

Jack in the Box Inc.(JACK)

\$79.29 (As of 07/24/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 06/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Shares of Jack in the Box have outperformed the industry in the past three months. The outperformance was primarily driven by solid performance of Tiny Taco. It not only regained trust of its customers but also witnessed repetitive guest ordering. Moreover, the company is shifting focus to travel-indulgent food that offers great overall value. Thus, increased focus on food packaging and portability is likely to boost customer experience in the upcoming periods. It is also expanding its mobile application in a few markets that support order-ahead functionality and payment. Moreover, initiatives like regular menu innovation along with increased focus on delivery channels and marketing are likely to benefit the company going forward. Notably, earnings estimates for 2020 have increased over the past 30 days.

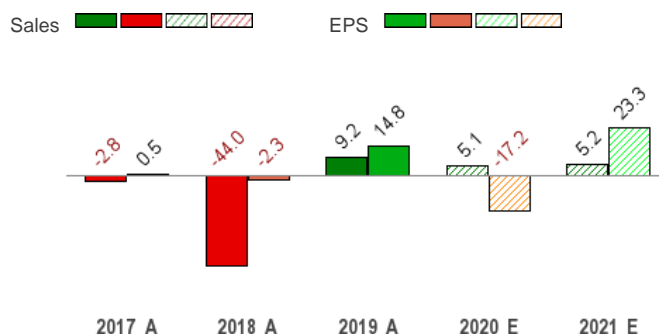
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.12 - \$16.81
20 Day Average Volume (sh)	396,028
Market Cap	\$1.8 B
YTD Price Change	1.6%
Beta	1.69
Dividend / Div Yld	\$1.60 / 2.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 32% (80 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-26.5%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	3.1%
Expected Report Date	08/05/2020
Earnings ESP	6.2%
P/E TTM	21.5
P/E F1	22.0
PEG F1	1.8
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	317 E	232 E	247 E	250 E	1,050 E
2020	308 A	216 A	237 E	237 E	998 E
2019	291 A	216 A	222 A	221 A	950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.35 E	\$0.94 E	\$1.16 E	\$1.08 E	\$4.44 E
2020	\$1.17 A	\$0.50 A	\$1.01 E	\$0.90 E	\$3.60 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 07/24/2020. The reports text is as of 07/27/2020.

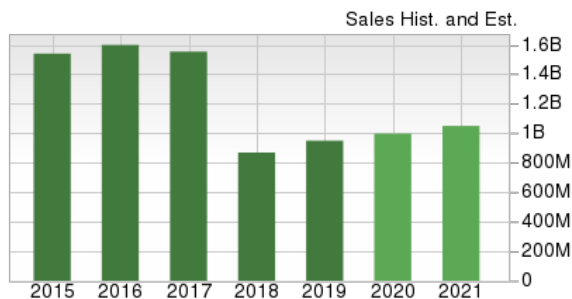
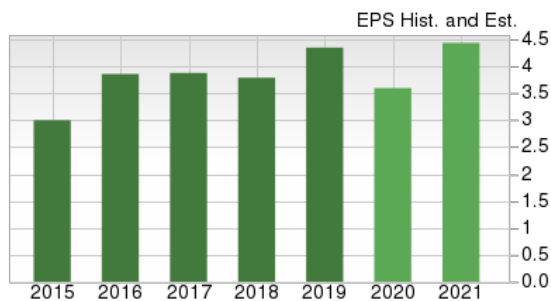
Overview

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 May 13, 2020, Jack in the Box system included more than 2,200 restaurants across 21 states and Guam. As of Apr 12, 2020, the company had 94% franchised restaurants.

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.

The company stated that with minimal temporary closures, more than 99% of its restaurants were in operation during the pandemic. Notably, it is operating in an off-premise capacity. However, due to the unprecedented nature of the crisis, the company has withdrawn its fiscal 2020 guidance.



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.

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

Notably, sales in the second quarter were primarily driven by solid performance of Tiny Taco.

It not only regained trust of its customers but also witnessed repetitive guest ordering. Moreover, the company is shifting focus to travel-indulgent food that offers great overall value. Thus, increased focus on food packaging and portability is likely to boost customer experience in the upcoming periods. Notably, the company is optimistic about third-quarter fiscal 2020 results as system same-store sales accelerated in the quarter, following comps decline of 4.1% in the preceding quarter.

▲ **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 the fiscal second 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, Grubhub and Uber Eats. It 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. Notably, delivery sales have more than doubled in the quarter on the back of high mobile application usage.

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. Moreover, to serve the communities through delivery, drive-thru and mobile app, the company launched #StayInTheBox campaign to promote "shelter-in-place" mandates. It also developed ads to communicate its dedication for safety protocols while delivering services.

