



# Cracker Barrel Old Country Store Inc. (CBRL)

Updated December 17<sup>th</sup>, 2018 by Bob Ciura

## Key Metrics

<b>Current Price:</b>	\$170	<b>5 Year CAGR Estimate:</b>	3.6%	<b>Volatility Percentile:</b>	62.7%
<b>Fair Value Price:</b>	\$136	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	78.3%
<b>% Fair Value:</b>	125%	<b>5 Year Valuation Multiple Estimate:</b>	-4.4%	<b>Growth Percentile:</b>	31.2%
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$173	<b>Valuation Percentile:</b>	14.4%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	11.3%

## 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 trades with a market capitalization of \$4.1 billion. The bulk of company sales comes from its restaurant operations, while the company also derives revenue from its in-store retail business.

On 11/27/18 Cracker Barrel reported financial results for the first fiscal quarter of fiscal 2019. The company reported total revenue of \$733.5 million for the quarter, representing an increase of 3.3% over the first quarter of the prior fiscal year. Cracker Barrel comparable store restaurant sales increased 1.4%, as a 3.0% increase in average check offset a 1.6% decrease in comparable store restaurant traffic. In addition, Cracker Barrel raised prices by an average of 2.0% which helped boost sales growth. Comparable store retail sales increased 4.3% from the prior year quarter. Earnings-per-share increased 2.1% for the quarter.

## Growth on a Per-Share Basis

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 in fiscal 2018 and in the fiscal 2019 first quarter. 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 brought Cracker Barrel's total dividend yield for 2018 to above 5%, which makes the stock highly attractive for income investors particularly if it continues to pay a special dividend each year.

## 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>18.8</b>	<b>15.0</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>3.0%</b>	<b>3.5%</b>

*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.*



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Cracker Barrel stock currently trades for a price-to-earnings ratio of 18.8. Cracker Barrel trades above its own historical average of 14.6. Fair value is estimated to be a price-to-earnings ratio of 15, which we believe is reasonable as casual restaurant stocks typically do not hold valuations above the mid-teens. Cracker Barrel stock appears to be overvalued. A declining price-to-earnings ratio could reduce Cracker Barrel's returns by 4.4% per year through 2023 if mean reversion were to occur over a 5-year holding period.

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

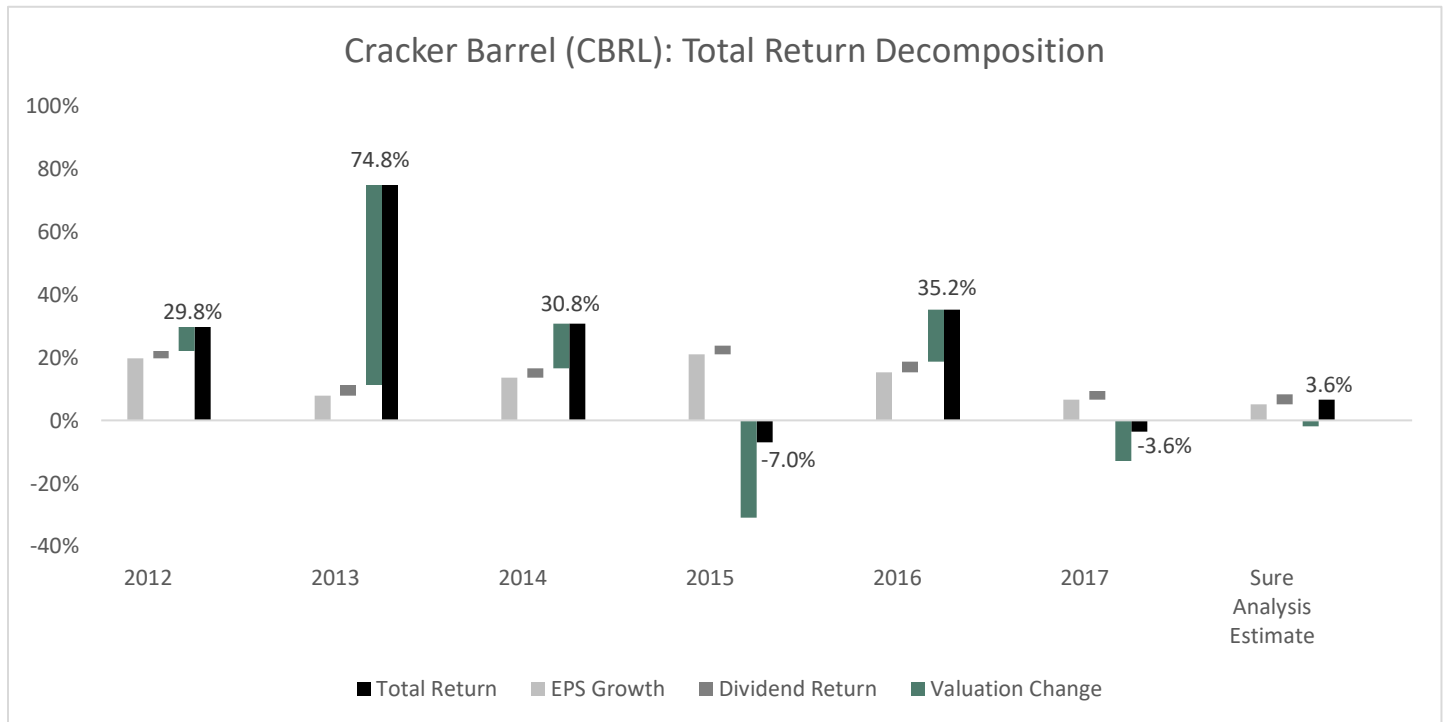
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	27.7%	22.1%	22.9%	25.0%	45.3%	57.6%	60.1%	56.6%	55.6%	53.1%	<b>57.0%</b>	<b>57.0%</b>

