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**Covered Companies Mentioned:**

BJRI	\$24.04
CAKE	\$31.02
CHUY	\$33.52
CMG	\$1,847.63
DPZ	\$344.31
DRI	\$142.26
KRUS	\$64.69
MCD	\$258.38
NDLS	\$2.29
PZZA	\$66.37
QSR	\$65.98
SBUX	\$94.42
STKS	\$4.40
TAST	\$5.38
TXRH	\$96.48
WEN	\$19.26
WING	\$181.50

## Consumer: Restaurants & Food Distribution

**Reason for Report:** Industry Update

### 3Q23 Earnings Preview: Full Service Restaurants

#### INVESTMENT CONCLUSION:

At a high level, shares of the full service restaurant group have underperformed the market year-to-date with the group being up ~2% on average (with a high of +45% and a low of (30%)) vs. the S&P500 at up 12%.

Normalizing commodity prices and stabilizing labor trends are near-term tailwinds for restaurant stocks. That said, it remains to be seen if these can be "enough" to overcome the cloudy macro backdrop on account of high-level recession concerns and concerns around slowing restaurant traffic.

From a stock perspective, we believe shares of TXRH, CHUY, and KRUS are best-positioned into the quarter. Valuations on CAKE, BJRI, and STKS shares are at or below the lows from the 2017-2019 pre-Covid period which could prove interesting to patient investors. We believe evidence of near-term operational execution is likely needed to build momentum around shares.

#### KEY POINTS:

We outline our company-specific thoughts and notable estimate changes across our full service restaurant coverage universe ahead of the upcoming calendar 3Q23 earnings period (organized chronologically by reporting date). See additional data and detail in the back pages of this note. For GAAP EPS, please see the attached company models.

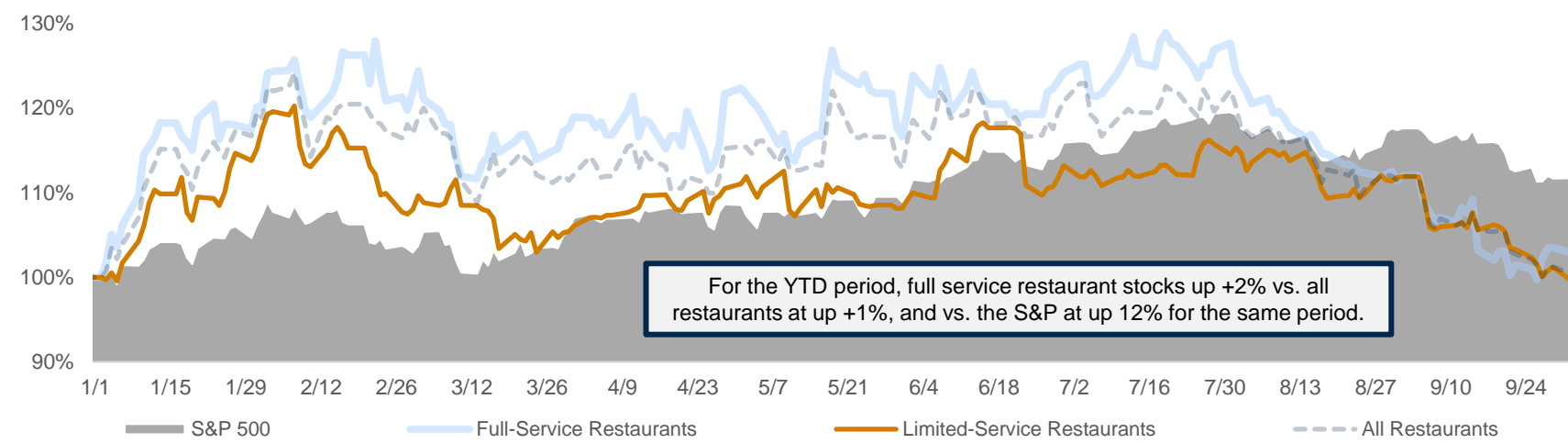
- **Texas Roadhouse (TXRH): EW-Rated, Maintaining Price Target at \$115:** TXRH is scheduled to report earnings 10/26 AMC. We are increasing our 3Q23 comp estimate to +7.5% (vs. 6.0% prior) now reflecting what we believe to be steady top-line performance through the quarter offset by relatively high levels of food cost inflation vs. our prior expectations. For 4Q23, our same-store sales estimate is moving higher to +6.5% (vs. +5.0% prior) while our EPS estimate ticks lower to \$1.07 (vs. \$1.09 prior) driven in part by our now marginally lower restaurant-level margin estimate. For FY24E, our sales and EPS estimates are moving higher to \$5.0 bil. and \$5.41, up from \$4.9 bil. and \$5.39, respectively, previously reflecting flow through from our now higher comp estimates detailed above. We are maintaining our \$115 price target based on ~13x our FY24E EV/EBITDA. Our multiple is in-line with the stock's 7-year average.

