



Cracker Barrel Old Country Store Inc. (CBRL)

Updated March 23rd, 2021 by Samuel Smith

Key Metrics

Current Price:	\$171	5 Year CAGR Estimate:	-1.6%	Market Cap:	\$4.1B
Fair Value Price:	\$135	5 Year Growth Estimate:	3.1%	Ex-Dividend Date:	N/A
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$158	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

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 \$2.7 billion, and the stock trades with a market capitalization of \$4.1 billion. The bulk of company sales comes from its restaurant operations, while the company also derives revenue from its in-store retail business.

On 02/23/21, Cracker Barrel reported financial results for the second quarter of fiscal 2021. Comparable store restaurant sales fell by a whopping 21.9%. Additionally, comparable store retail sales declined by 15.3%, further reflecting the impact of the COVID-19 outbreak and government restrictions on in-person dining at restaurants. GAAP earnings per diluted share and Adjusted earnings per diluted share came in at \$0.59 and \$0.70 respectively. Meanwhile, total revenue this quarter was at \$677.17 million.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.85	\$4.61	\$4.97	\$5.64	\$6.82	\$7.86	\$8.37	\$9.23	\$9.03	\$2.04	\$3.69	\$10.50
DPS	\$0.91	\$1.15	\$2.25	\$3.00	\$7.10	\$7.70	\$8.15	\$4.85	\$8.05	\$3.90	\$0.00	\$6.00
Shares¹	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0	24.0	23.7	23.7	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. Furthermore, the COVID-19 outbreak cut deeply into sales.

However, we do not foresee any serious long-term threats being posed to the business and expect it to rebound well from this short-term crisis. In addition to forecasting a significant hit to earnings this year, we also reduced our 2026 outlook as the lost retained earnings this year will limit its ability to repurchase shares and reinvest 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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.5	11.3	13.1	11.2	15.0	18.1	19.2	18.5	18.7	28.2	19.0	15.0
Avg. Yld.	3.2%	2.0%	1.7%	2.2%	3.0%	3.2%	3.1%	3.1%	3.0%	5.0%	0.0%	3.8%

Cracker Barrel stock currently trades for a price-to-earnings ratio of 19.0 based on our earnings power estimate for this year. Cracker Barrel's recent pre-COVID multiple was in the high teens. Our estimate of fair value is a price-to-earnings

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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ratio of 15 due to current challenges and uncertainty. As a result, Cracker Barrel stock appears to be considerably overvalued. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	23.6%	25.0%	45.2%	53.2%	104%	98.0%	97.4%	52.5%	89.1%	191%	0.0%	57.1%

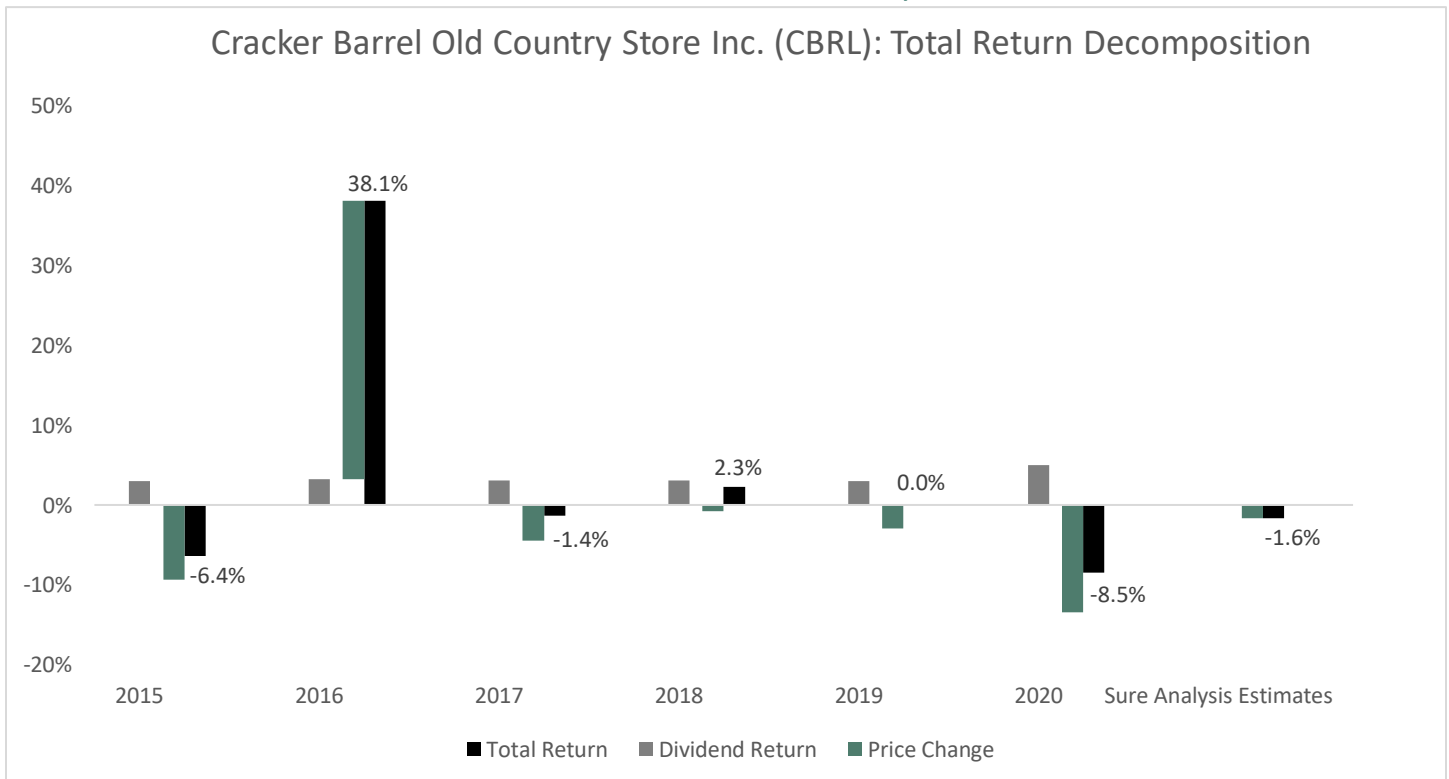
Cracker Barrel scores positively across our safety and quality metrics. The company is highly profitable, which leads to strong interest coverage. While the dividend was recently suspended, we foresee it recovering over the next half decade in both size and safety as the payout ratio will trend back 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 said, it does face short term headwinds due to lingering impacts from the coronavirus outbreak.

