# Brinker International (EAT)

**$12.01** (As of 03/31/20)

Price Target (6-12 Months): **$13.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 04/09/19) Prior Recommendation: Outperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:A |
| | Value: A \| Growth: B \| Momentum: F | |

## Summary

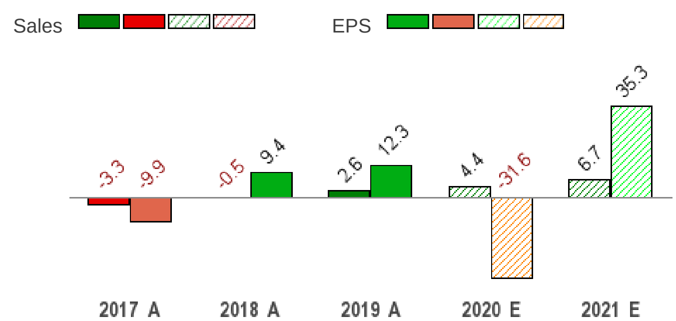
Brinker's ambitious expansion plans along with its sales building, digital, operational and remodeling initiatives bode well. Moreover, strengthening of its value proposition, better food presentation, advertising campaigns, kitchen system optimization and introduction of better service platform are driving the company. However, elevated expenses and slowdown in some of the major emerging markets persist. Weakness at Maggiano's is also a concern. Moreover, the outbreak of Coronavirus is likely to dent the company's performance going forward. Shares of Brinker have underperformed the industry in the past six months. Notably, earning estimates for 2020 have declined over the past 30 days, depicting analysts concern over the stock growth potential.

## Price, Consensus & Surprise


## Data Overview

| | |
|---|---|
| 52 Week High-Low | $47.57 - $7.00 |
| 20 Day Average Volume (sh) | 3,440,737 |
| Market Cap | $449.3 M |
| YTD Price Change | -71.4% |
| Beta | 1.28 |
| Dividend / Div Yld | $1.52 / 12.7% |
| Industry | Retail - Restaurants |
| Zacks Industry Rank | Bottom 39% (156 out of 254) |
| | |
| Last EPS Surprise | 4.1% |
| Last Sales Surprise | -4.0% |
| EPS F1 Est- 4 week change | -32.4% |
| Expected Report Date | 05/05/2020 |
| Earnings ESP | -89.0% |
| | |
| P/E TTM | 3.0 |
| P/E F1 | 4.5 |
| PEG F1 | 0.6 |
| P/S TTM | 0.1 |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 816 E | 866 E | 937 E | 917 E | 3,586 E |
| 2020 | 786 A | 848 A | 904 E | 773 E | 3,360 E |
| 2019 | 754 A | 791 A | 839 A | 834 A | 3,218 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $0.11 E | $0.81 E | $1.24 E | $1.34 E | $3.64 E |
| 2020 | $0.41 A | $1.01 A | $1.05 E | $0.47 E | $2.69 E |
| 2019 | $0.47 A | $0.89 A | $1.26 A | $1.36 A | $3.93 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 03/31/2020. The reports text is as of 04/01/2020.

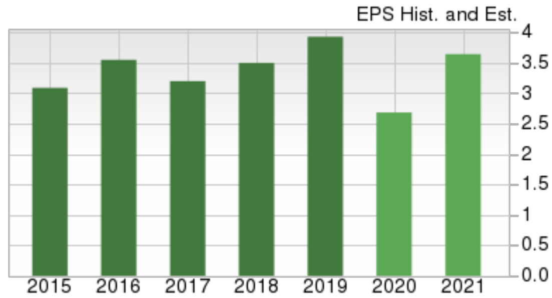
## Overview

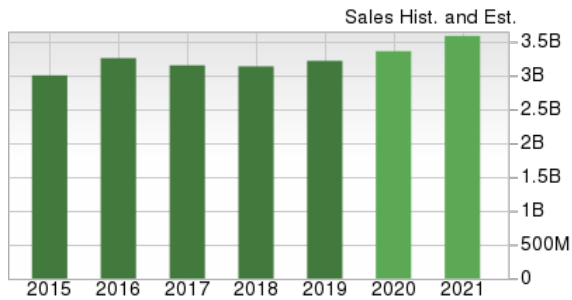
Based in Dallas, TX, Brinker International primarily owns, operates, develops and franchises various restaurants under Chili's Grill & Bar (Chili's) and Maggiano's Little Italy (Maggiano's) brands. The company took over Chili's, Inc., a Texas corporation from September 1983 and completed the acquisition of Maggiano's in August 1995.