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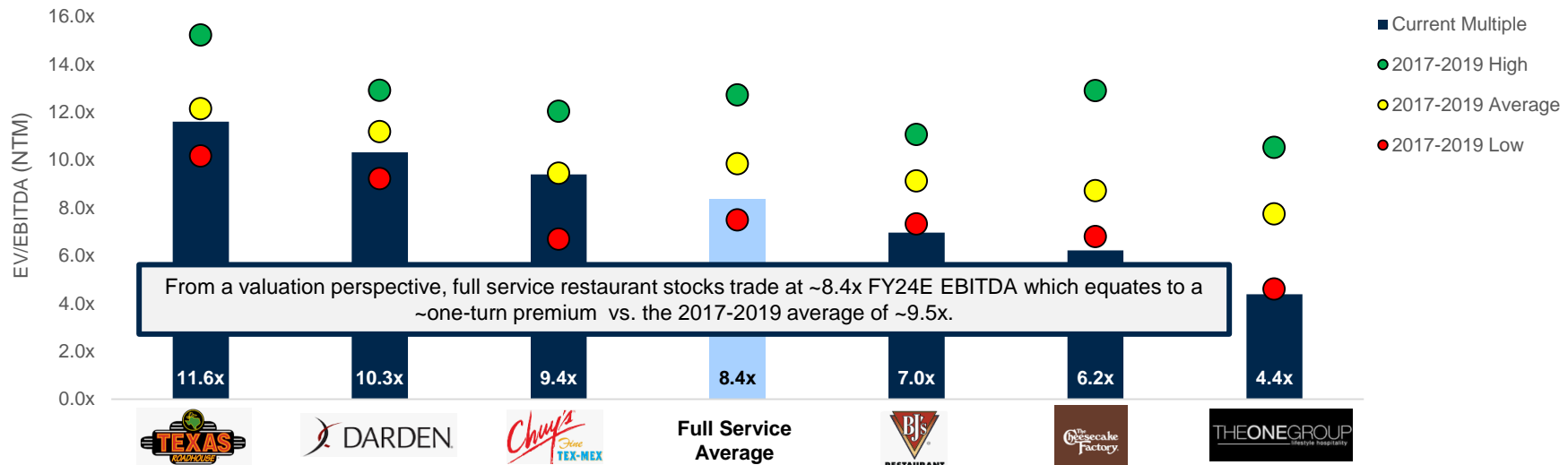
See important disclosures and analyst certification on pages 26 - 27 of this report. This report constitutes a compendium report (covers six or more subject companies). As such, Stephens Inc. chooses to provide specific disclosures for the companies mentioned by reference. To access current disclosures for the companies in this report, clients should refer to <https://stephens2.bluematrix.com/sellside/Disclosures.action> or contact your Stephens Inc. representative for additional information.

