



# Cracker Barrel Old Country Store Inc. (CBRL)

Updated March 25<sup>th</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$66	<b>5 Year CAGR Estimate:</b>	14.6%	<b>Market Cap:</b>	\$1.6B
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	15.1%	<b>Ex-Dividend Date:</b>	4/16/20
<b>% Fair Value:</b>	127%	<b>5 Year Valuation Multiple Estimate:</b>	-4.7%	<b>Dividend Payment Date:</b>	5/5/20
<b>Dividend Yield:</b>	6.1%	<b>5 Year Price Target</b>	\$105	<b>Years Of Dividend Growth:</b>	17
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$1.6 billion. The bulk of company sales comes from its restaurant operations, while the company also derives revenue from its in-store retail business.

On 2/25/20, Cracker Barrel reported financial results for the second quarter of fiscal 2020. Comparable store restaurant sales grew by a robust 3.8% and traffic was basically flat (-0.2%), outperforming peers in the casual dining industry. Additionally, comparable store retail sales increased by 1.3%, further indicating healthy performance in the business. This pushed down to the bottom line as operating income grew by 3.2% year-over-year and adjusted earnings per diluted share came in at \$2.70, up from \$2.52 in the year ago period. The company also continued its aggressive share repurchase program by retiring \$5.8 million worth of shares during the quarter.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$3.62	\$3.85	\$4.61	\$4.97	\$5.64	\$6.82	\$7.86	\$8.37	\$9.23	\$9.03	<b>\$5.20</b>	<b>\$10.50</b>
<b>DPS</b>	\$0.80	\$0.88	\$1.15	\$2.25	\$3.25	\$4.10	\$4.45	\$4.65	\$4.90	\$5.20	<b>\$4.00</b>	<b>\$6.00</b>
<b>Shares<sup>1</sup></b>	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0	<b>23.6</b>	<b>21.5</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. 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 was expected at 2% for fiscal 2020. That being said, management is looking at a tough second half of fiscal year 2020 thanks to the coronavirus outbreak and its broader impacts on social gatherings and the economy as a whole. However, we do not foresee any serious long-term threats being posed to the business and expect it to rebound fairly well from this short-term crisis. In addition to forecasting a significant earnings and dividend cut this year, we also reduced our 2025 outlook as the lost retained earnings this year will prevent it from making share repurchases and reinvestment in the business that would have further fueled its future growth.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<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>12.7</b>	<b>10.0</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>6.1%</b>	<b>5.7%</b>

<sup>1</sup> Share count in millions

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Cracker Barrel stock currently trades for a price-to-earnings ratio of 12.7. Cracker Barrel trades below its own historical average of 14.6. Our estimate of fair value has been reduced to a price-to-earnings ratio of 10 due to current challenges and uncertainty. 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%	76.9%	57.1%

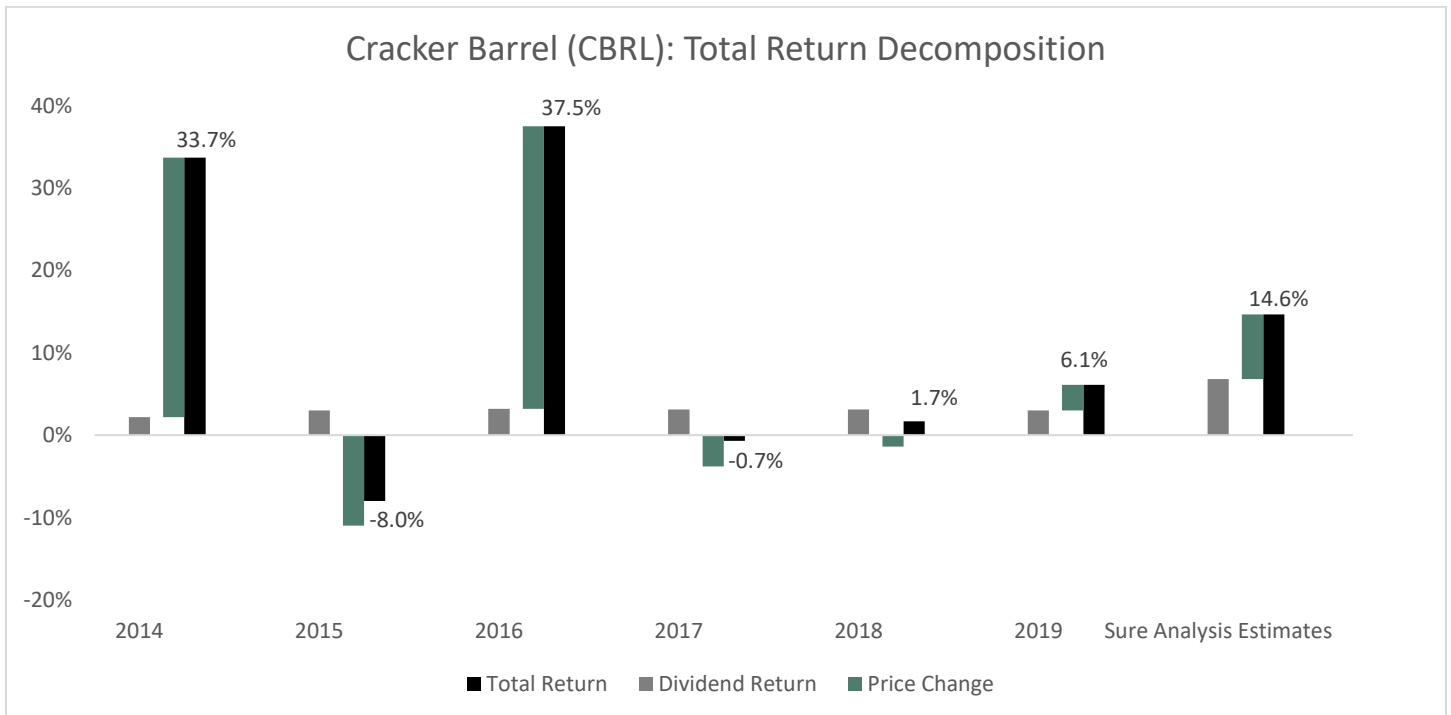
Cracker Barrel scores positively across our safety and quality metrics. The company is highly profitable, which leads to strong interest coverage. While the dividend is at risk, we foresee it recovering over the next half decade in both size and safety as the payout ratio will trend back towards its historic range between 55% and 60%. 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. That being said, it does face short term headwinds due to being shut down by the coronavirus outbreak.