Chili's is a preeminent leader in the bar & grill category of casual dining. The brand has been functioning for over the last 40 years. With a global presence in 31 countries and two territories outside the United States, the brand features typical American menu. Additionally, it is known for gourmet burgers, sizzling fajitas, baby back ribs and hand-shaken margaritas. In fiscal 2018, Brinker relaunched it's My Chili's Rewards program and began offering free chips and salsa or soft drink to members at every visit.

Maggiano's is a full-service, national, casual dining Italian restaurant brand, featuring individual and family-style menus, and most restaurants. The brand also has extensive banquet facilities designed to host large party business or social events. The menu features a classic Italian-American range in forms of appetizers and entrees, with portions of pasta, chicken, seafood, veal, prime steaks and desserts.

In the second quarter of fiscal 2020, Chili's contributed 85.5% to total revenues, while Maggiano's contributed 14.5%. As of Dec 25, 2019, the company owned, operated or franchised 1,675 restaurants. Among these, 1,622 were Chili's and the remaining 53 were Maggiano's units.




## Reasons To Buy:

> Brinker's ambitious expansion plans along with its sales building, digital, operational and remodeling initiatives are encouraging.

▲ **Sales-Building Initiatives to Spur Growth:** Brinker remains steadfast in its goal to drive traffic and revenues through a range of sales-building initiatives such as streamlining of menu and its innovation, strengthening its value proposition, better food presentation, advertising campaigns, kitchen system optimization and introduction of better service platform. Particularly emphasizing on menu innovation to propel revenues, the company started a strategic plan — Vision 2020 — focusing on menu innovation in Chili's, continuous improvement in service and atmosphere to differentiate the brand and gain market traction to achieve long-term earnings per share growth target in the range of 10-15%.

▲ **Chili's Major Growth Driver:** In the trailing four quarters, Chili's turn-around strategies yielded results with traffic and sales moving in the positive direction. Chili's comps increased 2.9% and 2% in the first and the second quarter of fiscal 2020. The company is of the opinion that the positive momentum is likely to continue in fiscal 2020 as well. It is focused on simplifying Chili's core menu by improving recipes and strengthening value proposition, with some higher-quality ingredients and new cooking techniques to deliver better food at even more compelling price points. In fact, the early momentum resulting from the menu launch has been positive and serves as the fundamental move in the process of growing traffic at Chili's. Notably, the company has been beating traffic trends of the industry for consequently eighth quarters in a row. In addition, at Maggiano's, the company is poised to continue delivering differentiated dining experience, with the rollout of a new menu. The new menu expands dining options to drive incremental visits.

▲ **Continued Expansion & Operational Initiatives:** Brinker is one of the few fast-casual restaurant chains that have been expanding despite a sluggish economic development. Management is gearing up for international expansion as well, especially in the faster growing emerging markets. Though it is experiencing some headwinds in the Middle East, the company's Latin American business has been solid. Notably, the company is on the lookout to expand brand in existing markets and enter new ones. In fiscal 2018, the company had opened 34 restaurants. In fiscal 2019, the company opened 23 restaurants globally. Moreover, the company anticipates to open 39-47 restaurants in fiscal 2020 as well.

▲ **Remodeling Initiative:** Over the past few quarters, Brinker's remodeling efforts have gained momentum leading to improvement in sales. Notably, the company continues to invest in its reimage program. In fact, the company continues to invest in a brand-wide reimage program that will drive traffic and comps over the next three years. Brinker's remodeling initiative is thus expected to continue to invigorate its potential as a brand and augment guests' experience. The company expects its reimage program to cover 140 and 160 restaurants in fiscal 2020.

▲ **Strengthening Digital Capabilities:** Brinker is also investing heavily in technology-driven initiatives, like online ordering, to augment sales and boost guest services. Having installed a table top technology at all the company-owned restaurants in partnership with Ziosk, the company has now implemented handheld devices in all of California. This is resulting in increased efficiency and speed. During second-quarter fiscal 2020, the company replaced existing tabletop system with a more advanced system to enhance the guest experience and the efficiencies of the model. Moreover, Brinker effectively uses social media platforms and email database to drive customer awareness and boost traffic. These initiatives will contribute significantly to Brinker's business in the near future. Meanwhile, the To-Go platform has been the fastest growing segment of the company. At Chili's, Brinker's To-Go business has been continuously gaining.