- **BJ's Restaurants (BJRI): EW-Rated, Maintaining \$38 PT:** BJRI is scheduled to report their call on 10/26 AMC. We are maintaining our 3Q23 estimates. Our EPS estimate of (\$0.01) is a touch below consensus at \$0.01 driven primarily by our lower restaurant-level margin and middle of the P&L estimates. We believe greater visibility into traffic, sales, and margin opportunities could be needed before valuations for full service stocks (BJRI included) can stabilize. That said, BJRI shares are trading below the low-end of the stock's pre-Covid range which could ultimately prove to be a compelling entry point for patient investors with a long-term time horizon. We maintain our \$38 price target based on ~9x our FY24E EV/EBITDA with our multiple being a half point below the stock's ten-year average. From a sensitivity perspective, each 1x in valuation multiple equates to \$4/share for BJRI shares. Each 100 bps in margin equates to \$0.56 in incremental EPS on an annual basis which equates to a ~47% lift vs. our estimates.
- **Cheesecake Factory (CAKE): OW-Rated, Maintaining \$40 PT:** CAKE is scheduled to report earnings 11/01 AMC. Our 3Q23 restaurant-level margin and EPS estimates move lower to 13.8% and \$0.43 vs. 14.0% and \$0.47, respectively, prior and vs. the Street at 13.5% and \$0.43, respectively. Our FY23E estimates around restaurant-level margins move to 14.3% (vs. 14.4% prior) and our Op. EPS estimate moves to \$2.71 (vs. \$2.73 prior) vs. the Street at 14.3% and \$2.71, respectively. Our FY24 estimates are unchanged. We maintain our \$40 price target based on ~8x our FY24E EV/EBITDA. Our multiple is a 1x discount to the stock's ten-year pre-Covid average.
- **Chuy's (CHUY): OW-Rated, Maintaining PT at \$45:** CHUY is scheduled to report earnings 11/2 AMC. We are increasing our 3Q23 EPS estimate to \$0.36 (vs. \$0.34 prior) driven in part by our maintained expectations for a +2.5% comp (vs. the Street at +2.0%) where we believe momentum is being driven by new menu introductions and operational execution. Our +4.1% comp estimate for the year is maintained and above the Street at +3.8%. Our Op. EPS for the year moves higher to \$1.85 (vs. \$1.83 prior and the Street at \$1.84). For FY24E, we are maintaining our revenue estimate at \$489.5 mil. and increasing our EPS estimate to \$1.92 vs. \$1.87 prior. We are maintaining our price target of \$45 based on ~12x our FY24E. From a valuation perspective, shares of CHUY have moved back in-line with the stock's pre-Covid average range of late. Similarly, the stock has held up well on a YTD basis relative to full service peers with CHUY shares up 18% vs. the SP500 at up 11%.
- **Kura Sushi USA (KRUS): OW/Vol.-Rated, Maintaining PT at \$95:** KRUS is scheduled to report earnings 11/8 AMC. We are maintaining our +9.0% comp estimate which is a touch below consensus expectations at +9.6% (noting there are only 3 analysts in the consensus data set we are referencing with a range of +9.0%-+10%). We have moved our store-level margin estimates up marginally as food cost inflation has slowed, the labor environment has largely stabilized, and we believe the company continues to dial in operational execution at the store-level. Our 4Q23 EPS estimate moves higher to \$0.24 (vs. \$0.22 prior). For FY24, we are maintaining our revenue estimate at \$237.4 mil. and increasing our EPS estimate to \$0.40 vs. \$0.33 prior reflecting our now higher restaurant-level margin assumption of 15.6% vs. 15.3% prior. Our maintained \$95 price target is based on our 11-year DCF. From a multiple perspective, KRUS shares are now trading near the one standard deviation below the stock's average multiple since the beginning of 2022 (noting this time frame was chosen in an attempt to avoid Covid-related disruptions).
- **The One Group (STKS): OW-Rated, Maintaining \$12 PT:** STKS has not yet scheduled its earnings report; however, we expect this to take place AMC in early November. We are maintaining our estimates into the print. From a stock perspective, we continue to believe the STKS growth story remains compelling, however, we believe execution against an ambitious unit development pipeline and getting into a cadence of under promising and over delivering (relative to expectations) are key focal points among investors heading into the print. We are maintaining our \$12 price target based on a sum-of-the-parts analysis (with 8x STK and Kona Grill EBITDA and 15x high-margin managed EBITDA). From a valuation perspective, shares are trading at the lower end of the stock's pre-Covid range.

Full Service YTD Indexed Returns



Full Service EV/EBITDA (NTM) Multiples



Source(s): FactSet Research Systems, Company Websites, and Stephens Inc. estimates

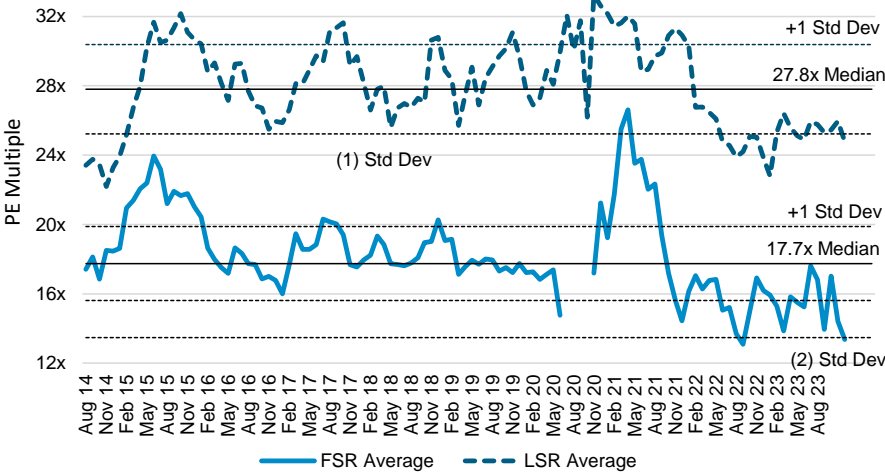
# Stock Valuations Highlight Challenging Sentiment Backdrop

## P/E Multiples

The chart on the left below outlines monthly P/E multiples from 2014 through the 2023 YTD period.

