Apr 17, 2020

Jack in the Box Inc.(JACK)

$52.68 (As of 04/16/20)

Price Target (6-12 Months): **$55.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/20/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: D | Momentum: F	

Summary

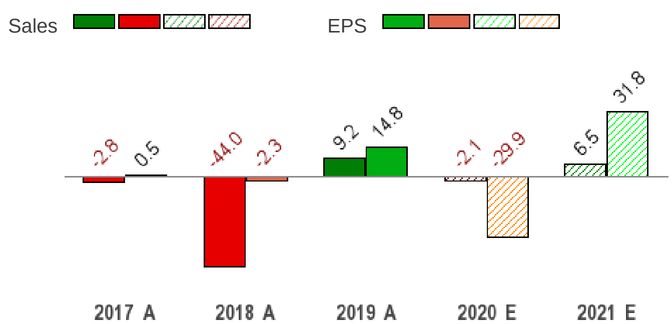
Although, shares of Jack in the Box have underperformed the industry in the past year, various initiatives like regular menu innovation along with increased focus on catering, delivery and marketing are likely to benefit the company going forward. Also, the company is focusing on delivery channels, which is a growing area for the industry. However, the outbreak of coronavirus in China are likely to negatively impact the company. Owing to the unprecedented nature of the crisis, the company has also withdrawn its 2020 guidance. Moreover, rising commodity costs and wage inflation raise concerns. Also, the company's limited international presence is adding to the downside. Notably, earning estimates for 2020 have declined in the past 30 days, depicting analysts' concern regarding the growth potential of the stock.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$93.12 - $16.81**
20 Day Average Volume (sh)	**1,489,109**
Market Cap	**$1.2 B**
YTD Price Change	**-32.5%**
Beta	**0.96**
Dividend / Div Yld	**$1.60 / 3.0%**
Industry	**Retail - Restaurants**
Zacks Industry Rank	**Bottom 30% (176 out of 253)**
Last EPS Surprise	**-14.6%**
Last Sales Surprise	**3.9%**
EPS F1 Est- 4 week change	**-29.4%**
Expected Report Date	**05/20/2020**
Earnings ESP	**-27.0%**
P/E TTM	**12.6**
P/E F1	**17.3**
PEG F1	**1.4**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	302 E	219 E	224 E	229 E	990 E
2020	308 A	214 E	200 E	219 E	930 E
2019	291 A	216 A	222 A	221 A	950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.27 E	$0.87 E	$1.01 E	$0.99 E	$4.02 E
2020	$1.17 A	$0.72 E	$0.66 E	$0.83 E	$3.05 E
2019	$1.35 A	$0.99 A	$1.07 A	$0.95 A	$4.35 A

*Quarterly figures may not add up to annual.

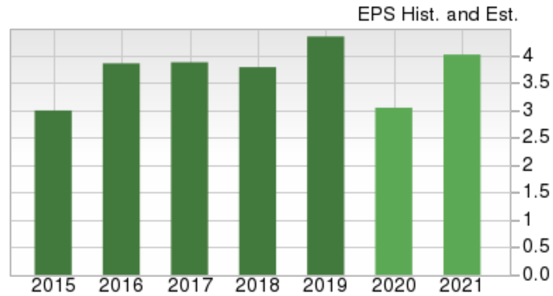
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

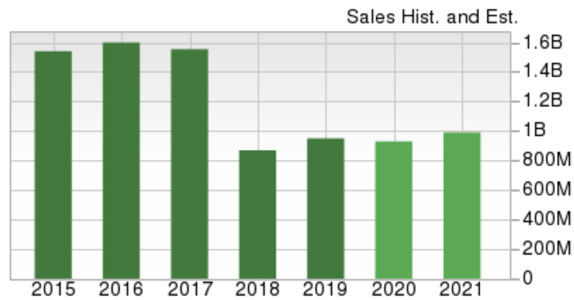
Overview

Based in San Diego, Jack in the Box Inc. is a restaurant company that operates and franchises through Jack in the Box quick-service restaurants, and is one of the nation's largest hamburger chains. In 1951, the company opened its first restaurant and since then Jack in the Box has become the largest hamburger chains. On the basis of number of restaurants, the company's top 10 markets comprise nearly 70% of the total system Jack in the Box is also the second largest QSR hamburger chain in nine of those 10 markets. As of Feb 19, 2020, Jack in the Box system included more than 2,200 restaurants in 21 states and Guam. As of Jan 19, 2020, the company had 94% franchised restaurant.

