like CMG and SBUX. Keep in mind that chains like Chili's and Olive Garden over-index to family occasions which means one payer is often paying for many. The higher-check means a greater frequency risk if pricing pass-through is too high. We expect both Darden and Brinker to be conservative with pricing with a goal of sustaining long-term traffic share.

Variable 2: Consumer preference as seats reopen and pent up demand is satisfied

Darden Restaurants and Texas Roadhouse have many of the most preferred chains within their respective segments (see Figure 8). As a result, these companies are turning out to be the best at filling available seats. Since late March, available seats have increased from 65% capacity to over 80% capacity today. At the margin, it appears that steak chains—or those that appeal to the special occasions—have experienced the best early surge from pent-up demand. In the case of fine dining, we would not be surprised to see personal occasions make up for still sluggish business expenditures—something we hope to explore on the Darden Restaurants earnings call on 06/24.

Variable 3: Labor readiness for the demand

The labor shortage in America is real—and that is particularly so for the restaurant and hospitality industry (see Figure 2). Increasingly it is staffing levels—rather than seating restrictions—that are the constraint on sales. We are hearing stories of Applebee's franchisees limiting manager vacation time, or TGI Friday's failing to reopen or many other chains opening later and closing earlier than normal. As a result, preferred employers continue to have an edge in staffing levels, which is creating advantaged abilities to process new demand. Interestingly, the top preference chains (see above) tend to be the ones that offer the best pay (including tips), upward mobility and benefits. As a result, we believe there has been a quality bias to demand early in this recovery.

Variable 4: Stickiness of off-premise demand gained (and lingering benefits of digital connectivity)

While Darden and Texas Roadhouse seem to have the biggest upside from consumer preference and labor readiness, we still see Brinker International as among the greatest long-term beneficiaries of off-premise business as a result of its efforts with DoorDash, virtual brands, loyalty and take-out. In addition, Chili's off-premise mix seems likely to finish in the 30-33% range—a full 10pp+ higher than its pre-COVID level of 20%. This makes the Chili's CY2019-2022 SSS growth of 9% that is implied by consensus appear conservative. Already, Chili's SSS growth since 2019 has been in the 10% range since late March. While it appears that 2-year SSS growth has stalled near that level through May, we can imagine trends accelerating as final seat restrictions loosen and as labor becomes more available.

In addition to Brinker, Texas Roadhouse's step up in off-premise business mix has been impressive. While take-out and steak seem to be a less-than-perfect match, take-out mix has increased from 7% to 20% at the Roadhouse and this seems to be a lasting area of potential upside. For Olive Garden, its large take out mix of ~16% has increased to 33% during COVID (as of the week ended 3/21/21)—creating potential for some upside, but perhaps more modest than those chains less committed to take-out pre-COVID (e.g. Texas Roadhouse) or those that embraced delivery (Chili's).

Variable 5: Labor productivity identified and potential for long-term margin gains (net of reinvestment as on-premise business returns)

Going forward, long-term labor productivity gains are perhaps the major variable and area of upside. During COVID, virtually every chain needed to remove labor (and other) costs. By doing so, restaurant companies were afforded a "zero-based budgeting" exercise. As one restaurant executive put it, "It is easier to check out the engine when the wheels are off the bus". In CY22, we are modeling 100bp, 10bp and 60bp lower labor costs as a percentage of sales (vs. CY19) at Darden, Texas Roadhouse and Brinker in spite of relatively rapid wage inflation—largely as a result of COVID-era productivity and accelerated sales gains.

Ahead of COVID, Texas Roadhouse was already focusing on labor efficiency after going too far with labor investments in 2017-2018. For Darden Restaurants, the COVID era allowed for a continuation of long-term productivity efforts at Olive Garden (e.g. enabled by menu simplification and reduced back-of-house labor) and an overdue focus on streamlining Cheddar's. For Brinker, that had previously been the most aggressive about labor cost control, the COVID benefits to labor productivity may be relatively small before considering the benefits of off-premise sales layers. See Figure 6 for long-term trends in labor costs per restaurant as well as the implications of Evercore ISI and consensus estimates through FY23.

Variable 6: Long-term marketing efficiency as a result of partial restoration of traditional media (particularly as digital connectivity has increased during the pandemic)

Over the last few years, Chili's loyalty membership has grown to 8M—or ~7,500 members per location. This puts the chain in the big leagues of digital connectivity with fast food brands such as Chipotle and Domino's (see Figure 7). As a result of this increased digital connectivity and marketing abilities through DoorDash, Brinker's marketing percentage of sales may never need to reach pre-COVID levels. There has been a significant reduction in traditional media spending, partially offset with increases in higher ROI digital and direct marketing campaigns. While Darden originally stated that it would bring marketing spend back to pre-pandemic levels, we sense that it may keep 50bp+ of savings as a result of digital efficiencies. Of course, Texas Roadhouse is the least directly impacted by marketing savings (since it was zero pre-pandemic). However, Texas Roadhouse may be more effective given its digital connections are a new way to communicate with consumers.

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Modeling changes and updated valuation thoughts

Texas Roadhouse

Our quick take: With this note we are increasing our SSS and EPS estimates for Texas Roadhouse as a result of strong near-term SSS, sticky off-premise sales, and relatively good cost control on both labor and food costs. Our 2Qe SSS is now 21% on a 2-year stacked basis (prev. 19%; cons. 14%) and EPS is now $1.13 (vs. cons. $0.95). Our 2021e and 2022e EPS go up ~5pp and 3pp, respectively, reflecting a more rapid-than-expected and sustained SSS strength, labor productivity, and incremental off-premise business. We remain more cautious than consensus on restaurant-level-margin given the Company's reticence to price aggressively, our cautious inflationary protein outlook in 2022, and conservative consensus labor inflation assumptions in both 2022 and 2023 (consensus assuming 4% labor inflation CAGRs in 2022 and 2023 vs. 7-9% in 2017-2019 and 5.5% just before COVID).

What our base case implies: We are raising our 2021 EPS from $3.34 to $3.49 (cons. $3.41) to reflect stronger same store sales (SSS) as dining rooms reopen (85%+ capacity) and from continued strength in off-premise sales. We are assuming 2-year SSS strength averages ~19% for the remainder of the year (cons. ~14% 2-year SSS, see Figure 14). Our company owned 2021 AUVs of $6.17M are 15% above 2019 (after adjusting for the 53rd week in 2019). We assume 2021 restaurant level margins of 17.4% (vs. 2019 of 17.3%; guidance 15-16%), less than consensus' 17.7%. We do not expect much incremental commodity inflation pressures in 2021 given 9-month contracting (beef ~50% of commodity basket). We assume better sales and labor productivity, which started pre-COVID, could improve labor as a percent of sales to 33.0% (vs. 2019 at 33.1% of sales). For 2022, we are increasing our EPS from $3.90 to $4.03 (+16% YoY; cons. 3.93) driven by continued sales improvement from both dine-in, off-premise and +3% pricing. Our 2022 company owned 1-year same store sales increases from 3.5% to 5% (cons. 4%; 3-year SSS ~23%). We now assume company owned AUVs of $6.49M (+21% vs. pre-COVID). We assume off premise sales mix stays at ~15%+ vs. ~7% in 2019. While we could see some better labor leverage than pre-COVID, we are watchful for higher commodity costs as hedges roll off into 2022. As a result, we assume 2022 restaurant level margins of 17.3% (cons. 17.9%). Our price target of $110 (+20%) upside equates to 25.5x (pre-COVID 5-year range of 22-27x) our LTM as of 6/31/23 EPS of $4.29. Our target multiple is 28% higher than DRI, roughly consistent with TXRH's pre-COVID historical premium of 32% (see Figure 9). Our target valuation equates to a PE-to-growth ratio of ~2.0x against our 13% long-term EPS growth (driven by 4-5% SSS, 5-6% unit growth, and a bit of share repurchases). This excludes the company's 1-2% dividend yield. Our price target also equates to 27x our CY22 EPS of $4.03. This is exactly in line with the company's historical 35% premium to the S&P500 (currently trading at 20x CY22 consensus EPS).

