ZACKS | Our Research. Your Success. **Mar 12, 2020**

BJs Restaurants (BJRI)

$21.39 (As of 03/11/20)

Price Target (6-12 Months): **$25.00**

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:A
	Value: A | Growth: A | Momentum: B	

Summary

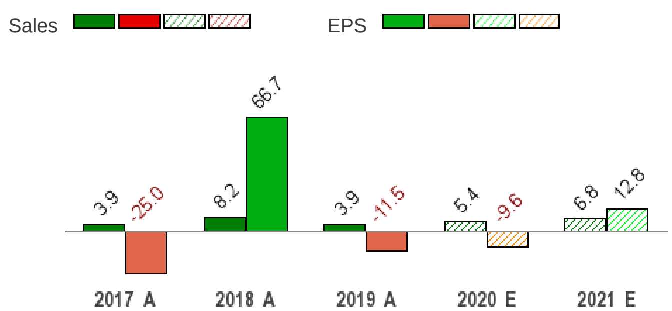
Shares of BJ's Restaurants have underperformed the industry in the past year. The company reported mixed fourth-quarter 2019 results, wherein earnings beat the Zacks Consensus Estimate but revenues missed the same. This marked the company's second straight quarter of earnings beat. BJ's Restaurants' 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. However, the coronavirus outbreak is likely to hurt the restaurant industry. High dependency on consumer discretionary spending, increasing costs and a slowdown in unit development plan are headwinds affecting the company's growth.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$53.00 - $17.67**
20 Day Average Volume (sh)	**617,956**
Market Cap	**$411.1 M**
YTD Price Change	**-43.7%**
Beta	**0.77**
Dividend / Div Yld	**$0.52 / 2.4%**
Industry	**Retail - Restaurants**
Zacks Industry Rank	**Top 23% (58 out of 253)**
Last EPS Surprise	**20.5%**
Last Sales Surprise	**-0.2%**
EPS F1 Est- 4 week change	**-4.2%**
Expected Report Date	**04/23/2020**
Earnings ESP	**-0.3%**
P/E TTM	**10.6**
P/E F1	**11.2**
PEG F1	**0.8**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	324 E	336 E	313 E	327 E	1,307 E
2020	304 E	316 E	295 E	308 E	1,224 E
2019	291 A	301 A	279 A	291 A	1,161 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.71 E	$0.74 E	$0.12 E	$0.51 E	$2.12 E
2020	$0.60 E	$0.67 E	$0.13 E	$0.46 E	$1.88 E
2019	$0.62 A	$0.68 A	$0.18 A	$0.53 A	$2.08 A

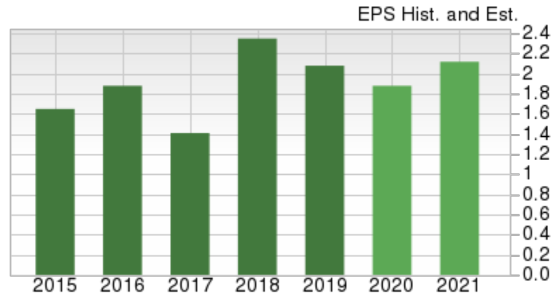
*Quarterly figures may not add up to annual.

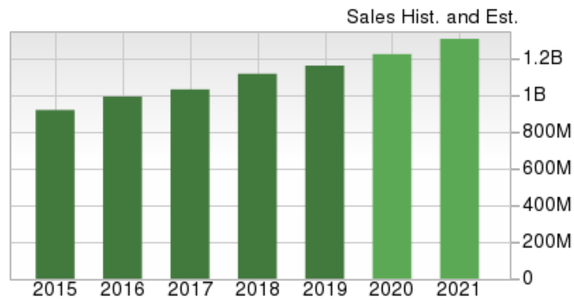
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

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:

▼ **Coronavirus to Hurt Traffic:** The restaurant industry has been facing declining traffic for quite some time now. We believe the the coronavirus outbreak will further hurt traffic and sales in the coming quarter.

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 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.

Valuation

BJ's Restaurants' shares are down 43.7% year-to-date and 56% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Consumer Discretionary sector is down by 15.6% and 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector were down by 6% and 0.5%, respectively.

The S&P 500 index is down 15% in the year-to-date period and 3.5% in the past year.

The stock is currently trading at 10.98X forward 12-month earnings, which compares to 20.7X for the Zacks sub-industry, 22.69X for the Zacks sector and 15.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.71X and as low as 10.98X, with a 5-year median of 21.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $25 price target reflects 13.2X forward 12-month earnings.