▲ **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. 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.

Notably, to ensure financial stability during the unprecedented crisis, the company provided certain reliefs to its franchisees. Firstly, it postponed a portion of their rent payments through July 2020. Secondly, it provided marketing relief through marketing fee reductions and payment deferrals. Lastly, it delayed all 2020 development agreements by a minimum of six months and suspended other capital investment requirements as well.

Risks

- **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.
 - **High Debt a Concern:** As of Apr 12, 2020, the company's long-term debt stood at \$1.40 billion, compared with \$1.3 billion on Sep 29, 2019. As a result, the company's debt-to-capitalization rose to 273.5% compared with industry's average of 125.5%. Moreover, the company ended second-quarter fiscal 2020 with cash and cash equivalent of \$169.1 million, which may not be enough to manage the high debt level.
 - **Margin Declines in Q1:** Restaurant-level adjusted margin, an important financial metric that gives an indication about the company's health, contracted 700 basis points (bps) in the fiscal second quarter from the year-ago quarter's 20.6%. The downside was led by decline in sales due to coronavirus along with wage and commodity inflation. Further, food and packaging costs increased 160 bps owing to higher ingredient costs, partially offset by menu price increases. Franchise level margin was 38.6% compared with 41.3% in the prior-year quarter. Year to date, commodity costs increased 4.7% primarily due to increase in beef, cheese and beverages.
 - **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 a negative 12.1% against 1% growth for the industry, reflecting its inefficiency in using shareholders' funds.
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Last Earnings Report

Jack in the Box Q2 Earnings Lag Estimates, Decline Y/Y

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

Adjusted earnings from continuing operations came in at 50 cents per share, missing the Zacks Consensus Estimate of 68 cents and declining 49.5% on a year-over-year basis. However, total revenues of \$216.1 million surpassed the consensus mark of \$212 million and improved 0.2% year over year.

Owing to the unpredictability of the global pandemic, the company has withdrawn its 2020 guidance.

Quarter Ending **03/2020**

Report Date	May 13, 2020
Sales Surprise	1.93%
EPS Surprise	-26.47%
Quarterly EPS	0.50
Annual EPS (TTM)	3.69

Comps Discussion

Comps at Jack in the Box's stores fell 4.1% in the fiscal second quarter against the prior-year quarter's 0.6% growth. This upside can be attributed to average check growth of 6.4%. However, transactions declined 10.5% in the quarter.

Same-store sales at franchised stores declined 4.2% against 0.1% growth in the prior-year quarter. Meanwhile, system-wide same-store sales declined 4.3% against 0.2% growth in the year-ago quarter.

Operating Highlights

Restaurant-level adjusted margin contracted 700 basis points (bps) in the fiscal second quarter from the year-ago quarter to 20.6%. The downside was led by decline in sales due to coronavirus along with wage and commodity inflation. Further, food and packaging costs increased 160 bps owing to higher ingredient costs, partially offset by menu price increases. Franchise level margin was 38.6% compared with 41.3% in the prior-year quarter.

Balance Sheet

As of Apr 12, 2020, cash (inclusive of restricted cash) totaled \$169.2 million compared with \$151.6 million as of Sep 29, 2019. Inventories in the quarter remained almost flat at \$1.8 million compared to the level as of Sep 29, 2019. Long-term debt totaled \$1,368.5 million as of Jan 19, 2020, compared with \$1,274.4 million at the end of Sep 29, 2019. Cash flows from operating activities declined to \$58.9 million in the fiscal second quarter from \$60.8 million in the prior-year quarter.

Jack in the Box currently has \$122 million left under the share repurchase authorization, out of which \$22 million will expire in Nov 2020 and the remaining \$100 million will expire in Nov 2021. The company has temporarily suspended its share repurchase program.

Recent News

Jack in the Box Posts Solid Comps Amid Coronavirus – Jun 10, 2020

Jack in the Box recently provided an update on financial performance amid the COVID-19 pandemic. The company remains optimistic about third-quarter fiscal 2020 results as system same-store sales have accelerated in the quarter, following comps decline of 4.1% in the preceding quarter.

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 up 1.6% in year-to-date and 6.8% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 4.2%, but Zacks Retail-Wholesale sector are up by 21.6% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 11.5%, but sector was up by 26.8%.

