Red Robin (RRGB)

$33.23 (As of 01/06/20)

Price Target (6-12 Months): **$35.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/07/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: D	Momentum: F

Summary

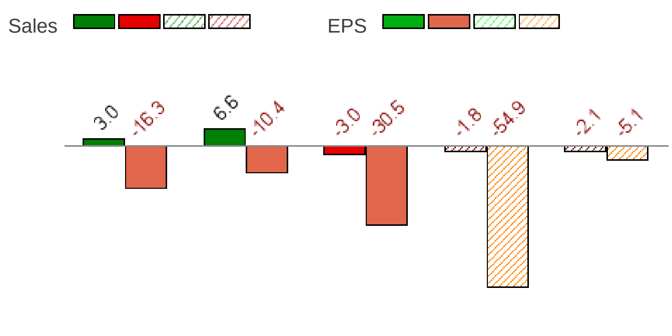
Shares of Red Robin have underperformed the industry in the past year. This dismal performance can be attributed to soft comps, high expenses and limited international presence. Limited focus on franchising remains an added concern. Notably, the company trimmed its 2019 guidance and expects earnings in the 64-99 cents range compared with 95 cents-$1.20 projected earlier. For 2020, earnings estimates have been revised downward over the past 30 days, reflecting analyst's concern. However, efforts to improve sales and regain market share via efficient menu innovation, focus on increasing service speed, effective marketing strategy and remodeling bode well. Particularly, Red Robin's focus on value offerings, and growing off-premise and online ordering businesses ensures that it remains affordable.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$36.85 - $24.57**
20 Day Average Volume (sh)	**207,186**
Market Cap	**$430.0 M**
YTD Price Change	**0.6%**
Beta	**1.21**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Retail - Restaurants**
Zacks Industry Rank	**Top 27% (68 out of 254)**
Last EPS Surprise	**-9.1%**
Last Sales Surprise	**1.2%**
EPS F1 Est- 4 week change	**-3.4%**
Expected Report Date	**02/25/2020**
Earnings ESP	**0.0%**
P/E TTM	**23.6**
P/E F1	**44.9**
PEG F1	**4.6**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	396 E	299 E	284 E	296 E	1,287 E
2019	410 A	308 A	294 A	304 E	1,315 E
2018	422 A	315 A	295 A	307 A	1,339 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.31 E	$0.36 E	-$0.36 E	$0.43 E	$0.74 E
2019	$0.19 A	$1.03 A	-$0.24 A	-$0.23 E	$0.78 E
2018	$0.69 A	$0.46 A	$0.16 A	$0.43 A	$1.73 A

*Quarterly figures may not add up to annual.

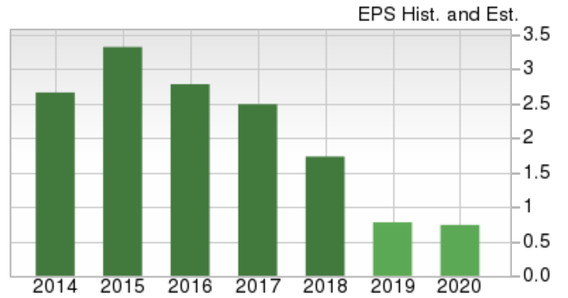
The data in the charts and tables, except sales and EPS estimates, is as of 01/06/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/07/2020.

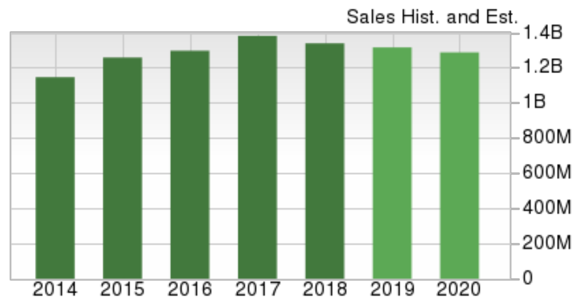
Overview

Founded in 1969 in Seattle, WA, and made public in 2002, Red Robin Gourmet Burgers, Inc. is a full-service casual dining restaurant chain that serves an assorted range of burgers. Along with its subsidiaries, the company develops, operates and franchises full-service restaurants in North America.

Red Robin's first franchised restaurant was opened in Yakima, WA, in 1979. It offers salads, sandwiches and other entrées. The company also runs limited service non-traditional prototype restaurants, named Red Robin's Burger Works. As of Oct 1, 2019, Red Robin owned and operated 561 restaurants across the United States and Canada. Notably, it also had 90 franchised full-service restaurants in 16 states, as of the same date. The company's franchisees are independent organizations but seek support from Red Robin. It operates its business as one operating as well as one reportable segment.