What our upside case implies: Our upside case for 2022e EPS of $4.52 assumes company owned AUVs of $6.6M (+23% vs. 2019 adjusted for the 53rd week) and restaurant level margins of 18.1%. We assume off premise sales mix of 20% versus 2019 of 7%. We assume labor growth per unit of +4.5%, which is improved from pre-COVID levels of +6-9% growth. Our upside target of $130 equals 27x (pre-COVID peak multiple) our LTM as of 6/31/23 EPS of $4.82.

What our downside case implies: Our downside case for 2022e EPS of $3.90 assumes AUVs of $6.20 (+15% vs. 2019 adjusted for the 53rd week) and restaurant level margins of 16.5%. We assume off-premise sales of ~10% vs. 2019 of 7%. We assume additional cost pressures on both the commodity and labor side. Our downside target of $90 equals 23x our LTM as of 6/31/23 EPS of $3.90.

Brinker

For Brinker, our stock thesis has morphed from one of very significant EPS upside to one of a combination of slight valuation and EPS upside. Brinker's equity value trades at 9x free cash flow—almost as cheap as it has ever been in spite of lower debt leverage (EVRe <3x debt/EBITDA by the end of this calendar year vs. recent history ~4x). We are largely maintaining our FY22e and FY23e SSS and EPS but shifting the quarters somewhat as a result of price realization timing and the launch of a 2nd virtual brand. In many ways we see Brinker proceeding with a prudent long-term strategy that has it focused on long-term value (3 for $10), building digital and off-premise business and capturing modest marketing and in-restaurant efficiencies. We look forward to Brinker's F4Q EPS on August 18th and Analyst Day on September 15th. See our Day 2 takeaways from the Evercore ISI Consumer and Retail Summit where we spoke with CEO Wyman Roberts here.

What our base case implies: We are fine-tuning our 4Q21e EPS from $1.67 to $1.80 (cons. $1.66; guidance $1.55-1.70) as we reduce our 2-year Chili's SSS estimate slightly from 7.5% to 7% (cons. 7%) but increase our Maggiano's estimates materially (from -20% 2-year SSS to -7% 2-year SSS; cons. -25% 2-year SSS). Labor productivity and a 53rd week (~80bp tailwind) should allow for strong restaurant level margins (EVRe 17.5%; cons. 16.8%). Our FY22 EPS of $5.29 assumes 3-year SSS for Chili's to be ~10-11%, potentially conservative as IJW adds 4-5pp, Maggiano's Classics could add LSD mix, and core Chili's off-premise may settle out 10pp above pre-COVID levels (30% mix vs. ~20% pre-COVID). We assume Chili's AUVs to be $3.1M (+9% vs. 2019), helped by +1.5% of pricing. We also slightly lower our restaurant level margin from 15.4% to 15.3% (cons. 14.9%; 13.9% in FY19; pre-COVID peak ~15%) to reflect slightly higher inflation pressure. We will be watching for the national launch of Maggiano's virtual brand sometime in the F2H22 (currently tested in ~80 stores). Our $80 price target equals 13x our FY23 EPS (ending 6/30/23) of $6.00 and 11x CY22 EBITDA. Brinker's pre-COVID NTM P/E trading range was between 10-14x. Our target also represents 14x our CY22 EPS. This is slightly lower than the 15x implied by EAT's historical discount to the S&P500 (pre-COVID 5-year median of 30% and S&P500 currently trading at 20x consensus CY22 EPS estimates). Finally, our 13x target multiple implies a ~1.4x PEG (assuming 9% LT earnings growth), justifiable in our view given the lower visibility when compared to DRI and TXRH.

What our $90 upside case implies: Our upside case for FY22e EPS of $5.65 assumes Chili's AUV of $3.2M (+11% versus 2019) with 30% off premise sales mix. We assume restaurant level margins of 15.6%. Our $90 upside target equals 14x (near pre-COVID peak; base case multiple 13x) our upside FY23 EPS of $6.43.

What our $60 downside case implies: Our downside price target of $60 equals 12x our downside FY23 EPS of $4.87. We assume AUVs to be 7% greater in FY22 vs. FY19, implying flat to declining traffic if we assume ~3% pricing and ~4% incremental sales mix from virtual brands. Our downside margins of 14.6% in FY22 and 14.2% in FY23 are less that pre-COVID peak-margins of ~15%.

Darden

Our quick take: For Darden, we are increasing our numbers for the May quarter significantly while thinking about potential FY22 guidance that may be provided in ~2 weeks. We see significant upside to the fine dining segment for Darden, with recent KnappTrack data showing high-end steakhouses to be +11% vs. 2019, a 6pp acceleration over April. While our SSS and EPS estimates are roughly 1-3pp and 4-5pp above consensus levels, much of that upside is in the near-term due to conservative guidance and Street estimates (combined with contracted input costs). By F2H, input cost pressure could begin to rise as contracts roll off. Furthermore, the company will be keen to preserve earnings power for FY23 (and keep that year within the targeted 10-15% TSR growth range).

The quarter ahead (earnings for the period ended 5/31/21 released on Jun 24th): We are raising our SSS estimates for Olive Garden from 52% to 65%, which now represents a 2-year SSS of 0.5% (implies ~flat gap to Knapp, roughly in line with the prior quarter gap to Knapp). We are also raising our SSS estimates for Longhorn from 85% to 105%, which now represents a 2-year SSS of 12% (implies ~1000bp gap to Knapp, roughly in line with the prior quarter gap to Knapp). Our restaurant level margin estimate of 22.6% (cons. 21.2%) assumes the company over-earns slightly as sales momentum outpaced costs coming back online (labor, marketing, etc.). We believe the stock will trade on FY22 guidance, assuming such detail is provided by management (we believe they will). Our FY22 EBITDA margin of 16.3% (cons. 16.1%) assumes 220bp increase vs. LTM (ending 2/29/20) pre-COVID, above the company's framework for 150bp worth of margin improvement given a return to pre-COVID sales. Our FY22 EPS of $7.75 implies a 10% EPS CAGR vs. FY19, within the company's long-term stated algorithm. For reference, in F4Q19, management provided FY20 guidance for total sales growth, company SSS growth, restaurant openings, CapEx, total inflation, tax rate, and diluted EPS, and shares outstanding on average.

