



Cracker Barrel Old Country Store Inc. (CBRL)

Updated September 24th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$165	5 Year CAGR Estimate:	5.1%	Volatility Percentile:	46.8%
Fair Value Price:	\$141	5 Year Growth Estimate:	5.0%	Momentum Percentile:	73.3%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Growth Percentile:	40.2%
Dividend Yield:	3.3%	5 Year Price Target	\$180	Valuation Percentile:	40.1%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	35.0%

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

On 9/17/19, Cracker Barrel reported financial results for the fourth quarter and full fiscal year 2019. The company reported total revenue of \$787.1 million for the quarter, representing a decrease of 2.9% over the fourth quarter of the prior fiscal year. Cracker Barrel comparable store restaurant sales increased by an impressive 3.8%, as a 3.6% increase in average check combined with a 0.2% increase in comparable store restaurant traffic. In addition, Cracker Barrel raised menu prices by an average of 2.3% which helped boost restaurant sales growth by 5.4%. Comparable store retail sales also increased by 0.4% from the prior year quarter. Finally, the operating margin rate expanded by 10 basis points to 10.1% and the store count grew by 7 year-over-year. This all resulted in adjusted earnings-per-share growth of 23.3% year-over-year for the quarter.

For the fiscal year, comparable store restaurant sales growth was a robust 2.6%, while a traffic decline rate of 0.7% still outperformed the casual dining industry. Adjusted earnings-per-diluted-share growth came in 4.5%, which was a healthy increase from 2018. Looking ahead to fiscal 2020, management expects comparable store restaurant sales to continue growing between 2% and 3% with adjusted-earnings-per-diluted-share growing to a range of \$9.30-\$9.45.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.62	\$3.85	\$4.61	\$4.97	\$5.64	\$6.82	\$7.86	\$8.37	\$9.23	\$9.03	\$9.38	\$11.97
DPS	\$0.80	\$0.88	\$1.15	\$2.25	\$3.25	\$4.10	\$4.45	\$4.65	\$4.90	\$5.20	\$5.46	\$6.97
Shares¹	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0	23.8	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. However, Cracker Barrel's store traffic grew in the second half of fiscal 2019 even as it continued to increase prices, implying a very healthy business with strong appeal to customers. Thanks to this encouraging trend, comparable sales growth is expected at 2%-3% for fiscal 2020.

We expect 5% annual earnings growth through fiscal 2025, 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 2019, the company declared a special dividend of \$3.00 per share and also hiked its quarterly dividend by 4% to \$1.30 per share. This makes the stock highly attractive for income investors.

¹ Share count in millions

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.0	8.5	11.3	13.1	11.2	15.0	18.1	19.2	18.5	18.7	17.6	15.0
Avg. Yld.	2.2%	3.2%	2.0%	1.7%	2.2%	3.0%	3.2%	3.1%	3.1%	3.0%	3.3%	3.9%

Cracker Barrel stock currently trades for a price-to-earnings ratio of 17.6, which is 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. As a result, Cracker Barrel stock appears to be overvalued. A declining price-to-earnings ratio could reduce Cracker Barrel's returns by 3.1% per year through 2025 if mean reversion were to occur over a 5-year holding period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	27.7%	22.1%	22.9%	25.0%	45.3%	57.6%	60.1%	56.6%	55.6%	53.1%	58.2%	58.2%