The long-run PE multiple for the full service restaurant (FSR) segment is ~17.7x at the median while the comparable multiple for the limited service restaurant (LSR) segment is ~27.8x at the median.

Going into 3Q23 earnings season, the LSR segment is a bit over 1 standard deviation below the long-run median (or (11%)) and the FSR segment is 2 standard deviations below (or roughly 25%) below its long-run median.

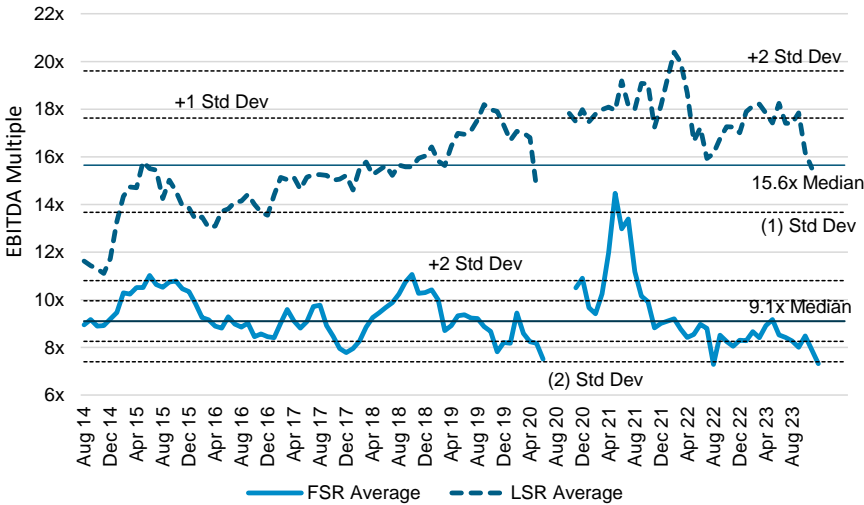


## EBITDA Multiples

The chart on the right below outlines monthly EBITDA multiples from 2014 through the 2023 YTD period.

The long-run multiple for the full service restaurant (FSR) segment is ~9.1x at the median while the comparable multiple for the limited service restaurant (LSR) segment is ~15.6x at the median.

Going into 3Q23 earnings season, the LSR segment is approximately inline with its long-run median while the FSR segment is 2 standard deviations (or roughly (20%)) below the long-run median.



## Short Interest Ticking Up From Early July: BJRI, CHUY, and KRUS in Focus

The chart below outlines short interest across our full service coverage list since the start of the 3Q period.

In general, short interest among full service names has moved lower since the beginning of July. Of late, the stocks with the most incremental short interest include BJRI, CHUY, and KRUS and the names with the largest declines in short interest include CAKE, STKS, and TXRH.

	July				August				September					October	
	7/7/23	7/14/23	7/21/23	7/28/23	8/4/23	8/11/23	8/18/23	8/25/23	9/1/23	9/8/23	9/15/23	9/22/23	9/29/23	10/6/23	10/10/23
BJRI	5.8%	6.2%	6.2%	6.2%	5.3%	5.3%	5.8%	5.8%	6.7%	6.7%	6.8%	6.8%	7.4%	7.4%	7.4%
CAKE	17.5%	18.6%	18.6%	18.6%	15.1%	15.1%	16.2%	16.2%	15.0%	15.0%	15.5%	15.5%	13.8%	13.8%	13.8%
CHUY	4.6%	4.5%	4.5%	4.5%	4.4%	4.4%	4.7%	4.7%	4.8%	4.8%	4.8%	4.8%	6.1%	6.1%	6.1%
DRI	4.9%	5.2%	5.2%	5.2%	4.2%	4.2%	4.0%	4.0%	4.4%	4.4%	5.3%	5.3%	4.4%	4.4%	4.4%
KRUS	23.9%	22.3%	22.3%	22.3%	21.6%	21.6%	22.4%	22.4%	23.7%	23.7%	23.9%	23.9%	24.6%	24.6%	24.6%
STKS	6.3%	6.5%	6.5%	6.5%	6.7%	6.7%	6.9%	6.9%	6.5%	6.5%	6.1%	6.1%	5.9%	5.9%	5.9%
TXRH	6.7%	5.9%	5.9%	5.9%	5.3%	5.3%	5.3%	5.3%	4.4%	4.4%	4.0%	4.0%	3.9%	3.9%	3.9%
Average	9.9%	9.9%	9.9%	9.9%	8.9%	8.9%	9.3%	9.3%	9.4%	9.4%	9.5%	9.5%	9.4%	9.4%	9.4%

