

Bloomin Brands

4Q EPS: Expect continued margin/traffic trade-off in F24

Reiterate Rating: NEUTRAL | PO: 30.00 USD | Price: 26.60 USD

Closing traffic gap to public peers likely a heavy lift

While BLMN's blended US comparable traffic decline of 3 pts was in line with the CDR industry (per Black Box Intelligence, CDR traffic declined 2.8 ppt in 4Q), it continues to lag public CDR peers (CAKE 0%, TXRH +5%, EAT -1% for C4Q). Outback – which accounts for ~60% of domestic revenues – faces especially formidable challengers in the form of Texas Roadhouse (F53 traffic +5.4% vs -4.3% for Outback) and DRI's LongHorn Steakhouse (we estimate +1sd positive traffic for C23). While BLMN is ramping up spending on remodels and increasing marketing to recover traffic share, its major competitors are not standing still. BLMN sees QTD demand trends improving (vs weather impacts in early January, ~1 ppt headwind), but we expect traffic to lag peers in F24, particularly if the consumer propensity to spend falls.

Expect COGS/other opex tailwinds to be reinvested

4Q results highlighted a trade-off between SSSG and restaurant margins, with SSSG coming in light of expectations while RLMS beat (see report: [4Q Quick Take](#)). We expect Bloomin will likely need to reinvest margin tailwinds from pricing and COGS efficiencies into value (either price point or food quantity/quality). We also see some risk that ad spend will need to increase even beyond the \$20mm of incremental marketing spend planned for F24. We expect RLMS to compress 90 bps y/y to 15.3% and model EBIT margin of 6.8% in F24 (vs 7.6% in F23).

Lowering 1Q and F24 SSSG and EPS estimates

We lower our 1Q blended US SSSG to -1% (vs 2% prior) as we expect traffic headwinds to persist. Our 1Q EPS moves to \$0.75 (vs \$0.99 prior), reflecting sales deleverage and higher interest expense vs our prior forecast. For the full year, we model blended US SSSG of 1% (vs Flat to +2% guidance). Our F24 EPS moves to \$2.57 (vs \$2.65 prior).

Maintain \$30 PO, Neutral rating

BLMN trades at 0.6x relative to the S&P (10.8x absolute), in line with its 5-yr average of 0.6x (excl. COVID spike). We believe the multiple is appropriate given our expectation that additional investments in marketing and value will be needed to drive traffic.

Applying a 0.6x relative multiple to our rolled forward EPS 12 months from now (\$2.77) we arrive at our \$30 PO (unchanged). Reiterate Neutral.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.51	2.90	2.57	2.77	2.96
GAAP EPS	1.07	2.54	2.34	2.67	2.97
EPS Change (YoY)	-7.0%	15.5%	-11.4%	7.8%	6.9%
Consensus EPS (Bloomberg)			2.58	2.81	3.18
DPS	0.49	0.91	0.80	0.89	0.24
Valuation (Dec)					
P/E	10.6x	9.2x	10.4x	9.6x	9.0x
Dividend Yield	1.9%	3.4%	3.0%	3.3%	0.9%
EV / EBITDA*	9.5x	8.7x	9.3x	8.9x	8.5x
Free Cash Flow Yield*	7.0%	13.1%	7.4%	12.2%	12.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 26 February 2024 05:00AM EST

26 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,704.4	4,650.7
2025E Rev (m)	4,909.0	4,837.4
2026E Rev (m)	5,063.2	4,990.6
2024E EPS	2.65	2.57
2025E EPS	2.93	2.77
2026E EPS	3.21	2.96
2024E DPS	0.84	0.80

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Stock Data

Price	26.60 USD
Price Objective	30.00 USD
Date Established	2-Jan-2024
Investment Opinion	C-2-7
52-Week Range	22.03 USD - 28.75 USD
Mkt Val (mn) / Shares Out (mn)	2,450 USD / 92.1
Free Float	98.1%
Average Daily Value (mn)	29.98 USD
BofA Ticker / Exchange	BLMN / NAS
Bloomberg / Reuters	BLMN US / BLMN.OQ
ROE (2024E)	65.2%
Net Dbt to Eqty (Dec-2023A)	175.9%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

