

Brinker International (EAT)

\$45.37 (As of 01/23/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

Summary

Shares of Brinker have outperformed the industry in the past six months. Brinker's ambitious expansion plans along with its sales building, digital, operational and remodeling initiatives bode well for the company. Increased focus on company-owned restaurants, which allows Brinker to have full control over operations, is an added positive. Meanwhile, Chili's turnaround strategy started to pay off. Of late, over the past 60 days, earnings estimate for 2020 have witnessed upward revision, reflecting analyst's optimism in the stock. However, high costs associated with restaurant operations might hurt profitability in the future. Further, dismal performance of international franchise comparable sales at Chili's restaurants remains a major concern. The company is plagued with intense competition characterizing the industry.

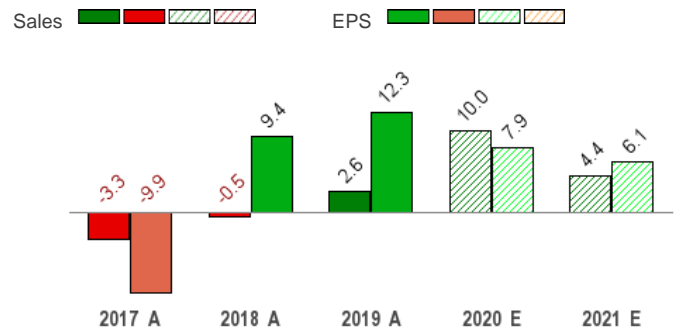
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.49 - \$36.44
20 Day Average Volume (sh)	630,945
Market Cap	\$1.7 B
YTD Price Change	8.0%
Beta	0.24
Dividend / Div Yld	\$1.52 / 3.4%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 28% (71 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	11.6
P/E F1	10.7
PEG F1	1.3
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	863 E	902 E	962 E	967 E	3,694 E
2020	786 A	883 E	941 E	933 E	3,540 E
2019	754 A	791 A	839 A	834 A	3,218 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.97 E	\$1.46 E	\$1.67 E	\$4.50 E
2020	\$0.41 A	\$0.96 E	\$1.39 E	\$1.51 E	\$4.24 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 01/23/2020. The reports text is as of 01/24/2020.

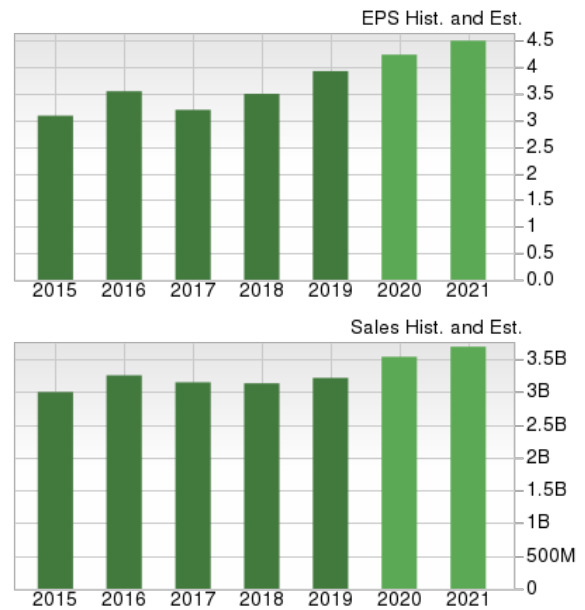
Overview

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 its My Chili's Rewards program and began offering free chips and salsa or soft drink to members at every visit. Owing to My Chili's Rewards, guest database increased 20% in fiscal 2018. In the fiscal year, food and non-alcoholic beverage sales constituted roughly 85.9% of Chili's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 14.1%.

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. During fiscal 2018, food and non-alcoholic beverage sales constituted roughly 84.6% of Maggiano's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 15.4%. Sales from events at banquet facilities were 17.8% of Maggiano's total restaurant revenues for the year.

In the fourth quarter of fiscal 2019, Chili's accounted for 84.2% of total revenues while Maggiano's contributed 12.4%. As of Dec 31, 2018, the company owned, operated or franchised 1,685 restaurants. Among these, 1,632 were Chili's and the remaining 53 were Maggiano's units.



