

Cracker Barrel (CBRL)

\$164.89 (As of 02/14/20)

Price Target (6-12 Months): **\$173.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

Shares of Cracker Barrel have outperformed the industry in the past three months. The outperformance is primarily attributed to enhanced marketing efforts, seasonal promotions as well as unit growth that impact the company's top line. Moreover, solid comps trend bodes well for the company. For fiscal 2020, management expects earnings of \$8.5-\$8.65. The company also aims to open six Cracker Barrel stores in fiscal 2020. Also, cost cutting efforts might aid in margin expansion. In spite of cost-saving initiatives, higher labor costs stemming from increased wages might put pressure on profits. Decline in traffic is also a concern. Estimates for 2020 have witnessed downward revisions in the past 60 days, depicting analysts' concern regarding the future performance of the company.

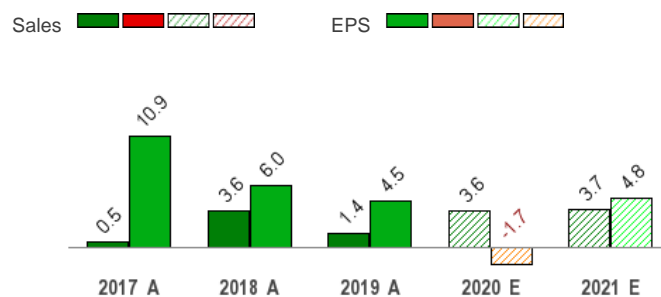
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$180.93 - \$149.50
20 Day Average Volume (sh)	242,795
Market Cap	\$4.0 B
YTD Price Change	7.3%
Beta	0.52
Dividend / Div Yld	\$5.20 / 3.2%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 30% (77 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.5%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	17.4
P/E F1	18.1
PEG F1	1.8
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,299 E
2020	749 A	848 E	775 E	810 E	3,182 E
2019	734 A	812 A	740 A	787 A	3,072 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.24 E	\$2.76 E	\$2.25 E	\$2.82 E	\$9.55 E
2020	\$2.15 A	\$2.44 E	\$2.14 E	\$2.67 E	\$9.11 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 02/14/2020. The reports text is as of 02/17/2020.

Overview

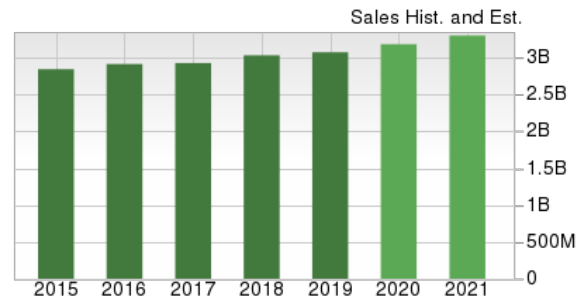
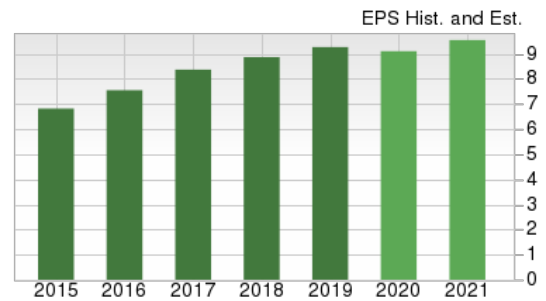
Based in Lebanon, TN and founded in 1969, Cracker Barrel Old Country Store, is engaged in the ownership and operation of full service restaurants with a restaurant and a retail store in the same unit. The restaurants serve home-style country food including meatloaf, homemade chicken n' dumplings as well 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”. As of Nov 1 2019, there were 660 company-owned Cracker Barrel stores in 45 states across the United States. The company also owns fast-casual Holler and Dash restaurants.

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 (81% of the total revenues in fiscal first quarter 2020) and Retail (19%).

The company's restaurants provide home-style country cooking featuring its own recipes and serves breakfast, lunch and dinner. In 2018, breakfast, lunch and dinner accounted for 24%, 39% and 37% of restaurant sales.

Moreover, in 2018, apparel and accessories, food, décor, toys and media accounted for 31%, 18%, 12%, 11% and 8% of total retail sales.



