

Jack in the Box Inc.(JACK)

\$83.23 (As of 01/22/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/20/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Shares of Jack in the Box have underperformed the industry so far this year. In fourth-quarter fiscal 2019, the company's earnings came in line with the Zacks Consensus Estimate but revenues missed the same. Moreover, rising commodity costs and wage inflation continues to hurt margin. Earnings estimates for the current year and 2020 have remained stable over the past 30 days. However, initiatives like regular menu innovation, and increased focus on catering and marketing bode well. Notably, Jack in the Box is increasingly focusing on delivery channels, which is a growing area for the industry. For fiscal 2020, comps at its system restaurants are envisioned to improve between 1.5% and 3%. Furthermore, the company expects both its growth and net new units to exceed in fiscal 2020 than the previous year.

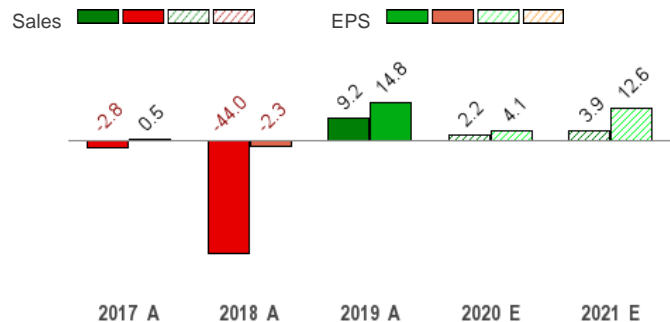
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.12 - \$70.92
20 Day Average Volume (sh)	384,621
Market Cap	\$2.0 B
YTD Price Change	6.7%
Beta	0.22
Dividend / Div Yld	\$1.60 / 1.9%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 38% (96 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	4.9%
P/E TTM	19.1
P/E F1	18.4
PEG F1	1.5
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	303 E	226 E	233 E	242 E	1,009 E
2020	296 E	221 E	227 E	227 E	971 E
2019	291 A	216 A	222 A	221 A	950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.55 E	\$1.05 E	\$1.23 E	\$1.17 E	\$5.10 E
2020	\$1.37 E	\$0.99 E	\$1.12 E	\$1.01 E	\$4.53 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 01/22/2020. The reports text is as of 01/23/2020.

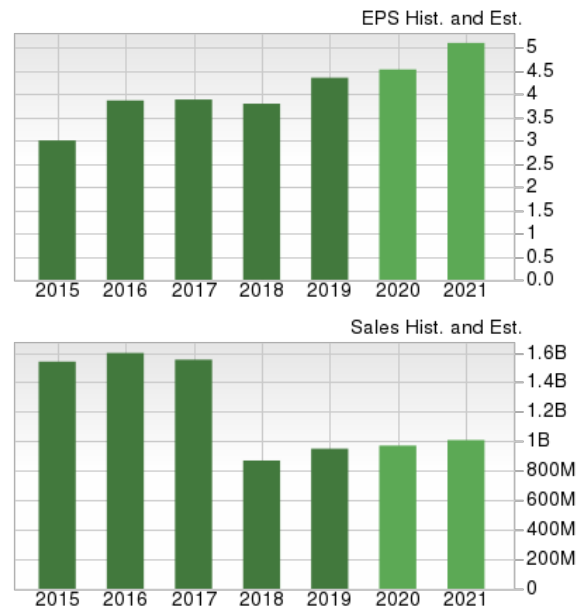
Overview

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 Nov 21, 2019, Jack in the Box system included more than 2,200 restaurants in 21 states and Guam.

At the end of fiscal 2019, the company had 94% franchised restaurant, up 5% as compared with fiscal 2018.

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

In the fiscal first quarter, 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:

▲ **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. Jack in the Box is also on track to achieve same store sales growth for the tenth straight year. Comps at Jack in the Box's stores rose 3.5% compared with the prior-year quarter's 0.8% growth. This uptick can be attributed to average check and transactions growth of 2.8% and 0.7%, respectively. In third-quarter fiscal 2019, the company had reported 2.8% comps growth.