What our base case implies: We maintain our base case of $165 (+23% upside) which is based on 20x our FY2023 EPS of $8.28 (cons. $7.98). We note that DRI's pre-COVID 5-year historical trading range was between 16-21x. We would argue Darden deserves to trade above historical multiples due to above average demand strength, highly-efficient cost cutting initiatives, and the relative current NTM multiple of the S&P500 (DRI should at least maintain its gap to the S&P500 in our view). We also would note that we have cash accumulating on Darden's balance sheet (we assume ~$1.4B at the end of FY22), a call option on accelerated share repurchases or accretive M&A should Darden eye the right target.

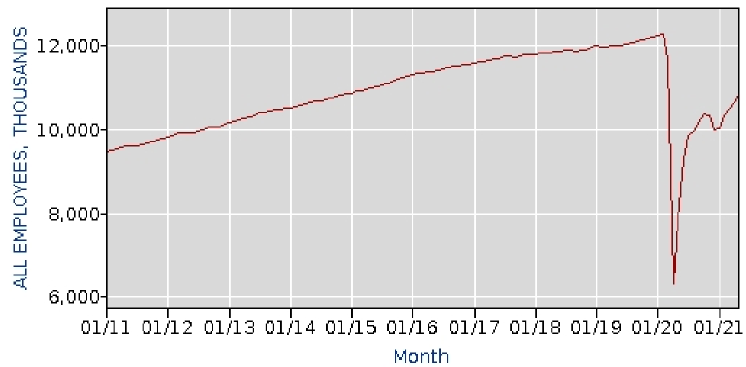
Upside scenario price target of $180/share: Our upside scenario price target of $180 assumes 21x (vs. base case of 20x; slightly above pre-COVID peak-multiple justified by a structurally improved company) our CY22e EPS of $8.49. This assumes Olive Garden AUVs closer to $5.9M (+16% vs pre COVID) driven by both stronger dine-in sales and off premise sales mix closer to 23% compared to pre-COVD levels of ~15%. Under this scenario, we assume Darden's labor, restaurant and marketing expenses drive strong operating leverage and unit growth to accelerate which could compress the multiple between Darden and Texas Roadhouse. We would also expect Darden to accelerate buybacks given its strong balance sheet.

What our downside scenario implies: Our $120 downside scenario equals 17x our FY23 EPS of $7.19. In this scenario we assume Olive Garden AUVs to be $5.5M (+9% vs. FY19), LongHorn AUVs to be $4.1M (+16% vs. FY19), and EBITDA margins to be 14.8% (70bp above pre-COVID levels but below the 150bp assumed in company guidance).

Restaurants added 186k jobs in May, or ~1 out of every 3 jobs added last month

The industry now accounts for 10.8M jobs, or 1.5M fewer jobs than it had pre-COVID

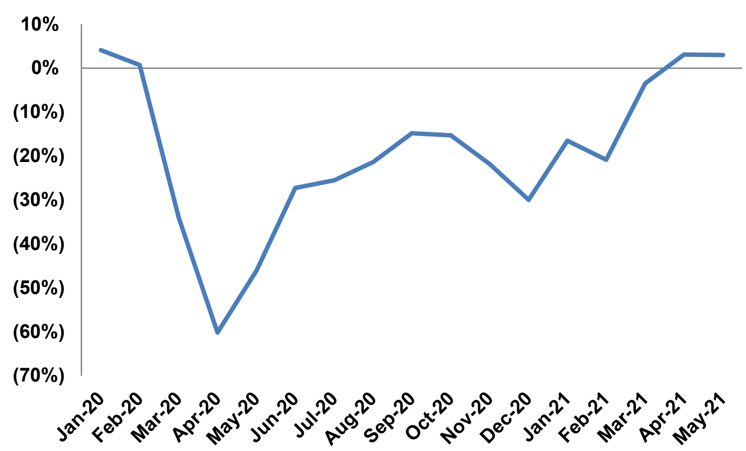
Figure 2: Restaurant and hospitality labor shortage remains



Source: US Bureau of Labor Statistics

Trends have surpassed 2019 but seem to have stalled since late March / April

Figure 3: Casual dining monthly SSS trends (relative to 2019)

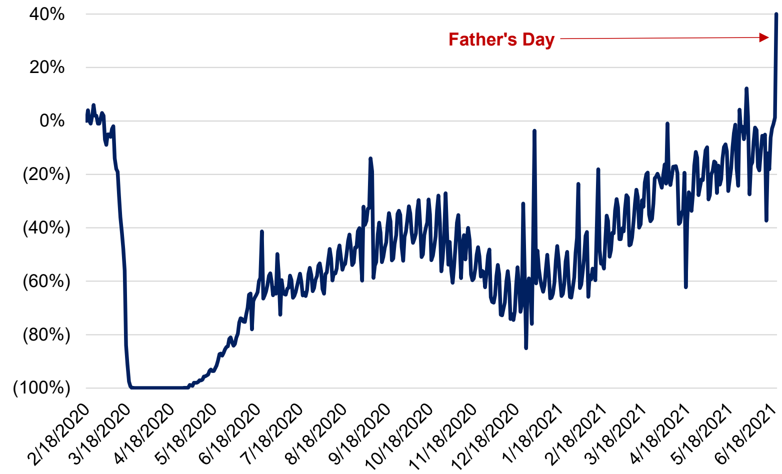


Source: KnappTrack, Evercore ISI Research

OpenTable trends improved in April and May before slowing slightly in June

The +40% Father's Day performance shows consumers are willing to get out there for special occasions

Figure 4: Seated diners from online, phone, and walk-in reservations (United States)



Source: OpenTable

Comfort with regards to dining inside at a restaurant continues to be a potential tailwind for the industry come late summer and fall

Figure 5: Comfort level of various activities

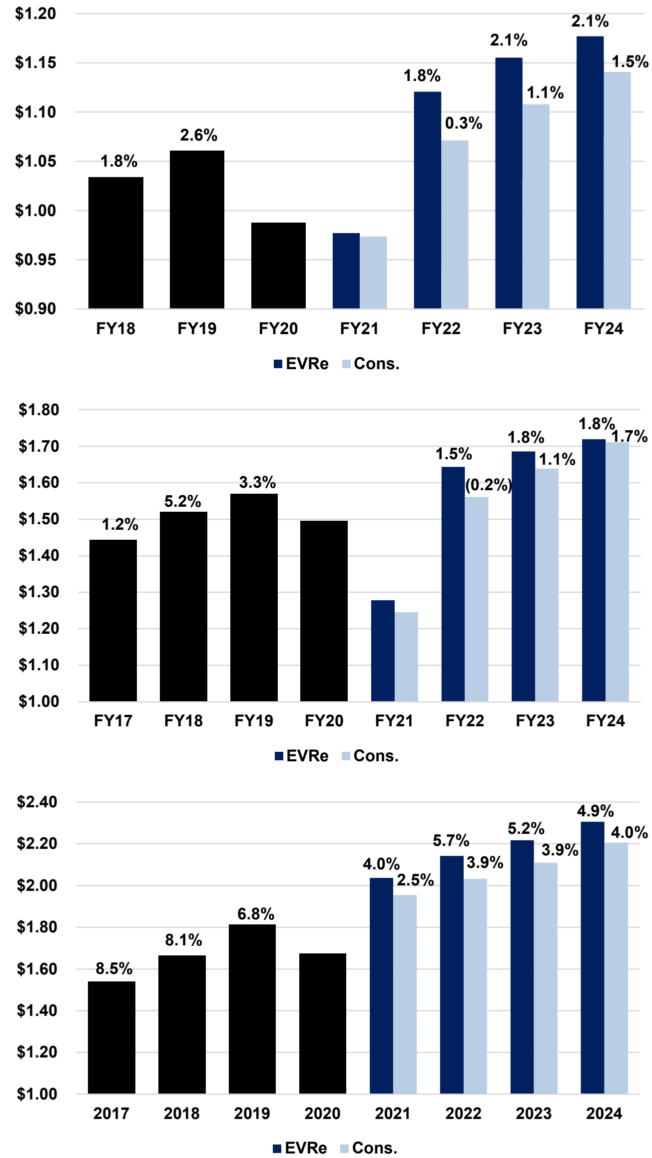
What Is Your Comfort Level With The Following?

