May 05, 2020

BJs Restaurants (BJRI)

$20.36 (As of 05/04/20)

Price Target (6-12 Months): **$21.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/24/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: A | Momentum: F	

Summary

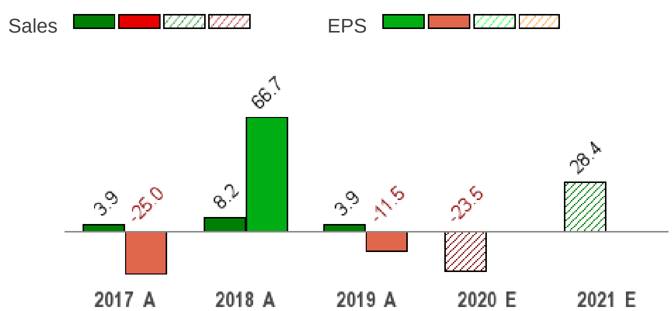
Shares of BJ's Restaurants have underperformed the industry in the past year. The decline can be primarily attributed to the coronavirus pandemic. With the dine-in facility being waived, the company has been experiencing significant decline in its sales levels. Notably, it has been operating only through pick-up and delivery services. High dependency on consumer discretionary spending, increasing costs and a slowdown in unit development plan are headwinds affecting the company's growth. Of late, earnings estimate have witnessed downward revisions. However, various strategic sales-building initiatives, including menu innovation and enhanced loyalty program are likely to drive growth. Additionally, the company is confident about bolstering sales through apps and digital platforms, given heavy investments in technology-driven initiatives.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$52.89 - $6.01
20 Day Average Volume (sh)	905,077
Market Cap	$382.0 M
YTD Price Change	-46.4%
Beta	1.90
Dividend / Div Yld	$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Bottom 30% (178 out of 253)
Last EPS Surprise	20.5%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-1,524.8%
Expected Report Date	05/07/2020
Earnings ESP	-32.8%
P/E TTM	10.1
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	272 E	274 E	279 E	293 E	1,140 E
2020	267 E	146 E	213 E	267 E	888 E
2019	291 A	301 A	279 A	291 A	1,161 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.05 E	$0.18 E	$0.02 E	$0.29 E	$0.77 E
2020	-$0.27 E	-$2.01 E	-$0.86 E	$0.06 E	-$2.98 E
2019	$0.62 A	$0.68 A	$0.18 A	$0.53 A	$2.08 A

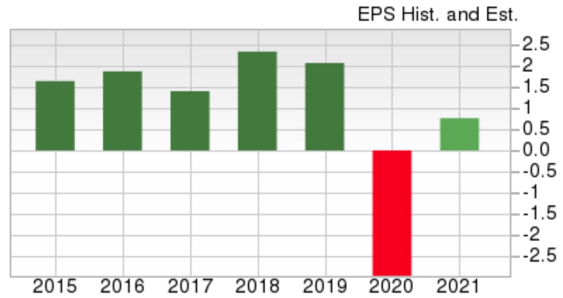
*Quarterly figures may not add up to annual.

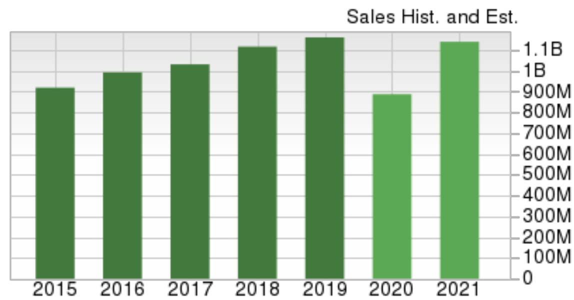
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

Overview

Founded in 1978 in Orange County, CA, BJ's Restaurants owns and operates a chain of 202 high-end casual dining restaurants in the United States (as of Jan 1, 2019), which serve its signature deep-dish pizzas, salads, sandwiches, burgers, pastas, steaks, and hand-crafted beers. The restaurants operate as BJ's Restaurant & Brewery /BJ's Restaurant & Brewhouse and/ or BJ's Pizza & Grill and or BJ's Grill. The menu offers a wide range of dining options, including everyday lunch and dinner, special occasions and late-night business.

