

Jack in the Box Inc.(JACK)

\$84.51 (As of 08/27/20)

Price Target (6-12 Months): **\$96.00**

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:B

Value: C | Growth: B | Momentum: A

Summary

Shares of Jack in the Box have outperformed the industry so far this year. The company reported solid third-quarter fiscal 2020 results, wherein earnings and revenues not only surpassed the Zacks Consensus Estimate but also increased on a year-over-year basis. Notably, the top and bottom line improved 9% and 28%, respectively, on a year-over-year basis. The outperformance was primarily driven by solid performance of Tiny Taco, homestyle chicken sandwich and Classic Buttery Jack. It not only regained trust of its customers but also witnessed repetitive guest ordering. Notably, delivery sales have more than doubled in the quarter on the back of high mobile application usage. The company is also expanding its mobile application in a few markets. Notably, earnings estimates for 2020 have moved up over the past 30 days.

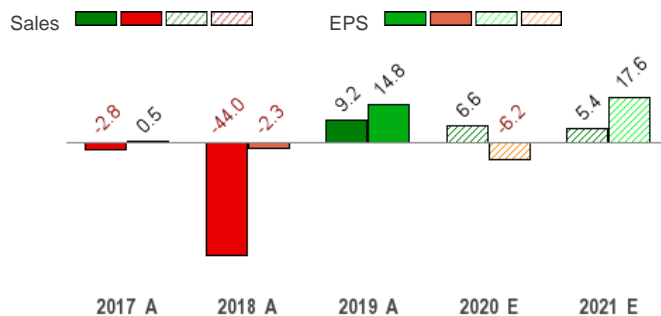
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.12 - \$16.81
20 Day Average Volume (sh)	578,180
Market Cap	\$1.9 B
YTD Price Change	8.3%
Beta	1.70
Dividend / Div Yld	\$1.60 / 1.9%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 44% (110 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	35.6%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	13.3%
Expected Report Date	11/18/2020
Earnings ESP	2.7%
P/E TTM	21.2
P/E F1	20.7
PEG F1	1.7
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	323 E	238 E	248 E	257 E	1,068 E
2020	308 A	216 A	242 A	246 E	1,013 E
2019	291 A	216 A	222 A	221 A	950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.42 E	\$0.96 E	\$1.23 E	\$1.18 E	\$4.80 E
2020	\$1.17 A	\$0.50 A	\$1.37 A	\$1.09 E	\$4.08 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 08/27/2020. The reports text is as of 08/28/2020.

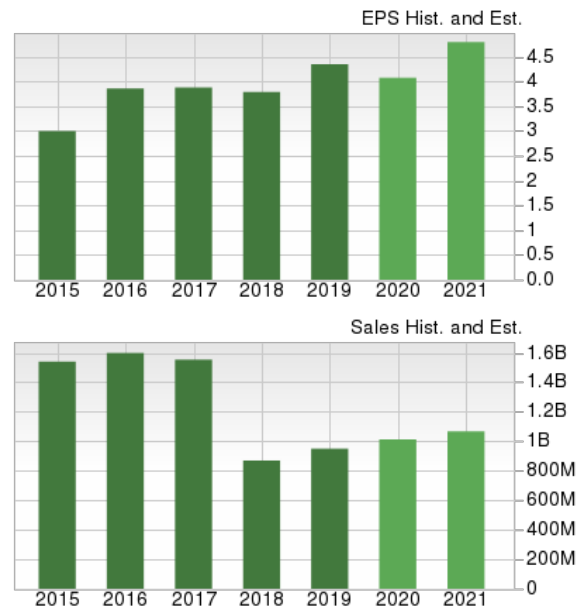
Overview

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.

During the second quarter of 2020, the company acquired eight franchise restaurants as a result of a legal action filed in October 2019 against a franchisee. It received the judgment in January 2020, thereby granting possession of the restaurants. As of Jul 5, 2020, Jack in the Box system included 2,244 restaurants across 21 states and Guam. Notably, 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.



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 third quarter were primarily driven by solid performance of Tiny Taco, homestyle chicken sandwich and Classic Buttery Jack. It not only regained trust of its customers but also witnessed repetitive guest ordering. Also, the company's newly-launched popcorn chicken witnessed positive response in the markets. 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.

- ▲ **Solid Comps to Drive Growth:** Comps at Jack in the Box's stores increased 4.1% in the fiscal third quarter compared with 2.8% growth in the prior-year quarter. This upside can be primarily attributed to 20.2% growth in average check, partially offset by a 16.1% decline in transactions.

Same-store sales at franchised stores grew 6.9% compared with 2.7% growth in the prior-year quarter, resulting in higher royalties and percentage rent for the company. Meanwhile, system-wide same-store sales increased 6.6% compared with 2.7% growth in the year-ago 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. 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. 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.

