Brinker International (EAT)

$37.59 (As of 08/19/20)

Price Target (6-12 Months): **$39.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/20/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: C	

Summary

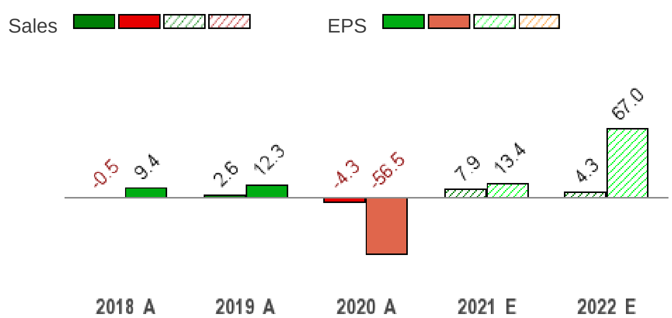
Shares of Brinker have outperformed the industry in the past three months. The company reported fourth-quarter fiscal 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. Although, the metrics declined on a year-over-year basis, the company remains steadfast in its goal 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 a better service platform. Also, increased focus on expansion and digital initiatives bode well. Notably, earnings estimates for 2021 have increased over the past seven days. However, the company's high debt level and weak sales trend at Maggiano's remain concerns.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$47.57 - $7.00
20 Day Average Volume (sh)	2,510,331
Market Cap	$1.7 B
YTD Price Change	-10.5%
Beta	2.22
Dividend / Div Yld	$0.00 / 0.0%
Industry	[Retail - Restaurants]
Zacks Industry Rank	Top 48% (120 out of 252)
Last EPS Surprise	40.1%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	56.1%
Expected Report Date	11/04/2020
Earnings ESP	17.2%
P/E TTM	20.7
P/E F1	19.4
PEG F1	2.4
P/S TTM	0.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	811 E	835 E	906 E	917 E	3,465 E
2021	728 E	789 E	867 E	945 E	3,323 E
2020	786 A	848 A	860 A	563 A	3,079 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$0.36 E	$0.73 E	$1.14 E	$1.07 E	$3.24 E
2021	-$0.26 E	$0.31 E	$0.78 E	$1.02 E	$1.94 E
2020	$0.41 A	$1.01 A	$1.28 A	-$0.88 A	$1.71 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/19/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/20/2020.

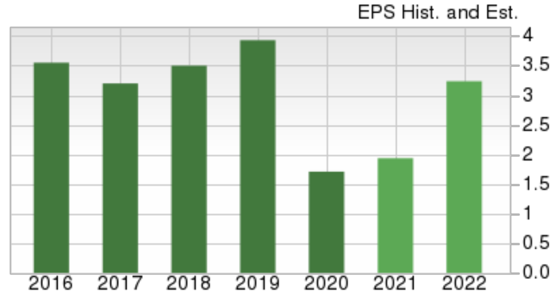
Overview

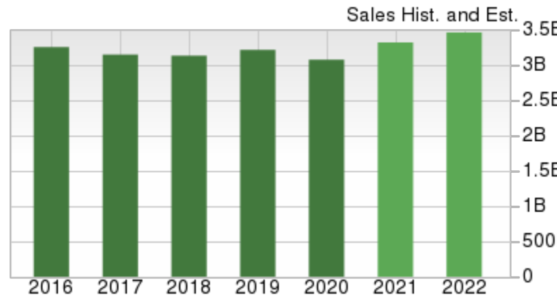
Based in Dallas, TX, Brinker International primarily owns, operates, develops and franchises various restaurants under Chili's Grill & Bar (Chili's) and Maggiano's Little Italy (Maggiano's) brands. The company took over Chili's, Inc., a Texas corporation from September 1983 and completed the acquisition 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 fourth-quarter fiscal 2020, Chili's contributed 93.9% to total revenues, while Maggiano's contributed 6.1%. As of Jun 24, 2020, the company owned, operated or franchised 1,663 restaurants. Among these, 1,610 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. On Jun 23, 2020, the company in partnership with Doordash launched a new virtual brand – It's Just Wings. Notably, 1,050 of the company-owned restaurants were launched nationally.

▲ **Chili's Major Growth Driver:** Chili's turn-around strategies yielded positive results with traffic and sales moving in the positive direction. 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.

