

BJs Restaurants (BJRI)

\$28.26 (As of 08/27/20)

Price Target (6-12 Months): **\$30.00**

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:C

Value: B

Growth: C

Momentum: F

Summary

Although shares of BJ's Restaurants have underperformed the industry so far this year, the company is likely to benefit from reopening of restaurants along with various strategic sales-building initiatives and enhanced loyalty program. Also, the rollout of digital check-ins, digital menus and digital payment options is likely to attract more customers. Notably, earnings estimates for 2020 have increased over the past 60 days, depicting analysts optimism regarding the stock growth potential. However, the coronavirus related woes still remains a major concern. Although the company has reopened majority of its restaurants, it is likely to witness dismal traffic due to the social distancing protocols. Also, high dependency on consumer discretionary spending, increasing costs and a slowdown in unit development plan remains a headwind.

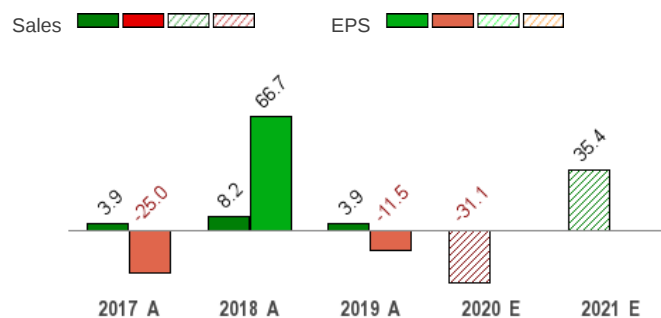
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.47 - \$6.01
20 Day Average Volume (sh)	427,305
Market Cap	\$629.6 M
YTD Price Change	-25.6%
Beta	1.84
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 44% (110 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	45.3%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	251 E	268 E	267 E	283 E	1,083 E
2020	255 A	128 A	182 E	235 E	800 E
2019	291 A	301 A	279 A	291 A	1,161 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.08 E	\$0.30 E	\$0.01 E	\$0.31 E	\$0.73 E
2020	-\$0.10 A	-\$0.99 A	-\$0.67 E	-\$0.09 E	-\$2.09 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

Overview

Founded in 1978 in Orange County, CA, BJ's Restaurants owns and operates a chain of high-end casual dining restaurants in the United States.

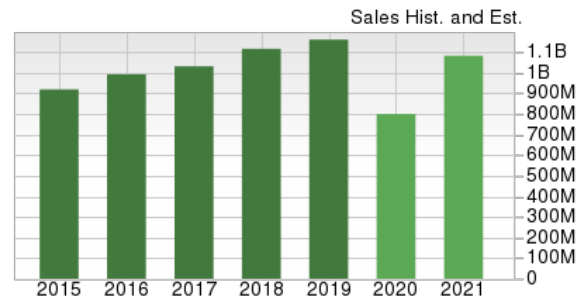
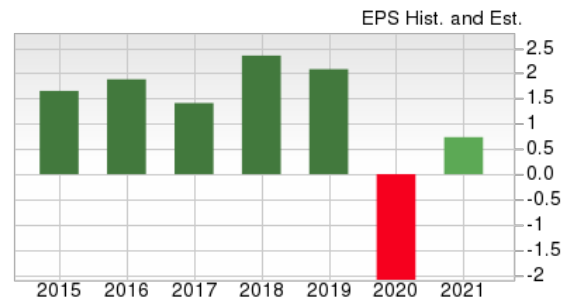
The restaurants operate as BJ's Restaurant & Brewery /BJ's Restaurant & Brewhouse and/ or BJ's Pizza & Grill and or BJ's Grill. The menu offers a wide range of dining options, including everyday lunch and dinner, special occasions and late-night business.

The offerings include a broad menu comprising of slow roasted entrees, such as, prime rib; EnLIGHTened Entrees such as Cherry Chipotle Glazed Salmon; signature deep-dish pizza; the world-famous Pizookie dessert; and its award-winning BJ's proprietary craft beers.

As of Jul 23, 2020, the company owned 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.

Although coronavirus has triggered a catastrophe in terms of lives lost and financial impact, the company appears resilient enough to navigate through these uncertain times. As of Jun 11, 2020, the company has reopened dining rooms in 178 of its restaurants throughout 24 states.

BJ's Restaurants' has also stated reopening its temporarily closed restaurants and anticipates getting 208 restaurants operational this week. Soon, it expects to start operating dining rooms at more than 85% of its locations.



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, majority of its restaurants have limited their menu offerings from 145 items to 85 in order to support their business models.

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

Nonetheless, the company intends to bring back Prime Rib for both dining-in and take-out by mid-August 2020. The company is also working on Family Bundles comprising Slow-Roasted Tri-Tip in order to boost single-serve catering options.

