

BJs Restaurants (BJRI)

\$40.35 (As of 01/24/20)

Price Target (6-12 Months): **\$42.00**

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:B

Value: B

Growth: C

Momentum: B

Summary

Shares of BJ's Restaurants have underperformed the industry in the past year. High dependency on consumer discretionary spending, increasing costs and a slowdown in unit development plan are potential headwinds affecting the company's growth. Inflationary cost pressures, labor costs and expenses related to development of its off-premise sales have added to the woes. Notably, estimates for the current year have been revised downward over the past 30 days. However, BJ's Restaurants' various strategic sales-building initiatives, including menu innovation and enhanced loyalty program are likely to drive growth. Additionally, BJ's Restaurants is confident about bolstering sales through apps and digital platforms, given heavy investments in technology-driven initiatives like digital ordering.

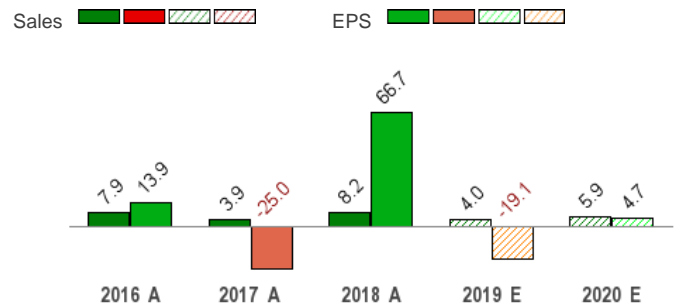
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.09 - \$32.62
20 Day Average Volume (sh)	246,927
Market Cap	\$773.2 M
YTD Price Change	6.3%
Beta	0.80
Dividend / Div Yld	\$0.52 / 1.3%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 33% (84 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	80.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	02/20/2020
Earnings ESP	1.1%
P/E TTM	20.5
P/E F1	20.3
PEG F1	1.4
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	306 E	318 E	297 E	311 E	1,231 E
2019	291 A	301 A	279 A	292 E	1,162 E
2018	279 A	288 A	270 A	281 A	1,117 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.64 E	\$0.70 E	\$0.16 E	\$0.48 E	\$1.99 E
2019	\$0.62 A	\$0.68 A	\$0.18 A	\$0.44 E	\$1.90 E
2018	\$0.67 A	\$0.79 A	\$0.39 A	\$0.49 A	\$2.35 A

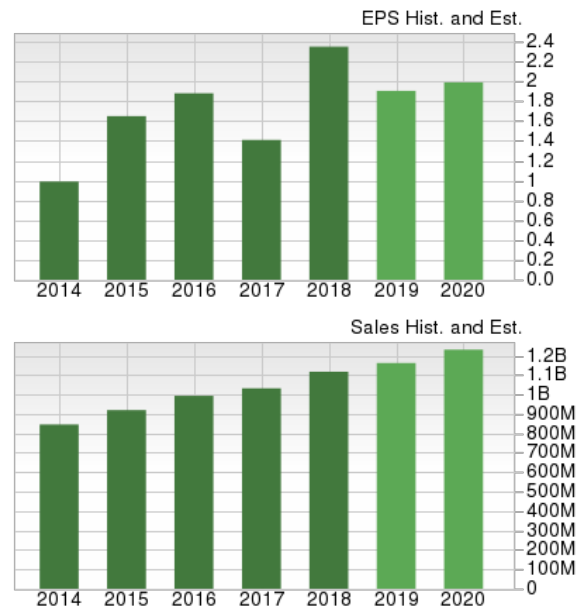
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

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 Oct 1, 2019, the company owned and operated 207 restaurants located in 28 states, namely, Alabama, Arizona, Arkansas, California, Colorado, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, 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:

▲ **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 3.1% year over year in third-quarter 2019. Moreover, during the last reported quarter, it opened its first Connecticut location in the city of Manchester and sixth restaurant in the state of Indiana. Also, the company anticipates to open its last two restaurants of fiscal 2019 in the fourth quarter. This will enable the company to achieve the goal of opening seven restaurants this fiscal year.

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

▲ **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 quarter. Resultantly, average guest check rose 2.7% year over year.

▲ **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. Moreover, in 2017, the company initiated additional \$5 million of efficiency savings in areas such as sourcing, distribution, supplies and maintenance. The company is also benefitting from a reduction in the state unemployment rate in California.