Previously, the company operated under Jack in the Box quick-service restaurants and Qdoba Mexican Eats fast-casual restaurants.

In December 2017, the company signed an agreement to sell Qdoba to Apollo Global Management, LLC. On Mar 21, 2018, the company finally announced the sell-out of Qdoba Restaurant Corporation. Jack in the Box sold Qdoba to an affiliate of certain funds, managed by the affiliates of Apollo for roughly $305 million in cash. In connection to the sale, the terms of credit facility demand Jack in the Box to make a pre-payment of $260 million to retire outstanding debt under its term loan.





Reasons To Buy:

> Various Initiatives like regular menu innovation along with increased focus on catering, delivery and marketing are expected boost sales, going forward.

- **Focus on Menu Innovation:** Jack in the Box is the nation's one of the largest hamburger chains. The company makes regular menu innovations and provides limited period offers (LPO) at both its flagship restaurants to drive long-term customer loyalty. With focused menu inventions around premium products like Buttery Jack Burgers, sauced & Loaded Fries, munchie mash-ups and teriyaki bowls running currently, the company is witnessing comps growth. Backed by the success of its snackable crave-able sides, the company recently launched Tiny Tacos as a permanent addition to its menu. The management is also optimistic about its product pipeline, which includes a range of a la carte items that are expected to be in the higher side of pricing.

  In fiscal first quarter, same-store sales at Jack in the Box's stores rose 2.9% compared with the prior-year quarter's 0.5% growth. This uptick can be attributed to average check and transactions growth of 2.6% and 0.3%, respectively.

  For fiscal 2020, Jack in the Box expects both its growth and net new units to exceed than the previous year. Comps at Jack in the Box's system restaurants are envisioned to improve between 1.5% and 3%.

- **Strengthening Delivery Channel:** Jack in the Box is also increasingly focusing on delivery channels, which is a growing area for the industry. Given the high demand for this service, the company has undertaken third-party delivery channels to bolster transactions and sales. At the end of fiscal first quarter, more than 95% of Jack in the Box's system was served by at least one delivery service. The company partnered with DoorDash, Postmates and Grubhub. Recently, it also collaborated with Uber Eats. DoorDash delivery continued to generate an incremental lift in sales. The company is expanding its mobile application in a few markets that support order-ahead functionality and payment. Management is reaping benefits in terms of higher ticket from mobile orders.

  Meanwhile, Jack in the Box plans to invest in drive-thrus as those derive more than 70% of total sales. Further, the implementation of digital menu board and menu board canopies is part of the company's developmental plans. In fiscal 2018, it remodeled 50 restaurants. It expects to remodel nearly double of that in fiscal 2019. By the end of fiscal 2021, the company plans to remodel more than 80% of its restaurants.

- **Focus on Franchising:** Jack in the Box restaurants are largely franchised. During the quarter under review, the company had 94% franchised restaurant flat year over year. In fiscal 2020, the company plans to open 25-35 units. We believe franchising a large chunk of its system will lower its general and administrative expenses and thereby boost earnings. Moreover, in the long-term, it would generate a higher return on equity by lowering capital requirements. This would also boost free cash flow, thereby enhancing shareholder return. The company also aims to continue focusing on effectively managing costs, along with improving guest experience, by striving toward operational excellence. Notably, the company believes that the majority of Jack in the Box's new unit growth will be through franchise restaurants.

