



Cracker Barrel Old Country Store Inc. (CBRL)

Updated March 7th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$158	5 Year CAGR Estimate:	5.3%	Volatility Percentile:	55.7%
Fair Value Price:	\$136	5 Year Growth Estimate:	5.0%	Momentum Percentile:	45.8%
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Growth Percentile:	35.0%
Dividend Yield:	3.2%	5 Year Price Target	\$173	Valuation Percentile:	26.7%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	22.8%

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 \$3.8 billion. The bulk of company sales comes from its restaurant operations, while the company also derives revenue from its in-store retail business.

On 2/26/19 Cracker Barrel reported financial results for the second fiscal quarter of fiscal 2019. The company reported total revenue of \$811.7 million for the quarter, representing an increase of 3.0% over the second quarter of the prior fiscal year. Cracker Barrel comparable store restaurant sales increased 3.8%, as a 3.7% increase in average check boosted a mere 0.1% decrease in comparable store restaurant traffic. In addition, Cracker Barrel raised prices by an average of 2.2% which helped boost sales growth. Comparable store retail sales declined 1.4% from the prior year quarter. Earnings-per-share decreased 7.7% year-over-year for the quarter as company costs were up significantly due to investments in advertising as well as inflation.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.89	\$3.62	\$3.85	\$4.61	\$4.97	\$5.64	\$6.82	\$7.86	\$8.37	\$9.23	\$9.03	\$11.53
DPS	\$0.80	\$0.80	\$0.88	\$1.15	\$2.25	\$3.25	\$4.10	\$4.45	\$4.65	\$4.90	\$5.15	\$6.57
Shares	22.3	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0	21.5

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
Avg. P/E	12.0	8.5	11.3	13.1	11.2	15.0	18.1	19.2	18.5	18.7	17.4	15.0
Avg. Yld.	2.2%	3.2%	2.0%	1.7%	2.2%	3.0%	3.2%	3.1%	3.1%	3.0%	3.2%	3.5%

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 17.4. 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 2.9% per year through 2024 if mean reversion were to occur over a 5-year holding period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

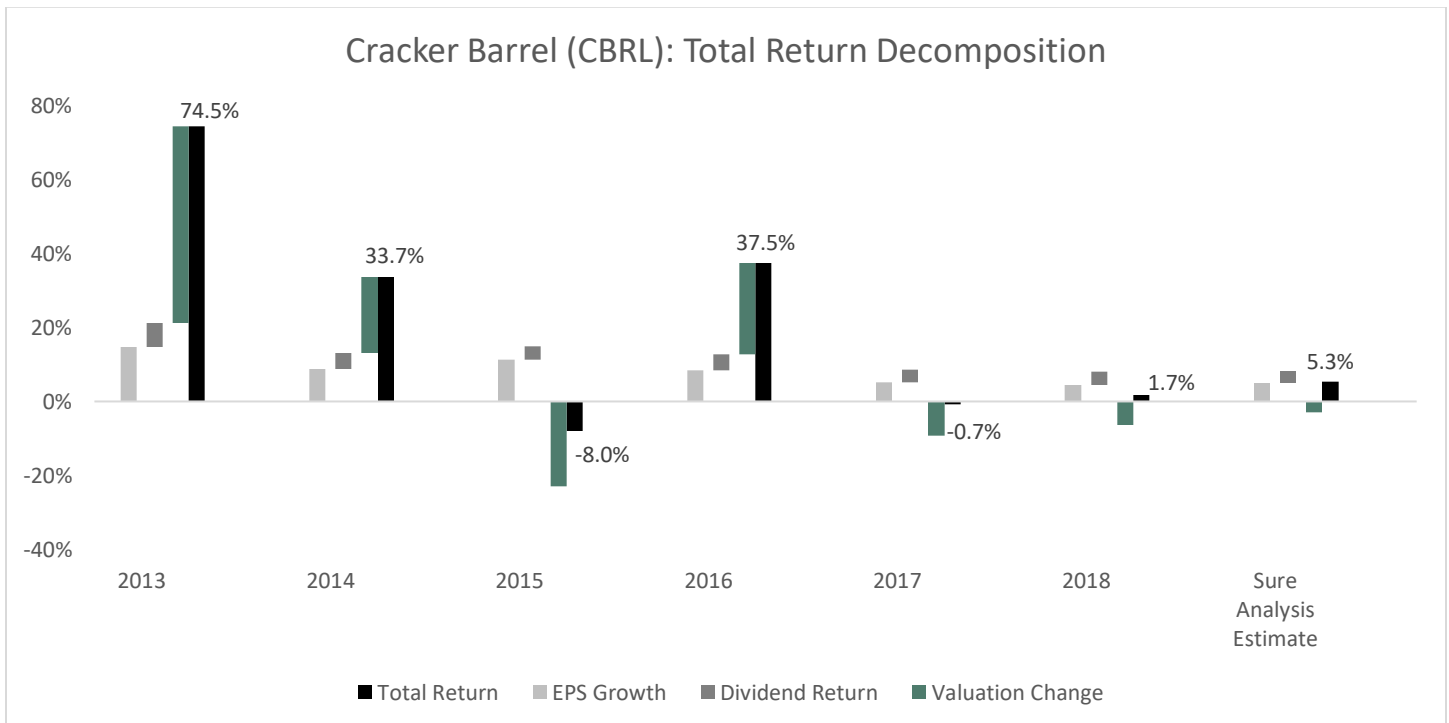
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	27.7%	22.1%	22.9%	25.0%	45.3%	57.6%	60.1%	56.6%	55.6%	53.1%	57.0%	57.0%