In the first half of fiscal 2020, Maggiano's started testing electronic check presenters that facilitate a pay at the table option to provide convenience and efficiency to guests as well as to increase digital guest engagement. Maggiano's also entered into an exclusive partnership with DoorDash to create a more affordable rate structure, making third party delivery more sustainable and efficient for the brand to operate. During fiscal second quarter, guests were provided the option of online ordering directly through Maggiano's website apart from the DoorDash platforms.

Brinker also stands to gain from integrating its My Chili's Reward program with Plenti — a rewards program by American Express that offers leading brands across multiple categories. It gives Chili's access to Plenti's huge database of members and is likely to improve sales and profits. Moreover, the company launched a digital curbside platform in its company-owned restaurants. Thus, take-out guests can now order, pay, and get their food conveniently, all through the Chili's app. With about half of the company's online guests using it, the service is ensuring simpler, faster, effortless experience to take-out guests, thereby resulting in higher check, this should improve sales in the future.

## Reasons To Sell:

Elevated expenses and slowdown in some of the major emerging markets remain potent headwinds.

- **Higher Costs:** Higher labor costs due to increased wages and costs incurred due to the implementation of the Affordable Care Act are expected to continue to keep profits under pressure. This means that the restaurant operators will have to continue shouldering increased labor costs, which in turn will hurt margins. In the fiscal second quarter, total operating costs and expenses rose roughly 11.4% to nearly $825.8 million.

  Additionally, costs related to various sales-boosting initiatives, including advertising expenses, along with commodity inflation are expected to continue to hurt margins. Thus, the company's profits in the upcoming quarters might remain under pressure despite its cost-saving initiatives.

- **Weak Maggiano's Results:** Brinker is seeing weak sales trend at Maggiano's. In the fiscal second quarter, Maggiano's sales were down 1.5% year over year to $119.1 million primarily due to decline in comparable restaurant sales and adverse weather conditions. Comps dropped 1.4% year over year on a 2.8% decline in traffic.

- **Slowdown in International Market:** Brinker's international comps might be under pressure in the coming quarters, due to a slowdown in some of the international markets that it operates in. Brinker is highly exposed to various emerging nations, which has been exhibiting decelerating growth for some time due to various macro headwinds. This might limit discretionary spending, in turn hurting the company's top line. For instance, the company's business in the Middle East is widely challenged, given the adverse economic factors impacting the region. In second-quarter fiscal 2020, the company reported dismal international franchise comparable sales at Chili's restaurants.

## Last Earnings Report

**Brinker's Q2 Earnings Beat, Revenues Miss Estimates**

| Quarter Ending | 12/2019 |
|---|---|
| Report Date | Jan 29, 2020 |
| Sales Surprise | -3.97% |
| EPS Surprise | 4.12% |
| Quarterly EPS | 1.01 |
| Annual EPS (TTM) | 4.04 |

Brinker International, reported mixed second-quarter fiscal 2020 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same. The top line lagged the consensus mark for the third straight quarter.

Adjusted earnings of $1.01 per share surpassed the consensus estimate of 97 cents and also increased 13.5% from the year-ago quarter, mainly due to improved operating performance. Quarterly revenues totaled $847.5 million, which missed the consensus mark of $883 million but improved 11.3% on a year-over-year basis. Its traffic-building strategies and revenues generated from the acquisition of 116 Chili's restaurants aided the top line.

**Brand Performances**

Brinker primarily engages in ownership, operation, development and franchising of various restaurant brands under Chili's Grill & Bar (Chili's) and Maggiano's Little Italy (Maggiano's).

**Chili's**

Revenues at Chili's totaled $728.4 million in the reported quarter, up 13.7% from the prior-year period. The upside was driven by an increase in off-premise sales, led by comparable restaurant sales and revenues generated from the acquisition of 116 Chili's restaurants.

The brand's company-owned comps rose 2%, which marked Brinker's seventh consecutive quarter of positive comps. In first-quarter fiscal 2020, company-owned comps rose 2.9% from the prior-year quarter.

Comps at Chili's franchised restaurants decreased 0.4% compared with 0.8% decline registered in the year-ago quarter. At international franchised Chili's restaurants, the same fell 0.9% compared with the year-ago quarter's decline of 6.5%. Meanwhile, at the U.S. franchised units, comps increased 0.2% compared with 3.4% growth in the year-ago quarter.