	Week Over Week Change														
BJRI		0.4%	0.0%	0.0%	(0.9%)	0.0%	0.6%	0.0%	0.9%	0.0%	0.1%	0.0%	0.6%	0.0%	0.0%
CAKE		1.1%	0.0%	0.0%	(3.4%)	0.0%	1.1%	0.0%	(1.2%)	0.0%	0.4%	0.0%	(1.7%)	0.0%	0.0%
CHUY		(0.0%)	0.0%	0.0%	(0.1%)	0.0%	0.3%	0.0%	0.0%	0.0%	0.1%	0.0%	1.2%	0.0%	0.0%
DRI		0.3%	0.0%	0.0%	(1.0%)	0.0%	(0.1%)	0.0%	0.4%	0.0%	0.9%	0.0%	(0.9%)	0.0%	0.0%
KRUS		(1.6%)	0.0%	0.0%	(0.7%)	0.0%	0.7%	0.0%	1.3%	0.0%	0.2%	0.0%	0.7%	(0.0%)	0.0%
STKS		0.2%	0.0%	0.0%	0.3%	0.0%	0.1%	0.0%	(0.4%)	0.0%	(0.4%)	0.0%	(0.2%)	0.0%	0.0%
TXRH		(0.8%)	0.0%	0.0%	(0.7%)	0.0%	0.0%	0.0%	(0.9%)	0.0%	(0.4%)	0.0%	(0.1%)	0.0%	0.0%
Average		(0.1%)	0.0%	0.0%	(0.9%)	0.0%	0.4%	0.0%	0.0%	0.0%	0.1%	0.0%	(0.1%)	0.0%	0.0%

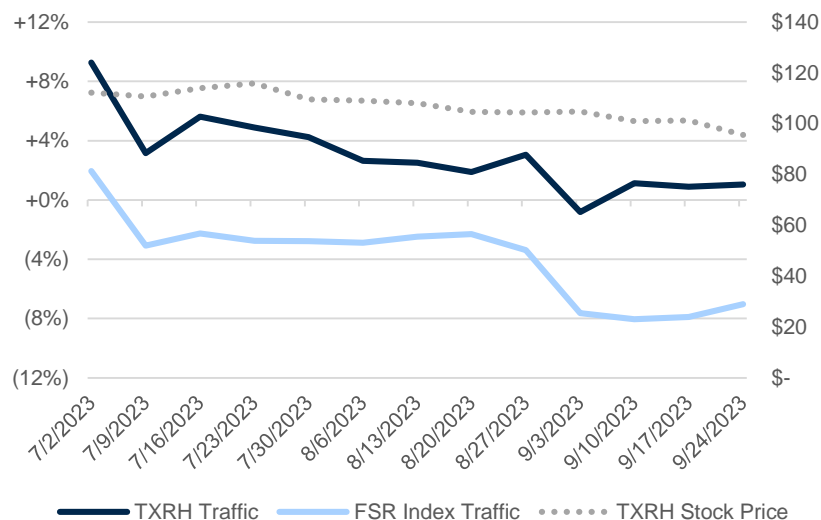
## Our Thoughts Into The Quarter

**Stephens Focus:** We believe that experience and overall value proposition are going to be important aspects for consumers when determining where to dine out. On these marks, we view Texas Roadhouse as best-in-class and well-positioned to drive continued brand momentum. We maintain a favorable bias on TXRH shares. As outlined in the chart at bottom right, the stock's multiple is moving below the average pre-Covid multiple range. It remains to be seen how industry traffic holds up into the end of the year, however, we would flag this as a potentially compelling entry point for patient investors to scale into a high quality restaurant brand.

**3Q23 Channel Checks:** On the company's 2Q23 earnings call, the company shared that July trends were running at +10.7%. Our checks suggest trends remained generally strong but did normalize over the course of the quarter from +LDD% in July (in-line with stated exit rate) to the +MSD% range in August and September as YoY comparisons became more challenging.