▲ **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:

- ▼ **Higher Costs Hurt:** BJ's Restaurants is continuously shouldering increased expenses, which has been detrimental to its 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 the third quarter of 2019, labor costs, as a percentage of sales, increased 80 basis points (bps) to 37.5%. Occupancy and operating costs (as a percentage of sales) were 23.3%, up 70 bps year over year. Resultantly, restaurant-level operating margin was 13.5%, down 190 bps from the year-ago quarter. Notably, comparable restaurant sales in the last reported quarter decreased 0.3% from the prior-year period. This decline was attributed to Hurricane Dorian that affected approximately 10% of its restaurants and weakened certain markets of California.

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

- ▼ **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 Q3 Earnings & Revenues Top Estimates

BJ's Restaurants, reported third-quarter fiscal 2019 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. This marked the company's eight straight quarter of revenue beat. Moreover, it came up with an earnings beat, after missing estimates in the preceding quarter.

Adjusted earnings of 18 cents per share beat the Zacks Consensus Estimate of 10 cents by 80%. However, the bottom line decreased 53.8% year over year.

BJ's Restaurants' earnings in the quarter suffered from an expense of \$0.03 that is related to the adoption of ASU 2016-02.

Moreover, during the reported quarter, the company opened its first Connecticut location in the city of Manchester and sixth restaurant in the state of Indiana.

Revenues & Comps

Total quarterly revenues were \$278.7 million, which marginally surpassed the consensus estimate of \$278 million by 0.2%. The top line also grew 3.1% year over year, driven by 2.9% rise in operating weeks.

Comparable restaurant sales in the quarter under review decreased 0.3% from the prior-year quarter. This decline was attributed to Hurricane Dorian that affected approximately 10% of its restaurants and weakness in certain markets of California. Nonetheless, the company believes that robust sales-building efforts and improving labor productivity will continue to drive comps in the quarters to come.

Expenses & Operating Margins

Labor costs, as a percentage of sales, increased 80 basis points (bps) to 37.5% in the third quarter. Occupancy and operating costs (as a percentage of sales) were 23.3%, up 70 bps year over year.

Restaurant-level operating margin was 13.5%, down 190 bps from the year-ago quarter. However, in order to counter high costs prevalent in the industry, the company is undertaking various cost-saving and efficiency initiatives to drive margins.

Balance Sheet

As of Oct 1, 2019, cash and cash equivalents totaled \$24.4 million compared with \$29.2 million on Jan 1, 2019.

Total debt increased to \$158 million at the end of the third quarter from \$95 million at 2018-end.

BJ's Restaurants declared an increase in the quarterly cash dividend by 8.3%, payable on Nov 25, 2019 to its shareholders of record at the close of business on Nov 11, 2019.

Additionally, in the quarter under review, the company repurchased and retired roughly 1.1 million shares of its common stock for \$41.3 million.

Guidance

As part of sales building efforts, the company anticipates to open its last two restaurants of fiscal 2019 in the fourth quarter. This will enable the company achieve the goal of opening seven restaurants this fiscal year. Notably, it also expects to open eight-ten new restaurants in fiscal 2020.

It expects general & administrative expenses to be around \$15.5-\$16 million.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	0.17%
EPS Surprise	80.00%
Quarterly EPS	0.18
Annual EPS (TTM)	1.97

Valuation

BJ's Restaurants' shares are down 24.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector gained 18.9% and 16.6%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 20.14x forward 12-month Price to Earnings value, which compares with 25.11x for the Zacks sub-industry, 25.09x for the Zacks sector and 18.94x for the S&P 500 index.

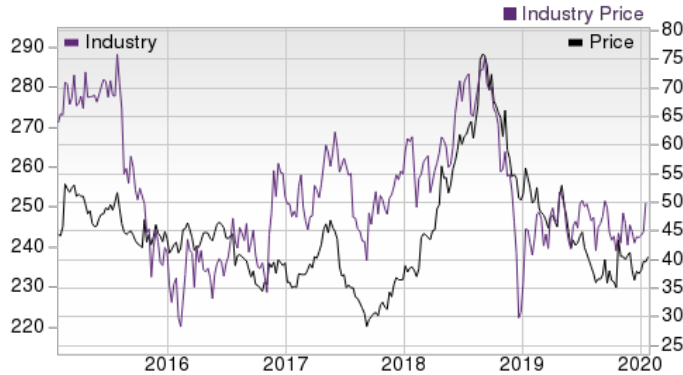
Over the past five years, the stock has traded as high as 43.57x and as low as 15.54x, with a 5-year median of 21.59x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$42 price target reflects 21x forward 12-month Price to Earnings value.