- **Regular Returns to Shareholders:** Jack in the Box has been regularly rewarding its shareholders through share repurchases and dividends. Notably, the company repurchased shares worth $125.3 million, $385 million, $327.2 million, $291.9 million, $317.1 million, $319.7 million, $140.1 million and $29.5 million in fiscal 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012, respectively. During fiscal first quarter, the company repurchased 1.9 million shares of our common stock worth $153.5 million. This leaves approximately $122.2 million remaining under share repurchase program consisting of approximately $22.2 million which expires in November 2020 and approximately $100.0 million which expires in November 2021.

  Jack in the Box also returns shareholders' wealth through dividend payments. After initiating a dividend in third-quarter fiscal 2014, the company has been regularly paying dividends and even increased the metric by 50% and 33% in May 2015 and November 2016, respectively. We appreciate Jack in the Box's efforts to consistently enhance shareholder returns amid the challenging environment.

Reasons To Sell:

A challenging industry leading to decelerating comps growth, rising costs, along with stiff competition in breakfast and lunch day parts raise caution.

- **Coronavirus Likely to Hurt 2020 Results:** The recent outbreak of coronavirus in China has now become a global crisis. The Retail - Restaurants industry is currently grappling with the situation and Jack in the Box isn't immune to the trend. Owing to the unprecedented nature of the crisis, the company has withdrawn its 2020 guidance. Moreover, it has also suspended its stock buyback program to preserve cash and maintain ample liquidity amid a possible recession due to the outbreak. The company stated that with minimal temporary closures, more than 99% of its restaurants were in operation during the pandemic. It is operating only in an off-premise capacity.

- **Margin Declines in Q1:** Margin, an important financial metric that gives an indication about the company's health, has contracted 140 basis points (bps) in fiscal first quarter from the year-ago quarter's figure to 24.8%. The downside was primarily due to wage and commodity inflation, partially offset by the benefits from lower maintenance and repairs expenses. Also, food and packaging costs increased 100 bps owing to higher ingredient costs. Moreover, commodity costs increased 4.9 percent in the quarter compared with the prior-year quarter's level. Notably, the company anticipates commodity cost inflation of approximately 4% in 2020 as well as high-single-digit wage inflation, which is likely to hurt margins going forward.

- **Affordable Care Act and Increased Marketing Initiatives to Hurt Profits:** The Affordable Care Act, commonly known as Obamacare, is expected to have an adverse impact on the operators' margins. The act requires employers to provide health insurance for all qualifying employees or pay penalties for not providing coverage. Apart from additional healthcare costs, the company has been under pressure from nationwide wage increases, which would negatively impact operational results. Meanwhile, costs related to marketing initiatives, unit expansion and opening catering call centers are also expected to keep profits under pressure.

- **Limited International Presence and Heightened Competition:** American dining brands are keen on expanding in the fast-growing emerging markets. While several other restaurateurs including Yum! Brands, McDonald's and Domino's Pizza have opened their outlets in the emerging markets; Jack in the Box seems to be slow on this front. Thus, limited international presence might be a big disadvantage for the company and hurt its competitive position. Moreover, the company is experiencing increased competitive pressure on breakfast and lunch day parts as many other restaurateurs have introduced aggressive value offers.

- **Lackluster ROE:** Jack in the Box's trailing 12-month return on equity (ROE) undercuts its growth potential. The company recorded ROE of negative 15.5% against ROE of 37.3% for the industry, reflecting the fact that it is less efficient in using shareholders' funds.

Last Earnings Report

Jack in the Box Q1 Earnings Lag, Revenues Top Estimates

Quarter Ending	12/2019
Report Date	**Feb 19, 2020**
Sales Surprise	**3.89%**
EPS Surprise	**-14.60%**
Quarterly EPS	**1.17**
Annual EPS (TTM)	**4.18**

Jack in the Box reported first-quarter fiscal 2020 results, wherein earnings missed the Zacks Consensus Estimate, while revenues beat the same.

Adjusted earnings from continuing operations came in at $1.17 per share, missing the Zacks Consensus Estimate of $1.37 and declined 13.3% on a year-over-year basis. However, total revenues of $307.7 million surpassed the consensus mark of $296 million and improved 5.8% year over year.