As sales and cash flows improved during the fiscal fourth quarter, the company resumed restaurant development activities that were earlier temporarily halted due to the pandemic. Notably, the company intends to open or relocate four new Chili's restaurants during the fiscal fourth quarter.

▲ **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. Notably, the company is on the lookout to expand brand in existing markets and enter new ones. In fiscal 2018, 2019 and 2020, the company had opened 34, 23 and 31 restaurants, globally. Nonetheless, the company anticipates to open 15-20 restaurants in fiscal 2021.

▲ **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.

▲ **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.

Owing to the integration of DoorDash into the POS system as well as a shift in marketing focus (from national TV spots to digital platform), the company is witnessing gradual increase in e-commerce conversions. Resultantly, digital sales of off-premise meals have grown from low teens to more than 50% in the fiscal fourth quarter.

Reasons To Sell:

- **Coronavirus to Hurt Future Results:** The coronavirus pandemic is expected to materially affect the company's operating and financial results for fiscal 2020. It has been undertaking numerous measures to protect employees, customers and business partners. It has suspended quarterly cash dividend and all share repurchase activity. Further, salaries of the executive committee have been deducted by 50%.

Coronavirus outbreak and slowdown in some of the major emerging markets remain potent headwinds.

- **High Debt a Concern:** A strong balance sheet will help a company tide over the ongoing crisis. Long-term debt as of Jun 24, 2020, came in at $1,208.5 million compared with $1,428.9 million as on Mar 25, 2020. However, its "Times Interest Earned" ratio stood at 1.1, indicating a decline from 3.1 reported in the prior quarter. Moreover, the company ended the quarter with cash and cash equivalents of $43.9 million, which may not be enough to manage the high debt level.

- **Weak Maggiano's Performance:** Brinker is seeing a weak sales trend at Maggiano's. In the fiscal fourth quarter, Maggiano's sales fell 68.2% year over year to $34.6 million primarily due to lower dining and banquet room traffic because of COVID-19 along with temporary dining and banquet room closures and limited capacity of reopened locations. However, this was partially offset by increased off-premise sales. Comps dropped 66.7% year over year.

- **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 fourth-quarter fiscal 2020, the company reported dismal international franchise comparable sales at Chili's restaurants.

Last Earnings Report

Brinker Q4 Earnings & Revenue Beat Estimates

Quarter Ending	06/2020
Report Date	Aug 12, 2020
Sales Surprise	0.93%
EPS Surprise	40.14%
Quarterly EPS	-0.88
Annual EPS (TTM)	1.82

Brinker reported fourth-quarter fiscal 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate.

Following the release, CEO and President, Wyman Roberts stated, "Leaning into these existing strategies with a clear focus and continually prioritizing the safety of our Team Members and Guests has allowed us to accelerate our performance and deliver industry leading results."

Earnings & Revenue Discussion

The company reported adjusted loss per share of 88 cents, narrower than the Zacks Consensus Estimate of a loss of $1.47. In the year-ago quarter, the company had reported adjusted earnings of $1.36.

Quarterly revenues of $563.2 million beat the consensus mark of $558 million by 0.9%. However, the top line declined 32.5% on a year-over-year basis. Notably, the downside can be primarily attributed to the COVID-19 pandemic, partially offset by the acquisition of 116 Chili's restaurants in the first quarter of fiscal 2020 along with an increase in off-premise sales.

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

Chili’s revenues in the fiscal fourth quarter fell 27.1% year over year to $528.6 million, primarily attributed to lower traffic, temporary dining room closures and capacity limitations owing to the global pandemic. However, this was partially offset by the acquisition of 116 Chili's restaurants (during the first quarter fiscal 2020) and increased off-premise sales.

Chili's company restaurant expenses (as a percentage of company sales) in the fiscal fourth quarter rose 92% year over year compared with 84.8% in the prior-year quarter. The increase was primarily driven by sales deleverage owing to COVID-19 along with high expenses related to delivery fees and supplies, and unfavorable commodity pricing. However, these were partially offset by lower advertising, labor, repairs and maintenance expenses, and favorable menu item mix.

In fourth-quarter fiscal 2020, company-owned comps declined 32.2% from the prior-year quarter.