Red Robin's major source of revenues is ale of food and beverages at company-owned restaurants. The company earns from royalties and fees from franchised restaurants as well.





Reasons To Buy:

Brand transformation, menu innovation and digital enhancements are expected to aid topline growth while margin expansion initiatives bode well for future profitability.

- **Transformation Initiatives to Improve Traffic:** In order to drive incremental traffic, Red Robin has been undertaking initiatives that have improved its restaurants' seating efficiency and lowered guests' waiting times. The company has rolled out its Kitchen Display System (KDS) that is linked to table management software. This is expected to result in annual sales growth of approximately $50 million as kitchens can handle higher peak volumes. It should also significantly improve guest experience by lowering ticket times and improving the quality of food at tableside. Meanwhile, Red Robin is focusing on expanding its productivity and service models, and also increasingly supporting To-Go and catering services to drive greater guest check. Red Robin is focusing on prudent pricing strategies to make its menu affordable to a varied range of customers, and drive incremental traffic and sales.

- **Menu Innovation Drives TopLine**: Apart from brand revitalization efforts, Red Robin is focused on menu innovation, operational improvement and making a better customer service platform. The company continues to launch a variety of salads, appetizers, innovative desserts and adult beverages as well as kids' menu. Notably, the company's marketing strategy focuses on driving traffic with everyday value advertising of premium burgers, appetizers, beverage and desserts. In addition, the company focuses on promotional and limited-time offers to increase revenues. It continues to derive traffic for the Tavern Double burgers. Meanwhile, the company is increasing its focus on improving consistency and quality of products such as gourmet burgers, chicken, buns and its signature Bottomless Steak Fries. The company had introduced a $10-bundle dine-in only offer that includes a choice of three gourmet burgers, a choice of bottomless side and bottomless beverage which drove traffic in the company's test markets. Notably, during the third quarter, the rise in menu mix was primarily driven by the company's current menu and promotional strategy that resulted in low Tavern burger sales, and high Finest burger and entrée sales.

  Moreover, a key long-term growth driver for the company is its guest loyalty program — Red Robin Royalty — initiated in 2011 with a goal to increase guest count. The company engages its guests through this program with offers designed to increase the frequency of visits. The company has 8.5 million Royalty members. It also informs its enrolled guests about new menu items to generate awareness and for trials. Also, one of the key benefits the company is realizing with off-premise on its loyalty program is the ability to reach guests on holidays.

- **Digital Initiatives to Boost Business:** The digital wave has hit the U.S. fast-casual restaurant space as more and more restaurants are deploying technology to enhance the guest experience. In line with this, Red Robin too has been investing more in technology and data infrastructure. The company is set to grow its off-premise, online-ordering business via carry-out, delivery and catering. The growing demand for off-premise orders is resulting in higher traffic. However, in 2018, the company failed to maintain its year-over-year traffic growth in off-premise businesses via carry-out, delivery and catering over the past several quarters. Red Robin's move of moving call-in ordering to a centralized call center is also yielding positive results and it is thus slowly expanding its reach to ensure quality experience. On the delivery front, the company partnered with Amazon, DoorDash and GrubHub. In fact, the company is working with each provider to better integrate into its POS and KDS systems, and ease the intricacy in operations teams. During October, it completed the rollout of POS terminals, and headsets and printers that contain menu item details for off-premise orders, thereby enabling the company to deliver an improved guest experience. Also, third-party delivery is now available at most of its locations.

- **Strategic Plan to Enhance Profitability:** At its ICR Investor Conference in Orlando during 2016, Red Robin outlined the go-forward plan known as RED2. The primary objective of this initiative is doubling the company's EBITDA by 2020. The initiative aims to focus mainly on three areas — revenue growth, expense management and efficient capital deployment.

  On the expense front, the company is focusing on a new supply chain management software, replacing its older manual system. This might result in improved control of waste and cost of goods, significantly reducing inventory levels at its restaurants. It would also allow restaurant managers to interact more with guests, resulting in improved guest experience.

  Furthermore, Red Robin intends to deploy more capital to its shareholders once the company completes brand transformation remodeling at all restaurants. Annually, management expects to reduce expenses by about 20 basis points (bps) as part of the five-year strategic plan.

Reasons To Sell:

Soft comps, high expenses and limited international presence poses concern for the company.