**Texas Roadhouse Outperforming Other Full Service Names From Traffic/Credit Card Data Perspective:** Texas Roadhouse continues to be an out-performer driving mostly positive traffic throughout 3Q23 while outperforming the FSR index by ~LSD% bps during the same time frame. Further, Roadhouse credit card data out-paced the FSR index.

## 3Q23 TXRH Traffic vs. FSR Index Traffic

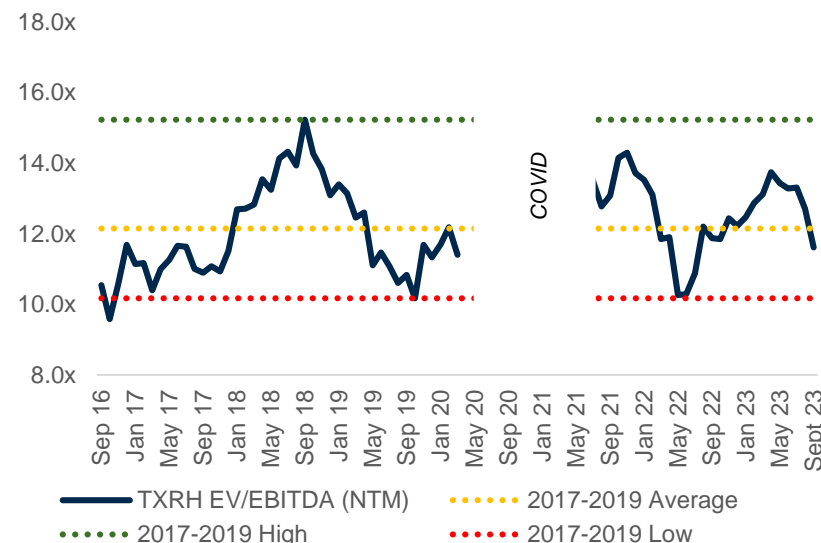


## Stephens Estimates vs. Consensus

TXRH	Fiscal 3Q23E			Fiscal 2023E		
	Stephens		Consensus Expectations	Stephens		Consensus Expectations
	Prior	New		Prior	New	
SSS	+6.0%	+7.5%	+7.4%	+8.0%	+8.8%	+9.0%
Revenue in mil. \$	1,112.5	1,128.0	1,122.0	4,582.5	4,613.8	4,602.8
RLM	15.4%	15.2%	15.2%	15.6%	15.5%	15.5%
Adjusted EPS \$	1.07	1.06	1.06	4.67	4.64	4.64
	Mixed			Mixed		

**Tweaking Top-Line Estimates Higher While Moderating EPS Estimates to Now In-Line With Consensus Expectations:** We are moving our estimates in-line with consensus expectations as outlined above. Our updated comp of +7.5% (vs. 6.0% prior) now reflects what we believe to be steady top-line performance through the quarter offset by relatively high levels of food cost inflation vs. our prior expectations. For FY24E, our sales and EPS estimates are moving higher to \$5.0 bil. and \$5.41 up from \$4.9 bil. and \$5.39, respectively, previously. This change reflects flow through from our now higher comp estimates detailed above. We are maintaining our \$115 price target based on ~13x our FY24E EV/EBITDA. Our multiple is in-line with the stock's 7-year average.