Reasons To Buy:

▲ **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%.

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

▲ **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 grew 2.9% in first-quarter 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. 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 anticipates to open 27 restaurants globally, which will include new markets like Asia, with focus on China and Vietnam.

▲ **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:** The digital wave has hit the U.S. fast-casual restaurant sector, owing to an increase in number of restaurants that are deploying technology toward enhancing guest experience. Notably, 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. 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.

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:

▼ **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 first quarter, total operating costs and expenses rose roughly 6.8% to nearly \$754.8 million.

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

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. In fact, it earlier said that it expects restaurant operating margin to contract 20 basis points in fiscal 2020 as it invests specifically in its core food equities.

▼ **Weak Maggiano's Results:** Brinker is seeing weak sales trend in Maggiano's. In the fiscal fourth quarter, Maggiano's sales were down 1.8% year over year to \$86.4 million primarily due to decline in comparable restaurant sales. Comps dropped 1.8% year over year on a 3% decline in traffic.

▼ **Lackluster ROE:** Brinker's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of negative 19.76% compares unfavorably with ROE of 18.57% for the S&P 500, reflecting the fact that it is less efficient in using shareholders' funds.

▼ **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 2019, the company reported dismal international franchise comparable sales at Chili's restaurants.

Last Earnings Report

Brinker's Q1 Earnings Match, Revenues Miss Estimates

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

Adjusted earnings of 41 cents per share declined 12.8% from the year-ago quarter, mainly due to increase in stock-based compensation expenses for newly retired executives. Quarterly revenues totaled \$786 million, which missed the consensus mark of \$788 million but improved 4.3% 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.

Moreover, the reported quarter marked the company's 6th and 7th consecutive quarter of positive comparable restaurant sales and traffic growth, respectively.

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 \$677.5 million in the reported quarter, up 5.8% 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 located in the Midwest United States from a franchisee. Notably, Chili's opened 11 restaurants during the reported quarter.

The brand's company-owned comps rose 2.9% on account of a 2.3% increase in pricing and 0.6% rise in mix, with no impact on traffic. In fourth-quarter fiscal 2019, company-owned comps rose 1.5% from the prior-year quarter.

Comps at Chili's franchised restaurants declined 0.3% compared with 0.4% decline registered in the year-ago quarter. At international franchised Chili's restaurants, the same fell 1.3% compared with the year-ago quarter's decline of 3%. Meanwhile, at the U.S. franchised units, comps increased 0.4% compared with 1.2% growth in the year-ago quarter.

At Chili's, domestic comps (including company-owned and franchised) grew 2.3% compared with the fourth quarter's increase of 1.8%.

Maggiano's

Maggiano's sales decreased 1.8% year over year to \$86.4 million, primarily due to a decline in comparable restaurant sales.

Comps dropped 1.8% year over year on a 3% decline in traffic.

Operating Results

Total operating costs and expenses jumped roughly 6.8% to nearly \$754.8 million from \$706.9 million in the year-ago quarter. However, restaurant operating margin — as a percentage of company sales — was 11% compared with 11.1% in the prior-year quarter.

Balance Sheet

As of Sep 25, 2019, cash and cash equivalents amounted to \$29 million compared with \$11 million on Sep 26, 2018.

Long-term debt was \$1.3 billion as of Sep 25, 2019 compared with \$1.2 billion on Jun 26, 2019. Total shareholders' deficit in the reported quarter was \$585.1 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 first quarter, which is payable on Dec 26 to its shareholders of record on Dec 6.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-0.23%
EPS Surprise	0.00%
Quarterly EPS	0.41
Annual EPS (TTM)	3.92

Valuation

Brinker's shares are down 2.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 19.4% and 17.9%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 10.34x forward 12-months Price to Earnings value, which compares to 25.26x for the Zacks sub-industry, 25.54x for the Zacks sector and 19.13x for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.72x and as low as 9.1x, with a 5-year median of 12.35x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 10.71x forward 12-months Price to Earnings value.