Reasons To Buy:

▲ **Impressive Earnings Trend:** Cracker Barrel has impressed investors, with better-than-expected earnings in the trailing 15 quarters. In the first quarter of fiscal 2020, adjusted earnings of \$2.15 per share surpassed the Zacks Consensus Estimate of \$2.00. The bottom line also increased 9.7% year over year. For fiscal 2020, management expects earnings in the range of \$8.5-\$8.65. Moreover, the company also reported impressive comparable store restaurant sales in first-quarter fiscal 2020. Comps in the quarter increased 2.1%, following a gain of 3.8% in fourth-quarter fiscal 2019.

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. 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. The company also aims to open six Cracker Barrel stores in fiscal 2020. Also, the company plans to convert six of the seven Holler & Dash locations to Maple Street during 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. For fiscal 2018, it delivered \$6.3 million in annual cost savings. 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.

Reasons To Sell:

▼ **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 fiscal 2019 was 9.2%, down 50 basis points (bps) from 9.7% in fiscal 2018. Moreover, the company witnessed a rise in other operating, general and administrative expenses during the first quarter 2020.

A tricky industry dependent on consumer discretionary spending, rising costs as well as limited geographical presence remain potent headwinds for the company.

▼ **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%. In the first quarter fiscal 2020, traffic declined 1.5%. Year to date, the company's shares have declined 3.5% compared with the industry's 20.6% rally.

▼ **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.

Last Earnings Report

Cracker Barrel Q1 Earnings Top, Revenues Lag Estimates

Cracker Barrel's adjusted earnings came in at \$2.15 per share, which outpaced the Zacks Consensus Estimate of \$2.00 by 7.5%. The bottom line also increased 9.7% year over year owing to higher operating margin.

Revenues of \$749 million missed the consensus mark of \$755.2 million by 0.8% but increased 2.1% from the prior-year quarter figure. The upside was primarily due to positive comparable restaurant sales and the opening of four new Cracker Barrel locations.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	-0.82%
EPS Surprise	7.50%
Quarterly EPS	2.15
Annual EPS (TTM)	9.46

Comps Details

Comparable store restaurant sales increased 2.1% in the reported quarter courtesy of a 3.6% uptick in average check, partially offset by a 1.5% decrease in comparable store restaurant traffic. Also, the average menu price rose about 2.3%.

However, comparable store retail sales in the fiscal first quarter fell 0.9% compared to the prior-year quarter.

Operating Highlights

Operating income in the fiscal first quarter totaled \$63.4 million, up 3% year over year. Operating margin was 8.5%, up 10 basis points from the prior-year quarter.

The improvement in operating margin was led by reductions in cost of goods sold, which were offset by an increase in other related expenses.

Balance Sheet

As of Nov 1, 2019, cash and cash equivalents were \$43.2 million, down from \$101.6 million as of Nov 2, 2018. Long-term debt amounted to \$485 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 \$188.7 million, up from \$181.6 million at the end of first-quarter fiscal 2018.

Net cash provided by operating activities was \$44.8 million in the fiscal first quarter, compared with \$59.6 million a year ago.

Additionally, in the quarter under review, the company returned \$46.3 million to its shareholders through dividends (\$32.1 million) and share repurchase (\$14.2 million).

Fiscal 2020 Guidance

Cracker Barrel expects total revenues in the range of \$3.15-\$3.2 billion. The company expects comparable store restaurant sales and retail sales to grow by approximately 2% and 1%, respectively. It continues to expect menu pricing to be approximately 2%.

The company expects capital expenditure between \$115 million and \$125 million and an effective tax rate of 16-17%.

Furthermore, Cracker Barrel aims to open six Cracker Barrel stores and one Maple Street location in fiscal 2020. It also has plans to convert six of the seven Holler & Dash locations to Maple Street in the coming months.

Management continues to project GAAP earnings per share of \$8.5-\$8.65 (including the impact of investment in Punch Bowl Social and other non-recurring items) for fiscal 2020.

Valuation

Cracker Barrel's shares are down by 3.3% in the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector has gained 17.8% and 18.9%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 17.64x forward 12-month Price to Earnings value, which compares with 25.86x for the Zacks sub-industry, 26.09x for the Zacks sector and 19.35x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.42x and as low as 15.23x, with a 5-year median of 18.21x. Our neutral recommendation indicates that the stock will perform in-line with the market. Our \$173 price target reflects 18.26x forward 12-month Price to Earnings value.

