

Jack in the Box

JACK Investor Day 2024 Key Takeaways

Reiterate Rating: BUY | PO: 97.00 USD | Price: 76.83 USD

LT targets highlight margin, growth opps for JIB & DT

JACK provided updated LT targets including i) 2-3% SSSG, ii) 23-25% JIB RLMs and 18-20% for DT, iii) 2.2-2.3% G&A as % of system sales, and iv) 2.0-2.5% net new unit growth. JACK has numerous growth initiatives in place that underpin confidence in achieving its LT RLM targets. JACK's RLM targets are above consensus for both brands (Visible Alpha consensus: ~20% RLM for JIB, ~15% for DT) and calls for ~300 bps of expansion vs current levels (21% RLM for JIB in F23, 17% for DT). We note JACK also reaffirmed F24 guidance on all metrics.

Data driven approach to SSSG (menu, value, marketing)

JACK's data-driven approach informs menu innovation and drives effective marketing to its core customer segments (value and premium). On menu innovation, recent additions are proving resonant (Smashed Jack sold out on soft launch, introducing advertising in March should build on momentum) and distinctive (Boba, Red Bull infusions). JIB's approach to value offers lower price points and add-on optionality, appealing to both value and premium customers. With digital channels seeing the most promotional activity more broadly, digital exclusives are a key value initiative. DT sees opportunity to close its wide value to gap to QSR peers; premiumization (e.g., birria tacos) and better pricing analytics support these initiatives.

Tech, G&A investments to expand RLMs/unit returns

Since 2020, JACK has invested heavily into technology and G&A to improve franchisee profitability (franchise EBITDA up 40% vs pre-COVID). Several initiatives are well under way (equipment upgrades, reduced complexity, and COGS & labor mgmt. tools). Over time, leveraging investments into the digital ecosystem supports further margin expansion. JACK plans to relaunch its digital app in F24 in conjunction with a new POS platform. Longer term, JACK aims to integrate a more effective loyalty program and scale the POS system across both brands. JACK reaffirmed its LT target to achieve ~20% digital sales mix in F27 (vs 12% in F23).

Improved store economics underpin 2-2.5% unit growth

Higher franchisee returns are supporting accelerating growth (LT algo embeds 2-2.5% net new unit growth (vs 0.3% previously). We expect JACK's multiple to re-rate higher as unit growth inflects higher and returns improve through refranchising. Reiterate Buy.

Estimates(Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.25	6.02	6.44	7.44	8.40
GAAP EPS	5.47	6.65	6.81	7.83	8.81
EPS Change (YoY)	-11.0%	-3.7%	7.0%	15.5%	12.9%
Consensus EPS (Bloomberg)	5.88	6.09	6.39	7.19	7.99
Valuation (Sep)					
P/E	12.3x	12.8x	11.9x	10.3x	9.1x
Dividend Yield	2.3%	2.3%	2.3%	2.3%	2.3%
EV / EBITDA*	13.2x	12.5x	13.5x	12.7x	12.3x
Free Cash Flow Yield*	5.6%	6.8%	0.9%	3.0%	6.2%

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

25 January 2024

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Stock Data

Price	76.83 USD
Price Objective	97.00 USD
Date Established	16-Jan-2024
Investment Opinion	C-1-7
52-Week Range	60.43 USD - 99.56 USD
Mkt Val (mn) / Shares Out (mn)	2,064 USD / 26.9
Free Float	97.7%
Average Daily Value (mn)	29.49 USD
BofA Ticker / Exchange	JACK / NAS
Bloomberg / Reuters	JACK US / JACK.QQ
ROE (2024E)	NA
Net Dbt to Eqty (Sep-2023A)	NA
ESGMeter TM	Medium

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Glossary:

LT – long term
SSSG – same-store sales growth
JACK – Jack in the Box (company)
JIB – Jack in the Box (brand)
DT – Del Taco (brand)
RLM – restaurant-level margin
COGS – cost of goods sold
POS – point of sale
G&A – general & administrative expense
QSR – quickservice restaurants

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Timestamp: 25 January 2024 05:00AM EST

iQprofileSM Jack in the Box

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.2%	8.0%	7.8%	8.3%	8.6%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	16.9%	16.5%	16.6%	18.3%	18.9%
Free Cash Flow	116	140	19	62	127

