

Cracker Barrel (CBRL)

\$147.18 (As of 03/04/20)

Price Target (6-12 Months): **\$169.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Shares of Cracker Barrel have outperformed the industry in the past three months. The uptrend is likely to continue as the company posted second-quarter fiscal 2020 results, with earnings beating the Zacks Consensus Estimate. Moreover, the bottom line surpassed the consensus mark for the sixth consecutive quarter. Nonetheless, earnings and revenues improved on a year-over-year basis. Moreover, the company reported impressive comparable store restaurant sales. Notably, Cracker Barrel has been benefitting from enhanced marketing efforts, seasonal promotions as well as unit expansions. Moreover, the company's increased focus on revamp its menu, serves as the backbone of the company's riveting growth potential. However, higher labor costs stemming from increased wages along with a decline in traffic might dent profits going forward.

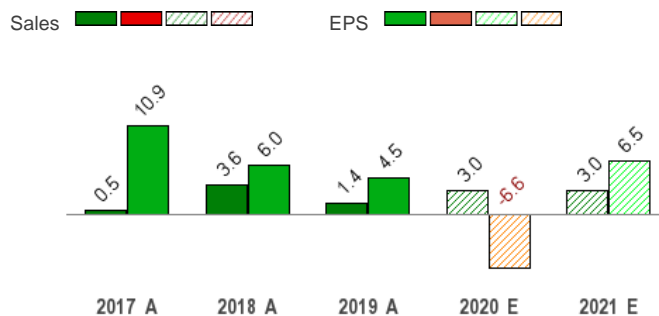
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$180.93 - \$141.82
20 Day Average Volume (sh)	419,930
Market Cap	\$3.5 B
YTD Price Change	-4.3%
Beta	0.49
Dividend / Div Yld	\$5.20 / 3.5%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 31% (78 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.7%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	5.2%
Expected Report Date	06/02/2020
Earnings ESP	0.0%
P/E TTM	15.3
P/E F1	17.0
PEG F1	1.7
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,257 E
2020	749 A	846 A	765 E	802 E	3,163 E
2019	734 A	812 A	740 A	787 A	3,072 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$9.22 E
2020	\$2.15 A	\$2.70 A	\$1.89 E	\$2.40 E	\$8.66 E
2019	\$1.96 A	\$2.52 A	\$2.09 A	\$2.70 A	\$9.27 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 03/04/2020. The reports text is as of 03/05/2020.

Overview

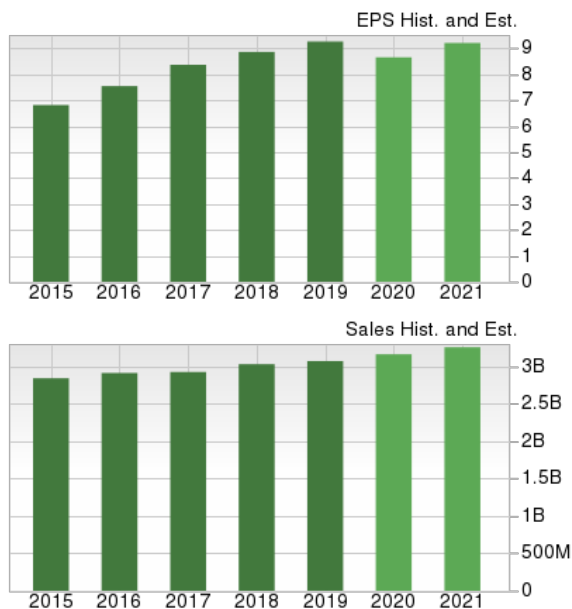
Based in Lebanon, TN and founded in 1969, Cracker Barrel Old Country Store, is engaged in the ownership and operation of full service restaurants with a restaurant and a retail store in the same unit. The restaurants serve home-style country food including meatloaf, homemade chicken n' dumplings as well as its signature biscuits using an old family recipe. Meanwhile, the retail stores offer unique gifts and self-indulgences.