The S&P 500 index is up 0.1% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 18.49X forward 12-month earnings, which compares to 31.91X for the Zacks sub-industry, 34.1X for the Zacks sector and 22.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.43X and as low as 3.96X, with a 5-year median of 19.37X. Our Outperform recommendation indicates that the stock will perform better-than the market. Our \$91 price target reflects 21.22X 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	18.49	31.91	34.1	22.51
	5-Year High	28.43	34.04	34.1	22.51
	5-Year Low	3.96	20.49	19.07	15.25
	5-Year Median	19.37	23.09	23.42	17.52
P/S F12M	Current	1.73	3.67	1.21	3.55
	5-Year High	3.39	3.93	1.21	3.55
	5-Year Low	0.41	2.81	0.82	2.53
	5-Year Median	2.09	3.32	0.97	3.02
EV/EBITDA TTM	Current	10.09	17.26	18.11	11.95
	5-Year High	15.12	17.83	18.46	12.85
	5-Year Low	5.32	11.94	11.12	8.25
	5-Year Median	11.72	14.35	12.91	10.88

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Dominos Pizza Inc (DPZ)	Outperform	1
Papa Johns International, Inc. (PZZA)	Outperform	1
Yum China Holdings Inc. (YUMC)	Outperform	1
McDonalds Corporation (MCD)	Neutral	3
Restaurant Brands International Inc. (QSR)	Neutral	3
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
The Wendys Company (WEN)	Neutral	3
Yum Brands, Inc. (YUM)	Neutral	2

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	JACK	X Industry	S&P 500	MCD	RRGB	WEN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	A	-	-	D	D	F
Market Cap	1.80 B	292.78 M	22.16 B	147.76 B	115.58 M	5.22 B
# of Analysts	10	6	14	15	4	14
Dividend Yield	2.02%	0.00%	1.81%	2.52%	0.00%	0.85%
Value Score	A	-	-	D	D	D
Cash/Price	0.10	0.15	0.06	0.04	0.85	0.07
EV/EBITDA	11.48	12.50	13.07	17.93	9.55	20.25
PEG Ratio	1.76	4.97	3.03	4.64	NA	5.24
Price/Book (P/B)	NA	2.00	3.11	NA	0.63	11.58
Price/Cash Flow (P/CF)	11.77	8.21	12.27	19.66	1.16	19.95
P/E (F1)	22.03	44.13	21.88	34.08	NA	44.13
Price/Sales (P/S)	1.86	0.63	2.38	7.09	0.10	3.06
Earnings Yield	4.54%	0.52%	4.34%	2.93%	-121.56%	2.26%
Debt/Equity	-1.56	1.32	0.76	-5.44	3.99	8.01
Cash Flow (\$/share)	6.74	1.81	7.01	10.11	7.72	1.18
Growth Score	C	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	6.19%	5.16%	10.82%	12.05%	-22.89%	14.68%
Proj. EPS Growth (F1/F0)	-17.29%	-77.39%	-9.01%	-25.62%	-1,854.35%	-9.93%
Curr. Cash Flow Growth	0.93%	3.07%	5.47%	-0.99%	-15.30%	-0.70%
Hist. Cash Flow Growth (3-5 yrs)	-2.36%	5.23%	8.55%	1.88%	-0.74%	-1.18%
Current Ratio	0.77	0.92	1.31	1.89	0.80	1.37
Debt/Capital	NA%	70.06%	44.41%	NA	79.95%	88.90%
Net Margin	5.64%	1.24%	10.46%	27.86%	-15.10%	7.01%
Return on Equity	-12.11%	-2.17%	15.13%	-70.25%	-25.04%	22.37%
Sales/Assets	0.72	1.00	0.54	0.44	1.00	0.34
Proj. Sales Growth (F1/F0)	5.03%	-11.30%	-2.06%	-11.10%	-29.38%	0.24%
Momentum Score	A	-	-	A	A	A
Daily Price Chg	2.30%	0.25%	-0.65%	0.59%	10.77%	1.43%
1 Week Price Chg	5.06%	2.62%	3.82%	3.57%	-4.35%	1.91%
4 Week Price Chg	13.51%	0.00%	4.96%	8.73%	-13.94%	12.04%
12 Week Price Chg	31.49%	6.57%	9.30%	5.95%	-38.82%	18.08%
52 Week Price Chg	5.86%	-36.37%	-2.82%	-7.33%	-73.81%	24.34%
20 Day Average Volume	396,028	261,491	2,026,477	2,810,079	1,170,858	2,288,654
(F1) EPS Est 1 week change	0.39%	0.00%	0.00%	0.28%	3.05%	0.00%
(F1) EPS Est 4 week change	3.07%	0.00%	0.15%	2.85%	6.73%	0.54%
(F1) EPS Est 12 week change	34.25%	0.80%	-3.24%	-1.44%	-165.14%	38.29%
(Q1) EPS Est Mthly Chg	1.38%	0.00%	0.00%	7.93%	10.95%	-0.56%

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	C
Momentum Score	A
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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