-100 = Very Uncomfortable   100 = Very Comfortable

	May 15	Jul 17	Sep 25	Dec 4	Jan 15	Feb 12	Mar 19	Apr 16	May 14	Jun 18
Dining Outside at a Restaurant	29	37	57	49	40	46	65	71	84	88
Going to the Dentist	-	15	36	40	24	31	45	46	63	69
Personal Svcs. (haircut, manicure)	11	13	31	24	13	24	37	49	60	66
Getting A Surgical Procedure	10	13	30	32	23	27	41	47	56	60
Staying at a Hotel	-5	-2	18	11	9	14	30	39	56	58
Returning To Your Workplace	20	10	18	13	11	22	29	29	54	57
Dining Inside at a Restaurant*	-23	-30	-11	-19	-31	-21	5	15	42	55
Going to the Mall	-	-23	-7	-3	-10	-5	10	22	37	52
Attending an Outdoor Sporting Event / Concert	-27	-38	-17	-22	-18	-13	4	20	42	49
Getting on an Airplane	-33	-32	-16	-20	-13	-8	7	21	39	39
Handshake	-43	-43	-37	-43	-42	-34	-21	-5	22	31
Taxi	-	-	-30	-40	-35	-30	-13	-3	12	26
Ride Share / Taxi	-31	-46	-	-	-	-	-	-	-	-
Ride Share	-	-	-34	-38	-39	-35	-18	-7	5	23
Going to the Gym	-36	-49	-33	-42	-42	-38	-19	-11	5	21
Going to a Movie	-42	-55	-45	-53	-56	-46	-31	-18	3	14
Public transportation (bus, train, subway)	-62	-66	-58	-61	-56	-49	-39	-30	-7	7

Source: Evercore ISI Surveys

Figure 6: Labor growth per unit per week (in $ millions) over time (%s = historical growth rate or CAGR relative to FY19 or CY19)



For Brinker, we believe the labor $'s per company operated store assumed by consensus in FY22 being ~flat vs. FY19 is overly conservative considering the current ~5%+ hourly labor inflation

However, we believe sales estimates are too low given the optionality on additional virtual brands, pricing, and overly conservative assumptions on the base Chili's business

For Darden, much of the 150bp of EBITDA margin will come from the labor side, but we think the Street is a bit offside by thinking dollar cost of labor in FY22 will be lower than that of FY19

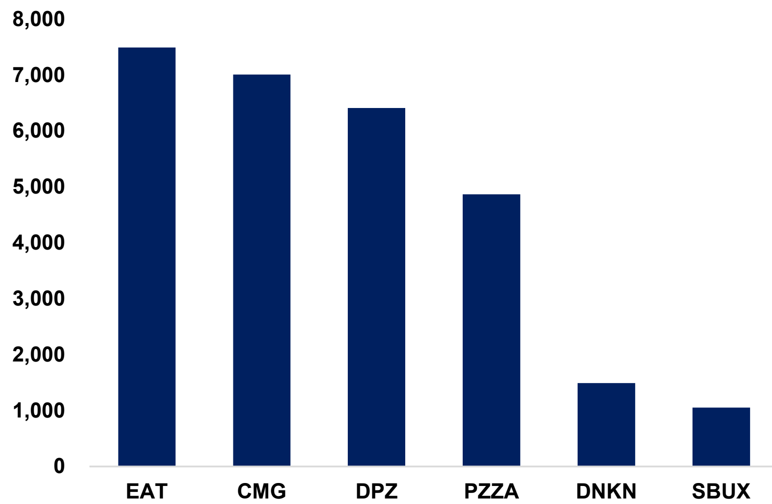
Over time, we agree that labor productivity will keep forward growth rates below those of pre-COVID

For Texas Roadhouse, the Street is implying 2.5% and 3.9% dollar cost inflation per restaurant in 2021 and 2022, respectively, despite the current tightness in the labor market and historical 7-9% track record in 2017-2019

Source: Company Data, ConsensusMetrix, Evercore ISI Research

Brinker's Chili's has underrated digital capabilities given its consumer penetration on a per restaurant basis

Figure 7: Loyalty members per location



Source: Company Data, Evercore ISI Research

Darden concepts and Texas Roadhouse make up the majority of top preference chains just before and during COVID

Figure 8: Top Restaurants Visited During The Rise Of COVID, data from July 2019 to July 2020

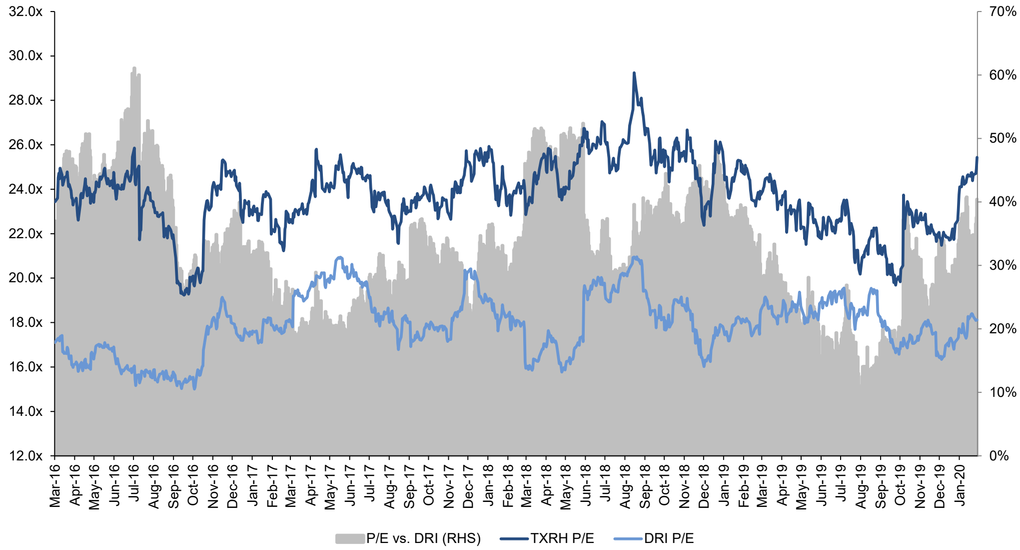
Source: Top Data (see more here)

The pre-COVID median P/E multiple premium for TXRH vs. DRI was 32%

DRI's current price of $133 implies an 18x multiple on CY22 consensus EPS estimates

A 32% multiple premium applied to TXRH (historical median) implies TXRH should be trading at 23.5x CY22e EPS (currently 23.4x)