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. The company stated that with dining rooms closed, all the restaurants were operating in an off-premise capacity, thereby constituting 90% of the company's business.
 - **High Debt a Concern:** As of Jul 5, 2020, the company's long-term debt stood at approximately \$1.4 billion, almost flat sequentially. Notably, the company's debt-to-capitalization of 249.5% compared with 273.5% as of Apr 12, 2020. Moreover, the company ended third-quarter fiscal 2020 with cash and cash equivalent of \$196.9 million, compared with \$169.1 million as of Apr 12, 2020, which may not be enough to manage the high debt level.
 - **Margin Declines in Q3:** Restaurant-level adjusted margin, an important financial metric that gives an indication about the company's health, contracted 160 basis points (bps) in the fiscal third quarter from the year-ago quarter's 25.4%. The downside can be primarily attributed to wage inflation along with a rise in delivery fees and supply costs owing to the coronavirus pandemic. Also, commodity costs increased 3.6% year over year on high beef costs.
 - **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.
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Last Earnings Report

Jack in the Box Q3 Earnings Beat Estimates, Increase Y/Y

Jack in the Box reported solid third-quarter fiscal 2020 results, wherein earnings and revenues not only surpassed the Zacks Consensus Estimate but also increased on a year-over-year basis.

Adjusted earnings from continuing operations came in at \$1.37 per share, beating the Zacks Consensus Estimate of \$1.01 by 35.6%. The metric also increased 28% from \$1.07 reported in the prior-year quarter.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	2.39%
EPS Surprise	35.64%
Quarterly EPS	1.37
Annual EPS (TTM)	3.99

Revenue Details

During the fiscal third quarter, total revenues of \$242.3 million surpassed the Zacks Consensus Estimate of \$237 million by 2.4%. Moreover, the top line grew 9% on a year-over-year basis.

Franchise rental revenues increased 20.0% year over year to \$76 million. The increase was primarily backed by the adoption of ASC 842 as well as higher percentage rent revenues due to a rise in franchise restaurant sales.

Franchise royalties and other revenues increased 7.6% year over year to \$43.2 million owing to a rise in franchise same-store sales.

Franchise contributions to advertising and other services revenues increased 0.5% year over year to \$40.6 million. The increase was primarily due to a rise in technology and sourcing fees, partially offset by a drop in marketing contributions.

Comps Discussion

Comps at Jack in the Box's stores increased 4.1% in the fiscal third quarter compared with 2.8% growth in the prior-year quarter. This upside can be attributed to average check growth of 20.2%. However, transactions declined 16.1% in the quarter.

Same-store sales at franchised stores grew 6.9% compared with 2.7% growth in the prior-year quarter. Meanwhile, system-wide same-store sales increased 6.6% compared with 2.7% growth in the year-ago quarter.

Operating Highlights

Restaurant-level adjusted margin contracted 160 basis points (bps) in the fiscal third quarter from the year-ago quarter to 25.4%. The downside can be primarily attributed to wage inflation along with a rise in delivery fees and supply costs owing to the coronavirus pandemic. Also, commodity costs increased 3.6% year over year on high beef costs.

However, food and packaging costs decreased 20 bps owing to rise in menu prices, partially offset by higher ingredient costs.

Franchise level margin was 41.5% in the fiscal third quarter compared with 42.4% in the prior-year quarter.

During the fiscal third quarter, selling, general and administrative expenses accounted for 5.6% of total revenues compared with 11% in the prior-year quarter.

Balance Sheet

As of Jul 5, 2020, cash (inclusive of restricted cash) totaled \$196.9 million compared with \$151.6 million as of Sep 29, 2019. Inventories during the quarter increased 3.3% year over year to \$1.8 million. Long-term debt totaled \$1,366.2 million as of Jul 5, 2020, compared with \$1,274.4 million at the end of Sep 29, 2019. Cash flow from operating activities declined to \$90.2 million in the fiscal third quarter from \$116.8 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 November 2020 and the remaining \$100 million will expire in November 2021. The company has temporarily suspended its share repurchase program.

On Jul 31, the company declared a cash dividend of 40 cents per share. The dividend will be paid out on Sep 3, 2020, to shareholders on record as of Aug 18, 2020.

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.

Valuation

Jack in the Box's shares are up 8.3% in year-to-date but down 0.4% in the trailing 12-month period. Stocks in the Zacks sub-industry are up by 2.6%, while the Zacks Retail-Wholesale sector are up by 36.6% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 6.3%, but sector was up by 44.4%.

The S&P 500 index is up 8.1% in the year-to-date period and 19.3% in the past year.

The stock is currently trading at 17.92X forward 12-month earnings, which compares to 32.21X for the Zacks sub-industry, 34.2X for the Zacks sector and 23.36X for the S&P 500 index.