The company operates through two brands of restaurants – “Cracker Barrel Old Country Store” and “Holler & Dash Biscuit House”. The company also owns fast-casual Holler and Dash restaurants. As of Feb 25, 2020, there were 664 company-owned Cracker Barrel stores in 45 states across the United States.

On Oct 10, 2019, the company acquired Maple Street Biscuit Company (“MSBC”). As of Jan 31, 2020, MSBC had 28 company-owned and five franchised fast casual locations across seven states. As of Jan 31, the company started converting its existing six Holler & Dash Biscuit House™ locations (“Holler & Dash”) into MSBC locations. The Holler & Dash locations operate in the same states as MSBC. The company plans to convert all Holler & Dash units into Maple Street locations in the upcoming months.

Although Cracker Barrel currently manages its business on the basis of one reportable operating segment, total revenues of the company is reportedly divided into two product lines — Restaurant (78.4% of total revenues in fiscal second-quarter 2020) and Retail (21.6%).

The company's restaurants provide home-style country cooking featuring its own recipes and serves breakfast, lunch and dinner.



Reasons To Buy:

▲ **Impressive Earnings Trend:** Cracker Barrel has impressed investors with better-than-expected earnings in the trailing six quarters. In fiscal second quarter, adjusted earnings of \$2.70 per share surpassed the Zacks Consensus Estimate of \$2.44. The bottom line also increased 7.1% year over year. For fiscal 2020, management expects GAAP earnings in the range of \$8.5-\$8.65. Moreover, the company reported impressive comparable store restaurant sales in second-quarter fiscal 2020. Comps in the quarter increased 3.8%, following a rise of 2.1% in first-quarter fiscal 2020.

Enhanced marketing efforts, seasonal promotions as well as unit growth bode well for the top line. Moreover, cost cutting efforts might aid in margin expansion.

▲ **Relentless Focus on Menu Innovation & Expansion:** Cracker Barrel is continuously focusing on rejuvenating its menu, which serves as the backbone of the company's riveting growth potential. The company's in-store menu feature Fried Chicken Benedict bowl, a Ham n' Maple Bacon bowl as well as a Sausage, Grits Cakes and Green Tomato Gravy bowl. Also, in the past year, Cracker Barrel completed the rollout of crafted coffee. The company believes that the platform will complement the strength of its breakfast all day offering, drive check favorability and promote guest perceptions of menu variety. The company's current menu promotion centered around Cracker Barrel homestyle favorites such as chicken and dumplings, country fried steak and Grandma's Sampler. Moreover, the company plans to strengthen the dinner daypart by introducing new signature craveable items. The initiative is likely to simplify the menu to increase consistency and execution as well as providing a more optimized menu.

Cracker Barrel's continuous expansion strategies are also helping the company to drive growth. In fiscal 2018, Cracker Barrel unveiled its first California location. Further, the company opened one Holler & Dash location in Charlotte, NC. In fiscal 2019, the company have opened eight restaurants. Also, the company expects to open six new Cracker Barrel stores and one Maple Street location in fiscal 2020.

▲ **Marketing, Digital & Other Sales-Building Initiatives:** In a bid to address the challenges of the competitive restaurant industry, Cracker Barrel undertakes extensive marketing efforts, mainly focusing on the brand's differentiation, menu offering and its value. In order to drive traffic, Cracker Barrel relies heavily on seasonal promotions and limited-time offers to boost its top-line performance as they are appealing to both regular users and less-frequent guests. In fiscal 2020, the company aims to meet consumers' need for convenience via growth in its off-premise business. In fact, it plans to enhance its off-premise platform by introducing catering menu offering and in-store training of hourly employees. In fiscal 2019, off-premise sales (as a percentage of total revenues) increased 150 basis points year over year. Further, management will continue to invest in its product line-up for improving guest experience and employee training to support long-term plans within this space. Multiple delivery options will also be tested in this fiscal year. Moreover, the company increased third party delivery footprint to nearly 600 stores during the first quarter fiscal 2020.