See page 3 for abbreviations

iQprofileSM Bloomin Brands

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.2%	12.0%	10.0%	10.5%	10.6%
Return on Equity	103.6%	95.4%	65.2%	62.9%	55.6%
Operating Margin	7.6%	7.1%	6.7%	7.0%	7.1%
Free Cash Flow	171	321	180	299	317

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	2.0x	1.9x	2.1x	2.2x
Asset Replacement Ratio	1.3x	1.4x	1.4x	1.0x	0.9x
Tax Rate	28.1%	6.8%	16.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	273.3%	175.9%	168.9%	142.3%	83.9%
Interest Cover	6.2x	6.2x	5.5x	5.9x	6.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,353	4,607	4,570	4,755	4,907
% Change	7.2%	5.9%	-0.8%	4.0%	3.2%
Gross Profit	3,033	3,262	3,277	3,408	3,516
% Change	4.8%	7.5%	0.5%	4.0%	3.2%
EBITDA	506	548	515	539	565
% Change	-6.1%	8.3%	-5.9%	4.6%	4.8%
Net Interest & Other Income	(161)	(52)	(56)	(56)	(56)
Net Income (Adjusted)	253	297	237	240	240
% Change	-21.4%	17.6%	-20.4%	1.2%	0.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	102	247	204	224	241
Depreciation & Amortization	170	191	200	208	214
Change in Working Capital	(175)	63	10	30	25
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	294	90	47	37	37
Capital Expenditure	(220)	(270)	(280)	(200)	(200)
Free Cash Flow	171	321	180	299	317
% Change	-38.8%	87.5%	-43.9%	66.0%	5.9%
Share / Issue Repurchase	(109)	(99)	(115)	(140)	(140)
Cost of Dividends Paid	(50)	(94)	(74)	(77)	(19)
Change in Debt	285	100	50	50	50

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	85	313	354	486	694
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	262	274	272	276	279
Property, Plant & Equipment	914	959	1,030	1,022	1,008
Other Non-Current Assets	2,060	2,060	2,060	2,060	2,060
Total Assets	3,320	3,606	3,716	3,844	4,040
Short-Term Debt	2	2	2	2	2
Other Current Liabilities	977	1,072	1,099	1,151	1,198
Long-Term Debt	832	935	988	1,041	1,094
Other Non-Current Liabilities	1,236	1,244	1,252	1,260	1,268
Total Liabilities	3,047	3,252	3,340	3,454	3,561
Total Equity	274	354	376	391	479
Total Equity & Liabilities	3,320	3,606	3,716	3,844	4,040

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Restaurants

Company Description

Bloomin' Brands is a multi-brand casual dining restaurant operator. BLMN operates or franchises over 1,500 U.S. restaurants, with roughly 700 Outback Steakhouses, 200 Carrabba's, 180 Bonefish Grills, and 65 Fleming's. BLMN also has a significant international business, with over 300 Outbacks in 20+ countries and territories, including a rapidly growing multi-brand business in Brazil.

Investment Rationale

As with the rest of the industry, BLMN's topline has benefitted from historically high price increases. We think that as price increases normalize in F23 from elevated levels, BLMN comps will be more in-line with historical trends. Our analysis suggests that relative market share is an important determinant of unit level economics. While the market for casual dining steak is more balanced, Outback faces strong competitors. We view same-store sales and margin upside as more limited going forward.

