



# Cracker Barrel Inc. (CBRL)

Updated September 18<sup>th</sup>, 2018 by Bob Ciura

## Key Metrics

<b>Current Price:</b> \$144	<b>5 Year CAGR Estimate:</b> 6.7%	<b>Volatility Percentile:</b> 65.6%
<b>Fair Value Price:</b> \$125	<b>5 Year Growth Estimate:</b> 5.0%	<b>Momentum Percentile:</b> 40.7%
<b>% Fair Value:</b> 91%	<b>5 Year Valuation Multiple Estimate:</b> -1.8%	<b>Valuation Percentile:</b> 37.3%
<b>Dividend Yield:</b> 3.5%	<b>5 Year Price Target</b> \$168	<b>Total Return Percentile:</b> 32.6%

## Overview & Current Events

Cracker Barrel Old Country Store was established in 1969 as a restaurant concept that embraces America's heritage. It sells home-style food at modest prices. It differentiates itself from competitors within the casual dining industry with unique menu offerings. For example, some of Cracker Barrel's most popular menu items are its meatloaf and signature biscuits. It also operates a gift shop. Cracker Barrel generates annual sales of approximately \$3 billion, and the stock has a market capitalization of \$3.6 billion.

On 9/18/18 Cracker Barrel reported financial results for the fourth fiscal quarter and full fiscal year. For the fourth quarter, revenue of \$810.9 million rose 9.1% year over year, but missed analyst expectations by \$14.6 million. Earnings-per-share of \$2.55 also missed analyst estimates, which called for \$2.70. More concerning, the company's outlook for the upcoming fiscal year calls for earnings-per-share to decline, largely due to rising food costs.

## Per-Share Growth

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.89	\$3.62	\$3.85	\$4.61	\$4.97	\$5.64	\$6.82	\$7.86	\$8.37	\$9.23	<b>\$9.03</b>	<b>\$11.53</b>
<b>DPS</b>	\$0.80	\$0.80	\$0.88	\$1.15	\$2.25	\$3.25	\$4.10	\$4.45	\$4.65	\$4.90	<b>\$5.15</b>	<b>\$6.57</b>
<b>Shares</b>	22.3	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	<b>24.0</b>	<b>24.0</b>

Cracker Barrel is not immune from the downturn in the casual restaurant industry. Sit-down restaurants have seen traffic decline over the past year, due to the decline of U.S. malls, and the emergence of other eating options such as meal kits. Cracker Barrel's store traffic fell 1.9% in fiscal 2018. To offset falling traffic, Cracker Barrel has relied upon price increases and new stores to drive growth. Comparable sales growth is expected at 0%-1% for fiscal 2019. The company expects to open eight new Cracker Barrel stores, as well as three new Holler & Dash Biscuit House restaurants. We expect 5% annual earnings growth through fiscal 2024, comprised of low-single digit comparable sales growth, and share repurchases. Dividends are expected to grow at the same rate. In addition to regular quarterly dividends, Cracker Barrel also pays a special dividend each year in May, when underlying profits support the supplemental payout. For 2018, the company declared a special dividend of \$3.75 per share. This brings Cracker Barrel's total dividend yield to 2018 above 5%, which makes the stock highly attractive for income investors.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	12.0	8.5	11.3	13.1	11.2	15.0	18.1	19.2	18.5	18.7	<b>16.0</b>	<b>14.6</b>
<b>Avg. Yld.</b>	2.2%	3.2%	2.0%	1.7%	2.2%	3.0%	3.2%	3.1%	3.1%	3.0%	<b>3.5%</b>	<b>3.5%</b>

Cracker Barrel stock currently trades for a price-to-earnings ratio of 16.0. While this is below the valuation of the S&P 500 Index as a whole, Cracker Barrel trades above its own historical average of 14.6. We view the 10-year average price-to-earnings ratio as a reasonable estimate of fair value, as casual restaurant stocks typically do not hold valuations

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

above the mid-teens. Cracker Barrel stock appears to be somewhat overvalued. A declining price-to-earnings ratio is expected to reduce Cracker Barrel's returns by 1.8% per year through 2023.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>GP/A</b>	129%	58.1%	57.8%	56.5%	59.6%	59.0%	58.7%	65.3%	66.9%	137%	<b>135%</b>	<b>135%</b>
<b>Debt/A</b>	89.1%	85.2%	79.6%	73.0%	65.1%	63.1%	65.9%	64.8%	64.2%	61.9%	<b>62.0%</b>	<b>62.0%</b>
<b>Int. Cov.</b>	2.7	3.4	3.3	4.3	5.6	11.9	15.3	20.0	21.9	19.4	<b>19.5</b>	<b>19.5</b>
<b>Payout</b>	27.7%	22.1%	22.9%	25.0%	45.3%	57.6%	60.1%	56.6%	55.6%	53.1%	<b>57.0%</b>	<b>57.0%</b>
<b>Std. Dev.</b>	73.0%	53.7%	23.6%	28.3%	12.3%	19.8%	21.8%	23.0%	32.2%	14.5%	<b>14.5%</b>	<b>14.5%</b>

