



Position Close Update: Darden Restaurants (DRI)

Darden Restaurants (DRI) – Closing Long Position – up 107% vs. S&P up 41%

We made Darden Restaurants (DRI: \$141/share) a Long Idea on [April 22, 2020](#), as one of our [See Through The Dip](#) picks. At the time, DRI received a Very Attractive [rating](#). We felt the market was overly focused on the dip in economic activity brought on by the COVID-19 pandemic, rather than the potential recovery, which created the opportunity to buy this industry leader at a significant discount.

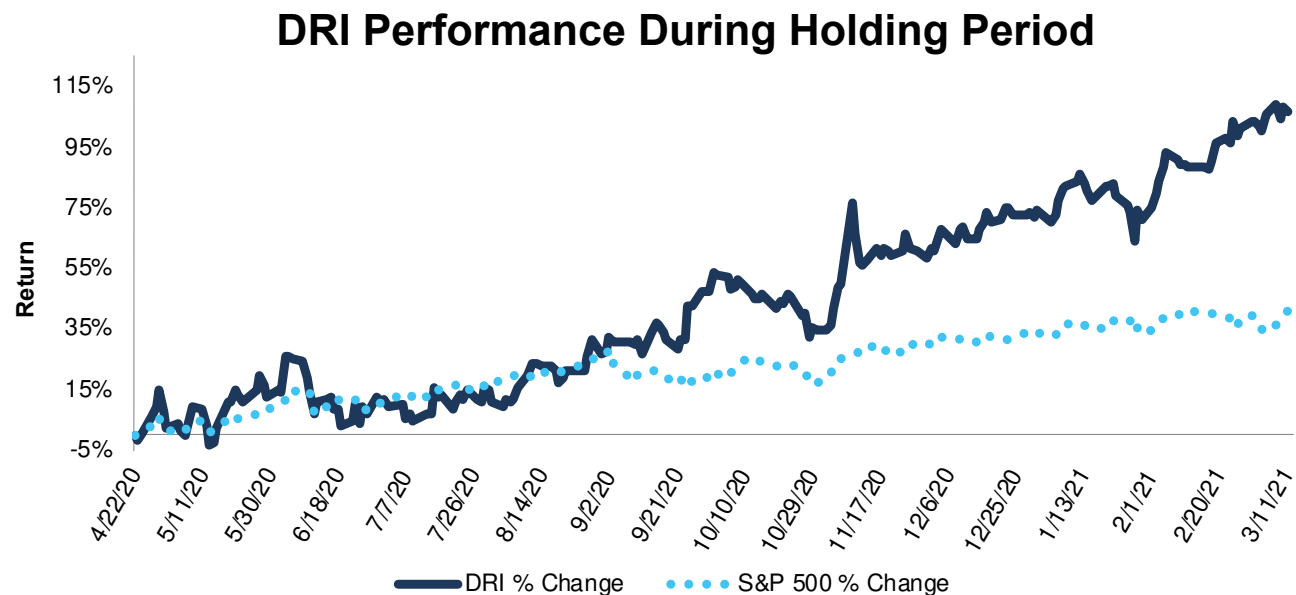
This report, along with all of our research¹, leverages our [more reliable fundamental data](#)² to get the truth about earnings, as shown in the Journal of Financial Economics paper, "[Core Earnings: New Data and Evidence](#)."

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During the 324 day holding period, DRI outperformed as a long position, rising 107% compared to a 41% gain for the S&P 500.

While the firm hasn't gotten entirely through the dip (management expects fiscal 3Q21 revenue to be down 30-35% year-over-year), the stock price is another story (up 108% since April 22, 2020). With COVID-19 cases on the decline, vaccinations on the rise, and the reopening of the economy underway, the good news is already fully priced into Darden shares. We're taking the gains and closing this long position as the stock no longer provides the same risk/reward.

Figure 1: DRI vs. S&P 500 – Price Return – Successful Long Idea



Sources: New Constructs, LLC and company filings

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

This article originally published on [March 11, 2021](#).

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).



Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by S&P Global’s (SPGI) *Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

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