



Jack In The Box (JACK)

Updated February 24th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	19.4%	Market Cap:	\$1.9 B
Fair Value Price:	\$130	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	3/8/2022
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.3%	Dividend Payment Date:	3/22/2022
Dividend Yield:	2.0%	5 Year Price Target	\$199	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	10.0%

Overview & Current Events

Jack in the Box is a fast-food chain that operates and franchises hamburger chains in the U.S., with more than 2,200 restaurants in 21 states and Guam. It has a market capitalization of \$1.9 billion.

On December 6th, 2021, Jack in the Box announced that it will acquire Del Taco for \$575 million in cash. The company expects the deal to grow its earnings-per-share at a mid-single-digit rate after the first year. The deal is expected to close in the first calendar quarter of 2022 and will be funded via the issuance of debt.

In late February, Jack in the Box reported (2/23/22) financial results for the first quarter of fiscal 2022 (ending 9/30/22). The company continued to face great inflationary pressures, including 11% wage inflation and increased expenses for food, packaging and utilities. Just like in the previous quarter, Jack in the Box tried to offset these inflationary pressures in its costs with price hikes. As a result, its revenues grew only 0.6% over the prior year's quarter thanks to 1.2% same-store sales growth, which was partly offset by the shutdown of 10 net stores. Earnings-per-share remained essentially flat thanks to a reduced share count. Management has provided a positive 5-year outlook, expecting 3%-5% annual sales growth thanks to 2%-3% same-store sales growth and 1%-3% unit growth. We view cost inflation as a temporary headwind and reiterate that the new CEO has put the company back to growth mode, after three years of stagnation.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.40	\$1.82	\$2.45	\$3.00	\$3.88	\$3.88	\$3.79	\$4.35	\$4.65	\$7.37	\$7.20	\$11.08
DPS	---	---	\$0.40	\$1.00	\$1.20	\$1.60	\$1.60	\$1.60	\$1.20	\$1.72	\$1.76	\$2.68
Shares¹	43.9	42.6	38.6	35.8	32.4	29.4	27.1	25.7	22.9	21.6	20.5	18.0

Jack in the Box has achieved positive same-store sales growth for 10 consecutive years. It has also repurchased its shares at an aggressive pace in the last eight years. During this period, it has reduced its share count by approximately -50%. The restaurant chain is facing a headwind due to the coronavirus, but its last seven reports reveal a strong recovery underway. Thanks to this recovery, Jack in the Box has resumed repurchasing its shares.

It is evident that share repurchases will be a vital component of future returns. During the last five years, the company has grown its earnings-per-share at a 13.7% average annual rate. It has also returned to sustained growth mode lately, after three years of stagnation thanks to the attractive offerings of new management, which has greatly increased the average check and hence the same-store sales. Thanks to the strong and consistent performance under the new management, we expect the company to grow its earnings-per-share by 9.0% per year on average until 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.8	18.5	22.1	28.2	20.4	26.0	22.7	18.7	15.8	13.9	12.1	18.0
Avg. Yld.	---	---	0.7%	1.2%	1.5%	1.6%	1.9%	2.0%	1.6%	1.7%	2.0%	1.3%

¹ 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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Jack in the Box is currently trading at a price-to-earnings ratio of 12.1, which is much lower than its 10-year average of 20.3. We believe that a fair earnings multiple for this stock is 18.0. If the stock trades at this valuation level in five years, it will enjoy an 8.3% annualized gain thanks to the expansion of its price-to-earnings ratio over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	16.3%	33.3%	30.9%	41.2%	42.2%	34.4%	25.8%	23.3%	24.4%	24.2%