Cracker Barrel scores positively across our safety and quality metrics. The company is highly profitable, which leads to strong interest coverage. And 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. However, Cracker Barrel does not enjoy many competitive advantages. The restaurant industry is highly competitive with low barriers to entry. That said, Cracker Barrel has brand power through a differentiated menu and popularity within its niche category. Plus, Cracker Barrel enjoys a recession-resistant business model. Value-oriented restaurants tend to perform fairly well during recessions, as people turn to them when their focus is on saving money compared with higher-priced restaurants. Cracker Barrel maintained strong profitability during the Great Recession.

## Final Thoughts & Recommendation

Cracker Barrel is hurting from lower traffic, an industry-wide problem. While the stock appears to be overvalued, it can still generate positive returns of 3.6% per year through earnings growth and dividends. Total returns could be significantly higher if the company continues to pay a special dividend each year. Cracker Barrel stock is a hold for income investors due to its strong dividend payout, but total returns may disappoint because of its elevated valuation.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	2367	2405	2434	2580	2645	2684	2842	2912	2926	3030
<b>Gross Profit</b>	265	313	306	337	345	338	402	423	455	437
<b>Gross Margin</b>	11.2%	13.0%	12.6%	13.1%	13.0%	12.6%	14.2%	14.5%	15.5%	14.4%
<b>SG&amp;A Exp.</b>	120	146	139	146	143	129	148	143	141	144
<b>D&amp;A Exp.</b>	59	61	63	64	66	68	73	78	86	94
<b>Operating Profit</b>	144	167	167	191	202	208	255	280	313	294
<b>Operating Margin</b>	6.1%	7.0%	6.8%	7.4%	7.6%	7.8%	9.0%	9.6%	10.7%	9.7%
<b>Net Profit</b>	66	85	85	103	117	132	164	189	202	248
<b>Net Margin</b>	2.8%	3.5%	3.5%	4.0%	4.4%	4.9%	5.8%	6.5%	6.9%	8.2%
<b>Free Cash Flow</b>	96	142	60	139	134	86	243	157	210	178
<b>Income Tax</b>	24	30	30	43	49	59	74	77	97	31

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	1245	1292	1311	1419	1388	1432	1576	1498	1522	1527
<b>Cash &amp; Equivalents</b>	12	48	52	152	122	119	265	151	161	115
<b>Accounts Receivable</b>	13	14	12	15	16	23	18	19	18	19
<b>Inventories</b>	137	144	142	143	147	165	153	152	156	156
<b>Total Liabilities</b>	1110	1100	1043	1036	904	904	1038	971	977	946
<b>Accounts Payable</b>	92	116	100	101	111	98	133	132	118	122
<b>Long-Term Debt</b>	645	581	550	525	400	400	400	400	400	400
<b>Shareholder's Equity</b>	136	192	268	383	484	529	538	526	545	582
<b>D/E Ratio</b>	4.76	3.03	2.05	1.37	0.83	0.76	0.74	0.76	0.73	0.69

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	5.2%	6.7%	6.5%	7.6%	8.4%	9.4%	10.9%	12.3%	13.4%	16.2%
<b>Return on Equity</b>	57.7%	52.1%	37.1%	31.7%	27.1%	26.1%	30.7%	35.6%	37.7%	44.0%
<b>ROIC</b>	7.9%	11.0%	10.7%	11.9%	13.1%	14.6%	17.6%	20.3%	21.6%	25.7%
<b>Shares Out.</b>	22.3	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1
<b>Revenue/Share</b>	103.88	101.97	103.00	110.23	110.43	111.98	118.19	120.97	121.33	125.87
<b>FCF/Share</b>	4.22	6.02	2.55	5.93	5.60	3.59	10.11	6.54	8.71	7.41

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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