As of Feb 24, 2020, the company owned and operated 209 restaurants located in 29 states — Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia and Washington.





Reasons To Buy:

BJ’s Restaurants’ various strategic sales-building initiatives, including menu innovation and enhanced loyalty program should drive the top line in the upcoming quarters

▲ **Top Line Encourages:** BJ’s Restaurants has implemented several major sales-building initiatives, which have contributed positively to the company’s revenues over the past few quarters. With increased focus on productivity and efficiency along with a plan of balanced restaurant opening, the company is further heading toward near and long-term success. In 2017, the restaurant crew mastered advanced cooking methods and also became skillful in taking orders via hand-held ordering tablets. In fact, results of these initiatives have been positive so far. Notably, the company’s off-premise sales continued to grow at more than 20%. Further, BJ’s Restaurants expects this channel to grow at least 50% over the next several years. Backed by many sales-building efforts, the company’s revenues rose 3.8% year over year in fourth-quarter 2019, following an increase of 3.1% in the third quarter. Moreover, in 2019, the company opened seven restaurants. The company has opened 55 restaurants in the last five years, which account for nearly $275 million of incremental sales. The company plans to open 8-10 restaurants in 2020 and anticipates new restaurant growth in the low-double digits in 2021. Backed the new restaurant growth target, it envisions comparable restaurant sales of 2-3% in 2020.

▲ **Focus on Menu Innovation:** BJ’s Restaurants’ extensive focus on refining and streamlining its menu is the key driver for improved traffic. The company’s slow-roasted menu, launched in 2017, has become a huge success. It has significantly boosted average check with high incident rates.

Additionally, the restaurant has also developed a robust pipeline of new menu items, focusing on its EnLIGHTened menu category, featuring its new super food options. Moving ahead, the company plans to introduce new flavors and improve the quality of its menu items. Notably, BJ’s Restaurants’ higher-priced menu items continue to be popular and management believes that these items would boost check in the near term. In fact, the company expects to offset some of the labor pressure through prudent menu pricing and design. Additionally, its promotional offers along with bundled lunch offerings should boost sales and drive guest traffic.

Lastly, the company has expanded its daily Brewhouse specials that showcase several of its most popular signature menu items at attractive prices. This along with the happy hour special menu is likely to drive traffic further for the company. During second-quarter 2019, the company had introduced Tri Tip entrees. It enjoyed the benefits of the same during the third and fourth quarter.

▲ **Cost Cutting Efforts:** BJ’s Restaurants is committed to improving operating margins through cost-containment initiatives. The company is focusing more on its smaller prototype restaurants that cost roughly $1 million less than the prior prototype. This helps in reducing operating costs. Due to lesser food wastage and improved labor productivity, these new restaurants generate higher margins. Given its operational efficiency and launch of new higher return restaurant prototype, the company would thus continue to grow its margins.

▲ **Digital initiatives to Boost Revenues:** The digital wave has hit the U.S. fast-casual restaurant sector. More and more restaurants are deploying technology to enhance guest experience. BJ’s Restaurants is also investing heavily in technology-driven initiatives, like digital ordering, to boost sales. The company’s app and digital platforms are allowing it to more effectively and efficiently offer promotions. In the second quarter, BJ’s Restaurants completed the rollout of third-party delivery provisions in all its restaurants.

Additionally, the company’s loyalty guest database continues to grow well with the steady increase in transactions. The company has also completed the national launch of its loyalty program in the first quarter of 2018 and is so far witnessing double-digit increases in loyalty sign up as well as similar increases in reward redemptions. Other productivity improvement initiatives such as a centralized call center to capture more online orders are also expected to boost the top line, going ahead. The company also continues to drive awareness in its key markets through greater and more targeted marketing.

Reasons To Sell:

High dependency on consumer discretionary spending, increasing costs and a slowdown in unit development plan are potential headwinds for an industry

- **Coronavirus to Hurt Traffic:** The restaurant industry has been facing declining traffic for quite some time now. With the dine-in facility being waived, the company has been experiencing significant decline in its sales levels. Notably, it has been operating only through pick-up and delivery services. The company is focusing on initiatives like regular evaluation of restaurants and temporarily closing outlets with soft sales.