Figure 9: Pre-COVID TXRH vs. DRI NTM P/E

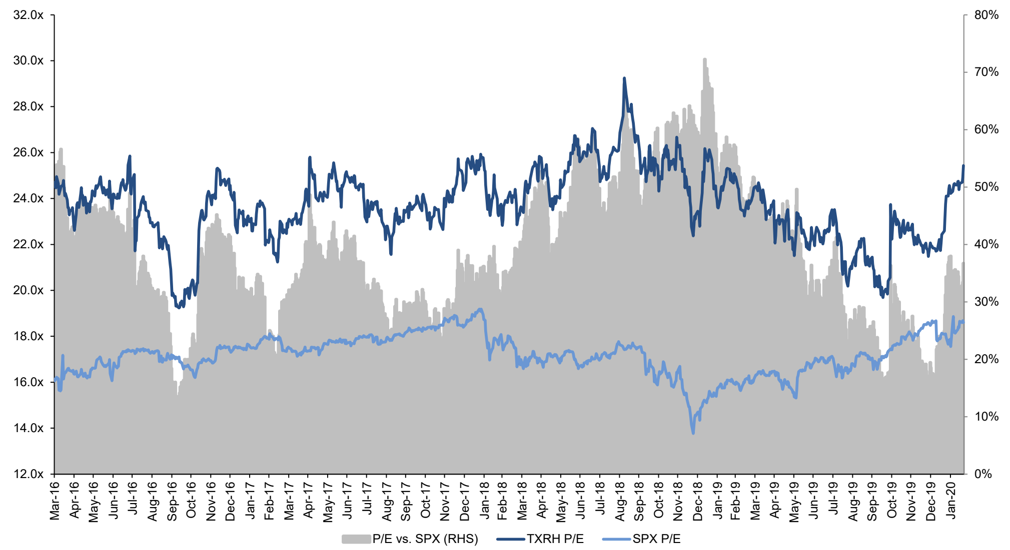


Source: FactSet, Evercore ISI Research

For reference, the S&P is currently trading at 20x consensus' CY22 EPS of $210

Applying a 35% premium (pre-COVID median) to TXRH implies TXRH should trade at 27x CY22e EPS

Figure 10: Pre-COVID TXRH vs. SPX NTM P/E

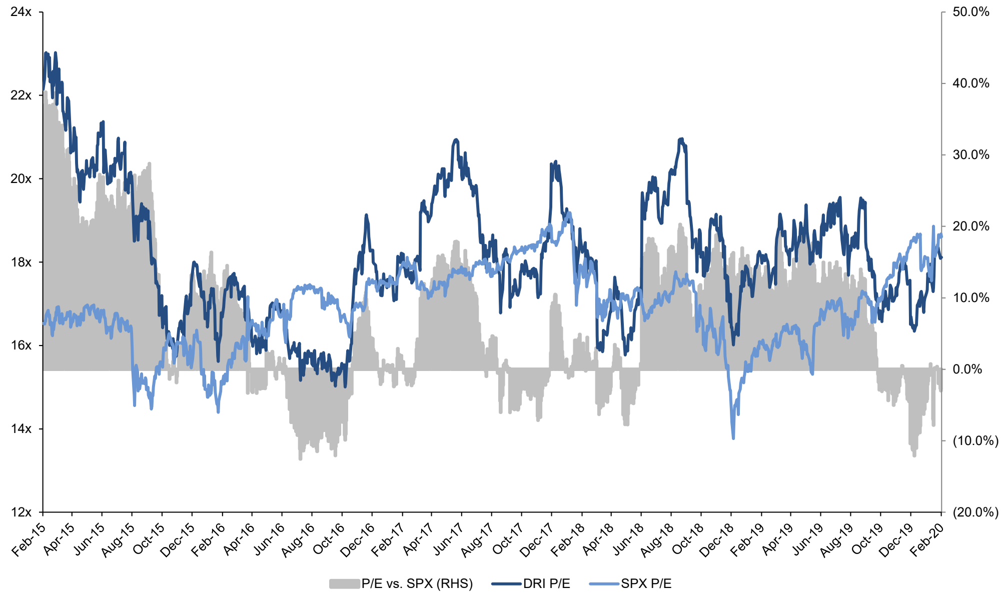


Source: FactSet, Evercore ISI Research

In the five year period leading up to COVID, DRI traded at a ~8% premium to the S&P 500

Based on consensus CY22 estimates, DRI currently trades at an 11% discount (17.8x vs. 20.0x)

Figure 11: Pre-COVID DRI vs. SPX NTM P/E

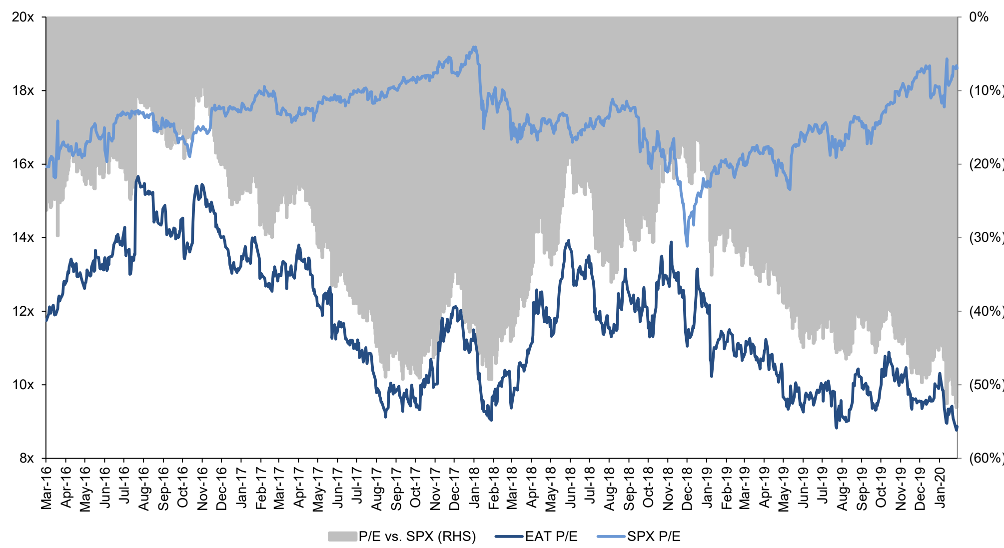


Source: FactSet, Evercore ISI Research

For reference, the S&P is currently trading at 20x consensus' CY22 EPS of $210

Applying a 30% discount (pre-COVID median) to the S&P500 implies EAT should trade at 15x CY22e EPS (currently trading at 11x)

Figure 12: Pre-COVID EAT vs. SPX NTM P/E



Source: FactSet, Evercore ISI Research

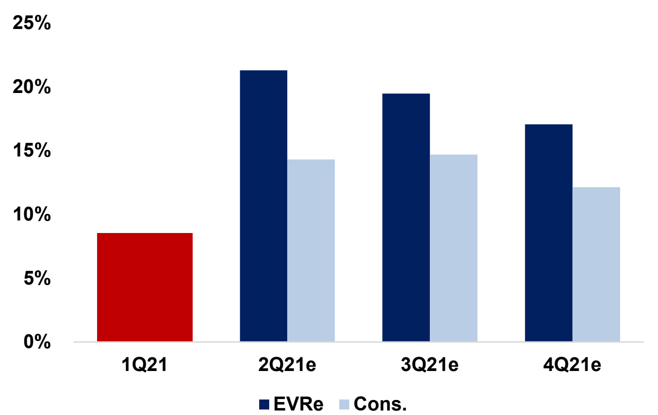
We see significant sales upside relative to consensus but are wary on flow-through as we believe the Street is conservative on both labor per unit costs and protein inflation in calendar 2022