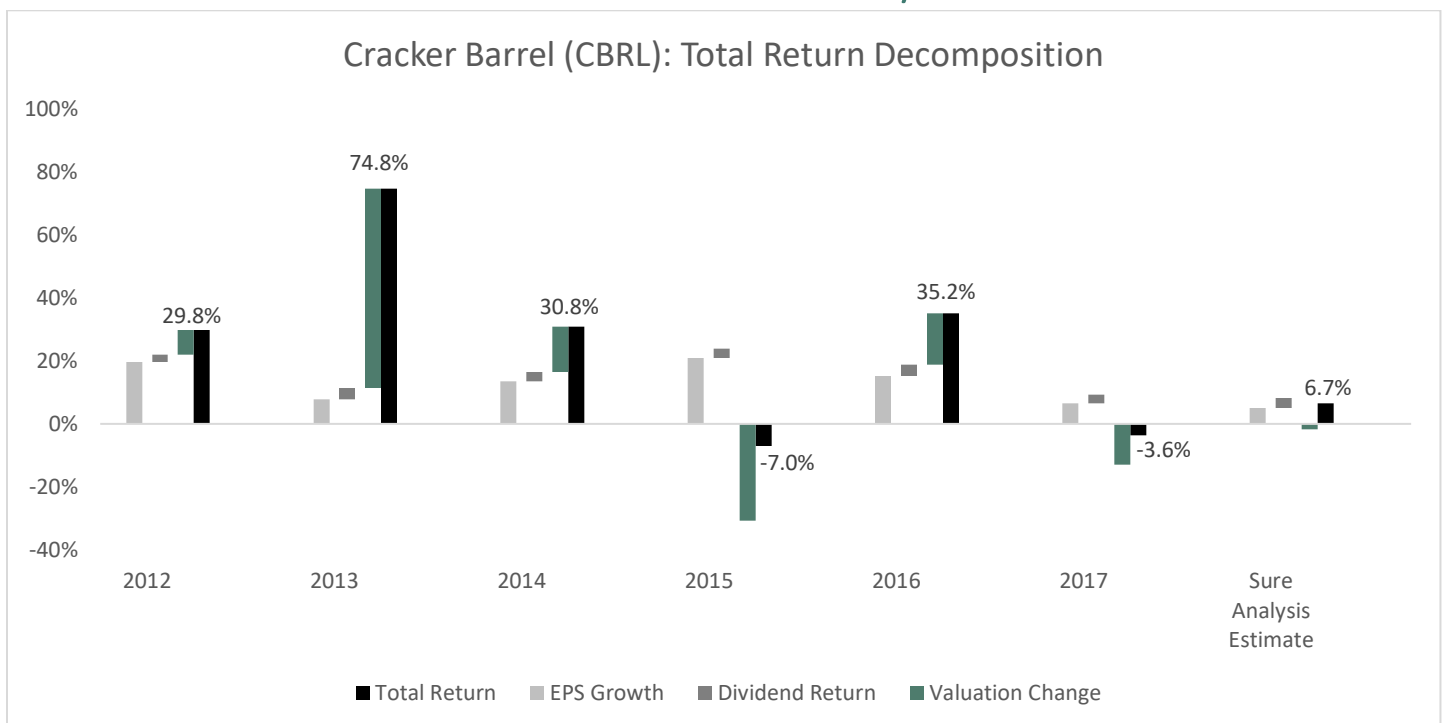
Cracker Barrel scores positively across our safety and quality metrics. The company is highly profitable, which leads to strong interest coverage. It has a healthy balance sheet, with a manageable level of debt. The dividend is secure, since the payout ratio is only slightly above 50%. Cracker Barrel should be able to continue increasing its dividend each year, and provide a supplemental dividend as it has done for several years.

The casual restaurant industry is highly competitive, with relatively low barriers to entry. As a result, the industry does not typically provide competitive advantages. That said, Cracker Barrel has achieved brand power, through a differentiated menu and popularity within its niche category. Plus, Cracker Barrel enjoys a recession-resistant business model. Value-oriented restaurants perform well during recessions, as people continue to flock to them for their focus on low prices. Cracker Barrel maintained strong profitability during the Great Recession.

## Final Thoughts & Recommendation

Cracker Barrel is hurting from lower traffic, an industry-wide problem. However, it can continue to grow sales, through new restaurant openings and price increases at existing locations. While the stock appears to be overvalued, it can still generate positive returns of 6.7% per year through earnings growth and dividends. Total returns could approach 10% depending on whether the company pays a special dividend. We view Cracker Barrel as a buy for income investors.

## Total Return Breakdown by Year



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