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.7x	0.9x	1.2x	1.5x
Asset Replacement Ratio	0.8x	1.2x	NA	NA	NA
Tax Rate	28.4%	29.8%	26.0%	27.0%	27.1%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	2.9x	3.4x	3.3x	3.5x	3.7x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,468	1,692	1,567	1,539	1,558
% Change	28.4%	15.3%	-7.4%	-1.8%	1.2%
Gross Profit	884	1,004	1,013	1,070	1,134
% Change	4.0%	13.6%	1.0%	5.6%	5.9%
EBITDA	322	339	315	334	346
% Change	-2.8%	5.4%	-7.2%	6.1%	3.6%
Net Interest & Other Income	(86)	(82)	(79)	(80)	(80)
Net Income (Adjusted)	133	125	127	139	149
% Change	-15.7%	-6.1%	1.8%	9.7%	6.9%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	116	138	134	147	156
Depreciation & Amortization	56	62	0	0	0
Change in Working Capital	(31)	33	(83)	(51)	6
Deferred Taxation Charge	8	(12)	0	0	0
Other Adjustments, Net	14	(6)	67	66	65
Capital Expenditure	(46)	(75)	(100)	(100)	(100)
Free Cash Flow	116	140	19	62	127
% Change	-27.3%	20.3%	-86.4%	226.8%	104.3%
Share / Issue Repurchase	(1)	0	0	0	0
Cost of Dividends Paid	(37)	(36)	(35)	(33)	(31)
Change in Debt	562	(80)	(30)	(30)	(30)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	109	158	73	36	32
Trade Receivables	104	100	112	101	73
Other Current Assets	70	69	67	65	63
Property, Plant & Equipment	418	412	422	430	472
Other Non-Current Assets	2,221	2,263	2,260	2,257	2,254
Total Assets	2,923	3,001	2,933	2,889	2,894
Short-Term Debt	30	30	30	30	30
Other Current Liabilities	492	530	454	403	389
Long-Term Debt	1,800	1,725	1,695	1,665	1,635
Other Non-Current Liabilities	1,337	1,435	1,446	1,442	1,440
Total Liabilities	3,659	3,719	3,625	3,540	3,493
Total Equity	(736)	(718)	(692)	(651)	(599)
Total Equity & Liabilities	2,923	3,001	2,933	2,889	2,894

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

Company Sector

Restaurants

Company Description

Jack in the Box is a San Diego-based quick service restaurant chain that has transformed over time from a mostly company-operated to predominantly franchised business model. There are over 2200 Jack in the Box restaurants across nearly 20 states with heavy concentration in California and Texas. The company also owns Del Taco, a limited-service Mexican chain with 600+ stores across over 15 states.

Investment Rationale

We find JACK's strategic direction appealing, including a greater emphasis on franchising and franchisee profitability as well as data-driven insights to improve operations and guest experience. With unit growth turning positive and returns continuing to climb with refranchising, we expect the multiple to re-rate higher. Even without that assumption, however, earnings growth supports upside.

Stock Data

Average Daily Volume 383,852



Price objective basis & risk

Jack in the Box (JACK)

Our \$97 price objective is based on a 0.7x relative PE multiple (13.1x absolute) applied to our 12 month forward earnings estimates (F25: \$7.44). This is a material discount to highly franchised peers, given historically slower growth and more capital-intensive ownership model.

Downside risks to our price objective are: 1) sales could soften due to economic or competitive pressures, 2) food and labor costs rise and margins come under renewed pressure, 3) execution risk around speed of service, menu and marketing initiatives which are critical to driving sales at Jack in the Box.

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

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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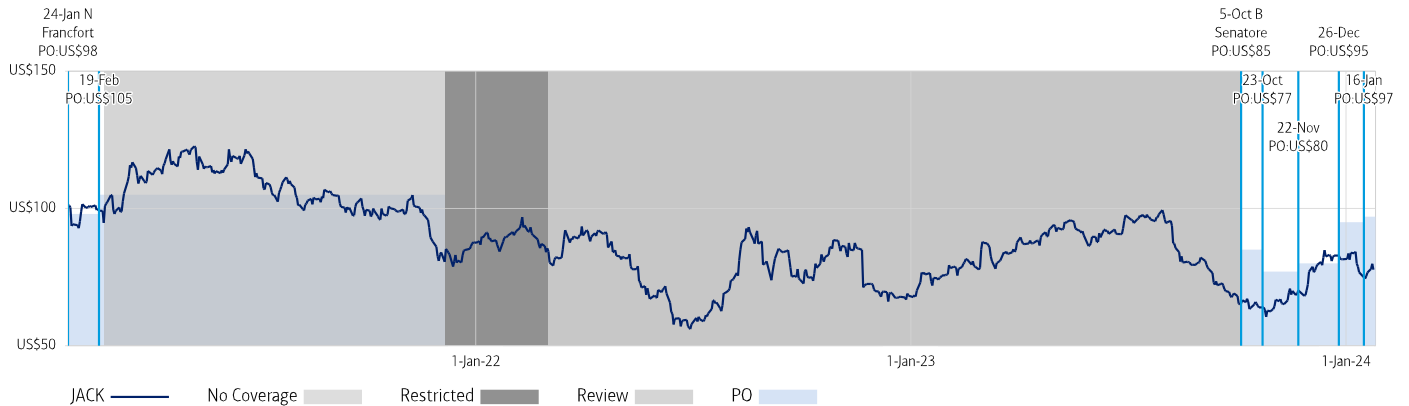
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Jack in the Box (JACK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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