Figure 13: TXRH 2022 EVRe estimates vs. consensus

Evercore Estimates Vs. Consensus	EVR Est.	YOY Change	FY 2022 Cons. Est.	Delta	Delta (%)
Sales	**3,767.7**	**11.1%**	**3,595.3**	**172.4**	**4.8%**
Comp (company-owned)	**5.5%**		**4.0%**	**152 bp**	
Cost of sales % of sales	32.7%		32.3%		
Restaurant labor % of sales	33.1%		33.0%		
Other restaurant expenses % of sales	15.2%		15.0%		
Restaurant level profit	**646.1**	**10.0%**	**637.7**	**8.3**	**1.3%**
Restaurant level margin	**17.3%**		**17.9%**	**(59 bp)**	
Restaurant level margin change	(16 bp)				
G&A	180.5	8.8%	166.5	14.0	8.4%
Operating income (EBIT)	**333.4**	**N/A**	**334.7**	**(1.2)**	**(0.4%)**
Operating margin	**8.9%**		**9.3%**	**(44 bp)**	
Operating margin change	13 bp		36 bp		
Tax rate	15.0%		15.4%	(42 bp)	
Net income	280.6	14.7%	275.9	4.8	1.7%
EPS	**4.03**	**15.6%**	**3.93**	**0.10**	**2.5%**

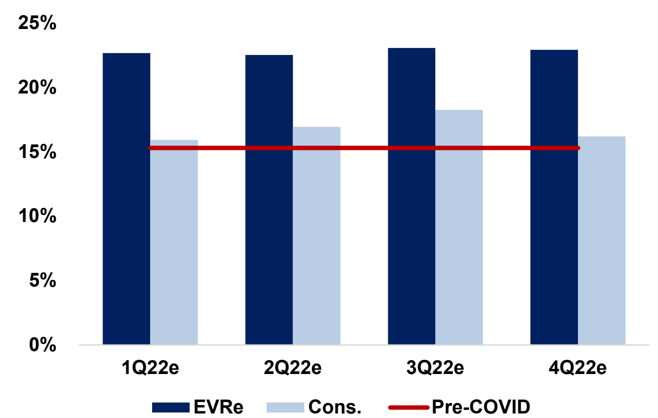
Source: ConsensusMetrix, Evercore ISI Research

Figure 14: TXRH Company-owned 2-year SSS growth



Source: ConsensusMetrix, Evercore ISI Research

Figure 15: TXRH Company-owned 3-year SSS growth



Source: ConsensusMetrix, Evercore ISI Research

The Street has come up significantly since the beginning of the year

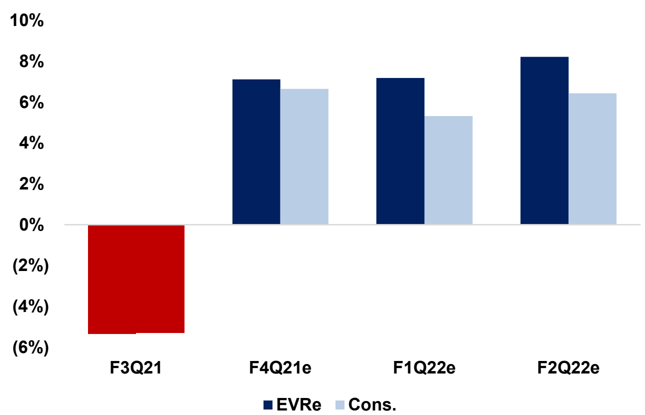
We still see margin upside (15.5% in FY23 vs. pre-COVID peak of 15%) driven by operational efficiencies, technology (i.e. handhelds), and margin-accretive virtual brands

Figure 16: EAT FY23 EVRe estimates vs. consensus

Evercore Estimates Vs. Consensus	FY 2023 EVR Est.	YOY Change	Cons. Est.	Delta	Delta (%)
Sales	**4,003.7**	**4.2%**	**3,886.7**	**117.0**	**3.0%**
Comp (company-owned)	**2.8%**		**3.2%**	**(43 bp)**	
Cost of sales % of sales	26.4%		26.4%	2 bp	
Restaurant labor % of sales	33.4%		33.1%	39 bp	
Restaurant expenses % of sales	24.6%		25.4%	(85 bp)	
Restaurant level profit	**612.3**	**5.6%**	**575.1**	**37.2**	**6.5%**
Restaurant level margin	**15.5%**		**15.1%**	**44 bp**	
Restaurant level margin change	20 bp				
G&A	170.6	4.2%	156.1	14.5	9.3%
Operating income (EBIT)	**342.0**	**6.8%**	**338.3**	**3.7**	**1.1%**
Operating margin	**8.5%**		**8.7%**	**(16 bp)**	
Operating margin change	21 bp		33 bp		
Tax rate	11.0%		10.8%	24 bp	
Net income	271.4	10.4%	263.7	7.7	2.9%
EPS	**6.00**	**13.4%**	**5.79**	**0.21**	**3.6%**

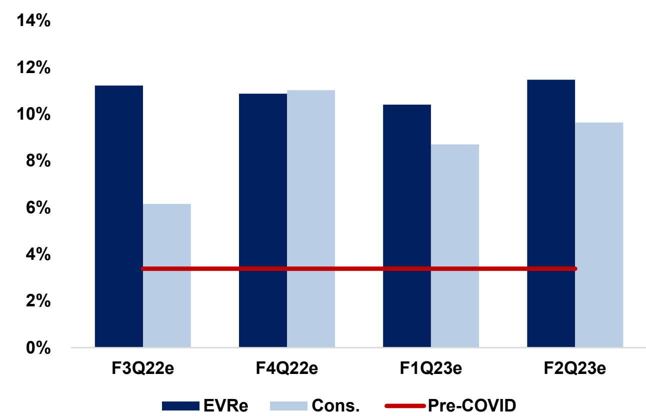
Source: ConsensusMetrix, Evercore ISI Research

Figure 17: Chili's 2-year SSS (CY21 vs. CY19)



Source: ConsensusMetrix, Evercore ISI Research

Figure 18: Chili's 3-year SSS (CY22 vs. CY19)



Source: ConsensusMetrix, Evercore ISI Research

Our FY23 EBITDA of 16.2% is 210bp higher than pre-COVID (14.1%), 60bp above the stated algorithm by the company

