

BJs Restaurants (BJRI)

\$26.32 (As of 06/04/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: B

Summary

Shares of BJ's Restaurants have underperformed the industry in the past year. The company reported first-quarter 2020 results, wherein the bottom line surpassed analysts' expectation but the top line missed the same. However, the metrics declined year over year owing to the coronavirus crisis. Owing to the uncertainty of the crisis, the company has suspended its dividend payouts and share buyback programs. Also, high dependency on consumer discretionary spending, increasing costs and a slowdown in unit development plan are affecting the company's growth. However, reopening of restaurants along with various strategic sales-building initiatives and enhanced loyalty program bode well. Also, the rollout of digital check-ins, digital menus and digital payment options is likely to attract more customers.

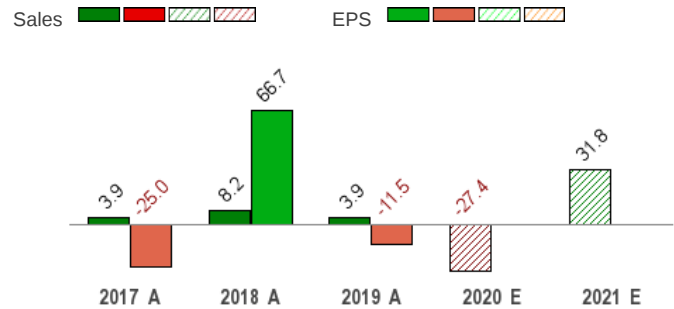
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.17 - \$6.01
20 Day Average Volume (sh)	729,057
Market Cap	\$585.9 M
YTD Price Change	-30.7%
Beta	1.87
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 28% (72 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	73.7%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	18.8%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	267 E	271 E	273 E	288 E	1,111 E
2020	255 A	122 E	201 E	261 E	843 E
2019	291 A	301 A	279 A	291 A	1,161 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.15 E	\$0.26 E	\$0.02 E	\$0.30 E	\$0.69 E
2020	-\$0.10 A	-\$1.81 E	-\$0.82 E	\$0.02 E	-\$2.69 E
2019	\$0.62 A	\$0.68 A	\$0.18 A	\$0.53 A	\$2.08 A

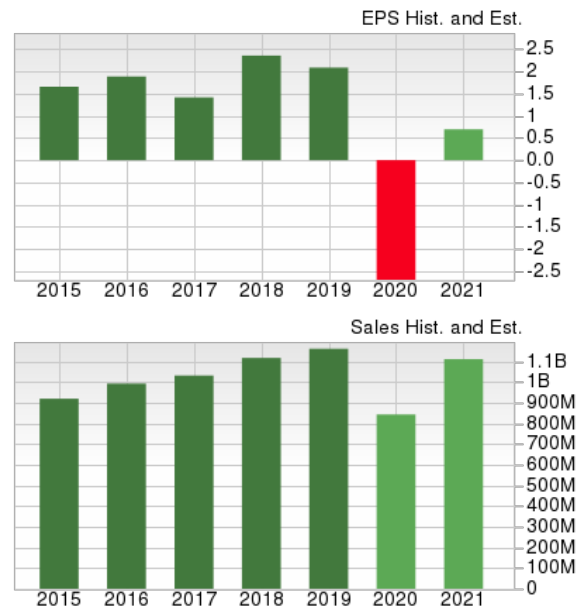
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/04/2020. The reports text is as of 06/05/2020.

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:

▲ **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. However, due to the COVID-19 pandemic, dine-in service is currently not available in majority of its restaurants and menu offerings have been limited.

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

▲ **Off-Premise Sales Bode Well:** Although the company has opened 25% of its dining rooms at Texas, Florida, Tennessee, Oklahoma and Kansas restaurants, it is likely to hold on to its off-premise sales even as full-service dining resumes. Keeping in mind the prudent safety protocols, off-premise sales have been growing more than three times since the start of the year. Moreover, with relaxation of liquor laws in many states, it has been offering alcohol for both pick-up and delivery. Also, rising adoption of its to-go offerings of wine, growlers and beer bodes well.

▲ **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 2019, BJ's Restaurants completed the rollout of third-party delivery provisions in all its restaurants. Apart from partnerships, the company has rolled out several digital initiatives like digital check-ins, digital menus and digital payment options to attract more customers.

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.

▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** BJ's Restaurants' has enough liquidity to survive the coronavirus pandemic for some time. As of May 11, 2020, the company has approximately \$130 million of cash on its balance sheet, reflecting the draw-down of its revolving Line of Credit. Although, the company is experiencing cash burn of \$2.5 million per week, it stated that it has sufficient liquidity to maintain operations at the current scenario for the next 12 months. As of Mar 31, the company's long-term debt stands at \$231.8 million, compared with \$143 million at the end of Dec 31, 2019. At the end of the first-quarter 2020, the company had total debt-to-capital ratio of 0.7, which indicates that its debt levels are manageable.

Reasons To Sell:

- ▼ **Coronavirus to Hurt Traffic:** The restaurant industry has been facing declining traffic for quite some time now.

As of May 11, 2020, dining rooms were allowed to re-open with limited seating for social distancing and other safety precautions. This included restaurants in Alabama, Arizona, Arkansas, Florida, Indiana, Kansas, Nevada, Oklahoma, South Carolina, Tennessee and Texas. Additionally, restaurants in other states are expected to open with limited capacity in the near term.

Although the company has reopened the aforementioned restaurants, it is likely to witness dismal traffic due to the social distancing protocols. Owing to the uncertainty of the crisis, the company has also suspended its dividend payout and share buyback programs.

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

- ▼ **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 first-quarter 2020, labor costs, as a percentage of sales, increased 460 basis points (bps) to 40.8% on the deleveraging of certain fixed labor costs, including manager salaries, resulting from a lower revenue base as a result of the COVID-19 pandemic. Occupancy and operating costs (as a percentage of sales) were 24.1%, up 290 bps year over year.

- ▼ **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 Posts Q1 Loss, Lags Sales Estimates

BJ's Restaurants reported first-quarter 2020 results, wherein the bottom line surpassed analysts' expectation but the top line missed the same. With this, the company's bottom line surpassed estimates for seven straight quarters, while the top line beat the same in five of the trailing seven quarters.

Adjusted loss (excluding an impairment charge of 12 cents per share) of 10 cents per share was narrower than the Zacks Consensus Estimate of a loss of 38 cents. In the year-ago period, it had reported adjusted earnings of 62 cents per share. On a GAAP basis, the company reported a loss per share of 22 cents in the first quarter.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-2.71%
EPS Surprise	73.68%
Quarterly EPS	-0.10
Annual EPS (TTM)	1.29

Revenues & Comps

Total quarterly revenues of \$254.6 million missed the consensus estimate of \$261.7 million by 2.7%. The top line also declined 12.4% year over year. Lower comparable restaurant sales led to the decline. However, total restaurant operating weeks increased 3.2% from the prior-year quarter.

Comparable restaurant sales declined 15.5% from the prior-year quarter. In the year-ago period, comparable restaurant sales grew 2%. Prior to the COVID-19 pandemic, comparable restaurant sales grew 1.5% in the first eight weeks of the quarter. However, the metric declined 40.4% in the last five weeks of the quarter owing to the pandemic.

Expenses & Operating Margins

Labor costs, as a percentage of sales, increased 460 basis points (bps) year over year to 40.8%. Occupancy and operating costs (as a percentage of sales) were 24.1%, up 290 bps year over year. General and administrative expenses (as a percentage of sales) declined 120 bps to 4.6% in the quarter.

Restaurant-level operating margin was 10.1%, down 730 bps from the year-ago quarter.

Restaurant Count

The company expanded footprint during the reported quarter, courtesy of the opening of its first restaurant in the state of Massachusetts in North Attleboro. Although BJ's Restaurants had earlier planned to open 8-10 restaurants in 2020, it now expects to open one additional restaurant later this year. It has either canceled or delayed the remaining new restaurant openings for fiscal 2020 due to this uncertainty situation.

As of Mar 31, 2020, BJ's Restaurants owned and operated 209 casual dining restaurants in 29 states. Due to the COVID-19 crisis, the company has temporarily suspended the dine-in service in the majority of its restaurants. Presently, menu offerings and hours are limited, and four restaurants have been temporarily closed. Nonetheless, the company has been focusing on growing off-premise sales. Recently, it made some enhancements to its mobile app and online ordering platform. It also expanded large party menu and third-party delivery partnerships that enabled it to seamlessly transition to higher off-premise volumes during this pandemic.

Greg Trojan, BJ's Chief Executive Officer, said, "Once we have resumed normal operations, as conditions permit, we expect to resume our restaurant opening objectives as we continue our national expansion to at least 425 BJ's restaurants."

Balance Sheet

As of Mar 31, 2020, cash and cash equivalents totaled \$80.3 million compared with \$22.4 million on Dec 31, 2019. Total debt increased to \$231.8 million as of Mar 31, 2020 from \$143 million at 2019-end.