At Chili's, domestic comps (including company-owned and franchised) grew 1.7% compared with the first quarter's increase of 3%.

**Maggiano's**

Maggiano's sales decreased 1.5% year over year to $119.1 million, primarily due to a decline in comparable restaurant sales and adverse weather conditions.

Comps dropped 1.4% year over year.

**Operating Results**

Total operating costs and expenses jumped roughly 11.4% to $825.8 million from $741.1 million in the year-ago quarter. However, restaurant operating margin — as a percentage of company sales — was 12.7% compared with 12.4% in the prior-year quarter.

**Balance Sheet**

As of Dec 25, 2019, cash and cash equivalents amounted to $12 million compared with $16.2 million on Dec 26, 2018.

Long-term debt was $1.3 billion as of Dec 25, 2019 compared with $1.2 billion on Jun 26, 2019. Total shareholders' deficit in the reported quarter was $568.9 million compared with $778.2 million as of Jun 26, 2019.

Management approved a quarterly dividend of 38 cents per share of the company's common stock in the fiscal second quarter, which is payable on Mar 26 to its shareholders of record on Mar 6.

**Fiscal 2020 Guidance**

The company raised its fiscal 2020 guidance. It expects earnings per diluted share in the range of $4.25 to $4.45. The Zacks Consensus Estimate for the same is pegged at $4.24 per share.

The company also anticipates revenues to be up approximately 9.0% to 10.0% primarily due to the acquisition of the 116 Chili's restaurants. Comparable restaurant sales are pegged at 1.75% to 2.5% and capital expenditures between $140 million and $150 million.

## Valuation

Brinker's shares are down 71.4% in the year-to-date period and 72.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 22.6% and 11.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17.3% and 4.1%, respectively.

The S&P 500 index is down 18.5% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 2.71X forward 12-month earnings, which compares to 21.12X for the Zacks sub-industry, 23.03X for the Zacks sector and 16.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.72x and as low as 1.73x, with a 5-year median of 12.31x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $13 price target reflects 2.93x forward 12-month earnings.

The table below shows summary valuation data for EAT.

| Valuation Multiples - EAT | | | | | |
|---|---|---|---|---|---|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M | Current | 2.71 | 21.12 | 23.03 | 16.12 |
| | 5-Year High | 18.72 | 26.59 | 26.19 | 19.34 |
| | 5-Year Low | 1.73 | 20.49 | 19.06 | 15.18 |
| | 5-Year Median | 12.31 | 23.07 | 23.1 | 17.44 |
| P/S F12M | Current | 2.71 | 3.3 | 0.98 | 16.12 |
| | 5-Year High | 18.72 | 3.85 | 1.09 | 19.34 |
| | 5-Year Low | 1.73 | 2.79 | 0.79 | 15.18 |
| | 5-Year Median | 12.21 | 3.24 | 0.89 | 17.44 |
| P/CF | Current | 1.53 | 13.31 | 12.52 | 13.62 |
| | 5-Year High | 11.08 | 20.59 | 15.2 | 22.67 |
| | 5-Year Low | 0.97 | 8.61 | 10.76 | 11.66 |
| | 5-Year Median | 6.94 | 16.76 | 12.86 | 16.38 |

As of 03/31/2020

## Industry Analysis **Zacks Industry Rank:** Bottom 39% (156 out of 254)


## Top Peers

| | |
|---|---|
| Cracker Barrel Old Country Store, Inc. **(CBRL)** | Outperform |
| Arcos Dorados Holdings Inc. **(ARCO)** | Neutral |
| The Cheesecake Factory Incorporated **(CAKE)** | Neutral |
| Dominos Pizza Inc **(DPZ)** | Neutral |
| J d Wetherspoon Plc **(JDWPY)** | Neutral |
| Mitchells & Butlers Plc **(MBPFF)** | Neutral |
| SSP GROUP PLC **(SSPPF)** | Neutral |
| Texas Roadhouse, Inc. **(TXRH)** | Neutral |