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 weak traffic and higher costs, an industry-wide problem. While the stock appears to be overvalued, it can still generate positive returns of 5.3% 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 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	2367	2405	2434	2580	2645	2684	2842	2912	2926	3030
Gross Profit	265	313	306	337	345	338	402	423	455	437
Gross Margin	11.2%	13.0%	12.6%	13.1%	13.0%	12.6%	14.2%	14.5%	15.5%	14.4%
SG&A Exp.	120	146	139	146	143	129	148	143	141	144
D&A Exp.	59	61	63	64	66	68	73	78	86	94
Operating Profit	144	167	167	191	202	208	255	280	313	294
Operating Margin	6.1%	7.0%	6.8%	7.4%	7.6%	7.8%	9.0%	9.6%	10.7%	9.7%
Net Profit	66	85	85	103	117	132	164	189	202	248
Net Margin	2.8%	3.5%	3.5%	4.0%	4.4%	4.9%	5.8%	6.5%	6.9%	8.2%
Free Cash Flow	96	142	60	139	134	86	243	157	210	178
Income Tax	24	30	30	43	49	59	74	77	97	31

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1245	1292	1311	1419	1388	1432	1576	1498	1522	1527
Cash & Equivalents	12	48	52	152	122	119	265	151	161	115
Accounts Receivable	13	14	12	15	16	23	18	19	18	19
Inventories	137	144	142	143	147	165	153	152	156	156
Total Liabilities	1110	1100	1043	1036	904	904	1038	971	977	946
Accounts Payable	92	116	100	101	111	98	133	132	118	122
Long-Term Debt	645	581	550	525	400	400	400	400	400	400
Shareholder's Equity	136	192	268	383	484	529	538	526	545	582
D/E Ratio	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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.2%	6.7%	6.5%	7.6%	8.4%	9.4%	10.9%	12.3%	13.4%	16.2%
Return on Equity	57.7%	52.1%	37.1%	31.7%	27.1%	26.1%	30.7%	35.6%	37.7%	44.0%
ROIC	7.9%	11.0%	10.7%	11.9%	13.1%	14.6%	17.6%	20.3%	21.6%	25.7%
Shares Out.	22.3	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1
Revenue/Share	103.88	101.97	103.00	110.23	110.43	111.98	118.19	120.97	121.33	125.87
FCF/Share	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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