The table below shows summary valuation data for CBRL.

Valuation Multiples - CBRL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.64	25.86	26.09	19.35
	5-Year High	23.42	26.41	26.2	19.35
	5-Year Low	15.23	20.45	19.07	15.18
	5-Year Median	18.21	23.25	22.99	17.47
P/S F12M	Current	1.22	3.68	1.09	3.58
	5-Year High	1.44	3.85	1.11	3.58
	5-Year Low	0.97	2.91	0.8	2.54
	5-Year Median	1.23	3.25	0.92	3
EV/EBITDA TTM	Current	12.33	16.74	15.89	12.31
	5-Year High	13.37	17.48	15.89	12.85
	5-Year Low	8.63	12.08	10.79	8.47
	5-Year Median	10.95	14	12.41	10.7

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 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 Neutral	X Industry	S&P 500	CAKE Neutral	DPZ Neutral	EAT Neutral
VGM Score	B	-	-	B	D	A
Market Cap	3.95 B	435.91 M	24.61 B	1.80 B	11.93 B	1.56 B
# of Analysts	2	5.5	13	10	9	8
Dividend Yield	3.15%	0.00%	1.78%	3.57%	0.89%	3.66%
Value Score	C	-	-	B	D	A
Cash/Price	0.01	0.03	0.04	0.17	0.02	0.01
EV/EBITDA	12.46	15.17	14.06	13.26	24.02	10.51
PEG Ratio	1.81	2.20	2.09	1.34	2.01	1.25
Price/Book (P/B)	6.53	3.01	3.29	3.37	NA	NA
Price/Cash Flow (P/CF)	11.98	12.10	13.65	8.78	28.42	5.18
P/E (F1)	18.12	22.56	19.21	14.76	27.47	9.61
Price/Sales (P/S)	1.28	0.95	2.70	0.76	3.36	0.47
Earnings Yield	5.52%	4.28%	5.19%	6.77%	3.64%	10.42%
Debt/Equity	1.57	0.94	0.71	2.43	-1.23	-4.33
Cash Flow (\$/share)	13.77	1.53	6.92	4.59	10.26	8.03
Growth Score	A	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	8.31%	7.71%	10.85%	3.09%	30.90%	5.13%
Proj. EPS Growth (F1/F0)	-1.78%	8.72%	7.17%	3.44%	13.13%	10.11%
Curr. Cash Flow Growth	7.73%	7.67%	8.56%	-4.40%	37.70%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	10.21%	6.24%	8.36%	1.58%	19.72%	-1.24%
Current Ratio	0.66	0.60	1.23	1.04	1.44	0.41
Debt/Capital	61.12%	61.12%	42.91%	70.81%	NA	NA
Net Margin	7.11%	3.13%	11.81%	3.99%	10.79%	4.21%
Return on Equity	36.68%	7.75%	16.86%	21.61%	-12.92%	-22.42%
Sales/Assets	1.79	1.16	0.54	1.21	3.23	1.76
Proj. Sales Growth (F1/F0)	3.57%	3.02%	3.85%	17.82%	7.36%	9.22%
Momentum Score	C	-	-	B	F	B
Daily Price Chg	-0.12%	0.00%	0.06%	0.90%	1.95%	-1.09%
1 Week Price Chg	3.58%	0.24%	2.47%	2.89%	-2.21%	-1.64%
4 Week Price Chg	3.46%	0.00%	0.59%	-0.52%	1.48%	-6.40%
12 Week Price Chg	5.97%	3.92%	6.98%	-6.02%	2.66%	-4.41%
52 Week Price Chg	-3.20%	2.28%	16.62%	-14.01%	1.54%	-7.50%
20 Day Average Volume	242,795	205,630	2,020,569	599,770	673,094	1,084,188
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.45%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	-0.27%	0.41%	2.23%
(F1) EPS Est 12 week change	-4.16%	0.00%	-0.17%	-0.43%	1.11%	2.39%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	-0.20%	-0.44%	0.77%

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	C
Growth Score	A
Momentum Score	C
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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