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

Moreover, the company's same store sales so far for fiscal 2020 are quite impressive. 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 third-quarter fiscal 2019, more than 90% 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. At the end of fiscal 2019, the company had 94% franchised restaurant, up 5% from the prior 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 \$385 million, \$327.2 million, \$291.9 million, \$317.1 million, \$319.7 million, \$140.1 million and \$29.5 million in fiscal 2018, 2017, 2016, 2015, 2014, 2013 and 2012, respectively. 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. In fiscal 2018, the company declared dividends of \$1.60 per share, totaling \$45 million. Jack in the Box repurchased 1.4 million shares worth \$125.3 million in the fourth quarter. Currently, it has \$109 million left under the current authorization. Moreover, on Nov 15, 2019, the company announced an additional \$100 million share repurchase program, which will expire in November 2021.

Reasons To Sell:

- ▼ **Lower-Than-Expected Q4 Revenues:** Jack in the Box top-line performance hurt investor sentiment in fourth-quarter fiscal 2019. Notably, the company's revenues have missed the consensus estimate in two of the trailing three quarters. Total revenues in the reported quarter came in at \$221.2 million, which marginally missed the consensus mark of \$221.8 million by 0.25%.
- ▼ **Margin Declines in Q4:** Margin, an important financial metric that gives an indication about the company's health, has contracted 190 bps in the fourth quarter from the year-ago quarter to 24.2%. The downside was primarily due to wage and commodity inflation, which benefits from refranchising and decline in maintenance as well as repair expenses. Also, food and packaging costs increased 30 basis points owing to higher ingredient costs. Notably, the company also anticipates higher commodity costs in 2020 as compared with the prior-year figure as well as 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 18.1% against ROE of 6% for the industry, reflecting the fact that it is less efficient in using shareholders' funds.

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

Last Earnings Report

Jack in the Box Q4 Earnings Meet, Revenues Miss Mark

Jack in the Box reported fourth-quarter fiscal 2019 results, wherein earnings came in line with the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings from continuing operations came in at 95 cents per share, in line with the Zacks Consensus Estimate and increased 23.4% on a year-over-year basis. However, total revenues of \$221.2 million marginally missed the consensus mark of \$221.8 million but improved 24.7% year over year.

Quarter Ending **09/2019**

Report Date	Nov 20, 2019
Sales Surprise	-0.25%
EPS Surprise	0.00%
Quarterly EPS	0.95
Annual EPS (TTM)	4.36

Comps Discussion

Comps at Jack in the Box's stores rose 3.5% compared with the prior-year quarter's 0.8% growth. This uptick can be attributed to average check and transactions growth of 2.8% and 0.7%, respectively. In third-quarter fiscal 2019, the company had reported 2.8% comps growth.

Same-store sales at franchised stores increased 3% compared with a 0.4% gain in the prior-year quarter. In the last reported quarter, the metric was up 2.7%. Meanwhile, system-wide same-store sales improved 3% compared with a 0.5% increase in the year-ago quarter. In third-quarter fiscal 2019, system-wide same-store sales rose 2.7%.

Operating Highlights

Restaurant-level adjusted margin contracted 190 bps in the fourth quarter from the year-ago quarter to 24.2%. The downside was primarily due to wage and commodity inflation, which benefits from refranchising and decline in maintenance as well as repair expenses. Also, food and packaging costs increased 30 basis points owing to higher ingredient costs. Franchise level margin was 41.1% compared with 58.6% in the prior-year quarter.

Balance Sheet

As of Sep 29, 2019, cash totaled \$125.5 million compared with \$2.7 million as of Sep 30, 2018. Inventories in the quarter under review amounted to \$1.8 million. Long-term debt summed \$1,274.4 million as of Sep 29, 2019, compared with \$1,037.9 million at the end of Sep 30, 2018. Cash flows from operating activities increased to \$168.4 million in the fourth quarter from \$104 million at the prior-year quarter end.

Jack in the Box repurchased 1.4 million shares worth \$125.3 million in the fourth quarter. Currently, it has \$109 million left under the current authorization. Moreover, on Nov 15, 2019, the company announced an additional \$100 million share repurchase program, which will expire in November 2021.

2020 Outlook

For fiscal 2020, comps at Jack in the Box's system restaurants are envisioned to increase nearly 1.5-3%. Meanwhile, the company expect Restaurant-Level margin of nearly 25%.

Adjusted EBITDA is anticipated between approximately \$265 million and \$275 million. Capital expenditures are estimated roughly in the \$45-\$55 million range.