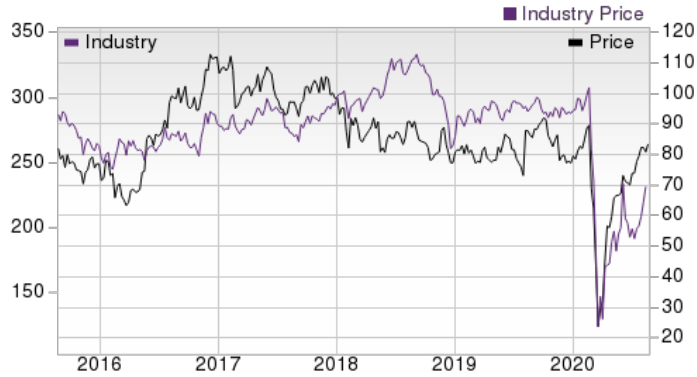
Over the past five years, the stock has traded as high as 25.51X and as low as 3.96X, with a 5-year median of 19.27X. Our Outperform recommendation indicates that the stock will perform better-than the market. Our \$96 price target reflects 20.51X forward 12-month earnings.

The table below shows summary valuation data for JACK.

Valuation Multiples - JACK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.92	32.21	34.2	23.36
	5-Year High	25.51	34.04	34.77	23.36
	5-Year Low	3.96	20.49	19.08	15.25
	5-Year Median	19.27	23.09	23.47	17.58
P/S F12M	Current	1.8	3.86	1.32	3.81
	5-Year High	3.39	3.93	1.32	3.81
	5-Year Low	0.41	2.81	0.82	2.53
	5-Year Median	2.08	3.32	0.97	3.05
P/CF	Current	13.66	32.82	18.57	16.27
	5-Year High	35.92	32.82	18.57	22.73
	5-Year Low	2.9	8.61	11.01	11.7
	5-Year Median	16.3	16.86	13.23	16.37

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Top 44% (110 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Papa Johns International, Inc. (PZZA)	Outperform	1
Dominos Pizza Inc (DPZ)	Neutral	3
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	3
Yum China Holdings Inc. (YUMC)	Neutral	3

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	B	-	-	F	C	D
Market Cap	1.92 B	407.98 M	23.67 B	157.89 B	149.97 M	4.81 B
# of Analysts	11	6	14	16	4	14
Dividend Yield	1.89%	0.00%	1.64%	2.36%	0.00%	0.93%
Value Score	C	-	-	D	B	C
Cash/Price	0.10	0.13	0.07	0.02	0.19	0.08
EV/EBITDA	11.82	13.03	13.33	17.60	9.74	19.22
PEG Ratio	1.65	3.76	3.05	4.73	NA	4.50
Price/Book (P/B)	NA	2.30	3.18	NA	0.79	9.95
Price/Cash Flow (P/CF)	12.55	9.43	12.81	20.99	1.25	18.30
P/E (F1)	20.71	36.35	21.68	36.35	NA	40.04
Price/Sales (P/S)	1.94	0.84	2.50	8.20	0.14	2.88
Earnings Yield	4.83%	0.85%	4.43%	2.75%	-116.89%	2.51%
Debt/Equity	-1.65	0.96	0.74	-3.66	4.13	7.46
Cash Flow (\$/share)	6.74	1.81	6.94	10.11	7.72	1.18
Growth Score	B	-	-	D	C	D
Hist. EPS Growth (3-5 yrs)	4.88%	3.03%	10.41%	10.16%	-24.46%	12.38%
Proj. EPS Growth (F1/F0)	-6.29%	-66.06%	-4.94%	-25.53%	-1,919.03%	-8.96%
Curr. Cash Flow Growth	0.93%	3.07%	5.22%	-0.99%	-15.30%	-0.70%
Hist. Cash Flow Growth (3-5 yrs)	-2.36%	5.23%	8.50%	1.88%	-0.74%	-1.18%
Current Ratio	0.88	1.06	1.35	0.91	0.52	1.42
Debt/Capital	NA%	70.54%	43.86%	NA	80.51%	88.18%
Net Margin	7.49%	-0.23%	10.25%	24.78%	-22.56%	6.70%
Return on Equity	-11.62%	-10.35%	14.66%	-52.78%	-52.03%	21.11%
Sales/Assets	0.62	0.87	0.50	0.40	0.92	0.33
Proj. Sales Growth (F1/F0)	6.60%	-6.05%	-1.43%	-9.63%	-32.02%	1.43%
Momentum Score	A	-	-	C	F	D
Daily Price Chg	0.72%	0.15%	0.43%	-0.73%	2.33%	1.27%
1 Week Price Chg	3.13%	0.00%	-1.45%	2.19%	-10.40%	-0.91%
4 Week Price Chg	2.36%	8.80%	3.75%	8.59%	6.63%	-7.08%
12 Week Price Chg	23.44%	3.42%	3.95%	9.81%	-43.34%	-1.96%
52 Week Price Chg	-0.40%	-22.33%	2.75%	-3.79%	-72.05%	-2.85%
20 Day Average Volume	578,180	296,894	1,887,168	2,693,787	1,035,934	3,871,823
(F1) EPS Est 1 week change	0.33%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	13.30%	2.50%	0.79%	-1.26%	-3.68%	1.08%
(F1) EPS Est 12 week change	21.14%	21.14%	3.43%	7.34%	-85.56%	4.01%
(Q1) EPS Est Mthly Chg	21.56%	7.06%	0.00%	2.22%	12.60%	-7.72%

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	A
VGM Score	B

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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