Comps Discussion

Comps at Jack in the Box's stores improved 2.9% compared with the prior-year quarter's 0.5% growth. This upside can be attributed to average check and transactions growth of 2.6% and 0.3%, respectively. In fourth-quarter fiscal 2019, the company had reported 3.5% comps growth.

Same-store sales at franchised stores increased 1.6% compared with a 0.1% decline in the prior-year quarter. In the last reported quarter, the metric was up 3%. Meanwhile, system-wide same-store sales improved 1.7% against a decline of 0.1% in the year-ago quarter. In fourth-quarter fiscal 2019, system-wide same-store sales rose 3%.

Operating Highlights

Restaurant-level adjusted margin contracted 140 bps in the first quarter from the year-ago quarter to 24.8%. The downside was primarily due to wage and commodity inflation, which offset benefits from decline in maintenance and repair expenses. Further, food and packaging costs increased 100 basis points owing to higher ingredient costs. Franchise level margin was 38.5% compared with 42.6% in the prior-year quarter.

Balance Sheet

As of Jan 19, 2020, cash totaled $19.9 million compared with $125.5 million as of Sep 29, 2019. Inventories in the quarter under review amounted to $2 million, compared with $1.8 million in at the end of Sep 29, 2019. Long-term debt totaled $1,262.7 million as of Jan 19, 2020, compared with $1,274.4 million at the end of Sep 29, 2019. Cash flows from operating activities decreased to $22.7 million in the first quarter from $37.6 million at the prior-year quarter end.

Jack in the Box repurchased 1.9 million shares worth $153.5 million in the first quarter. Currently, it has $122 million left under the current authorization.

Recent News

Jack In The Box's Comps to Decline in Q2 Due to Coronavirus – Apr 15, 2020

Jack In The Box recently provided an update on the impact of the coronavirus (COVID-19) pandemic on its business. For fiscal second quarter ended Apr 12, Company store sales and Franchise sales are anticipated to decline 4.1% and 4.2%, respectively. Notably, it has also withdrawn its 2020 guidance.

However to mitigate financial and operational impact of the outbreak, the company has undertaken certain actions to reduce its operating expenses as well. This includes reduced marketing fees, postponed collection of rental payments, delayed franchise development agreements and suspension in other capital investments. Moreover, the company also suspended its stock buyback program.

Valuation

Jack in the Box's shares are down 32.5% in year-to-date and trailing 12-month period. Stocks in the Zacks sub-industry are down by 17.1%, and Zacks Retail-Wholesale sector are down by 2.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry was down by 13.6%, but sector was up by 3.4%.

The S&P 500 index is down 13.7% in the year-to-date period, and 4.6% in the past year.

The stock is currently trading at 11.1X forward 12-month earnings, which compares to 28.58X for the Zacks sub-industry, 26.98X for the Zacks sector and 18.65X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.31X and as low as 3.96X, with a 5-year median of 19.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $55 price target reflects 11.6X forward 12-month earnings.

The table below shows summary valuation data for JACK.

Valuation Multiples - JACK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.1	28.58	26.98	18.65
	5-Year High	29.31	28.58	26.98	19.34
	5-Year Low	3.96	20.49	19.06	15.19
	5-Year Median	19.77	23.09	23.16	17.45
P/S F12M	Current	1.16	3.3	0.99	3.09
	5-Year High	3.39	3.93	1.11	3.44
	5-Year Low	0.41	2.82	0.8	2.54
	5-Year Median	2.1	3.3	0.93	3.01
P/CF	Current	8.22	14.28	13.85	14.43
	5-Year High	35.92	20.59	15.2	22.67
	5-Year Low	2.9	8.61	10.76	11.67
	5-Year Median	16.4	16.79	12.86	16.38

As of 04/16/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (176 out of 253)