## Historical EV/EBITDA (NTM, Consensus)



# Texas Roadhouse (TXRH): EW-Rated; \$115 Price Target



Industry Note  
October 20, 2023

Texas Roadhouse, Inc. Earnings Model		2022 Actual				2023 Estimate				2024 Estimate				Fiscal Year Ended December			
Fiscal Year Ended December Revised 10/19/23 (\$ millions)	10/22	2022	3Q/22	4Q/22	10/23	2023	3Q/23E	4Q/23E	10/24E	2024E	3Q/24E	4Q/24E	2021	2022	2023E	2024E	
	03/21/22	06/21/22	09/27/22	12/27/22	03/28/23	06/28/23	09/27/23	12/27/23	03/27/24	06/27/24	09/26/24	12/26/24	52-wks	52-wks	52-wks	52-wks	
Texas Roadhouse Same-Store-Sales	+5.8%	+7.6%	+8.2%	+7.3%	+3.1%	+9.1%	+7.5%	+8.5%	+3.5%	+3.5%	+3.5%	+3.5%	+40.3%	+49.7%	+49.1%	+35.5%	
Bubba's 33 Same-Store-Sales	+21.3%	+8.1%	+6.2%	+6.6%	+8.7%	+3.9%	+7.5%	+8.5%	+3.5%	+3.5%	+3.5%	+3.5%	+49.0%	+40.6%	+46.7%	+35.5%	
Company-Owned All Concepts Same-Store-Sales	+6.0%	+7.6%	+8.2%	+7.3%	+2.7%	+8.7%	+7.5%	+8.5%	+3.5%	+3.5%	+3.5%	+3.5%	+40.6%	+49.7%	+48.8%	+34.4%	
U.S. Franchised Same-Store-Sales	+30.4%	+6.2%	+6.7%	+7.2%	+3.3%	+8.2%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%	+40.0%	+40.1%	+47.1%	+38.0%	
International Franchised Same-Store-Sales - Implied	+27.7%	+9.3%	+9.2%	+9.3%	+2.5%	+3.1%	+3.0%	+3.0%	+2.0%	+2.0%	+2.0%	+2.0%	+41.0%	+38.6%	+7.9%	+20.0%	
Franchised Same-Store-Sales	+22.9%	+8.7%	+7.6%	+6.1%	+3.0%	+3.0%	+3.0%	+3.0%	+2.6%	+2.6%	+2.6%	+2.6%	+40.3%	+41.3%	+47.5%	+26.6%	
INCOME STATEMENT																	
Systemwide Sales	\$ 1,143.8	\$ 1,181.8	\$ 1,144.5	\$ 1,171.9	\$ 1,336.9	\$ 1,334.8	\$ 1,282.1	\$ 1,306.8	\$ 1,459.3	\$ 1,449.6	\$ 1,396.0	\$ 1,420.0	\$ 4,058.4	\$ 4,641.9	\$ 5,260.6	\$ 5,724.8	
Restaurant and Other Sales	\$ 981.0	\$ 1,016.1	\$ 987.0	\$ 1,002.8	\$ 1,167.6	\$ 1,164.4	\$ 1,215.1	\$ 1,133.3	\$ 1,267.6	\$ 1,257.1	\$ 1,216.4	\$ 1,229.4	\$ 3,439.2	\$ 3,988.8	\$ 4,586.8	\$ 4,970.4	
Franchise Royalties and Fees	6.5	6.5	6.3	6.8	6.8	6.8	6.8	6.9	7.7	7.7	7.2	7.6	24.8	26.1	27.0	30.2	
Total Revenue	987.5	1,024.6	993.3	1,009.5	1,174.4	1,171.2	1,228.0	1,140.2	1,275.2	1,264.8	1,223.6	1,237.0	3,463.9	4,014.9	4,615.8	5,000.6	
Cost of Sales	337.4	347.0	342.0	351.7	410.7	401.2	389.2	394.4	441.1	432.4	419.6	424.1	1,166.6	1,378.2	1,595.5	1,717.3	
Labor	321.9	333.0	330.2	334.8	385.8	391.3	379.1	378.5	419.6	416.1	402.6	406.9	1,123.0	1,320.0	1,534.8	1,645.2	
Rent	6.4	6.7	6.7	7.0	7.8	8.0	8.3	9.3	8.4	8.6	8.9	9.1	60.0	66.8	73.4	74.9	
Other Operating	14.2	15.2	14.8	15.6	15.7	15.1	14.9	15.5	13.2	14.8	15.0	17.5	57.8	59.3	67.1	72.7	
Restaurant-Level Income	61.2	68.7	62.0	45.6	85.7	82.8	70.1	73.6	205.3	205.2	195.2	199.8	581.7	627.5	712.2	805.5	
Pre-Opening	4.3	5.3	5.7	6.6	5.4	5.7	6.8	7.3	5.6	6.8	7.7	8.0	24.3	21.9	25.1	28.1	
Depreciation and Amortization	33.6	34.4	33.7	35.5	36.2	37.4	38.1	39.7	41.2	41.5	42.6	43.0	126.8	137.2	151.4	168.3	
Other Non-Operating Expenses	(0.6)	0.4	0.8	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7	1.6	0.4	0.5	