The table below shows summary valuation data for EAT.

Valuation Multiples - EAT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	10.34	25.26	25.54	19.13
	5-Year High	18.72	26.41	26.23	19.34
	5-Year Low	9.1	20.45	19.07	15.17
	5-Year Median	12.35	23.25	22.95	17.44
P/S F12M	Current	0.47	3.64	1.09	3.56
	5-Year High	1.28	3.85	1.1	3.56
	5-Year Low	0.4	2.91	0.8	2.54
	5-Year Median	0.64	3.25	0.91	3
P/CF	Current	6.92	17.53	14.63	23.31
	5-Year High	11.08	20.39	15.17	23.31
	5-Year Low	4.72	8.5	10.73	11.78
	5-Year Median	6.96	16.5	12.85	16.26

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 255)



Top Peers

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	EAT Neutral	X Industry	S&P 500	ARCO Outperform	CAKE Neutral	CBRL Neutral
VGM Score	A	-	-	A	C	B
Market Cap	1.70 B	435.04 M	24.46 B	1.65 B	1.77 B	3.83 B
# of Analysts	8	5.5	13	1	10	2
Dividend Yield	3.35%	0.00%	1.75%	1.49%	3.64%	3.26%
Value Score	A	-	-	B	B	C
Cash/Price	0.02	0.03	0.04	0.08	0.18	0.01
EV/EBITDA	10.94	14.89	14.11	11.94	13.11	12.13
PEG Ratio	1.33	2.12	2.04	NA	1.32	15.37
Price/Book (P/B)	NA	2.79	3.40	4.41	3.31	6.32
Price/Cash Flow (P/CF)	5.65	11.96	13.66	11.55	8.62	11.59
P/E (F1)	10.82	21.93	19.10	19.12	14.50	17.52
Price/Sales (P/S)	0.52	0.92	2.67	0.56	0.74	1.24
Earnings Yield	9.35%	4.43%	5.23%	5.23%	6.89%	5.70%
Debt/Equity	-4.28	0.94	0.72	3.72	2.43	1.57
Cash Flow (\$/share)	8.03	1.53	6.94	0.70	4.59	13.77
Growth Score	A	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	5.15%	7.71%	10.60%	-2.45%	3.09%	8.31%
Proj. EPS Growth (F1/F0)	7.89%	8.26%	7.59%	35.48%	3.44%	-1.78%
Curr. Cash Flow Growth	-3.96%	7.73%	13.90%	-37.59%	-4.40%	7.73%
Hist. Cash Flow Growth (3-5 yrs)	-1.24%	6.24%	9.00%	-5.35%	1.58%	10.21%
Current Ratio	0.34	0.63	1.22	0.73	1.04	0.66
Debt/Capital	NA%	61.12%	42.99%	78.80%	70.81%	61.12%
Net Margin	4.41%	3.14%	11.35%	1.90%	3.99%	7.11%
Return on Equity	-19.76%	8.47%	17.10%	14.86%	21.61%	36.68%
Sales/Assets	2.06	1.17	0.55	1.36	1.21	1.79
Proj. Sales Growth (F1/F0)	10.02%	3.14%	4.03%	-0.81%	17.82%	3.57%
Momentum Score	C	-	-	C	F	D
Daily Price Chg	3.33%	0.17%	0.26%	2.69%	1.33%	0.53%
1 Week Price Chg	4.66%	1.65%	2.29%	0.00%	-1.52%	0.69%
4 Week Price Chg	7.79%	2.89%	2.24%	-2.43%	1.23%	2.90%
12 Week Price Chg	2.07%	2.55%	7.79%	7.50%	-5.22%	2.60%
52 Week Price Chg	-3.69%	0.00%	21.61%	-8.54%	-11.43%	-5.46%
20 Day Average Volume	630,945	196,336	1,536,379	557,796	610,397	306,631
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.27%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.30%	0.00%
(F1) EPS Est 12 week change	1.70%	0.15%	-0.23%	2.44%	-0.95%	-2.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	-0.81%	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	A
Growth Score	A
Momentum Score	C
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.

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