Comps at Chili's franchised restaurants declined 49.5% against 0.4% growth in the year-ago quarter. At international franchised Chili’s restaurants, the same fell 66.1% compared with the year-ago quarter’s 0.5% decline. Meanwhile, at the U.S. franchised units, comps declined 39.9% against 0.9% growth in the year-ago quarter.

At Chili's, domestic comps (including company-owned and franchised) fell 33% compared with 1.3% growth in the prior-year quarter.

As of Jul 29, 2020, 885 Chili's restaurants with dining rooms (or patios) were open. The segment's comparable restaurant sales declined 10.9% quarter to date (as of Jul 29, 2020).

Maggiano's

Maggiano's sales fell 68.2% year over year to $34.6 million primarily due to lower dining and banquet room traffic because of COVID-19 along with temporary dining and banquet room closures and limited capacity of reopened locations. However, this was partially offset by increased off-premise sales. Comps dropped 66.7% year over year.

Maggiano's company restaurant expenses (as a percentage of company sales) in the fiscal fourth quarter rose 115.5% year over year compared with 87.1% in the prior-year quarter. The increase was primarily led by sales deleverage owing to COVID-19 along with high expenses related to delivery fees and supplies, and unfavorable commodity pricing. However, these were partially offset by lower advertising, labor, repairs and maintenance expenses, better menu item mix, lower utilities expenses and favorable menu pricing.

As of Jul 29, 2020, 52 Maggiano's restaurants with dining rooms (or patios) were open. The segment's comparable restaurant sales declined 44.6% quarter to date (as of Jul 29, 2020).

Operating Results

Total operating costs and expenses declined 20% to $616.4 million from $770.1 million in the year-ago quarter. However, restaurant operating margin — as a percentage of company sales — was 6.4% compared with 14.9% in the prior-year quarter.

Balance Sheet

As of Jun 24, 2020, cash and cash equivalents amounted to $43.9 million compared with $13.4 million as on Jun 26, 2019.

Long-term debt was $1,208.5 million as of Jun 24, 2020, compared with $1,206.6 million on Jun 26, 2019. Total shareholders’ deficit in the reported quarter came in at ($479.1) million compared with ($778.2) million as of Jun 26, 2019.

As of Jun 24, 2020, the company made dividend payments worth $57.4 million, compared with $60.3 million as on Jun 26, 2019.

Fiscal 2020 Highlights

Adjusted earnings for fiscal 2020 were $1.71 compared with $3.93 reported in 2019.

Total revenues for fiscal 2020 were reported at $3,078.5, compared with $3,217.9 in 2019.

For 2020, operating income (as a percentage of total revenues) came in at 2% compared with 7.2% reported in 2019.

Other Business Updates

On Jun 23, 2020, the company in partnership with Doordash launched a new virtual brand – It's Just Wings. Notably, 1,050 of its company-owned restaurants were launched nationally.

Fiscal First Quarter 2021 Outlook

For first-quarter fiscal 2021, adjusted net loss per share is expected in the range of 40 cents to 25 cents. The Zacks Consensus Estimate for the same is currently pegged at a loss of $1.47 per share. Operating cash flow is expected to be positive, while comparable restaurant sales are expected to decline low to mid-teens.

Valuation

Brinker's shares are down 10.5% in the year-to-date period and 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down by 0.4%, while the Zacks Retail-Wholesale sector is up by 30.8%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 8.2%, but the sector is up 38.9%.

The S&P 500 index is up by 4.7% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 21.44X forward 12-month earnings, which compares to 31.57X for the Zacks sub-industry, 33.8X for the Zacks sector and 22.78X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.27x and as low as 1.73x, with a 5-year median of 12.15x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $39 price target reflects 22.28x 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 F12M	Current	21.44	31.57	33.8	22.78
	5-Year High	32.27	34.04	34.77	22.78
	5-Year Low	1.73	20.49	19.08	15.25
	5-Year Median	12.15	23.09	23.47	17.58
P/S F12M	Current	0.51	3.76	1.27	3.76
	5-Year High	1	3.93	1.27	3.7
	5-Year Low	0.08	2.81	0.82	2.53
	5-Year Median	0.58	3.32	0.97	3.05
P/CF	Current	6.28	31.9	14.89	15.77
	5-Year High	9.39	32.23	17.09	22.73
	5-Year Low	0.97	8.61	11.01	11.7
	5-Year Median	6.67	16.85	13.2	16.37