Valuation

Jack in the Box's shares are up 0.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 19.4% and 19%, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 17.39x forward 12-month Price to Earnings value, which compares with 25.27x for the Zacks sub-industry, 25.56x for the Zacks sector and 19.14x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.8x and as low as 15.45x, with a 5-year median of 20x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 18.4x forward 12-month Price to Earnings value.

The table below shows summary valuation data for JACK.

Valuation Multiples - JACK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.39	25.27	25.56	19.14
	5-Year High	31.8	26.41	26.23	19.34
	5-Year Low	15.45	20.45	19.07	15.17
	5-Year Median	20	23.25	22.95	17.44
P/S F12M	Current	2	3.64	1.09	3.56
	5-Year High	3.39	3.85	1.11	3.56
	5-Year Low	1.33	2.91	0.8	2.54
	5-Year Median	2.12	3.25	0.91	3
EV/EBITDA TTM	Current	10.67	16.77	15.6	11.93
	5-Year High	16.17	17.48	15.6	12.86
	5-Year Low	10.15	12.08	10.37	8.5
	5-Year Median	12.05	13.93	12.38	10.64

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 255)



Top Peers

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	JACK Neutral	X Industry	S&P 500	MCD Neutral	RRGB Neutral	WEN Neutral
VGM Score	C	-	-	D	C	C
Market Cap	1.97 B	428.97 M	24.65 B	159.23 B	437.75 M	5.06 B
# of Analysts	8	5.5	13	10	5	10
Dividend Yield	1.92%	0.00%	1.77%	2.36%	0.00%	2.18%
Value Score	C	-	-	D	B	D
Cash/Price	0.08	0.03	0.04	0.01	0.04	0.09
EV/EBITDA	11.84	14.88	13.98	19.73	12.85	10.01
PEG Ratio	1.47	2.10	2.05	2.96	5.01	3.04
Price/Book (P/B)	NA	2.81	3.38	NA	1.19	7.79
Price/Cash Flow (P/CF)	12.36	11.87	13.60	21.20	3.72	19.12
P/E (F1)	18.37	22.27	19.07	24.95	48.47	34.36
Price/Sales (P/S)	2.07	0.96	2.69	7.62	0.33	3.01
Earnings Yield	5.44%	4.43%	5.24%	4.01%	2.07%	2.91%
Debt/Equity	-1.73	0.94	0.72	-5.20	1.82	5.62
Cash Flow (\$/share)	6.74	1.53	6.94	9.97	9.09	1.15
Growth Score	B	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	9.34%	7.71%	10.60%	11.79%	-15.50%	15.49%
Proj. EPS Growth (F1/F0)	4.08%	8.47%	7.53%	8.14%	-4.12%	8.29%
Curr. Cash Flow Growth	0.93%	7.73%	13.90%	13.21%	-5.58%	16.17%
Hist. Cash Flow Growth (3-5 yrs)	-2.36%	6.24%	9.00%	1.40%	4.85%	-3.14%
Current Ratio	1.44	0.63	1.22	0.84	0.38	2.00
Debt/Capital	NA%	61.12%	42.99%	NA	64.57%	84.90%
Net Margin	9.94%	3.14%	11.21%	28.09%	-0.82%	7.69%
Return on Equity	-18.08%	8.47%	17.16%	-85.71%	4.89%	24.72%
Sales/Assets	1.10	1.17	0.55	0.49	1.14	0.34
Proj. Sales Growth (F1/F0)	2.21%	3.14%	4.08%	2.90%	-2.58%	7.03%
Momentum Score	F	-	-	F	C	C
Daily Price Chg	1.89%	0.00%	-0.04%	0.13%	-1.63%	1.52%
1 Week Price Chg	3.36%	1.65%	2.29%	2.27%	5.88%	0.35%
4 Week Price Chg	7.42%	2.97%	2.05%	7.51%	13.18%	-0.81%
12 Week Price Chg	-1.42%	1.76%	6.92%	7.39%	7.98%	3.97%
52 Week Price Chg	3.24%	1.26%	21.50%	13.62%	2.83%	28.90%
20 Day Average Volume	384,621	182,909	1,518,423	2,956,771	243,049	1,939,034
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-5.42%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	-0.06%	-5.42%	-0.14%
(F1) EPS Est 12 week change	-5.82%	0.15%	-0.23%	-0.44%	-31.23%	-0.42%
(Q1) EPS Est Mthly Chg	-0.72%	0.00%	0.00%	-0.14%	2.42%	4.29%

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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