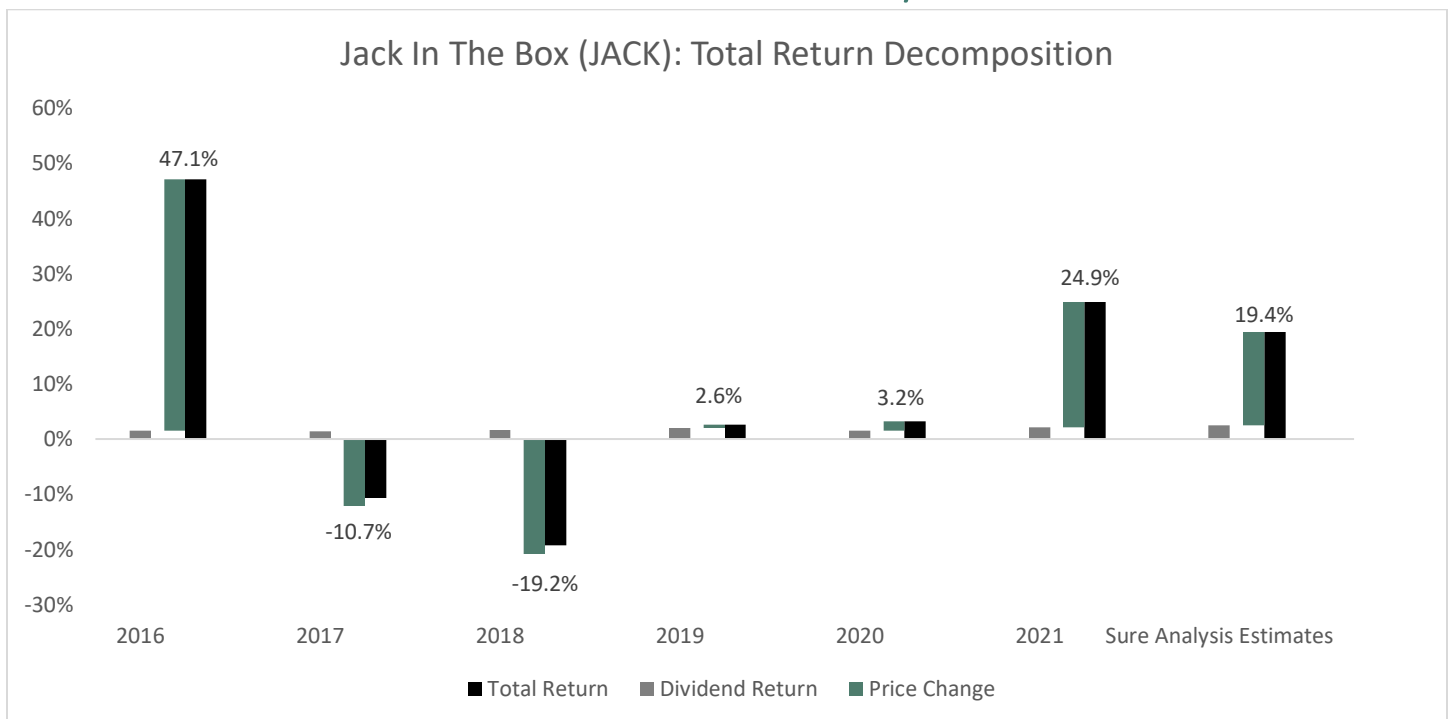
Jack in the Box has significantly leveraged its balance sheet in recent years in order to execute its aggressive share repurchases. Its net debt has climbed to \$2.4 billion and its book value per share has plunged, from \$11.10 in 2013 to negative, -\$39.00, now. In addition, interest expense has increased from 16% of operating income in 2017 to 24% of operating income in the last 12 months. As net debt is about 16 times annual earnings, it is certainly excessive but the company can continue servicing its debt thanks to its strong business performance.

Jack in the Box proved quite resilient in the Great Recession, as it grew its earnings-per-share 20%, from \$1.89 in 2007 to \$2.27 in 2009. The company has proved resilient in the ongoing downturn as well, as it achieved record earnings in fiscal 2021, thanks to its affordable offerings and its strong execution.

Final Thoughts & Recommendation

Jack in the Box has proved exceptionally resilient to the coronavirus crisis, which has begun to subside. The stock has incurred a -30% correction off its peak due to the effect of cost inflation on its margins. However, we view this headwind as temporary and expect the stock to offer a 19.4% average annual return over the next five years thanks to 9.0% earnings-per-share growth, its 2.0% dividend and an 8.4% annualized expansion of its valuation level. With the broad market trading at a somewhat rich valuation level, Jack in the Box is offering one of the most attractive combinations of growth potential and valuation. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1509	1490	1484	1540	1599	1554	870	950	1,022	1,144
Gross Profit	349	368	388	433	452	419	370	345	354	412
Gross Margin	23.1%	24.7%	26.1%	28.1%	28.2%	27.0%	42.5%	36.3%	34.7%	36.0%
SG&A Exp.	225	221	207	221	204	166	107	76	81	83
D&A Exp.	98	96	91	89	93	89	59	55	53	47
Operating Profit	124	144	180	206	246	251	204	212	221	281
Operating Margin	8.2%	9.7%	12.1%	13.4%	15.4%	16.1%	23.4%	22.3%	21.6%	24.5%
Net Profit	58	51	89	109	124	135	121	94	90	166
Net Margin	3.8%	3.4%	6.0%	7.1%	7.8%	8.7%	14.0%	9.9%	8.8%	14.5%
Free Cash Flow	57	114	140	141	38	104	77	121	124	160
Income Tax	34	40	52	66	73	81	82	24	33	56

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1464	1319	1271	1304	1345	1228	823	958	1,906	1,750
Cash & Equivalents	8	10	11	18	17	8	3	126	200	55
Accounts Receivable	67	31	36	37	67	65	57	37	77	75
Inventories	8	7	7	7	8	7	2	2	2	2
Goodwill & Int. Ass.	158	165	165	164	180	183	47	47	47	48
Total Liabilities	1052	847	1013	1288	1562	1616	1415	1,696	2,700	2,568
Accounts Payable	95	37	32	32	41	37	45	37	31	29
Long-Term Debt	421	370	508	715	991	1145	1070	1,275	1,378	1,274
Shareholder's Equity	412	472	258	16	-217	-388	-592	-738	-793	-818
LTD/E Ratio	1.02	0.78	1.97	44.84	-4.56	-2.95	-1.81	-1.73	-1.74	-1.56

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.0%	3.7%	6.9%	8.5%	9.4%	10.5%	11.8%	10.6%	6.3%	9.1%
Return on Equity	14.1%	11.6%	24.4%	79.5%	-123%	-44.7%	-24.8%	---	---	---
ROIC	6.8%	6.1%	11.1%	14.5%	16.5%	17.7%	19.7%	18.6%	16.0%	31.9%
Shares Out.	43.9	42.6	38.6	35.8	32.4	29.4	27.1	25.7	22.9	21.6
Revenue/Share	33.58	33.18	35.36	40.31	46.84	50.27	30.19	36.45	43.90	50.85
FCF/Share	1.26	2.54	3.35	3.68	1.10	3.38	2.66	4.63	5.33	7.12

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

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