  Owing to the COVID-19 outbreak, BJ's Restaurants temporarily laid off approximately 16,000 employees across its 209 outlets. The company compensated affected workers with their unused vacation and sick time while the un-eligible ones were entitled to a short-term emergency paid time. Nonetheless, it anticipates to recall the employees as soon as sales begin to improve to pre-COVID-19 levels.

- **Higher Costs Hurt:** BJ's Restaurants is continuously shouldering increased expenses, which has been affecting margins of late. Higher pre-opening costs, marketing expenses and costs related to sales-boosting initiatives are weighing on the company's margins. Particularly, slow roasting ovens and handheld tablets are adding to the restaurants' costs. The company is also facing high general and administrative expenses.

  In fourth-quarter 2019, labor costs, as a percentage of sales, increased 100 basis points (bps) to 36.4% on higher hourly average wages and an increase in state unemployment taxes, offset by enhanced labor productivity. Occupancy and operating costs (as a percentage of sales) were 22.5%, up 50 bps year over year. The increase can primarily be attributed to the new lease accounting standard and higher facilities costs. The company hinted at the continuation of the wage rate inflation in mid-single digits in 2020. Based on the latest trends, it predicts upward pressure on wages for hourly positions and managers of nearly 5%.

- **Limited International Presence:** While several other restaurateurs including Yum! Brands, McDonald's and Domino's Pizza, are capitalizing on the emerging market potential, BJ's Restaurants seems to be slow on this front. We believe that the company needs to spread its presence beyond the United States in order to offset the impact of cutthroat competition in the saturated domestic market.

- **Casual Dining Area Remains Challenging:** BJ's Restaurants is facing challenges as demand for fast-casual restaurants is picking up against casual-dining. In the overall restaurant landscape, casual dining restaurants are not likely to see any immediate improvement, which also places BJ's Restaurants in a tricky position.

- **Industry Susceptible to Consumer Discretionary Spending:** BJ's Restaurants operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Last Earnings Report

BJ's Restaurants Q4 Earnings Beat, Sales Miss Estimates

Quarter Ending	12/2019
Report Date	**Feb 20, 2020**
Sales Surprise	**-0.16%**
EPS Surprise	**20.45%**
Quarterly EPS	**0.53**
Annual EPS (TTM)	**2.01**

BJ's Restaurants reported fourth-quarter 2019 results, wherein earnings beat the Zacks Consensus Estimate but revenues missed. This marked the company's second straight quarter of earnings beat. Meanwhile, the top line missed estimates after beating the same in the preceding eight quarters.

Adjusted earnings of 53 cents per share beat the Zacks Consensus Estimate of 44 cents by 20.5%. Moreover, the bottom line increased 8.2% year over year. On a GAAP basis, earnings per share were 75 cents.

Revenues & Comps

Total quarterly revenues of $291.1 million missed the consensus estimate of $291.5 million by a marginal 0.1%. However, the top line grew 3.8% year over year, driven by a 3% rise in total restaurant operating weeks and a 0.4% increase in average weekly sales. Comparable restaurant sales improved 0.4% from the prior-year quarter. The increase was mainly attributed to strength in the BJ's concept and brand, which was further supported by its productivity and sales-driving efforts. During the reported quarter, the company also gained market share in the casual dining industry, thanks to the re-launch of its catering menu and offerings, the addition of tri-tip sirloin to its slow roast platform, the introduction of $6-take home entrees, and the roll out of the Gold Standard Kitchen Systems.

Expenses & Operating Margins

Labor costs, as a percentage of sales, increased 100 basis points (bps) to 36.4% on higher hourly average wages and an increase in state unemployment taxes, offset by enhanced labor productivity. Occupancy and operating costs (as a percentage of sales) were 22.5%, up 50 bps year over year. The increase was mainly due to the new lease accounting standard and higher facilities costs. Restaurant-level operating margin was 16%, down 120 bps from the year-ago quarter. The decline can be attributed to continued wage rate pressures and higher-than-expected food cost inflation. However, the company expects to counter the high costs prevalent in the industry through its disciplined cost-saving and efficiency initiatives along with restaurant level execution.

Restaurant Count

During the fourth quarter, the company opened new restaurants in Tulsa, Oklahoma and Lakewood, CO. Further, it closed the smaller format BJ's Pizza & Grill restaurants in Balboa, CA. In fiscal 2019, the company opened seven restaurants, reaching its target.

