

Red Robin (RRGB)

\$12.61 (As of 03/25/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Red Robin Gourmet Burgers reported unimpressive fourth-quarter fiscal 2019 results. It reported wider-than-expected loss in the quarter. This dismal performance can be primarily attributed to decline in traffic as well as soft restaurant revenues. Moreover, increase in labor and other restaurant operating expenses along with the coronavirus outbreak poses concerns. Also, coronavirus related woes are pressing concern. However, efforts to improve sales and regain market share via efficient menu innovation, focus on increasing service speed, effective marketing strategy and remodelling initiatives bode well. The company is also focusing on prudent pricing strategies to make its menu affordable to a varied range of customers, thereby driving incremental traffic and sales.

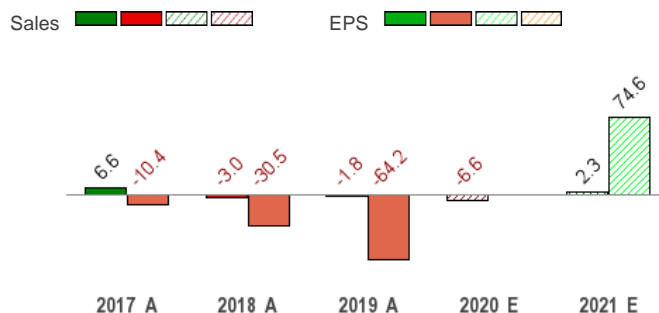
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.29 - \$4.04
20 Day Average Volume (sh)	1,000,662
Market Cap	\$162.9 M
YTD Price Change	-61.8%
Beta	1.28
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 37% (93 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-24.1%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-196.9%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	20.3
P/E F1	302.6
PEG F1	31.3
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	397 E	303 E	291 E	301 E	1,256 E
2020	390 E	264 E	266 E	290 E	1,228 E
2019	410 A	308 A	294 A	303 A	1,315 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.26 E	\$0.37 E	-\$0.29 E	\$0.23 E	-\$0.16 E
2020	-\$0.41 E	-\$0.03 E	-\$0.48 E	\$0.07 E	-\$0.63 E
2019	\$0.19 A	\$1.03 A	-\$0.24 A	-\$0.36 A	\$0.62 A

*Quarterly figures may not add up to annual.

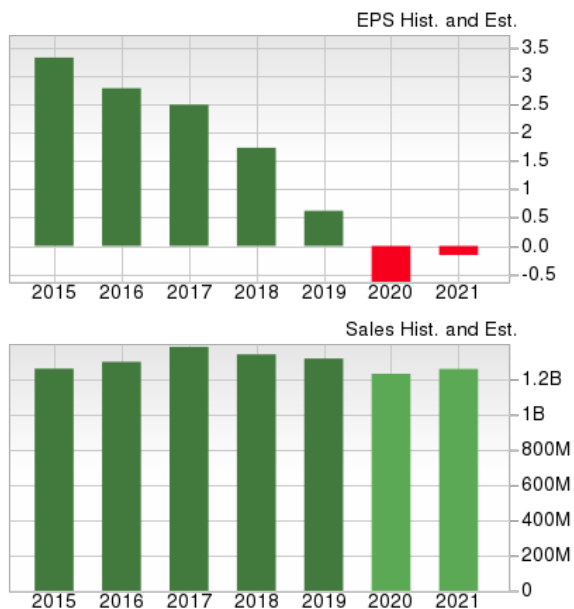
The data in the charts and tables, except sales and EPS estimates, is as of 03/25/2020. The reports text and the analyst-provided sales and EPS estimates are as of 03/26/2020.

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 Dec 29, 2019, Red Robin owned and operated 556 restaurants across the United States and Canada. Notably, it also had 102 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 sale of food and beverages at company-owned restaurants. The company earns from royalties and fees from franchised restaurants as well.



Reasons To Buy:

▲ **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 rolled out its Kitchen Display System (KDS) that is linked to table management software. It is expected to 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.

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

▲ **Menu Innovation Drives Top-Line:** 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 fourth quarter 2019, the rise in menu mix was primarily driven by the company's current menu and promotional strategy that induced low Tavern burger sales, and high Finest burger and entrée sales. It also enhanced its menu with the introduction of Donatos Pizza. The company is optimistic that this menu enhancement will drive frequency, appetizer sales and delivery as has been successfully demonstrated in its test markets.

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 more than 9 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.

During fourth-quarter fiscal 2019, the company started testing marketing automation as part of its loyalty platform upgrade initiative with e-mail offers targeted by visit frequency and purchase behavior. Initial results are very encouraging as that continues to optimize the effectiveness and profitability of this functionality through testing.