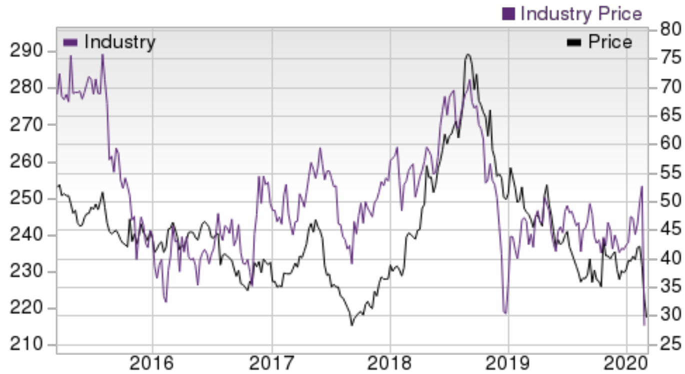
The table below shows summary valuation data for BJRI.

Valuation Multiples - BJRI

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.98	20.7	22.69	15.85
	5-Year High	38.71	26.6	26.2	19.34
	5-Year Low	10.98	20.51	19.07	15.18
	5-Year Median	21.42	23.12	23.01	17.42
P/S F12M	Current	0.33	2.97	0.94	2.91
	5-Year High	1.47	3.9	1.1	3.44
	5-Year Low	0.33	2.93	0.8	2.54
	5-Year Median	0.88	3.27	0.93	3
P/CF	Current	3.59	14.79	12.92	14.24
	5-Year High	14.29	20.5	15.2	22.67
	5-Year Low	3.59	8.56	10.76	11.78
	5-Year Median	7.86	16.7	12.89	16.38

As of 03/11/2020

Industry Analysis **Zacks Industry Rank:** Top 23% (58 out of 253)



Top Peers

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

Industry Comparison Industry: Retail - Restaurants

Industry Peers

	BJRI Neutral	X Industry	S&P 500	CMG Neutral	PLAY Neutral	TAST Underperform
VGM Score	A	-	-	B	A	B
Market Cap	411.13 M	311.03 M	19.20 B	17.95 B	547.22 M	117.69 M
# of Analysts	9	6	13	15	5	4
Dividend Yield	2.43%	0.00%	2.31%	0.00%	3.58%	0.00%
Value Score	A	-	-	D	A	B
Cash/Price	0.04	0.04	0.05	0.04	0.02	0.02
EV/EBITDA	7.97	11.48	11.76	29.43	8.38	15.05
PEG Ratio	0.64	1.70	1.73	1.81	0.44	NA
Price/Book (P/B)	1.41	2.11	2.64	10.68	3.73	0.32
Price/Cash Flow (P/CF)	3.57	7.77	10.55	29.43	2.94	1.17
P/E (F1)	9.30	15.05	15.66	34.90	5.93	NA
Price/Sales (P/S)	0.35	0.64	2.06	3.21	0.41	0.08
Earnings Yield	8.93%	6.49%	6.38%	2.87%	16.87%	-7.93%
Debt/Equity	2.04	0.96	0.70	1.59	12.25	3.92
Cash Flow ($/share)	5.99	1.81	7.01	21.96	6.09	1.94
Growth Score	A	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	9.36%	7.16%	10.85%	0.15%	30.41%	-26.49%
Proj. EPS Growth (F1/F0)	-8.32%	6.71%	6.02%	31.84%	6.00%	49.31%
Curr. Cash Flow Growth	-5.33%	6.53%	6.09%	34.05%	10.22%	13.86%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	6.24%	8.52%	1.89%	18.57%	26.29%
Current Ratio	0.41	0.62	1.24	1.61	0.25	0.29
Debt/Capital	67.07%	61.41%	42.57%	61.41%	92.46%	79.68%
Net Margin	3.89%	3.62%	11.69%	6.27%	7.82%	-2.19%
Return on Equity	13.49%	7.56%	16.74%	25.14%	37.48%	-5.85%
Sales/Assets	1.09	1.10	0.54	1.16	0.67	0.97
Proj. Sales Growth (F1/F0)	5.39%	3.06%	3.55%	13.02%	6.27%	13.86%
Momentum Score	B	-	-	A	C	B
Daily Price Chg	-15.46%	-7.82%	-5.37%	-7.82%	-21.15%	-9.92%
1 Week Price Chg	-10.05%	-6.53%	-0.67%	-6.53%	-11.15%	-29.21%
4 Week Price Chg	-48.45%	-30.53%	-20.57%	-28.21%	-61.02%	-55.49%
12 Week Price Chg	-42.41%	-28.63%	-17.57%	-21.83%	-54.34%	-67.10%
52 Week Price Chg	-55.99%	-29.59%	-8.21%	1.46%	-62.23%	-77.57%
20 Day Average Volume	617,956	338,966	2,882,511	700,379	1,052,673	757,190
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.32%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.17%	0.00%	-0.23%	0.74%	-0.55%	-87.18%
(F1) EPS Est 12 week change	-4.79%	-0.06%	-0.60%	4.13%	-0.55%	-262.22%
(Q1) EPS Est Mthly Chg	-5.00%	0.00%	-0.52%	0.05%	-0.18%	-30.16%

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	A
Growth Score	A
Momentum Score	B
VGM Score	A

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.