Top Peers

Dominos Pizza Inc **(DPZ)**	Neutral
McDonalds Corporation **(MCD)**	Neutral
Papa Johns International, Inc. **(PZZA)**	Neutral
Red Robin Gourmet Burgers, Inc. **(RRGB)**	Neutral
The Wendys Company **(WEN)**	Neutral
Yum China Holdings Inc. **(YUMC)**	Neutral
Restaurant Brands International Inc. **(QSR)**	Underperform
Yum! Brands, Inc. **(YUM)**	Underperform

Industry Comparison Industry: Retail - Restaurants

Industry Peers

	JACK Neutral	X Industry	S&P 500	MCD Neutral	RRGB Neutral	WEN Neutral
VGM Score	F	-	-	F	D	F
Market Cap	1.19 B	244.46 M	19.06 B	133.81 B	134.32 M	3.85 B
# of Analysts	10	6	14	15	4	14
Dividend Yield	3.04%	0.00%	2.26%	2.79%	0.00%	2.78%
Value Score	D	-	-	F	B	F
Cash/Price	0.04	0.06	0.06	0.01	0.20	0.09
EV/EBITDA	9.26	10.26	11.49	16.71	9.74	17.07
PEG Ratio	1.41	2.96	2.09	3.91	NA	4.27
Price/Book (P/B)	NA	1.38	2.55	NA	0.37	7.70
Price/Cash Flow (P/CF)	7.82	5.58	10.06	17.76	1.35	14.70
P/E (F1)	17.65	22.36	17.56	29.25	NA	43.99
Price/Sales (P/S)	1.23	0.51	1.94	6.35	0.10	2.26
Earnings Yield	5.79%	2.26%	5.57%	3.42%	-27.40%	2.26%
Debt/Equity	-1.50	0.99	0.70	-5.71	1.86	7.04
Cash Flow ($/share)	6.74	1.81	7.01	10.11	7.72	1.18
Growth Score	D	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	8.06%	7.89%	10.92%	12.23%	-21.29%	15.68%
Proj. EPS Growth (F1/F0)	-29.86%	-54.64%	-3.36%	-21.72%	-559.27%	-33.41%
Curr. Cash Flow Growth	0.93%	5.29%	5.93%	-0.99%	-15.30%	-0.70%
Hist. Cash Flow Growth (3-5 yrs)	-2.36%	6.59%	8.55%	1.88%	-0.74%	-1.18%
Current Ratio	0.38	0.62	1.24	0.98	0.54	1.58
Debt/Capital	NA%	63.25%	42.78%	NA	65.09%	87.57%
Net Margin	7.06%	4.05%	11.64%	28.59%	-0.60%	8.01%
Return on Equity	-15.46%	7.09%	16.74%	-79.57%	2.21%	22.61%
Sales/Assets	0.90	1.07	0.54	0.45	1.05	0.33
Proj. Sales Growth (F1/F0)	-2.13%	-6.10%	-0.14%	-13.56%	-16.10%	-4.05%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	21.55%	0.00%	-0.20%	0.93%	-0.95%	3.23%
1 Week Price Chg	41.43%	26.91%	16.01%	14.58%	60.24%	29.94%
4 Week Price Chg	123.13%	24.96%	14.56%	20.07%	59.02%	62.10%
12 Week Price Chg	-36.99%	-40.98%	-22.94%	-15.89%	-70.12%	-22.16%
52 Week Price Chg	-32.46%	-47.60%	-15.02%	-7.91%	-65.16%	-8.57%
20 Day Average Volume	1,489,109	418,256	3,220,598	6,464,821	1,031,343	7,055,024
(F1) EPS Est 1 week change	-6.87%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-29.36%	-50.86%	-7.09%	-28.12%	-814.85%	-37.34%
(F1) EPS Est 12 week change	-32.61%	-58.70%	-9.32%	-27.58%	-507.95%	-38.62%
(Q1) EPS Est Mthly Chg	-46.41%	-82.46%	-10.68%	-60.46%	-606.14%	-82.46%

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	D
Momentum Score	F
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.

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