▲ **Off-Premise Sales Bode Well:** Even though the company has reopened majority of its dining rooms with limited capacity, its off-premise operations continue to be a driving factor for overall sales. To this end, the company added Slow-Roasted Ribs, Parmesan Chicken, Atlantic Salmon and Rib-Eye Steaks to its off-premise menu at attractive prices. It is also working on new SMS text and email technology to boost customer convenience in terms of pickup and delivery. As a result of these initiatives, the company's average weekly off-premise sales nearly tripled to over \$30,000 per week. Overall, off-premise sales have more than doubled compared to pre-COVID-19 levels, while dining rooms have recorded half of normal sales levels through June-end.

▲ **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.

Moreover to boost sales from its dine-in services, restaurant operators have initiated the opening and expansion of patios around the perimeter of its restaurants to attract more guests. Notably, the addition of 155 patios enables the company to increase its seating capacity and serve more guests, while maintaining social-distancing protocols.

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. Moreover, to support online ordering, the company is transitioning from the current PDF form factor to a dynamic HTML version thereby boosting promotions as well as guest-driven navigation.

▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** BJ's Restaurants has enough liquidity to survive the coronavirus pandemic for some time. As of Jun 30, 2020, the company has approximately \$86.7 million of cash on its balance sheet along with another \$50 million under its line of credit. Although the company is experiencing cash burn of \$0.5-\$1 million per week, it stated that it has sufficient liquidity to maintain operations at the current scenario for some time. As of Jun 30, the company's total debt stands at \$166.8 million compared with \$143 million at the end of Dec 31, 2019. At the end of second-quarter 2020, the company had a debt-to-capital ratio of 0.67, which indicates that its debt levels are manageable.

Reasons To Sell:

- ▼ **Coronavirus to Hurt Traffic:** Although the company has reopened majority of its restaurants, it is likely to witness dismal traffic due to the social distancing protocols.

Moreover, with increased state and local restrictions, dining rooms in California have been closed again. As a result, the company is currently operating with 70% indoor dining rooms compared to 95% as of June-end.

- ▼ **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 second-quarter 2020, labor costs, as a percentage of sales, increased 420 basis points (bps) year over year to 40.2%. Occupancy and operating costs (as a percentage of sales) were 35.8% compared with 21.4% in the year-ago quarter. General and administrative expenses (as a percentage of sales) increased 600 bps to 11.3% in the quarter. Restaurant-level operating margin came in at (1%) against 17% in the year-ago quarter.

- ▼ **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.

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

Last Earnings Report

BJ's Restaurants Q2 Earnings Beat Estimates, Decline Y/Y

BJ's Restaurants reported second-quarter 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. However, the metrics declined on a year-over-year basis.

Earnings & Revenues

Adjusted net loss of 99 cents per share was narrower than the Zacks Consensus Estimate of a loss of \$1.81. In the year-ago period, the company had reported adjusted earnings of 68 cents per share.

Total quarterly revenues of \$128 million beat the consensus estimate of \$126 million by 1.3%. However, the top line declined 57.5% on a year-over-year basis. Lower comparable restaurant sales led to the decline. However, total restaurant operating weeks increased approximately 1.3% from the prior-year quarter. Comparable restaurant sales declined 57.2% against 2% growth in the year-ago quarter.

Expenses & Operating Margins

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Store Count

Throughout May and June, BJ's Restaurants reopened majority (or 95%) of its dining rooms with capacity limitations. However, entering July, counties across California ordered rollbacks of their dine-in re-opening plans. Resultantly, 70% of its dining rooms are operating with limited capacity.

With respect to unit expansion, BJ's Restaurants chief executive officer, Greg Trojan stated, "While we have canceled or delayed all but one of our remaining new restaurant openings for fiscal 2020 due to the effects of the COVID-19 pandemic, we remain confident in the long-term opportunity to expand the BJ's concept to at least 425 restaurants nationally."

As of Jun 30, 2020, BJ's Restaurants owned and operated 209 casual dining restaurants (in 29 states), out of which one is temporarily closed due to the COVID-19 crisis.

Balance Sheet

As of Jun 30, 2020, cash and cash equivalents totaled \$86.7 million compared with \$22.4 million on Dec 31, 2019. Total debt increased to \$166.8 million as of Jun 30, 2020, from \$143 million at 2019-end.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	1.30%
EPS Surprise	45.30%
Quarterly EPS	-0.99
Annual EPS (TTM)	-0.38

Valuation

BJ's Restaurants' shares are down 25.6% year-to-date and 24% in the trailing 12-month period. Stocks in the Zacks sub-industry are up by 2.6%, and the Zacks Retail-Wholesale sector is up by 36.6%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 6.2%, but the sector is up 44.5%.