The Street's 16.3% is 220bp above the stated algorithm

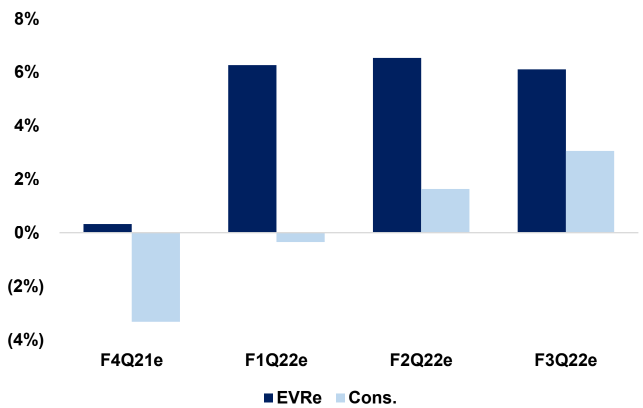
However, we still believe there is sales upside into FY23 at both Olive Garden and LongHorn

Figure 19: DRI FY23 EVRe estimates vs. consensus

Evercore Estimates Vs. Consensus	FY 2023 EVR Est.	YOY Change	Cons. Est.	Delta	Delta (%)
Sales	**10,146.2**	**4.5%**	**9,865.0**	**281.2**	**2.9%**
Olive Garden SSS	**3.0%**		**4.8%**	**(180 bp)**	
LongHorn SSS	**2.3%**		**4.3%**	**(205 bp)**	
Food, beverage and packaging % sales	28.4%		28.6%	(20 bp)	
Labor % sales	31.6%		31.6%	3 bp	
Restaurant expenses % sales	16.9%		17.2%	(27 bp)	
Restaurant level EBITDA	**2,060.3**	**3.6%**	**2,015.6**	**44.7**	**2.2%**
Restaurant level margin	**20.3%**		**20.5%**	**(22 bp)**	
Restaurant level margin change	(16 bp)				
G&A	420.4	2.6%	404.7	15.8	3.9%
Operating income (EBIT)	**1,251.4**	**3.7%**	**1,227.8**	**23.6**	**1.9%**
Operating margin	**12.3%**		**12.5%**	**(12 bp)**	
Operating margin change	(9 bp)		28 bp		
Tax rate	12.0%		11.9%	6 bp	
Net income	1,053.8	4.5%	1,029.8	24.0	2.3%
EPS	**8.28**	**6.7%**	**7.98**	**0.30**	**3.8%**

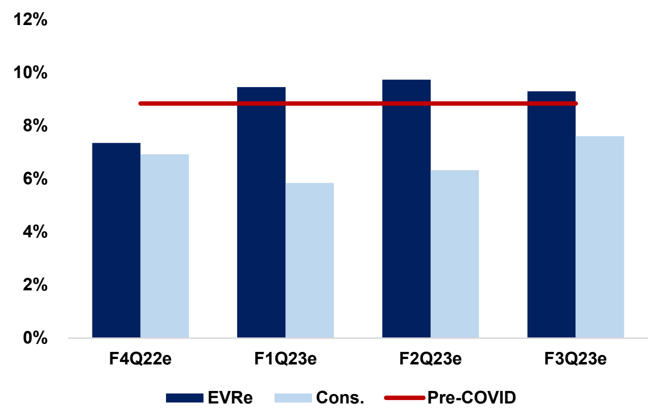
Source: ConsensusMetrix, Evercore ISI Research

Figure 20: Olive Garden 2-year SSS (CY21 vs. CY19)



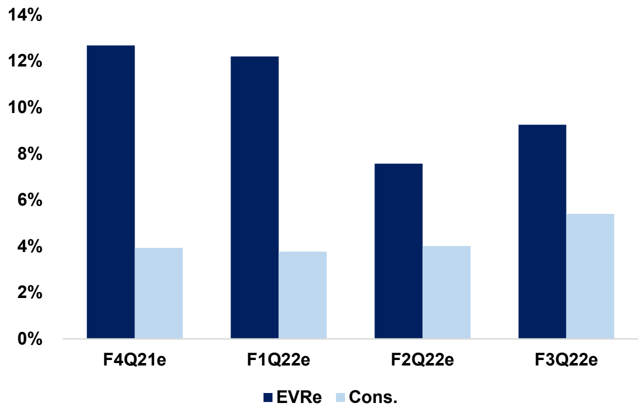
Source: ConsensusMetrix, Evercore ISI Research

Figure 21: Olive Garden 3-year SSS (CY22 vs. CY19)



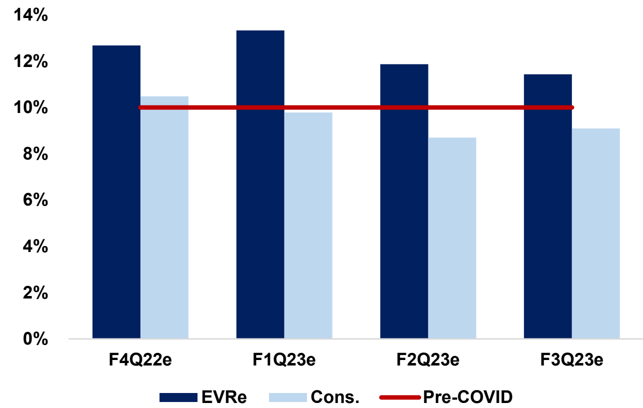
Source: ConsensusMetrix, Evercore ISI Research

Figure 22: LongHorn 2-year SSS (CY21 vs. CY19)



Source: ConsensusMetrix, Evercore ISI Research

Figure 23: LongHorn 3-year SSS (CY22 vs. CY19)