▲ **Cost Cutting Efforts:** Cracker Barrel has an effective cost-cutting mechanism in place. The company undertakes various measures to keep costs under control. Currently, the company is carrying out its cost-saving plan through its two prime initiatives — food waste and labor management. For fiscal 2020, Cracker Barrel expects cost savings synergies of \$11-\$13 million. Over the long run, the same is targeted at \$40 million. The company changed the structure in its retail sales and service functions and now cross-trains its retail sales associate and cashier positions. This system-wide change allows it to deploy fewer associates during the outlet's low volume hours, thereby reducing store hourly labor by 25–30 hours per week. The company believes that this initiative will be a significant contributor to its cost savings. Cracker Barrel also introduced a new food management program that includes back of the house process improvements, additional focus on food reporting and analytics as well as a new food auditing process. This program resulted in savings in the restaurants' cost of goods sold. On the utility front, the company has undertaken the implementation of LED lighting, which is being installed on the exterior of its stores. This is improving energy efficiencies and driving cost favorability.

Risks

- **Rising Cost Scenario:** Despite cost-saving initiatives, higher labor costs due to increased wages are expected to persistently keep profits under pressure. Also, the company is apprehensive that inflationary costs are likely to be incurred. Meanwhile, management is making significant investments to support the training and launch of several initiatives as well as its value testing. Although these initiatives are expected to drive Cracker Barrel's top-line growth during fiscal 2020, initial investments might dent margins. Moreover, expenses for opening units are expected to hurt the company's margins. Resultantly, operating margin in the second-quarter fiscal 2020 was 9.4%, down 10 basis points (bps) from the year-ago quarter's figure. Moreover, the company witnessed a rise in other operating, general and administrative expenses during fiscal second quarter.
 - **Traffic Woes Linger:** Even though comps have increased over the past few quarters, decline in traffic continues to be a major concern for the stocks in this space. In the fiscal 2019, traffic declined 0.7%. The downtrend continued in the first and second-quarter of fiscal 2020, with traffic declining 1.5% and 0.2%, respectively. Year to date, the company's shares have declined 6.8% compared with the industry's decrease of 5.6%.
 - **Limited International Presence:** While several other restaurateurs including Yum! Brands, McDonald's and Domino's Pizza are capitalizing on the emerging market potential, Cracker Barrel 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 cut-throat in the saturated domestic market.
 - **Industry Susceptible to Consumer Discretionary Spending:** Cracker Barrel operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic 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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Last Earnings Report

Cracker Barrel Q2 Earnings Beat Estimates, Up Y/Y

Cracker Barrel reported mixed second-quarter fiscal 2020 results, with earnings surpassing the Zacks Consensus Estimate and revenues missing the same. Adjusted earnings came in at \$2.70 per share, which outpaced the Zacks Consensus Estimate of \$2.44 by 10.7%. The bottom line also increased 7.1% year over year. With this, the company posted earnings beat for the sixth straight quarter.

Revenues of \$846.1 million missed the consensus mark of \$847.6 million by 0.2% but increased 4.2% from the prior-year quarter's figure. The upside was primarily driven by positive comparable restaurant sales, opening of four new Cracker Barrel locations and acquisition of 28 company-owned Maple Street locations.

Quarter Ending 01/2020

Report Date	Feb 25, 2020
Sales Surprise	-0.17%
EPS Surprise	10.66%
Quarterly EPS	2.70
Annual EPS (TTM)	9.64

Comps Details

Comparable store restaurant sales increased 3.8% in the reported quarter courtesy of a 4% uptick in average check, partially offset by a 0.2% decline in comparable store restaurant traffic. Also, the average menu price rose about 2.2%. Nonetheless, comparable store retail sales in fiscal second quarter inched up 1.3% from the prior-year quarter's figure.

