



Cracker Barrel Old Country Store Inc. (CBRL)

Updated January 8th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$157	5 Year CAGR Estimate:	6.1%	Market Cap:	\$3.7B
Fair Value Price:	\$141	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	1/16/20
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	2/5/20
Dividend Yield:	3.3%	5 Year Price Target	\$180	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	4%

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 \$3.7 billion. The bulk of company sales comes from its restaurant operations, while the company also derives revenue from its in-store retail business.

On 11/26/19, Cracker Barrel reported financial results for the first quarter of fiscal 2020. Same-restaurant sales grew by a healthy 2.1% as a 3.6% increase in average check was partially offset by a 1.5% decline in traffic. The declining foot traffic is a troubling sign if it continues as it could show that Cracker Barrel's business model is declining. That being said, the 1.5% decline in foot traffic still outperformed the casual dining industry, meaning that Cracker Barrel is not losing market share. To boost its earnings-per-share growth, Cracker Barrel acquired the Maple Street Biscuit Company in an all-cash transaction for \$36 million and also invested \$14.2 million in repurchasing shares during the quarter. Despite these accretive efforts, GAAP diluted earnings-per-share declined to \$1.79 from \$1.96 on a year-over-year basis due to transactional and integration expenses.

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	\$5.20	\$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% for fiscal 2020. However, in the first quarter of 2020, foot traffic began to decline, implying that management may not be able to raise its prices as rapidly as it has in recent quarters.

We expect 5% annual earnings growth through fiscal 2025, comprised of low-single-digit comparable sales growth, acquisitions, 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, particularly against other restaurant stocks with much lower yields.

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	16.7	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 16.7. 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. As a result, Cracker Barrel stock appears to be slightly overvalued.

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%	55.4%	58.2%

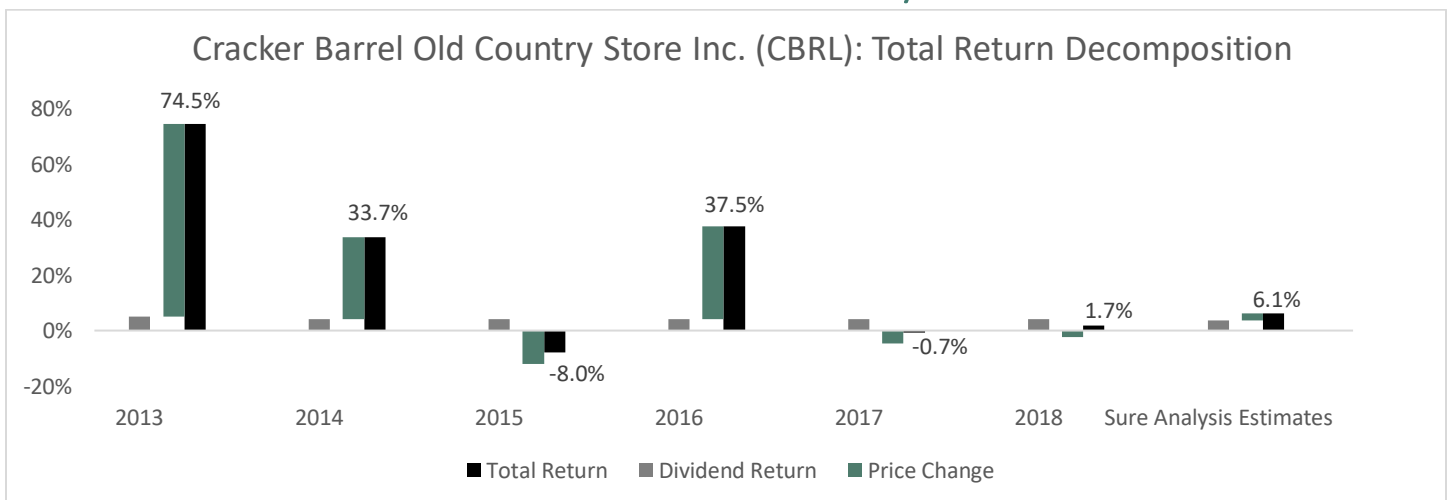
Cracker Barrel scores positively across our safety and quality metrics. The company is highly profitable, which leads to strong interest coverage. And the dividend is secure, since the payout ratio is only slightly above 50%. Cracker Barrel should be able to continue increasing its dividend each year, 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.

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

Cracker Barrel is hurting from weak traffic and higher costs, which is an industry-wide problem. While the stock appears to be overvalued, resulting in an annual headwind from multiple contraction, it can still generate positive returns of 6.1% per year through earnings growth (5%) and dividends (3.5%). Total returns could be significantly higher if the company continues to pay a special dividend each year. Cracker Barrel is a hold due its reasonably strong yield due and growth prospects offsetting the elevated valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,405	2,434	2,580	2,645	2,684	2,842	2,912	2,926	3,030	3,072
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	1,292	1,311	1,419	1,388	1,432	1,576	1,498	1,522	1,527	1,581
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	1,100	1,043	1,036	904	904	1,038	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.	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0
Revenue/Share	102	103	110	110	112	118	121	121	126	127
FCF/Share	6.02	2.55	5.93	5.60	3.59	10.11	6.54	8.71	7.41	9.32

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

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