Source: ConsensusMetrix, Evercore ISI Research

Figure 6: Restaurants comp sheet

Evercore ISI Restaurant Sector Comp Sheet																													
Updated June 21, 2021									Target			Stock													FCF	FCF	LT		Net debt/
		Current		Target	Implied	Market	Target P/E		FCF Yield			Performance			EVR ISI EPS		Cons. EPS		P/E		EV/EBITDA		Div.	Yield	Yield	EPS	PEG	EBITDA
Company	Ticker	Price	Rating	Price	Upside	Cap (B)	CY21	CY22	CY22	2020	12M	YTD	1M	1W	CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22	Yield	CY21	CY22	Growth	CY22	CY21
Franchised Quick-Service Restaurants																													
McDonald's	**MCD**	$233	Outperform	$260	12%	$173.8	30x	26x	3.7%	9%	21%	7%	(1%)	(3%)	$8.77	$9.99	$8.62	$9.55	26.6x	23.3x	19.3x	17.3x	2.2%	3.4%	4.1%	8%	2.9x	2.9x
Yum! Brands	**YUM**	$117	Outperform	$130	11%	$34.8	29x	26x	3.8%	8%	27%	6%	(4%)	(4%)	$4.43	$4.93	$4.23	$4.69	26.3x	23.7x	19.0x	17.7x	1.7%	3.7%	4.1%	12%	2.0x	4.4x
Restaurant Brands	**QSR**	$67	In Line	$75	13%	$31.2	27x	23x	5.1%	(4%)	18%	8%	(2%)	(3%)	$2.78	$3.25	$2.66	$3.10	24.0x	20.5x	19.0x	16.9x	3.2%	4.8%	5.6%	11%	1.9x	4.8x
Domino's Pizza	**DPZ**	$459	Outperform	$470	2%	$17.8	35x	30x	3.5%	31%	23%	20%	6%	2%	$13.49	$15.62	$12.99	$14.98	34.1x	29.4x	25.1x	22.5x	0.8%	3.0%	3.3%	14%	2.1x	5.1x
Wendy's Company	**WEN**	$24	In Line	$24	2%	$5.2	32x	28x	5.2%	(1%)	5%	5%	(1%)	(4%)	$0.74	$0.86	$0.74	$0.85	31.8x	27.3x	15.4x	14.6x	1.5%	4.9%	5.2%	10%	2.7x	4.0x
Wingstop	WING	$147				$4.4				54%	20%	9%	8%	(3%)			$1.43	$1.83	103.3x	80.7x	57.7x	47.1x	0.4%					5.2x
Jack in the Box	JACK	$119				$2.7				19%	61%	25%	2%	(2%)			$6.81	$7.17	17.5x	16.7x	14.6x	14.8x	1.3%					6.5x
Papa John's	PZZA	$105				$3.5				34%	26%	22%	8%	1%			$2.78	$3.09	37.9x	34.1x	18.4x	17.3x	0.9%					1.8x
Franchised QSR mkt cap wtd avg							30x	26x	3.9%	9%	22%	8%	(1%)	(3%)					28.1x	24.5x	20.1x	18.1x	2.1%	3.6%	4.2%	9.3%	2.6x	3.5x
Company-Owned Quick Service Restaurants																													
Starbucks	**SBUX**	$111	In Line	$120	8%	$130.8	37x	32x	3.1%	22%	44%	3%	(1%)	(3%)	$3.26	$3.74	$3.25	$3.38	34.0x	29.7x	22.6x	20.1x	1.6%	2.2%	3.3%	11%	2.7x	3.2x
Chipotle	**CMG**	$1,427	Outperform	$1,725	21%	$40.2	67x	50x	2.0%	66%	36%	1%	6%	2%	$25.72	$34.33	$24.51	$32.43	55.5x	41.6x	34.5x	26.9x	-	1.8%	2.4%	20%	2.1x	-0.7x
Yum! China	YUMC	$67				$28.0				19%	31%	15%	3%	(5%)			$2.02	$2.37	33.0x	28.1x	15.7x	13.9x	0.7%					-1.1x
Shake Shack	SHAK	$95				$3.7				42%	70%	11%	9%	(6%)			-$0.05	$0.43	NM	218.5x	64.7x	35.2x	-					3.3x
Company-owned QSR mkt cap wtd avg							44x	36x	2.8%	30%	41%	4%	1%	(2%)					37.5x	35.3x	24.8x	20.9x	1.1%	2.1%	3.1%	13.1%	2.6x	1.8x
Casual Dining																													
Darden	**DRI**	$133	Outperform	$165	24%	$17.5		21x	5.5%	9%	76%	9%	(7%)	(6%)	$6.36	$7.77	$5.64	$7.60	21.0x	17.2x	16.7x	14.4x	2.6%	5.6%	6.7%	10%	1.8x	-0.1x
Texas Roadhouse	**TXRH**	$92	In Line	$110	20%	$6.4		27x	3.4%	39%	70%	16%	(8%)	(8%)	$3.49	$4.03	$3.42	$3.95	26.3x	22.7x	16.3x	14.7x	-	4.4%	4.1%	10%	2.3x	-0.8x
Cracker Barrel	CBRL	$146				$3.5				(14%)	27%	9%	(10%)	(7%)			$8.04	$9.57	18.2x	15.3x	14.3x	11.6x	-					3.7x
Cheesecake Factor	CAKE	$53				$2.5				(5%)	111%	40%	(11%)	(8%)			$2.12	$3.08	24.9x	17.2x	17.1x	13.2x	-					6.4x
Dave & Buster's	PLAY	$41				$2.0				(25%)	137%	32%	(8%)	(7%)			$1.04	$2.48	NM	16.5x	15.2x	10.9x	-					7.5x
Bloomin' Brands	BLMN	$26				$2.3				(12%)	118%	32%	(10%)	(9%)			$2.19	$2.44	12.0x	10.8x	9.7x	9.3x	-					4.8x
Dine Brands	DIN	$88				$1.5				(31%)	92%	48%	(12%)	(8%)			$6.49	$7.19	13.5x	12.2x	12.4x	11.5x	-					6.4x
Brinker Intl	**EAT**	$57	Outperform	$80	39%	$2.1		14x	8.2%	35%	113%	(2%)	(12%)	(9%)	$4.51	$5.60	$4.37	$5.38	12.7x	10.3x	10.1x	9.1x	-	13.7%	14.1%	6%	1.7x	2.9x
Denny's	DENN	$17				$1.1				(26%)	47%	12%	(6%)	(5%)			$0.42	$0.71	39.6x	23.6x	18.5x	14.5x	-					4.8x
BJ's Restaurants	BJRI	$48				$1.1				1%	108%	22%	(16%)	(9%)			$0.59	$2.36	81.6x	20.5x	19.2x	11.7x	-					6.4x
Casual Dining mkt cap wtd avg								22x	5.2%	7%	81%	16%	(8%)	(7%)					21.8x	20.3x	15.6x	15.6x	1.1%	6.0%	6.6%	9.3%	1.9x	1.9x
Evercore ISI Restaurants							37x	28x	4.3%	21%	43%	7%	(2%)	(4%)					29.2x	24.6x	19.8x	17.4x	2.0%	4.8%	5.3%	11%	2.2x	2.6x
S&P 1500 Restaurants	SP395	$2,031								17%	34%	6%	(1%)	(3%)									1.6%					
Retail	XRT	$94								40%	115%	43%	(2%)	(5%)									0.7%					
Consumer Discretionary	XLY	$173								28%	34%	7%	2%	(1%)									0.7%					
S&P 500	**SPX**	**4,225**								**16%**	**34%**	**11%**	**1%**	**(2%)**					**22.7x**	**20.7x**			**1.4%**					

Source: FactSet, Evercore ISI Research

Company Changes															Estimates			
			Rating			Target Price			Current Year				Next Year					
Symbol	Company	Price		Curr	Prev		Curr	Prev		Curr	Prev		Curr	Prev				
DRI	Darden Restaurants, Inc.	$133.58	-	OPF	OPF	-	$165.00	$165.00	▲	$4.51	$3.96	▲	$7.75	$7.23				
EAT	Brinker International, Inc.	$57.44	-	OPF	OPF	-	$80.00	$80.00	▲	$3.21	$3.07	▲	$5.29	$5.28				
TXRH	Texas Roadhouse, Inc.	$91.85	-	IL	IL	-	$110.00	$110.00	▲	$3.49	$3.33	▲	$4.03	$3.90				

Source: Evercore ISI Research

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: June 29 2021 10:51 AM ET

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%
Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%

Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage sector over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage sector over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage sector over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage sector over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Ratings Definitions for Portfolio-Based Coverage

Prior to July 25, 2019, Evercore ISI utilized an alternate rating system for companies covered by analysts who used a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
Rating Suspended - Evercore ISI has suspended the rating and/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio are weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.

Evercore ISI rating (as of 06/29/2021)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	487	59	Buy	131	25
Hold	293	35	Hold	27	13
Sell	24	3	Sell	2	8
Coverage Suspended	13	2	Coverage Suspended	4	36
Rating Suspended	9	1	Rating Suspended	4	36

Issuer-Specific Disclosures (as of June 29, 2021)

Evercore ISI or an affiliate expects to receive or intends to seek compensation for investment banking services from Darden Restaurants and Inc., Brinker International and Inc. within the next three months.

Price Charts

Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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