▲ **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 2019, 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:

- ▼ **Coronavirus Likely to Hurt 2020 Results:** The recent outbreak of the coronavirus in China now became a global crisis. The Retail - Restaurants industry is currently grappling with the situation and Red Robin isn't immune to the trend either. Although the company's 2020 guidance does not include any impact of the coronavirus outbreak and there have been no reported cases of COVID-19 at any Red Robin property, uncertainties stemming from the outbreak may affect results going forward.
- ▼ **Dismal Q4 Earnings:** Red Robin's fourth-quarter earnings missed the Zacks Consensus Estimate. It reported loss per share of 36 cents, wider than the Zacks Consensus Estimate of a loss of 24 cents. In the year-ago quarter, the company reported adjusted earnings of 43 cents per share. However, the Zacks Consensus Estimate for 2020 is currently pegged at 40 cents. Notably, estimates for 2020 have been revised downward over the past 30 days, indicating analysts' concern for 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 Dec 29, 2019, the company had 102 franchised full-service restaurants.
- ▼ **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 fourth quarter of fiscal 2019, restaurant-level operating profit margin contracted 50 bps to 18.9%. This decline was due to a 20-bps rise in labor costs and a 110-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.

Coronavirus-related woes, soft comps, high expenses and limited international presence poses concern for the company.

Last Earnings Report

Red Robin Earnings & Revenues Miss Estimates in Q4

Red Robin Gourmet Burgers, reported unimpressive fourth-quarter fiscal 2019 results, with the top and the bottom line missing the Zacks Consensus Estimate. Decline in traffic and soft restaurant revenues have hurt the quarterly results.

The company reported loss per share of 36 cents, wider than the Zacks Consensus Estimate of a loss of 29 cents. In the year-ago quarter, the company had reported adjusted earnings of 43 cents.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	-0.01%
EPS Surprise	-24.14%
Quarterly EPS	-0.36
Annual EPS (TTM)	0.62

Revenue Discussion

Revenues came in at \$302.95 million, which missed the Zacks Consensus Estimate of \$303 million and fell 1.3% from the prior-year quarter's tally. The downside was caused by decline in restaurant revenues.

Comparable restaurant revenues inched up 1.3% year over year (on a constant-currency basis), driven by a 4.7% gain in average check and partially offset by a 3.4% decline in guest count. The increase in average guest check can be attributed to a 1.1% rise in menu mix, 1.8% hike in pricing and a 1.8% increase from lower discounting.

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

Operating Results

Restaurant-level operating profit margin contracted 50 basis points (bps) to 18.9%. The decline was caused by an increase in wage rates and higher levels of staffing at the restaurant manager level. Other restaurant operating costs increased 110 bps primarily due to an increase in third-party delivery fees driven by higher off-premise sales volume as well as increased restaurant technology costs compared with favorable adjustment in the prior-year quarter.

Cost of sales margin declined 60 bps, while occupancy costs inclined 20 bps due to higher general liability costs, partially offset by lower rent expenses stemming from restaurant closures.

Adjusted earnings before interest, taxes and amortization declined to \$26.7 million from \$28.4 million in the year-ago quarter.

2019 Highlights

In 2019, total revenues amounted to \$1,315 million compared with \$1,338.6 million in 2018.

Adjusted earnings per share (EPS) for the year ended on Dec 29, 2019 were 62 cents compared with \$1.73 on Dec 30, 2018.

Adjusted EBITDA was \$101.3 million compared with \$123.8 million in 2018.

2020 Guidance

Net income is expected to be at least \$2 million, which includes a tax benefit of \$10-\$12 million.

Adjusted EBITDA is expected to be flat compared with approximately \$101 million in 2019.

Capital expenditures are expected in the range of \$50-\$60 million.

Comparable restaurant revenue growth for 2020 is expected in the lower single digits.

Valuation

Red Robin's shares have declined 61.8% in year-to-date period and 56.9% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 24.4% and 13.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 18.6% and 5.2%, respectively.

The S&P 500 index is down 23.8% in the year-to-date period and 13.4% in the past year.

The stock is currently trading at 31.48X forward 12-month earnings, which compares to 19.27X for the Zacks sub-industry, 21.99X for the Zacks sector and 14.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 68.77X and as low as 12.18X, with a 5-year median of 19.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 32.5X forward 12-month earnings.