The S&P 500 index is up by 8.1% in the year-to-date period and 19.4% in the past year.

The stock is currently trading at 0.64X forward 12-month sales, which compares to 3.86X for the Zacks sub-industry, 1.32X for the Zacks sector and 3.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.41X and as low as 0.1X, with a 5-year median of 0.83X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 0.67X forward 12-month sales.

The table below shows summary valuation data for BJRI.

Valuation Multiples - BJRI					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.64	3.86	1.32	3.81
	5-Year High	1.41	3.93	1.32	3.81
	5-Year Low	0.1	2.81	0.82	2.53
	5-Year Median	0.83	3.32	0.97	3.05
P/CF	Current	8.95	32.82	18.57	16.27
	5-Year High	12.75	32.82	18.57	22.73
	5-Year Low	1.1	8.61	11.01	11.7
	5-Year Median	7.45	16.86	13.23	16.37
EV/EBITDA TTM	Current	25.98	22.21	20.75	13.25
	5-Year High	25.98	22.21	20.75	13.25
	5-Year Low	6.19	11.94	10.68	8.25
	5-Year Median	9.94	14.37	12.97	10.92

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Top 44% (110 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Jack In The Box Inc. (JACK)	Outperform	2
Papa Johns International, Inc. (PZZA)	Outperform	1
DINE BRANDS GLOBAL, INC. (DIN)	Neutral	3
Dunkin Brands Group, Inc. (DNKN)	Neutral	3
DaveBusters Entertainment, Inc. (PLAY)	Neutral	4
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
RESTAURANT GRP (RSTGF)	Neutral	3
Carrols Restaurant Group, Inc. (TAST)	Neutral	2

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	BJRI	X Industry	S&P 500	DNKN	PLAY	RRGB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	D	D	C
Market Cap	629.63 M	407.98 M	23.67 B	6.20 B	715.10 M	149.97 M
# of Analysts	6	6	14	11	6	4
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	D	B
Cash/Price	0.15	0.13	0.07	0.10	0.24	0.19
EV/EBITDA	9.42	13.03	13.33	18.09	9.10	9.74
PEG Ratio	NA	3.76	3.05	3.02	NA	NA
Price/Book (P/B)	2.01	2.30	3.18	NA	2.88	0.79
Price/Cash Flow (P/CF)	4.72	9.43	12.81	19.98	1.96	1.25
P/E (F1)	NA	36.35	21.68	28.00	NA	NA
Price/Sales (P/S)	0.66	0.84	2.50	4.76	0.62	0.14
Earnings Yield	-7.40%	0.85%	4.43%	3.57%	-22.69%	-116.89%
Debt/Equity	1.97	0.96	0.74	-5.73	10.36	4.13
Cash Flow (\$/share)	5.99	1.81	6.94	3.77	7.69	7.72
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	3.47%	3.03%	10.41%	11.83%	7.70%	-24.46%
Proj. EPS Growth (F1/F0)	-200.64%	-66.06%	-4.94%	-15.11%	-216.27%	-1,919.03%
Curr. Cash Flow Growth	-5.33%	3.07%	5.22%	5.44%	-0.07%	-15.30%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	5.23%	8.50%	5.81%	16.47%	-0.74%
Current Ratio	0.73	1.06	1.35	1.60	0.73	0.52
Debt/Capital	66.31%	70.54%	43.86%	NA	91.19%	80.51%
Net Margin	-1.58%	-0.23%	10.25%	16.79%	1.24%	-22.56%
Return on Equity	-2.98%	-10.35%	14.66%	-38.22%	8.89%	-52.03%
Sales/Assets	0.88	0.87	0.50	0.34	0.49	0.92
Proj. Sales Growth (F1/F0)	-31.12%	-6.05%	-1.43%	-6.61%	-48.60%	-32.02%
Momentum Score	F	-	-	C	A	F
Daily Price Chg	3.94%	0.15%	0.43%	1.70%	6.88%	2.33%
1 Week Price Chg	2.74%	0.00%	-1.45%	1.56%	-11.29%	-10.40%
4 Week Price Chg	37.18%	8.80%	3.75%	9.76%	14.34%	6.63%
12 Week Price Chg	7.37%	3.42%	3.95%	10.10%	-22.64%	-43.34%
52 Week Price Chg	-24.05%	-22.33%	2.75%	-9.94%	-64.25%	-72.05%
20 Day Average Volume	427,305	296,894	1,887,168	809,449	4,978,440	1,035,934
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	2.50%	0.79%	4.67%	0.00%	-3.68%
(F1) EPS Est 12 week change	32.49%	21.14%	3.43%	6.36%	26.67%	-85.56%
(Q1) EPS Est Mthly Chg	0.00%	7.06%	0.00%	11.42%	0.00%	12.60%

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	F
VGM Score	C

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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