The table below shows summary valuation data for BJRI.

Valuation Multiples - BJRI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.14	25.11	25.09	18.94
	5-Year High	43.57	26.41	26.23	19.34
	5-Year Low	15.54	20.45	19.07	15.17
	5-Year Median	21.59	23.25	22.95	17.44
P/S F12M	Current	0.63	3.62	1.07	3.52
	5-Year High	1.48	3.85	1.11	3.52
	5-Year Low	0.55	2.91	0.8	2.54
	5-Year Median	0.9	3.25	0.91	3
P/CF	Current	7.14	17.44	14.39	23.11
	5-Year High	14.4	20.39	15.17	23.11
	5-Year Low	5.21	8.5	10.73	11.78
	5-Year Median	8	16.5	12.85	16.26

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 255)



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	B	-	-	B	B	D
Market Cap	773.23 M	434.02 M	24.13 B	24.17 B	1.41 B	248.35 M
# of Analysts	9	5.5	13	16	5	3
Dividend Yield	1.29%	0.00%	1.78%	0.00%	1.38%	0.00%
Value Score	B	-	-	D	A	B
Cash/Price	0.03	0.03	0.04	0.03	0.01	0.01
EV/EBITDA	10.57	14.86	14.02	55.27	11.49	16.48
PEG Ratio	1.39	2.16	2.03	2.45	1.09	NA
Price/Book (P/B)	2.88	3.02	3.30	14.90	9.63	0.67
Price/Cash Flow (P/CF)	7.09	11.84	13.52	53.07	7.59	2.47
P/E (F1)	20.20	22.16	18.92	48.34	16.22	NA
Price/Sales (P/S)	0.67	0.93	2.65	4.50	1.06	0.18
Earnings Yield	4.93%	4.45%	5.28%	2.07%	6.16%	-2.09%
Debt/Equity	2.08	0.94	0.72	1.63	12.25	3.92
Cash Flow (\$/share)	5.69	1.53	6.94	16.39	6.09	1.94
Growth Score	C	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	12.23%	7.71%	10.60%	-6.46%	30.41%	-26.49%
Proj. EPS Growth (F1/F0)	4.49%	8.26%	7.59%	29.09%	-2.66%	68.88%
Curr. Cash Flow Growth	21.94%	7.73%	13.90%	29.44%	10.22%	13.86%
Hist. Cash Flow Growth (3-5 yrs)	10.50%	6.24%	9.00%	1.62%	18.57%	26.29%
Current Ratio	0.38	0.63	1.22	1.51	0.25	0.29
Debt/Capital	67.56%	61.12%	42.99%	61.96%	92.46%	79.68%
Net Margin	3.60%	3.14%	11.35%	5.77%	7.82%	-1.48%
Return on Equity	13.38%	8.47%	17.10%	23.97%	37.48%	-3.00%
Sales/Assets	1.19	1.17	0.55	1.30	0.67	1.07
Proj. Sales Growth (F1/F0)	5.91%	3.14%	4.03%	12.52%	8.15%	14.84%
Momentum Score	B	-	-	A	D	D
Daily Price Chg	3.30%	-0.45%	-1.01%	-1.15%	0.15%	-3.82%
1 Week Price Chg	-0.21%	1.65%	2.29%	2.38%	15.48%	-20.62%
4 Week Price Chg	7.63%	1.75%	1.02%	3.71%	12.15%	-30.98%
12 Week Price Chg	1.92%	1.92%	6.85%	11.77%	16.29%	-32.82%
52 Week Price Chg	-22.86%	0.32%	20.39%	63.05%	-3.83%	-48.05%
20 Day Average Volume	246,927	196,336	1,536,379	275,252	780,293	692,850
(F1) EPS Est 1 week change	0.10%	0.00%	0.00%	0.43%	0.00%	-533.33%
(F1) EPS Est 4 week change	-0.35%	0.00%	0.00%	1.00%	0.00%	-186.67%
(F1) EPS Est 12 week change	-1.00%	0.15%	-0.23%	2.23%	4.64%	-132.77%
(Q1) EPS Est Mthly Chg	0.99%	0.00%	0.00%	0.59%	0.00%	-65.79%

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	C
Momentum Score	B
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.

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.