- **Dismal Q3 Earnings Compel Management to Trim View:** Red Robin reported third-quarter earnings, wherein the bottom line missed the Zacks Consensus Estimate. It reported loss per share of 24 cents, wider than the Zacks Consensus Estimate of a loss of 22 cents. In the year-ago quarter, the company had reported adjusted earnings of 16 cents per share. Following dismal earnings, the company trimmed its 2019 guidance. It now expects earnings within 64-99 cents compared with 95 cents to $1.20 projected earlier. The Zacks Consensus Estimate for the same is currently pegged at $1.02. Notably, estimates for 2020 have been downwardly revised over the past 30 days, reflecting analysts' concern surrounding the stock.

- **Limited Focus on Franchising:** Unlike most of its peers, Red Robin remains focused on the company-owned restaurants that allow it to have total control over operations and also keep generating profits. However, this limited focus on franchising burdens the company with increased costs, which could have been transferred on to franchisees had there been a franchise business model. As of Oct 6, 2019, the company had only 90 franchised full-service restaurants in 16 states.

- **Higher Costs Continue to Hurt Margins:** Red Robin has been witnessing rising costs and expenses in the recent quarters. The Affordable Care Act, commonly known as Obamacare, would continue to have an adverse impact on restaurant operators. Meanwhile, Red Robin is investing heavily in several sales building initiatives like advertising and technical upgrades, which will result in elevated costs. Remodeling and restaurant maintenance also add to the already rising expenses. In the third quarter of 2019, restaurant-level operating profit margin contracted 70 bps to 16.1%. The decline was due to a 90-bps rise in labor costs and 30-bps increase in other restaurant operating expenses.

- **Industry Susceptible to Consumer Discretionary Spending:** Red Robin operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Last Earnings Report

Red Robin's Reports Wider-Than-Expected Q3 Loss

Quarter Ending	09/2019
Report Date	Nov 05, 2019
Sales Surprise	1.19%
EPS Surprise	-9.09%
Quarterly EPS	-0.24
Annual EPS (TTM)	1.41

Red Robin Gourmet Burgers, reported mixed fiscal third-quarter 2019 results, wherein the bottom line missed the Zacks Consensus Estimate but the top line surpassed the same.

It reported loss per share of 24 cents, wider than the Zacks Consensus Estimate of a loss of 22 cents. In the year-ago quarter, the company had reported adjusted earnings of 16 cents per share.

Revenue Discussion

Revenues came in at $294.2 million, beating the Zacks Consensus Estimate of $291 million but declining 0.2% from the prior-year quarter. The downside can be primarily attributed to a decline in restaurant as well as franchise royalties, fees, and other revenues.

Comparable restaurant revenues increased 1.6% year over year (on a constant-currency basis), driven by a 4.7% gain in average check, partially offset by a 3.1% decline in guest count. The increase in average guest check was on account of a 3.2% rise in menu mix and 1.5% hike in pricing.

Notably, the increase in menu mix was primarily due to its current menu and promotional strategy.

Operating Results

Restaurant-level operating profit margin contracted 70 basis points (bps) to 16.1%. The decline was due to a 90-bps rise in labor costs and 30-bps increase in other restaurant operating expenses. Cost of sales margin remained flat. Occupancy costs declined 60 bps owing to restaurant closures.

Adjusted earnings before interest, taxes, and amortization decreased to $14.7 million from $24.2 million a year ago.

Financial Highlights

As of Oct 6, 2019, Red Robin had cash and cash equivalents of $20.2 million compared with $18.6 million on Dec 30, 2018. The company’s long-term debt amounted to $188.9 million as of Oct 6, 2019 compared with $193.4 million on Dec 30, 2018.

As of Oct 6, 2019, Red Robin had outstanding borrowings under its credit facility of $188 million, in addition to the amount issued under letters of credit of $7.5 million.

Guidance

For 2019, Red Robin — which currently has a Zacks Rank #4 (Sell) — expects earnings within 64-99 cents compared with 95 cents to $1.20 projected earlier. The company continues to expect comparable restaurant revenue growth of down 1% to flat.

Valuation

Red Robin's shares are up 4.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 19.2% and 19.4%, respectively.

The S&P 500 index is up 24.5% in the past year.

The stock is currently trading at 44.92x forward 12-month Price to Earnings value, which compares with 24.39x for the Zacks sub-industry, 25.27x for the Zacks sector and 18.71x for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.92x and as low as 12.18x, with a 5-year median of 19.48x. Our Neutral recommendation indicates that the stock will perform better than-the market. Our $35 price target reflects 47.30x forward 12-month Price to Earnings value.

The table below shows summary valuation data for RRGB.

