



Cracker Barrel Old Country Store Inc. (CBRL)

Updated July 7th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$111	5 Year CAGR Estimate:	3.7%	Market Cap:	\$2.6B
Fair Value Price:	\$90	5 Year Growth Estimate:	3.1%	Ex-Dividend Date:	8/13/20
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	9/2/20
Dividend Yield:	4.7%	5 Year Price Target	\$105	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 \$2.6 billion. The bulk of company sales comes from its restaurant operations, while the company also derives revenue from its in-store retail business.

On 6/2/20, Cracker Barrel reported financial results for the third quarter of fiscal 2020. Comparable store restaurant sales fell by a whopping 41.7% as traffic fell by 43.6%, though the average check did increase by 1.9%. Additionally, comparable store retail sales fell by 45.5% further reflecting the impact of the COVID-19 outbreak and government shutdowns of restaurants. The significantly reduced performance prompted management to withdraw guidance for the fiscal year.

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	\$1.77	\$10.50
DPS	\$0.80	\$0.88	\$1.15	\$2.25	\$3.25	\$4.10	\$4.45	\$4.65	\$4.90	\$5.20	\$5.20	\$6.00
Shares¹	22.7	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0	23.6	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 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 hit 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.

While there is likely some long-term impairment to the business due to changing customer behaviors and lost retained earnings this year, we believe that normalized "earnings power" this year is around \$9 per share, which is the assumption we used in our fair value estimate and other calculations in the Key Metrics table above.

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	12.3	10.0
Avg. Yld.	2.2%	3.2%	2.0%	1.7%	2.2%	3.0%	3.2%	3.1%	3.1%	3.0%	4.7%	5.7%

Cracker Barrel stock currently trades for a price-to-earnings ratio of 12.3 on our earnings power estimate for this year. Cracker Barrel's historical average is 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 considerably overvalued. That said, the valuation multiple is artificially high right now due to the significantly reduced earnings-per-share expectations for this year due to COVID-19. Once the virus has been contained and begins to subside, we expect earnings-per-share to rebound significantly, thereby bringing the valuation multiple back towards normalized levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

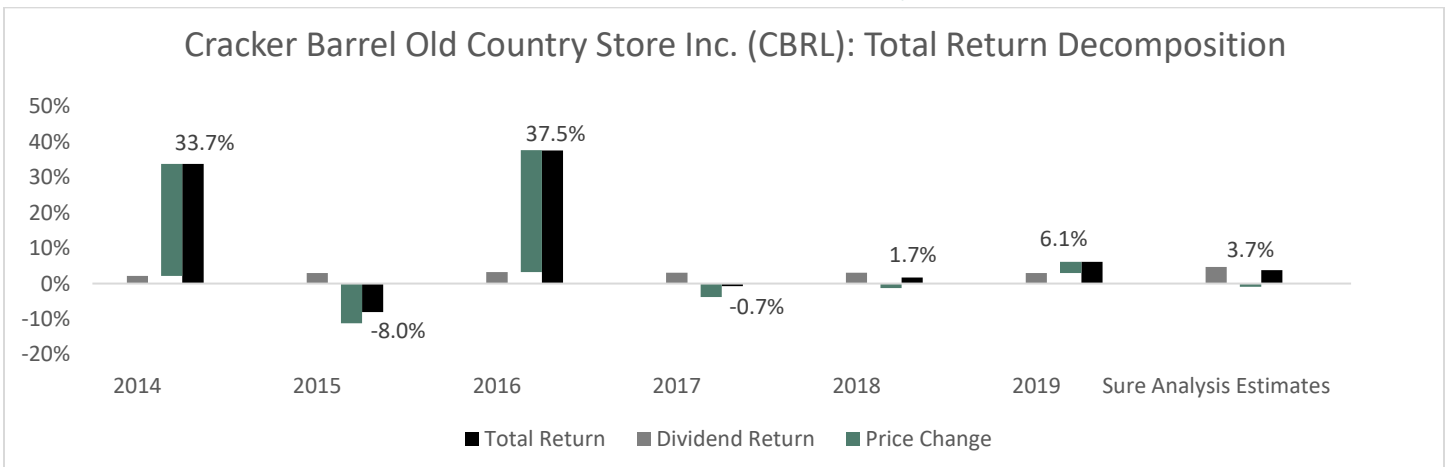
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	27.7%	22.1%	22.9%	25.0%	45.3%	57.6%	60.1%	56.6%	55.6%	53.1%	294%	57.1%

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 still offers investors an attractive and seemingly sustainable dividend yield of 4.7%. That said, overall annualized total return potential remains subdued at just 3.7% and the dividend could be put at risk if the Coronavirus lingers for longer than expected.

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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