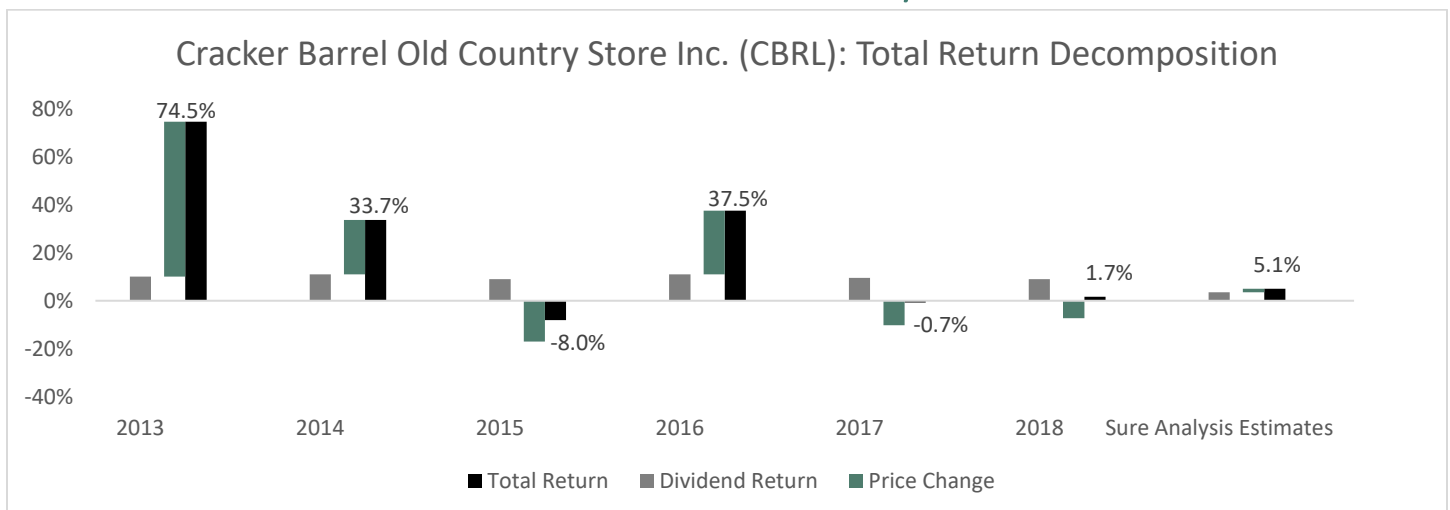
Cracker Barrel scores positively across our safety and quality metrics. The company is highly profitable, which leads to strong interest coverage. And the dividend is secure since the payout ratio is below 60%. Cracker Barrel should be able to continue increasing its dividend each year and provide a 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.

Additionally, 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

While Cracker Barrel appears to be overvalued, resulting in an annual headwind of 3.1% due to multiple contraction, it can still generate positive total returns of 5.1% per year through earnings growth (5%) and its attractive dividend yield (3.3%). Total returns could be significantly higher if the company continues to pay a special dividend each year. We rank Cracker Barrel as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2405	2434	2580	2645	2684	2842	2912	2926	3030	3072
Gross Profit	313	306	337	345	338	402	423	455	437	436
Gross Margin	13.0%	12.6%	13.1%	13.0%	12.6%	14.2%	14.5%	15.5%	14.4%	14.2%
SG&A Exp.	146	139	146	143	129	148	143	141	144	153
D&A Exp.	61	63	64	66	68	73	78	86	94	108
Operating Profit	167	167	191	202	208	255	280	313	294	283
Operating Margin	7.0%	6.8%	7.4%	7.6%	7.8%	9.0%	9.6%	10.7%	9.7%	9.2%
Net Profit	85	85	103	117	132	164	189	202	248	223
Net Margin	3.5%	3.5%	4.0%	4.4%	4.9%	5.8%	6.5%	6.9%	8.2%	7.3%
Free Cash Flow	142	60	139	134	86	243	157	210	178	225
Income Tax	30	30	43	49	59	74	77	97	31	43

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1292	1311	1419	1388	1432	1576	1498	1522	1527	1581
Cash & Equivalents	48	52	152	122	119	265	151	161	115	37
Accounts Receivable	14	12	15	16	23	18	19	18	19	23
Inventories	144	142	143	147	165	153	152	156	156	155
Total Liabilities	1100	1043	1036	904	904	1038	971	977	946	977
Accounts Payable	116	100	101	111	98	133	132	118	122	132
Long-Term Debt	581	550	525	400	400	400	400	400	400	400
Shareholder's Equity	192	268	383	484	529	538	526	545	582	605
D/E Ratio	3.03	2.05	1.37	0.83	0.76	0.74	0.76	0.73	0.69	0.66

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.7%	6.5%	7.6%	8.4%	9.4%	10.9%	12.3%	13.4%	16.2%	14.4%
Return on Equity	52.1%	37.1%	31.7%	27.1%	26.1%	30.7%	35.6%	37.7%	44.0%	37.7%
ROIC	11.0%	10.7%	11.9%	13.1%	14.6%	17.6%	20.3%	21.6%	25.7%	22.5%
Shares Out.	23.58	23.63	23.41	23.95	23.97	24.05	24.07	24.12	24.08	24.10
Revenue/Share	101.97	103.00	110.23	110.43	111.98	118.19	120.97	121.33	125.87	127.49
FCF/Share	6.02	2.55	5.93	5.60	3.59	10.11	6.54	8.71	7.41	9.35

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

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