Final Thoughts & Recommendation

Cracker Barrel is hurting from weak traffic and higher costs, which is an industry-wide problem right now. The stock appears to be overvalued, resulting in an annual headwind from multiple contraction. Unsurprisingly, overall annualized total return potential over the next half decade is weak at just -1.6%, making the stock a clear sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,434	2,580	2,645	2,684	2,842	2,912	2,926	3,030	3,072	2,523
Gross Profit	306	337	345	338	402	423	455	437	436	203
Gross Margin	12.6%	13.1%	13.0%	12.6%	14.2%	14.5%	15.5%	14.4%	14.2%	8.1%
SG&A Exp.	139	146	143	129	148	143	141	144	153	147
D&A Exp.	63	64	66	68	73	78	86	94	108	118
Operating Profit	167	191	202	208	255	280	313	294	283	56
Operating Margin	6.8%	7.4%	7.6%	7.8%	9.0%	9.6%	10.7%	9.7%	9.2%	2.2%
Net Profit	85	103	117	132	164	189	202	248	223	(32)
Net Margin	3.5%	4.0%	4.4%	4.9%	5.8%	6.5%	6.9%	8.2%	7.3%	-1.3%
Free Cash Flow	60	139	134	86	243	157	210	178	225	(136)
Income Tax	30	43	49	59	74	77	97	31	43	(29)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,311	1,419	1,388	1,432	1,576	1,498	1,522	1,527	1,581	2,544
Cash & Equivalents	52	152	122	119	265	151	161	115	37	437
Accounts Receivable	12	15	16	23	18	19	18	19	23	20
Inventories	142	143	147	165	153	152	156	156	155	139
Total Liabilities	1,043	1,036	904	904	1,038	971	977	946	977	2,126
Accounts Payable	100	101	111	98	133	132	118	122	132	104
Long-Term Debt	550	525	400	400	400	400	400	400	400	949
Shareholder's Equity	268	383	484	529	538	526	545	582	605	418
D/E Ratio	2.05	1.37	0.83	0.76	0.74	0.76	0.73	0.69	0.66	2.27

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.5%	7.6%	8.4%	9.4%	10.9%	12.3%	13.4%	16.2%	14.4%	-1.6%
Return on Equity	37.1%	31.7%	27.1%	26.1%	30.7%	35.6%	37.7%	44.0%	37.7%	-6.3%
ROIC	10.7%	11.9%	13.1%	14.6%	17.6%	20.3%	21.6%	25.7%	22.5%	-2.7%
Shares Out.	22.7	22.8	23.5	23.8	23.8	24.0	24.0	24.1	24.0	23.6
Revenue/Share	103	110	110	111	118	120	121	126	127	106
FCF/Share	2.55	5.93	5.60	3.59	10.11	6.54	8.71	7.41	9.32	(5.71)

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

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