

Cracker Barrel

2Q Quick Take: Comps beat, margins miss

Maintain Rating: UNDERPERFORM | PO: 76.00 USD | Price: 72.32 USD

2Q SSSG beat; Resty traffic less negative than expected

CBRL's 2Q Restaurant comps of 1.2% beat expectations (vs BofAE/VA consensus: 0.2%/-0.6%) as traffic/mix declines (-4 ppt) were better than expected (BofAE/VA consensus: -6 ppt / -5 ppt) and likely slightly better than casual dining industry trend (Black Box Intelligence CDR traffic -5 ppt in F2Q; industry mix has been modestly negative). We note casual dining peers that have reported C4Q noted improving trends in February from a trough in January (severe weather), suggesting underlying consumer demand has held up better than expected. Although CBRL highlighted an improving traffic trend during the quarter (we think refers to q/q rather than m/m), we would look for more evidence of CBRL's ongoing strategy transformation in driving traffic (rather than just the rising tide of a more resilient consumer than feared). Retail comps of -5.3% were in line with expectations (vs BofAE/VA consensus -5.0%/-5.1%), a continuation of weakening consumer goods (vs services) spending trends.

EBIT miss on higher COGS and G&A

Adj. EPS of \$1.37 was in line with consensus (vs BofAE/VA: \$1.39/\$1.36); however, excluding lower than expected taxes (\$0.03 benefit) adj. EPS would have missed. Adj. EBIT of \$36 mm missed consensus (BofAE/VA: \$37 mm / \$38 mm) as higher restaurant COGS and higher G&A more than offset BTE comps.

See same topline/margin trade off in guide

CBRL revised F24 topline guidance higher (to \$3.5-\$3.6 bb vs \$3.4 - \$3.5 bb prior) but lowered adj. EBIT guidance (to \$125-\$135 mm vs \$130-\$150 mm). Despite more resilient topline trends, we continue to see risk to CBRL's profitability owing to its high operating and financial leverage (see link to [CBRL 2Q EPS Preview: Pricing supports topline; margin recovery less clear](#)).

Expect lowered EBIT guide to offset better topline

While better than expected Restaurant traffic/mix is a clear positive, in our view, we expect the 2Q EBIT miss and lowered EBIT guidance to weigh on the stock. We reiterate our Underperform rating.

Exhibit 1: CBRL's revised F24 guidance is above consensus on revenues, below on EBIT

Cracker Barrel F24 Guidance vs Consensus expectations

	Guidance Range		Average	Consensus	% var
Total Revenues (\$mm)	\$3,500	\$3,600	\$3,550	\$3,477	2%
GAAP Operating Income	\$95	\$105	\$100	\$105	-5%
Adjusted Operating Income	\$125	\$135	\$130	\$138	-6%
Capital Expenditures	\$120	\$135	\$128	\$127	0%

Source: Company filings, Visible Alpha consensus

BofA GLOBAL RESEARCH

27 February 2024

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Stock Data

Price	72.32 USD
Price Objective	76.00 USD
Date Established	21-Feb-2024
Investment Opinion	B-3-7
52-Week Range	62.69 USD - 121.17 USD
Mkt Val (mn) / Shares Out (mn)	1,739 USD / 24.0
Free Float	98.0%
Average Daily Value (mn)	39.28 USD
BofA Ticker / Exchange	CBRL / NAS
Bloomberg / Reuters	CBRL US / CBRL.OQ
ROE (2024E)	23.0%
Net Dbt to Eqty (Jul-2023A)	80.6%
ESGMeter™	Medium

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CBRL: Cracker Barrel
CDR: casual dining restaurant
VA: Visible Alpha
SSSG – same-store sales growth
Adj. – adjusted
G&A – general & administrative expense
BTE: better-than-expected

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Timestamp: 27 February 2024 09:38AM EST

Exhibit 2: CBRL's 2Q Restaurant SSSG came in above expectations while EPS missed on lighter EBIT margins