Valuation Multiples - RRGB

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	44.92	24.39	25.27	18.71
	5-Year High	44.92	26.41	26.13	19.34
	5-Year Low	12.18	20.45	18.99	15.17
	5-Year Median	19.48	23.25	22.91	17.44
P/S F12M	Current	0.33	3.52	1.07	3.47
	5-Year High	0.97	3.85	1.1	3.47
	5-Year Low	0.25	2.91	0.8	2.54
	5-Year Median	0.5	3.25	0.9	3
P/CF	Current	5.44	16.89	14.36	22.65
	5-Year High	10.27	20.39	15.11	22.67
	5-Year Low	2.75	8.5	10.69	11.78
	5-Year Median	5.3	16.45	12.81	16.22

As of 01/06/2020

Industry Analysis **Zacks Industry Rank:** Top 27% (68 out of 254)

Top Peers

BJs Restaurants, Inc. **(BJRI)**	Neutral
Dunkin Brands Group, Inc. **(DNKN)**	Neutral
Dave & Busters Entertainment, Inc. **(PLAY)**	Neutral
Papa Johns International, Inc. **(PZZA)**	Neutral
RESTAURANT GRP **(RSTGF)**	Neutral
Carrols Restaurant Group, Inc. **(TAST)**	Neutral
The Wendys Company **(WEN)**	Neutral
Jack In The Box Inc. **(JACK)**	Underperform

Industry Comparison Industry: Retail - Restaurants

Industry Peers

	RRGB Neutral	X Industry	S&P 500	SBUX Neutral	YUM Neutral	YUMC Neutral
VGM Score	D	-	-	B	C	B
Market Cap	429.98 M	433.97 M	23.72 B	104.08 B	30.79 B	17.99 B
# of Analysts	5	5	13	14	7	3
Dividend Yield	0.00%	0.00%	1.79%	1.86%	1.65%	1.00%
Value Score	B	-	-	D	D	C
Cash/Price	0.05	0.03	0.04	0.03	0.02	0.09
EV/EBITDA	12.76	14.88	13.90	18.01	16.72	11.68
PEG Ratio	4.60	2.08	2.00	2.22	2.00	2.88
Price/Book (P/B)	1.17	2.80	3.34	NA	NA	5.78
Price/Cash Flow (P/CF)	3.66	11.63	13.67	21.36	26.97	17.27
P/E (F1)	44.46	21.86	18.72	28.92	24.45	25.81
Price/Sales (P/S)	0.33	0.89	2.66	3.93	5.64	2.08
Earnings Yield	2.23%	4.50%	5.31%	3.46%	4.09%	3.89%
Debt/Equity	1.82	0.94	0.72	-1.79	-1.30	0.01
Cash Flow ($/share)	9.09	1.53	6.94	4.12	3.77	2.77
Growth Score	D	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	-15.50%	7.71%	10.56%	15.73%	0.29%	NA
Proj. EPS Growth (F1/F0)	-4.90%	8.35%	7.42%	7.67%	12.96%	7.02%
Curr. Cash Flow Growth	-5.58%	7.73%	14.83%	5.49%	-9.66%	8.02%
Hist. Cash Flow Growth (3-5 yrs)	4.85%	6.24%	9.00%	12.19%	-11.09%	NA
Current Ratio	0.38	0.63	1.23	0.92	1.57	1.37
Debt/Capital	64.57%	61.12%	42.92%	NA	NA	0.76%
Net Margin	-0.82%	3.14%	11.08%	13.58%	20.88%	8.05%
Return on Equity	4.89%	8.47%	17.16%	-75.45%	-11.69%	21.63%
Sales/Assets	1.14	1.17	0.55	1.36	1.18	1.40
Proj. Sales Growth (F1/F0)	-2.14%	3.09%	4.15%	7.07%	4.77%	5.84%
Momentum Score	F	-	-	B	A	C
Daily Price Chg	1.62%	0.15%	0.10%	-0.79%	-0.06%	-1.14%
1 Week Price Chg	5.38%	0.28%	-0.30%	0.79%	-0.05%	-0.49%
4 Week Price Chg	21.10%	1.28%	2.33%	2.14%	2.84%	5.72%
12 Week Price Chg	6.47%	1.21%	7.02%	1.74%	-9.78%	10.81%
52 Week Price Chg	10.40%	5.91%	24.61%	38.63%	11.42%	39.97%
20 Day Average Volume	207,186	169,007	1,589,897	5,503,968	1,371,766	1,478,730
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%
(F1) EPS Est 4 week change	-3.40%	0.00%	0.00%	0.00%	0.56%	0.00%
(F1) EPS Est 12 week change	-27.41%	-0.60%	-0.56%	-1.41%	-2.15%	-0.59%
(Q1) EPS Est Mthly Chg	-6.77%	0.00%	0.00%	0.17%	0.00%	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	B
Growth Score	D
Momentum Score	F
VGM Score	D

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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