Operating Highlights

Operating income in fiscal second quarter totaled \$79.1 million, up 3.2% year over year. Operating margin was 9.4%, down 10 basis points from the prior-year quarter's figure.

The decline in operating margin was caused by increases in operating as well as general and administrative expenses, partially offset by reductions in cost of goods sold and labor-related expenses.

Balance Sheet

As of Jan 31, 2020, cash and cash equivalents were \$72.8 million, down from \$169.6 million as of Feb 1, 2019. Long-term debt amounted to \$460 million at the end of the quarter, up from \$400 million in the prior-year quarter. Inventory at the end of the quarter under review amounted to \$157.4 million, up from \$151.4 million at the end of first-quarter fiscal 2018.

Net cash provided by operating activities was \$184 million in fiscal second quarter compared with \$190.9 million in the prior-year quarter.

Additionally, in the quarter under review, the company repurchased \$5.8 million of shares.

Fiscal 2020 Outlook

Cracker Barrel expects total revenues in the range of \$3.15-\$3.2 billion. The company expects comparable store restaurant sales growth in the range of 2-2.5%, while comparable store retail sales growth is expected to be approximately flat. It continues to expect menu pricing to be approximately 2%. The company expects capital expenditure of approximately \$125 million and an effective tax rate of 16%.

Furthermore, Cracker Barrel aims to open six Cracker Barrel stores and one Maple Street location in fiscal 2020. Management continues to project GAAP earnings per share in the range of \$8.5-\$8.65 for fiscal 2020. The projection includes the impact of 80 cents owing to investment in Punch Bowl Social as well as 15 cents due to transaction and integration expenses related to the acquisition of Maple Street

Valuation

Cracker Barrel shares are down 4.3% year-to-date and 5.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down by 5.5% and 3.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 5.2% and 7%, respectively.

The S&P 500 index is down 7.1% in the year-to-date period, but up 6.9% in the past year.

The stock is currently trading at 16.37X forward 12-month earnings, which compares to 23.07X for the Zacks sub-industry, 23.77X for the Zacks sector and 17.15X for the S&P 500 index.

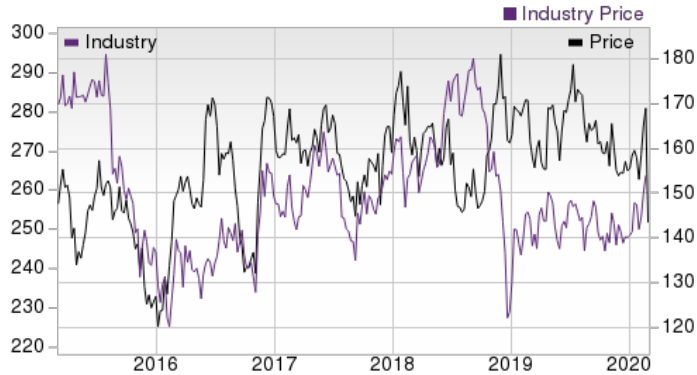
Over the past five years, the stock has traded as high as 22.93X and as low as 14.53X, with a 5-year median of 18.18X. Our Outperform recommendation indicates that the stock will perform better-than the market. Our \$169 price target reflects 18.79X forward 12-month earnings.

The table below shows summary valuation data for CBRL.

Valuation Multiples - CBRL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.37	23.07	23.77	17.15
	5-Year High	22.93	26.56	26.19	19.34
	5-Year Low	14.53	20.48	19.06	15.18
	5-Year Median	18.18	23.16	23.08	17.44
P/S F12M	Current	1.1	3.3	0.99	3.16
	5-Year High	1.44	3.9	1.11	3.43
	5-Year Low	0.97	2.93	0.8	2.54
	5-Year Median	1.23	3.28	0.92	3.01
EV/EBITDA TTM	Current	10.7	15.95	14.45	10.93
	5-Year High	13.37	17.54	15.92	12.88
	5-Year Low	8.63	12.13	10.8	8.49
	5-Year Median	10.96	14.13	12.48	10.79