CBRL reported 2Q results vs BofAE and Visible Alpha consensus

	2Q23 Reported	2Q24 Reported	y/y change	BofAE	Cons 2Q24E	Variance (vs BofAE)	Variance (vs cons)
Restaurant SSS	8.4%	1.2%	-7.2 ppts	0.2%	-0.6%	1.0 ppts	1.8 ppts
Retail SSS	4.1%	-5.3%	-9.4 ppts	-5.0%	-5.1%	-0.3 ppts	-0.2 ppts
Average total units	719.5	725	1%	723	722	0%	0%
Restaurant Sales	\$718.1	\$714.3	-1%	\$726.6	\$712.1	-2%	0%
Retail Sales	\$215.7	\$204.5	-5%	\$203.0	\$204.8	1%	0%
Total Revenue (incl. MSBC)	\$933.9	\$935.4	0%	\$929.6	\$916.9	1%	2%
Restaurant COGS	\$210.2	\$201.6	-4%	\$197.7	\$193.6	2%	4%
% of Restaurant Sales	29.3%	28.2%	-104 bps	27.2%	27.2%	10 bps	103 bps
Retail COGS	\$116.4	\$108.9	-6%	\$109.5	\$110.2	-1%	-1%
% of Retail Sales	54.0%	53.3%	-70 bps	54.0%	53.8%	-7 bps	-58 bps
Total COGS (incl. MSBC)	\$326.6	\$314.9	-4%	\$307.2	\$303.4	2%	4%
% of Total Sales	35.0%	33.7%	-131 bps	33.0%	33.1%	6 bps	57 bps
Labor & Related expenses	\$314.0	\$323.2	3%	\$326.5	\$324.0	-1%	0%
% of Total Sales	33.6%	34.6%	93 bps	35.1%	35.3%	-6 bps	-79 bps
Other Store Operating	\$208.9	\$214.1	2%	\$216.8	\$212.7	-1%	1%
% of Total Sales	22.4%	22.9%	52 bps	23.3%	23.2%	-4 bps	-32 bps
G&A	\$45.5	\$52.5	15%	\$50.1	\$50.3	5%	4%
% of Total Sales	4.9%	5.6%	74 bps	5.4%	5.5%	2 bps	13 bps
Adjusted Operating Income	\$42.2	\$36.0	-15%	\$37.2	\$38.5	-3%	-7%
Adjusted Operating Income Margin	4.5%	3.8%	-67 bps	4.0%	4.2%	-2 bps	-35 bps
Adjusted EBITDA	\$67.0	\$63.7	-5%	\$62.0	\$64.5	3%	-1%
Adjusted EBITDA Margin	7.2%	6.8%	-36 bps	6.7%	7.0%	1 bps	-22 bps
Interest Expense	\$4.4	\$5.1	15%	\$5.0	\$5.1	1%	0%
Taxes	\$4.1	\$0.4	NM	\$1.3	\$1.3	NM	NM
Tax rate	11.8%	7.5%	-426 bps	5.5%	9.7%	20 bps	-214 bps
Net Income, reported	\$30.5	\$30.5	0%	\$22.7	\$25.6	34%	19%
Adjusted EPS	\$1.48	\$1.37	-7%	\$1.39	\$1.36	-1%	7%

Source: BofA Global Research estimates, Company filings, Visible Alpha

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Price objective basis & risk

Cracker Barrel (CBRL)

Relative to the market, CBRL's P/E multiple is below its 10-year historical average of 0.9x. We expect valuation to remain compressed as demand headwinds among CBRL's largest customer base (65+ and older, lower income) and broader discretionary spending pressures persist. We apply a 0.7x relative P/E multiple to our forward estimates 12 months from now (2Q25-1Q26, \$5.42) to arrive at a \$76 PO, that translates into an absolute PE of 14.0x.

Upside risks: higher-than-expected same store sales growth from digital/off-premise sales initiatives, faster-than-expected recovery in post-pandemic travel and tourism demand, better-than-expected contributions from the Maple Street Biscuit Company acquisition. Downside risks: higher-than-expected wage inflation, worse-than-expected margin contraction from elevated food costs, sluggish recovery in leisure travel demand.

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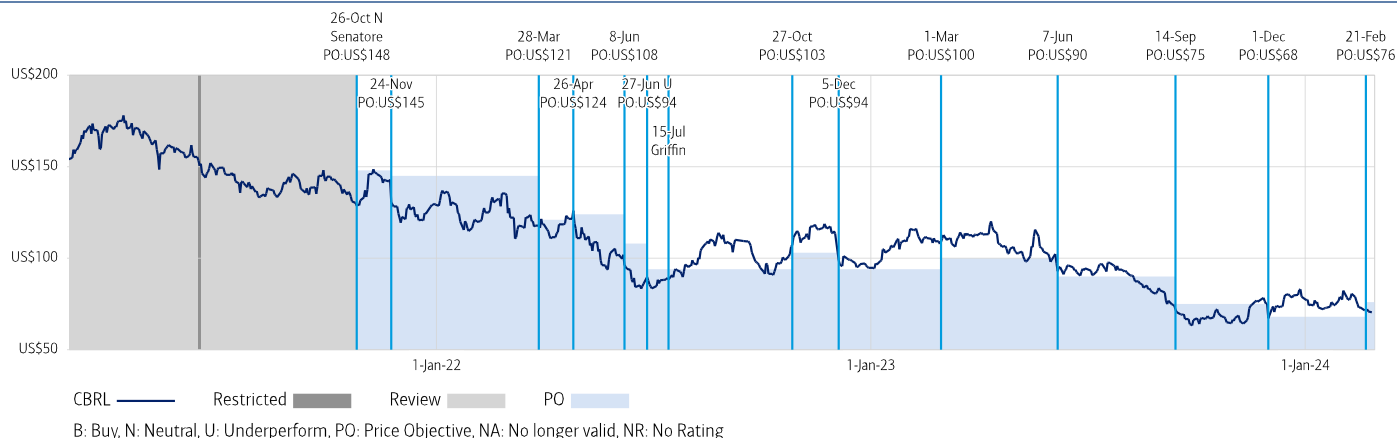
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Cracker Barrel (CBRL) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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