Balance Sheet

As of Dec 31, 2019, cash and cash equivalents totaled $22.4 million compared with $29.2 million as of Jan 1, 2019. Total debt increased to $143 million in 2019 from $95 million at 2018-end. BJ's Restaurants declared a quarterly cash dividend of 13 cents per share, payable on Mar 24. In fourth-quarter 2019, the company repurchased and retired roughly 0.3 million shares for $10.3 million. With this, it has repurchased and retired nearly 11.8 million shares for $460.5 million since the beginning of its share repurchase plan in April 2014. Currently, it has $39.5 million available under its share repurchase program.

Guidance

BJ's Restaurants notes that the comparable restaurant sales in the first seven weeks of 2020 have increased 1.7%, including slightly faster trends in California. Notably, the company is witnessing improving trends in California from third-quarter 2019. Further, it outlined its guidance for 2020. Further, the company plans to open 8-10 restaurants in 2020 along with witnessing new restaurant growth in the low-double digits in 2021. Backed the new restaurant growth target, it envisions comparable restaurant sales of 2-3% in 2020. However, the company hinted at the continuation of the wage rate inflation in mid-single digits in 2020. Based on the latest trends, it predicts upward pressure on wages for hourly positions and managers of nearly 5%. Nevertheless, the company is working to improve restaurant level operating margins, with its ongoing food-management initiatives.

Moreover, it expects cost of sales in the low to mid 25% range for 2020. Occupancy and operating costs, as a percentage of sales, are likely to be in the mid-to-upper 21% to 22% range. This includes 2-2.5% of marketing spending. Total general & administrative (G&A) expenses are expected to be $70 million in 2020. The company expects effective tax rate of 6% for 2020. Driven by the aforementioned assumptions and gains of leveraging fixed costs in its business, it expects to deliver high-single-digit to low-double-digit earnings growth in 2020. For first-quarter 2020, the company anticipates restaurant operating weeks of 2,708. It expects cost of sales to be in the low 25% range. Labor costs, as a percentage of sales, for the first quarter are expected to be in the upper end of 36-37%. Notably, the company witnesses higher labor costs, as a percentage of sales, in the first quarter of every year due to higher payroll taxes and benefits occurring at the beginning of each year. It expects operating and occupancy costs, as a percentage of sales, in the mid 21% range. G&A expenses are anticipated to be in the mid to upper $16 million range in the first quarter.

Recent News

BJ's Restaurants Provides Operational Update – Apr 24, 2020

BJ's Restaurants recently announced its business update, in which comps declined 70% during the week ended Apr 21, compared to a fall of 82% in the week ended Mar 24. The improvement was driven by mid-teens sequential weekly growth in the Company's off-premise sales from both take-out and delivery channels.

BJ's Restaurants Provides Business Update – Mar 24, 2020

BJ's Restaurants has delayed its previously announced dividend payment due to coronavirus pandemic. With the dine-in facility being waived, the company has been experiencing significant decline in its sales levels. Notably, it has been operating only through pick-up and delivery services. The company is focusing on initiatives like regular evaluation of restaurants and temporarily closing outlets with soft sales.

Valuation

BJ's Restaurants' shares are down 46.4% year-to-date and 60.5% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 12.6%, and Zacks Consumer Discretionary sector is down by 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 10.5%, but sector was up by 2.8%.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 10.13X trailing 12-month earnings, which compares to 22.83X for the Zacks sub-industry, 27.46X for the Zacks sector and 17.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.79X and as low as 3.25X, with a 5-year median of 22.59X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $21 price target reflects 10.5X trailing12-month earnings.

The table below shows summary valuation data for BJRI.