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



Top Peers

The Cheesecake Factory Incorporated (CAKE)	Neutral
Dominos Pizza Inc (DPZ)	Neutral
Darden Restaurants, Inc. (DRI)	Neutral
Brinker International, Inc. (EAT)	Neutral
McDonalds Corporation (MCD)	Neutral
Dave & Busters Entertainment, Inc. (PLAY)	Neutral
Starbucks Corporation (SBUX)	Neutral
The Wendys Company (WEN)	Neutral

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	CBRL Outperform	X Industry	S&P 500	CAKE Neutral	DPZ Neutral	EAT Neutral
VGM Score	B	-	-	B	B	A
Market Cap	3.52 B	364.52 M	21.37 B	1.60 B	13.22 B	1.32 B
# of Analysts	3	6	13	11	11	7
Dividend Yield	3.53%	0.00%	2.04%	4.02%	0.76%	4.30%
Value Score	B	-	-	A	D	A
Cash/Price	0.02	0.04	0.05	0.19	0.03	0.01
EV/EBITDA	11.20	13.89	12.65	12.31	24.48	9.90
PEG Ratio	1.70	2.12	1.87	1.22	2.35	1.25
Price/Book (P/B)	5.59	2.34	2.96	2.99	NA	NA
Price/Cash Flow (P/CF)	10.69	10.69	11.68	7.79	30.02	4.40
P/E (F1)	17.00	18.69	16.98	13.01	31.40	8.15
Price/Sales (P/S)	1.13	0.81	2.44	0.64	3.65	0.40
Earnings Yield	5.88%	5.01%	5.87%	7.68%	3.19%	12.26%
Debt/Equity	1.46	0.96	0.70	2.43	-1.25	-4.33
Cash Flow (\$/share)	13.77	1.81	7.01	4.60	11.39	8.03
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	7.72%	7.16%	10.85%	1.90%	31.17%	5.13%
Proj. EPS Growth (F1/F0)	-6.58%	7.30%	6.36%	5.47%	13.79%	10.21%
Curr. Cash Flow Growth	7.73%	6.53%	6.07%	-1.46%	9.16%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	10.21%	6.59%	8.52%	2.15%	17.68%	-1.24%
Current Ratio	0.64	0.62	1.23	1.04	1.74	0.41
Debt/Capital	59.38%	61.41%	42.57%	70.81%	NA	NA
Net Margin	7.04%	3.25%	11.57%	5.13%	11.07%	4.21%
Return on Equity	37.31%	7.56%	16.66%	21.61%	-13.12%	-22.42%
Sales/Assets	1.68	1.10	0.54	1.14	2.97	1.76
Proj. Sales Growth (F1/F0)	2.96%	3.06%	4.01%	17.13%	8.75%	9.22%
Momentum Score	F	-	-	C	A	D
Daily Price Chg	2.23%	0.13%	-2.60%	3.35%	0.71%	0.14%
1 Week Price Chg	-15.09%	-12.90%	-12.06%	-15.43%	-8.74%	-15.12%
4 Week Price Chg	-5.90%	-9.87%	-10.01%	-10.48%	22.98%	-15.71%
12 Week Price Chg	-4.19%	-9.99%	-7.46%	-12.10%	16.44%	-14.03%
52 Week Price Chg	-5.48%	-8.54%	2.54%	-23.20%	37.53%	-19.31%
20 Day Average Volume	419,930	248,774	2,406,738	1,125,981	1,244,305	1,017,775
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.29%	0.21%	0.11%
(F1) EPS Est 4 week change	5.22%	0.00%	-0.06%	0.80%	2.91%	0.11%
(F1) EPS Est 12 week change	5.22%	0.00%	-0.39%	0.36%	3.67%	2.20%
(Q1) EPS Est Mthly Chg	-0.93%	0.00%	-0.45%	15.15%	1.47%	0.00%

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	B
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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