## Industry Comparison Industry: Retail - Restaurants

Industry Peers

| | EAT Neutral | X Industry | S&P 500 | ARCO Neutral | CAKE Neutral | CBRL Outperform |
|---|---|---|---|---|---|---|
| **VGM Score** | A | - | - | B | A | A |
| Market Cap | 449.26 M | 251.33 M | 17.97 B | 685.47 M | 767.95 M | 1.99 B |
| # of Analysts | 6 | 5 | 13 | 2 | 11 | 3 |
| Dividend Yield | 12.66% | 0.00% | 2.37% | 3.59% | 8.43% | 6.25% |
| **Value Score** | A | - | - | B | A | A |
| Cash/Price | 0.03 | 0.08 | 0.06 | 0.17 | 0.08 | 0.04 |
| EV/EBITDA | 7.61 | 9.92 | 10.93 | 6.96 | 9.48 | 7.28 |
| PEG Ratio | 0.51 | 2.01 | 1.74 | 2.00 | 0.86 | NA |
| Price/Book (P/B) | NA | 1.33 | 2.39 | 1.63 | 1.33 | 3.16 |
| Price/Cash Flow (P/CF) | 1.50 | 5.32 | 9.48 | 3.37 | 3.72 | 6.05 |
| P/E (F1) | 4.18 | 18.57 | 14.84 | 23.03 | 9.20 | 10.94 |
| Price/Sales (P/S) | 0.14 | 0.45 | 1.91 | 0.23 | 0.31 | 0.64 |
| Earnings Yield | 22.31% | 4.97% | 6.65% | 4.19% | 10.89% | 9.14% |
| Debt/Equity | -4.33 | 0.97 | 0.70 | 3.52 | 2.59 | 1.46 |
| Cash Flow ($/share) | 8.03 | 1.79 | 7.01 | 0.99 | 4.60 | 13.77 |
| **Growth Score** | B | - | - | A | C | B |
| Hist. EPS Growth (3-5 yrs) | 5.13% | 7.72% | 10.89% | -0.10% | 1.90% | 7.72% |
| Proj. EPS Growth (F1/F0) | -31.68% | -12.41% | 1.29% | -62.82% | -28.84% | -17.91% |
| Curr. Cash Flow Growth | -3.96% | 5.47% | 6.03% | 42.39% | -1.46% | 7.73% |
| Hist. Cash Flow Growth (3-5 yrs) | -1.24% | 5.92% | 8.55% | 93.55% | 2.15% | 10.21% |
| Current Ratio | 0.41 | 0.61 | 1.24 | 0.68 | 0.40 | 0.64 |
| Debt/Capital | NA% | 65.09% | 42.36% | 77.89% | 72.13% | 59.38% |
| Net Margin | 4.21% | 3.89% | 11.64% | 2.70% | 5.13% | 7.04% |
| Return on Equity | -22.42% | 6.13% | 16.74% | 20.74% | 21.28% | 37.31% |
| Sales/Assets | 1.76 | 1.06 | 0.54 | 1.23 | 1.06 | 1.68 |
| Proj. Sales Growth (F1/F0) | 4.40% | 0.00% | 1.61% | -1.75% | 11.79% | 2.96% |
| **Momentum Score** | F | - | - | F | C | B |
| Daily Price Chg | 5.91% | 0.00% | -2.05% | 0.00% | 3.52% | 8.64% |
| 1 Week Price Chg | 18.90% | 19.45% | 12.32% | -0.84% | 2.15% | 11.13% |
| 4 Week Price Chg | -65.94% | -40.49% | -18.09% | -49.70% | -50.71% | -42.20% |
| 12 Week Price Chg | -71.57% | -47.75% | -24.90% | -58.71% | -56.63% | -46.27% |
| 52 Week Price Chg | -72.88% | -53.13% | -18.55% | -52.22% | -64.56% | -46.41% |
| 20 Day Average Volume | 3,440,737 | 521,624 | 4,222,189 | 1,388,418 | 4,019,386 | 1,022,413 |
| (F1) EPS Est 1 week change | -30.48% | -3.12% | -0.18% | 0.00% | 7.98% | 0.00% |
| (F1) EPS Est 4 week change | -32.39% | -18.22% | -3.16% | -64.63% | -32.73% | 0.00% |
| (F1) EPS Est 12 week change | -30.88% | -20.53% | -4.36% | -65.48% | -32.19% | 5.22% |
| (Q1) EPS Est Mthly Chg | -25.57% | -14.47% | -2.63% | NA | -37.36% | 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 | A |
| Growth Score | B |
| Momentum Score | F |
| 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

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