Stock Data

Average Daily Volume 1,127,188

Exhibit 1: We forecast F24 EPS of \$2.57 and F25 of \$2.77

BLMN Income Statement, 2023-2025E

(\$millions: FYE December)	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Company operated revenue	4,607.4	1,212.2	1,153.0	1,086.9	1,117.9	4,570.0	4,754.9
Franchised and other revenue	64.1	20.6	19.2	19.4	21.5	80.7	82.4
Total revenues	4,671.5	1,232.8	1,172.2	1,106.4	1,139.4	4,650.7	4,837.4
y/y growth	5.8%	-1.0%	1.7%	2.5%	-4.6%	-0.4%	4.0%
Cost of sales	1,409.6	379.9	345.5	320.5	327.8	1,373.7	1,429.3
Labor and related	1,325.3	351.8	340.5	328.8	339.7	1,360.8	1,415.9
Other restaurant operating	1,126.1	295.1	280.8	286.4	274.3	1,136.5	1,182.5
D&A	191.2	47.6	50.3	51.3	50.5	199.7	207.8
G&A	260.5	67.0	64.4	62.1	70.6	264.2	270.5
Provision for impaired assets & unit closings	33.6	9.5	-	-	-	9.5	-
Operating Income	325.1	81.8	90.6	57.3	76.5	306.3	331.3
Loss on extinguishment of debt	-	-	-	-	-	-	-
Loss on fair value adjustment of derivatives, net	-	-	-	-	-	-	-
Other income, net	-	-	-	-	-	-	-
Interest, Net	52.2	13.9	13.9	13.9	13.9	55.7	56.0
Pretax Earnings	273.0	67.9	76.7	43.4	62.5	250.6	275.3
Income Taxes	18.6	10.8	12.2	6.9	10.0	40.0	43.9
Tax Rate	6.8%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
adj tax rate	9.6%	16.8%	16.0%	16.0%	16.0%	16.2%	16.0%
Net Income, reported	254.4	57.1	64.5	36.5	52.6	210.6	231.4
Net income attributable to noncontrolling	7.0	2.1	1.7	0.9	2.3	7.0	7.0
Redemption of pref. stock in excess of carrying value	-	-	-	-	-	-	-
Net Income, attributable to Bloomin' common	247.4	55.0	62.8	35.6	50.3	203.6	224.4
Total Nonrecurring Items	20.8	7.3	-	-	-	7.3	-
Adjusted Net Income, attributable to Bloomin'	268.2	62.3	62.8	35.6	50.3	210.9	224.4
GAAP Basic EPS							
GAAP Diluted EPS	\$2.54	\$0.62	\$0.72	\$0.41	\$0.58	\$2.34	\$2.67
y/y growth	138%	-33%	3%	-10%	30%	-8%	14%
Adjusted EPS	\$2.90	\$0.75	\$0.77	\$0.43	\$0.62	\$2.57	\$2.77
y/y growth	16%	-23%	4%	-1%	-17%	-11%	8%

Source: BofA Global Research estimates, Company filings

BofA GLOBAL RESEARCH

Stock symbol key:

BLMN: Bloomin' Brands
 CAKE: Cheesecake Factory
 EAT: Brinker International
 TXRH: Texas Roadhouse
 DRI: Darden Restaurants
 COGS: cost of goods sold

Glossary of terms:

CDR: casual dining restaurant

SSSG: same-store sales growth, also known as comparable sales or "comps"

RLM: restaurant-level margins

LSD: low single digits

QTD: quarter to date



Price objective basis & risk

Bloomin Brands (BLMN)

Relative to the S&P 500, BLMN's present P/E multiple is 0.6x, in line with its 5-year average (excluding the COVID-19 spike). We believe the multiple is unlikely to expand in the near term given the lack of visibility on the demand environment. We apply this multiple of 0.6x (10.8x absolute) to our 12 month forward estimates - F25 EPS of \$2.77- to arrive at our \$30 PO.

Downside Risks: 1) Bloomin' Brands same-store sales growth could be slower than expected if macro headwinds translate into lower restaurant consumption or sales driving initiatives lack traction, 2) Restaurant-level margins could come under further pressure if topline growth falters, 3) Normalizing G&A expense could pressure margins.

Upside Risks: 1) Same-store sales growth could exceed expectations if menu or marketing initiatives prove better than expected, 2) Cost saving initiatives could drive restaurant level margins above historical averages, 3) Ability to improve already low G&A expense ratio could support margins.

Analyst Certification

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US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa Johns International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK.US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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Bloomin Brands (BLMN) Price Chart



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

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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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