As of 08/19/2020

Industry Analysis **Zacks Industry Rank:** Top 48% (120 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Arcos Dorados Holdings Inc. **(ARCO)**	Neutral	3
The Cheesecake Factory Incorporated **(CAKE)**	Neutral	3
Cracker Barrel Old Country Store, Inc. **(CBRL)**	Neutral	4
Chipotle Mexican Grill, Inc. **(CMG)**	Neutral	3
DINE BRANDS GLOBAL, INC. **(DIN)**	Neutral	3
Dominos Pizza Inc **(DPZ)**	Neutral	3
Darden Restaurants, Inc. **(DRI)**	Neutral	3
Red Robin Gourmet Burgers, Inc. **(RRGB)**	Neutral	3

Industry Comparison Industry: Retail - Restaurants

Industry Peers

	EAT	X Industry	S&P 500	ARCO	CAKE	CBRL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	4
VGM Score	F	-	-	B	B	C
Market Cap	1.69 B	474.45 M	23.61 B	953.28 M	1.16 B	2.75 B
# of Analysts	10	6	14	3	6	3
Dividend Yield	0.00%	0.00%	1.65%	2.60%	0.00%	0.00%
Value Score	D	-	-	A	B	B
Cash/Price	0.10	0.13	0.07	0.12	0.20	0.13
EV/EBITDA	16.72	13.02	13.36	5.99	10.96	9.70
PEG Ratio	2.38	4.43	2.99	NA	NA	NA
Price/Book (P/B)	NA	2.20	3.16	5.72	3.30	7.02
Price/Cash Flow (P/CF)	7.38	8.52	12.71	4.69	5.56	8.45
P/E (F1)	19.38	37.54	21.82	NA	NA	23.44
Price/Sales (P/S)	0.55	0.83	2.47	0.39	0.53	0.98
Earnings Yield	5.16%	0.86%	4.37%	-16.05%	-5.59%	4.27%
Debt/Equity	-4.74	1.28	0.76	3.72	4.60	3.56
Cash Flow ($/share)	5.09	1.81	6.94	0.98	4.60	13.77
Growth Score	F	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	0.48%	3.03%	10.44%	-12.77%	-11.97%	4.00%
Proj. EPS Growth (F1/F0)	13.27%	-66.06%	-5.97%	-291.97%	-154.66%	117.23%
Curr. Cash Flow Growth	-23.98%	3.07%	5.22%	42.39%	-1.46%	7.73%
Hist. Cash Flow Growth (3-5 yrs)	-7.82%	5.23%	8.52%	93.55%	2.15%	10.21%
Current Ratio	0.45	1.04	1.33	0.54	0.85	1.58
Debt/Capital	NA%	74.56%	44.50%	78.82%	83.81%	78.07%
Net Margin	0.80%	-0.23%	10.13%	-3.50%	0.20%	0.27%
Return on Equity	-12.07%	-10.35%	14.67%	-27.65%	1.55%	24.85%
Sales/Assets	1.23	0.87	0.51	1.05	0.81	1.39
Proj. Sales Growth (F1/F0)	8.72%	-6.05%	-1.54%	-36.01%	-19.66%	10.48%
Momentum Score	C	-	-	F	A	A
Daily Price Chg	-0.34%	-0.54%	-0.38%	-0.86%	-1.77%	-1.10%
1 Week Price Chg	24.55%	2.54%	1.09%	-1.02%	5.19%	2.83%
4 Week Price Chg	48.69%	5.43%	2.23%	-4.86%	8.35%	9.59%
12 Week Price Chg	33.53%	6.24%	6.91%	16.78%	8.53%	2.94%
52 Week Price Chg	-4.50%	-25.48%	2.28%	-32.59%	-28.77%	-29.16%
20 Day Average Volume	2,510,331	304,160	1,899,976	743,800	1,826,713	296,529
(F1) EPS Est 1 week change	43.29%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	56.08%	4.67%	1.70%	-2.56%	17.10%	0.00%
(F1) EPS Est 12 week change	32.40%	18.39%	3.08%	-49.74%	18.39%	704.88%
(Q1) EPS Est Mthly Chg	67.74%	11.40%	0.83%	0.00%	10.16%	0.00%

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	D
Growth Score	F
Momentum Score	C
VGM Score	F

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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