## Final Thoughts & Recommendation

Cracker Barrel is hurting from weak traffic and higher costs, which is an industry-wide problem right now. While the stock appears to be overvalued, resulting in an annual headwind from multiple contraction, it can still generate very attractive returns of 14.6% per year through earnings growth and dividends thanks to its low base in both categories right now. Cracker Barrel is a buy for aggressive investors, but not for more risk adverse investors due to the industry's uncertainties in the face of the coronavirus.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	2,405	2,434	2,580	2,645	2,684	2,842	2,912	2,926	3,030	3,072
<b>Gross Profit</b>	313	306	337	345	338	402	423	455	437	436
<b>Gross Margin</b>	13.0%	12.6%	13.1%	13.0%	12.6%	14.2%	14.5%	15.5%	14.4%	14.2%
<b>SG&amp;A Exp.</b>	146	139	146	143	129	148	143	141	144	153
<b>D&amp;A Exp.</b>	61	63	64	66	68	73	78	86	94	108
<b>Operating Profit</b>	167	167	191	202	208	255	280	313	294	283
<b>Operating Margin</b>	7.0%	6.8%	7.4%	7.6%	7.8%	9.0%	9.6%	10.7%	9.7%	9.2%
<b>Net Profit</b>	85	85	103	117	132	164	189	202	248	223
<b>Net Margin</b>	3.5%	3.5%	4.0%	4.4%	4.9%	5.8%	6.5%	6.9%	8.2%	7.3%
<b>Free Cash Flow</b>	142	60	139	134	86	243	157	210	178	225
<b>Income Tax</b>	30	30	43	49	59	74	77	97	31	43

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	1,292	1,311	1,419	1,388	1,432	1,576	1,498	1,522	1,527	1,581
<b>Cash &amp; Equivalents</b>	48	52	152	122	119	265	151	161	115	37
<b>Accounts Receivable</b>	14	12	15	16	23	18	19	18	19	23
<b>Inventories</b>	144	142	143	147	165	153	152	156	156	155
<b>Total Liabilities</b>	1,100	1,043	1,036	904	904	1,038	971	977	946	977
<b>Accounts Payable</b>	116	100	101	111	98	133	132	118	122	132
<b>Long-Term Debt</b>	581	550	525	400	400	400	400	400	400	400
<b>Shareholder's Equity</b>	192	268	383	484	529	538	526	545	582	605
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	6.7%	6.5%	7.6%	8.4%	9.4%	10.9%	12.3%	13.4%	16.2%	14.4%
<b>Return on Equity</b>	52.1%	37.1%	31.7%	27.1%	26.1%	30.7%	35.6%	37.7%	44.0%	37.7%
<b>ROIC</b>	11.0%	10.7%	11.9%	13.1%	14.6%	17.6%	20.3%	21.6%	25.7%	22.5%
<b>Shares Out.</b>	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0
<b>Revenue/Share</b>	102	103	110	110	112	118	121	121	126	127
<b>FCF/Share</b>	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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