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 30.7% year-to-date and 38.1% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.3%, but Zacks Consumer Discretionary sector is up by 9.5% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 3.2%, but sector was up by 23.3%.

The S&P 500 index is down 3.6% in the year-to-date period but up 9.4% in the past year.

The stock is currently trading at 20.4X trailing 12-month earnings, which compares to 28.76X for the Zacks sub-industry, 31.55X for the Zacks sector and 20X 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 22.28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 21.37X trailing 12-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	20.4	28.76	31.55	20
	5-Year High	40.79	29.42	31.6	22.23
	5-Year Low	3.25	23.17	23.32	15.96
	5-Year Median	22.28	26.08	26.44	19.11
P/S F12M	Current	0.61	3.77	1.1	3.51
	5-Year High	1.41	3.93	1.12	3.51
	5-Year Low	0.1	2.81	0.81	2.53
	5-Year Median	0.85	3.3	0.94	3.02
P/CF	Current	5.28	20.84	16.24	15.87
	5-Year High	12.98	20.86	16.33	22.72
	5-Year Low	1.1	8.61	10.84	11.69
	5-Year Median	7.61	16.84	12.98	16.36

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 253)



Top Peers

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	BJRI	X Industry	S&P 500	CMG	PLAY	TAST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	C	B	D
Market Cap	585.92 M	291.94 M	22.58 B	29.05 B	716.59 M	252.28 M
# of Analysts	5	6	14	18	6	3
Dividend Yield	0.00%	0.00%	1.87%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	B	C
Cash/Price	0.17	0.11	0.06	0.03	0.05	0.18
EV/EBITDA	9.64	12.13	12.93	46.10	9.08	25.65
PEG Ratio	NA	4.79	3.06	8.45	NA	NA
Price/Book (P/B)	1.82	2.14	3.09	17.37	3.51	0.88
Price/Cash Flow (P/CF)	4.39	9.14	12.17	47.42	2.53	4.08
P/E (F1)	NA	44.71	22.17	127.20	NA	NA
Price/Sales (P/S)	0.52	0.64	2.41	5.11	0.53	0.17
Earnings Yield	-10.22%	0.22%	4.27%	0.79%	-23.92%	-14.23%
Debt/Equity	2.50	1.09	0.76	1.65	10.93	4.70
Cash Flow (\$/share)	5.99	1.81	7.01	21.96	7.69	1.17
Growth Score	F	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	4.66%	6.19%	10.87%	7.65%	25.07%	-26.49%
Proj. EPS Growth (F1/F0)	-229.23%	-91.16%	-10.79%	-41.72%	-258.56%	-87.96%
Curr. Cash Flow Growth	-5.33%	4.82%	5.48%	34.05%	-0.07%	-14.11%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	6.26%	8.55%	1.89%	16.47%	18.25%
Current Ratio	0.81	0.80	1.29	1.62	0.27	0.54
Debt/Capital	71.40%	69.14%	44.75%	62.31%	91.62%	82.46%
Net Margin	2.50%	3.21%	10.59%	5.95%	7.40%	-2.81%
Return on Equity	8.96%	2.29%	16.26%	23.90%	44.38%	-8.11%
Sales/Assets	1.05	1.04	0.55	1.14	0.60	0.87
Proj. Sales Growth (F1/F0)	-27.38%	-10.07%	-2.61%	-0.28%	-49.57%	6.26%
Momentum Score	B	-	-	A	D	C
Daily Price Chg	6.56%	0.94%	-0.08%	-0.78%	22.36%	4.02%
1 Week Price Chg	11.10%	2.84%	4.60%	-4.91%	9.60%	4.13%
4 Week Price Chg	32.13%	18.08%	12.07%	16.05%	77.09%	39.91%
12 Week Price Chg	43.43%	26.43%	25.17%	72.73%	29.87%	147.93%
52 Week Price Chg	-38.17%	-28.70%	0.34%	50.47%	-60.64%	-43.84%
20 Day Average Volume	729,057	397,080	2,537,324	581,125	7,880,926	971,981
(F1) EPS Est 1 week change	0.45%	0.00%	0.00%	3.40%	0.00%	0.00%
(F1) EPS Est 4 week change	18.85%	0.15%	-0.08%	9.79%	-8.20%	40.29%
(F1) EPS Est 12 week change	-242.98%	-94.49%	-16.19%	-55.79%	-254.53%	-270.78%
(Q1) EPS Est Mthly Chg	8.90%	6.86%	0.00%	64.21%	-8.54%	16.67%

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	D
Growth Score	F
Momentum Score	B
VGM Score	F

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.