The table below shows summary valuation data for RRGB

Valuation Multiples - RRGB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	31.48	19.27	21.99	14.72
	5-Year High	68.77	26.59	26.19	19.34
	5-Year Low	12.18	19.27	19.06	14.72
	5-Year Median	19.42	23.1	23	17.42
P/S F12M	Current	0.13	2.71	0.88	2.65
	5-Year High	0.97	3.92	1.11	3.43
	5-Year Low	0.05	2.71	0.8	2.54
	5-Year Median	0.49	3.29	0.92	3
P/CF	Current	2.82	13.09	12.28	12.74
	5-Year High	10.18	20.59	15.2	22.67
	5-Year Low	1.16	8.61	10.76	11.66
	5-Year Median	5.26	16.77	12.87	16.38

As of 03/25/2020

Industry Analysis Zacks Industry Rank: Top 37% (93 out of 253)



Top Peers

Dunkin Brands Group, Inc. (DNKN)	Neutral
Dominos Pizza Inc (DPZ)	Neutral
McDonalds Corporation (MCD)	Neutral
Restaurant Brands International Inc. (QSR)	Neutral
Starbucks Corporation (SBUX)	Neutral
The Wendys Company (WEN)	Neutral
Yum! Brands, Inc. (YUM)	Underperform
Yum China Holdings Inc. (YUMC)	Underperform

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	RRGB Neutral	X Industry	S&P 500	SBUX Neutral	YUM Underperform	YUMC Underperform
VGM Score	D	-	-	D	C	B
Market Cap	162.86 M	245.75 M	17.53 B	77.24 B	21.92 B	16.71 B
# of Analysts	5	6	13	15	11	6
Dividend Yield	0.00%	0.00%	2.47%	2.49%	2.58%	1.08%
Value Score	B	-	-	D	F	F
Cash/Price	0.36	0.08	0.07	0.05	0.03	0.11
EV/EBITDA	10.10	10.34	10.68	14.81	15.95	10.54
PEG Ratio	31.31	1.78	1.64	1.78	1.51	5.94
Price/Book (P/B)	0.45	1.47	2.32	NA	NA	5.26
Price/Cash Flow (P/CF)	1.63	5.53	9.40	15.95	18.05	14.44
P/E (F1)	302.64	13.68	14.14	24.49	19.58	56.16
Price/Sales (P/S)	0.12	0.49	1.82	2.86	3.92	1.90
Earnings Yield	-5.00%	6.29%	7.02%	4.09%	5.10%	1.78%
Debt/Equity	1.86	0.96	0.70	-2.72	-1.26	0.01
Cash Flow (\$/share)	7.72	1.81	7.01	4.12	4.04	3.08
Growth Score	D	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	-21.29%	7.72%	10.85%	15.40%	0.67%	NA
Proj. EPS Growth (F1/F0)	-201.94%	1.34%	3.53%	-5.04%	4.81%	-57.89%
Curr. Cash Flow Growth	-15.30%	5.49%	5.93%	5.49%	3.60%	10.09%
Hist. Cash Flow Growth (3-5 yrs)	-0.74%	5.87%	8.55%	12.19%	-6.71%	25.34%
Current Ratio	0.54	0.60	1.23	0.68	0.99	1.30
Debt/Capital	65.09%	63.25%	42.57%	NA	NA	0.81%
Net Margin	-0.60%	4.05%	11.64%	13.81%	23.12%	8.12%
Return on Equity	2.21%	7.33%	16.74%	-62.51%	-13.90%	22.96%
Sales/Assets	1.05	1.07	0.54	1.26	1.14	1.29
Proj. Sales Growth (F1/F0)	-6.58%	1.76%	2.51%	0.96%	2.56%	-11.61%
Momentum Score	F	-	-	F	B	A
Daily Price Chg	22.90%	2.37%	2.41%	1.43%	4.61%	3.64%
1 Week Price Chg	-28.57%	-32.16%	-16.96%	-17.01%	-25.98%	-2.47%
4 Week Price Chg	-52.25%	-40.96%	-23.98%	-18.42%	-25.26%	2.18%
12 Week Price Chg	-61.81%	-44.20%	-27.80%	-25.15%	-27.66%	-7.39%
52 Week Price Chg	-56.86%	-49.82%	-18.55%	-9.53%	-26.38%	0.63%
20 Day Average Volume	1,000,662	582,591	4,285,848	20,368,298	3,996,504	3,966,897
(F1) EPS Est 1 week change	-258.66%	-3.23%	0.00%	-6.58%	-4.15%	0.00%
(F1) EPS Est 4 week change	-196.93%	-5.54%	-1.83%	-10.19%	-4.59%	0.00%
(F1) EPS Est 12 week change	-185.64%	-9.52%	-2.90%	-11.81%	-10.49%	-57.32%
(Q1) EPS Est Mthly Chg	-234.43%	-3.65%	-1.37%	-18.61%	-3.66%	0.00%

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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