Valuation Multiples - BJRI

		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	10.13	22.83	27.46	17.67
	5-Year High	40.79	29.76	31.59	22.17
	5-Year Low	3.25	22.83	23.46	15.91
	5-Year Median	22.59	26.17	26.5	18.95
P/S F12M	Current	0.39	3.48	0.99	3.19
	5-Year High	1.41	3.93	1.11	3.44
	5-Year Low	0.1	2.82	0.8	2.54
	5-Year Median	0.86	3.3	0.93	3.01
P/CF	Current	3.42	15.03	13.87	14.69
	5-Year High	12.98	20.59	15.21	22.67
	5-Year Low	1.1	8.61	10.76	11.67
	5-Year Median	7.72	16.8	12.86	16.41

As of 05/04/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (178 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Dunkin Brands Group, Inc. **(DNKN)**	Neutral	3
Jack In The Box Inc. **(JACK)**	Neutral	4
Dave & Busters Entertainment, Inc. **(PLAY)**	Neutral	3
Red Robin Gourmet Burgers, Inc. **(RRGB)**	Neutral	3
Carrols Restaurant Group, Inc. **(TAST)**	Neutral	3
Chipotle Mexican Grill, Inc. **(CMG)**	Underperform	3
DINE BRANDS GLOBAL, INC. **(DIN)**	Underperform	5
Darden Restaurants, Inc. **(DRI)**	Underperform	5

Industry Comparison Industry: Retail - Restaurants

Industry Peers

	BJRI	X Industry	S&P 500	CMG	PLAY	TAST
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	F	B	C
Market Cap	381.97 M	269.84 M	19.65 B	24.40 B	344.23 M	174.15 M
# of Analysts	9	6	14	16	6	3
Dividend Yield	0.00%	0.00%	2.19%	0.00%	0.00%	0.00%
Value Score	B	-	-	F	B	B
Cash/Price	0.06	0.07	0.06	0.04	0.06	0.02
EV/EBITDA	7.74	10.84	11.76	39.17	7.75	23.90
PEG Ratio	NA	3.38	2.48	7.55	NA	NA
Price/Book (P/B)	1.34	1.56	2.63	14.60	2.03	0.56
Price/Cash Flow (P/CF)	3.40	6.62	10.38	39.84	1.46	2.85
P/E (F1)	NA	33.73	18.81	113.52	NA	NA
Price/Sales (P/S)	0.33	0.61	2.02	4.29	0.25	0.12
Earnings Yield	-14.64%	1.78%	5.07%	0.88%	-38.28%	-22.75%
Debt/Equity	2.04	0.97	0.73	1.65	10.93	4.09
Cash Flow ($/share)	5.99	1.81	7.01	21.96	7.70	1.17
Growth Score	A	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	9.36%	7.72%	10.87%	7.65%	25.07%	-26.49%
Proj. EPS Growth (F1/F0)	-243.22%	-77.23%	-8.14%	-45.14%	-246.54%	-111.11%
Curr. Cash Flow Growth	-5.33%	4.82%	5.88%	34.05%	-0.07%	-14.11%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	6.59%	8.55%	1.89%	16.47%	18.25%
Current Ratio	0.41	0.64	1.25	1.62	0.27	0.27
Debt/Capital	67.07%	62.31%	44.07%	62.31%	91.62%	80.35%
Net Margin	3.89%	3.76%	11.00%	5.95%	7.40%	-2.19%
Return on Equity	13.49%	7.09%	16.43%	23.90%	44.38%	-5.68%
Sales/Assets	1.09	1.06	0.55	1.14	0.60	0.93
Proj. Sales Growth (F1/F0)	-23.53%	-10.87%	-1.76%	-1.65%	-39.38%	7.78%
Momentum Score	F	-	-	F	C	D
Daily Price Chg	2.21%	-0.55%	-0.01%	0.01%	-15.53%	-2.91%
1 Week Price Chg	20.80%	5.07%	0.53%	-0.86%	11.08%	16.22%
4 Week Price Chg	47.00%	22.08%	6.66%	26.81%	-2.00%	88.70%
12 Week Price Chg	-51.96%	-37.25%	-20.38%	-1.74%	-75.58%	-29.39%
52 Week Price Chg	-60.55%	-47.08%	-13.44%	22.09%	-80.74%	-68.19%
20 Day Average Volume	905,077	276,089	2,567,149	722,257	5,716,849	1,009,413
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1,524.85%	-34.12%	-6.96%	-34.12%	-99.00%	0.00%
(F1) EPS Est 12 week change	-249.69%	-81.06%	-13.90%	-57.69%	-242.03%	-679.49%
(Q1) EPS Est Mthly Chg	-244.66%	-93.18%	-13.62%	-125.68%	-99.67%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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