General and Administrative Expense	40.3	49.2	42.8	40.4	49.9	51.0	47.7	48.7	54.5	54.1	52.3	52.9	157.5	172.7	197.3	213.7	
Operating Income	90.1	85.9	75.3	68.9	100.9	95.4	83.8	84.8	116.0	103.3	99.8	103.4	297.2	320.2	365.0	425.1	
Interest Expense, Net	0.4	0.4	0.1	(0.8)	(0.1)	(0.1)	(0.1)	(0.1)	(1.1)	(1.1)	(1.1)	(1.1)	0.1	0.1	1.6	1.1	
Equity Income from Investments	0.3	0.5	0.2	0.2	0.8	0.3	0.3	0.3	0.3	0.3	0.3	0.3	(0.6)	1.2	1.6	1.1	
Income (Loss) Before Income Taxes	90.1	86.1	75.4	69.8	102.9	96.7	85.1	86.1	113.0	111.7	111.1	104.7	292.9	321.3	370.8	430.6	
Income Tax Expense (Benefit)	2.7	11.5	11.4	8.0	14.3	12.3	11.9	12.0	15.8	15.6	14.2	14.7	33.6	43.7	50.6	60.3	
Operating Net Income (Including NCI)	77.3	74.5	64.0	61.8	88.6	84.4	73.2	74.0	97.2	96.1	86.9	90.1	253.3	277.6	320.2	370.3	
Income Attributable to NCI	2.1	2.1	1.8	1.9	2.2	2.3	2.3	2.3	2.6	2.6	2.5	2.5	8.0	7.8	9.0	9.3	
Operating Net Income (Less NCI)	75.2	72.4	62.3	59.9	86.4	82.3	70.9	71.7	94.6	93.5	84.4	87.5	245.3	269.8	311.2	360.0	
Non-Operating Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reported Net Income	75.2	72.4	62.3	59.9	86.4	82.3	70.9	71.7	94.6	93.5	84.4	87.5	245.3	269.8	311.2	360.0	
Shares Outstanding - Diluted Shares Outstanding	69.4	67.9	67.2	67.3	67.3	67.2	67.0	66.8	66.7	66.6	66.5	66.4	70.1	67.9	67.1	66.6	
Shares Outstanding - Basic Shares Outstanding	69.1	67.7	66.9	66.9	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	69.7	67.6	67.0	67.0	
EBITDA	123.8	120.3	109.0	104.3	172.2	162.8	121.9	124.5	152.8	151.8	142.3	146.4	424.0	457.4	516.4	593.4	
EPS--Operating	\$ 1.08	\$ 1.07	\$ 0.93	\$ 0.89	\$ 1.28	\$ 1.22	\$ 1.06	\$ 1.07	\$ 1.42	\$ 1.40	\$ 1.27	\$ 1.32	\$ 3.50	\$ 3.97	\$ 4.64	\$ 5.41	
EPS--Extraordinary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
EPS--Reported	\$ 1.08	\$ 1.07	\$ 0.93	\$ 0.89	\$ 1.28	\$ 1.22	\$ 1.06	\$ 1.07	\$ 1.42	\$ 1.40	\$ 1.27	\$ 1.32	\$ 3.50	\$ 3.97	\$ 4.64	\$ 5.41	
MARGIN ANALYSIS																	
Restaurant and Other Sales	99.3%	99.4%	99.4%	99.3%	99.4%	99.4%	99.4%	99.4%	99.4%	99.4%	99.4%	99.4%	99.3%	99.3%	99.4%	99.4%	
Franchise Royalties and Fees	0.7%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.7%	0.6%	0.6%	
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Cost of Sales	34.4%	34.1%	34.7%	35.1%	35.2%	34.5%	34.7%	34.8%	34.8%	34.4%	34.5%	34.5%	33.6%	34.6%	34.8%	34.6%	
Labor	32.8%	32.7%	33.5%	33.4%	33.0%	33.6%	33.8%	33.4%	33.1%	33.1%	33.1%	33.1%	32.7%	33.1%	33.5%	33.1%	
Rent	1.7%	1.6%	1.7%	1.7%	1.5%	1.5%	1.6%	1.7%	1.5%	1.5%	1.6%	1.6%	1.7%	1.7%	1.6%	1.5%	
Other Operating	1.7%	1.5%	1.6%	1.6%	1.3%	1.3%	1.2%	1.3%	1.4%	1.4%	1.4%	1.4%	1.6%	1.4%	1.4%	1.4%	
Restaurant-Level Income	16.4%	16.8%	15.4%	14.5%	15.9%	15.7%	15.2%	15.3%	18.2%	18.3%	17.1%	18.3%	16.9%	16.7%	16.5%	16.2%	
Pre-Opening	0.4%	0.5%	0.6%	0.7%	0.5%	0.5%	0.6%	0.6%	0.4%	0.5%	0.6%	0.7%	0.7%	0.5%	0.5%	0.6%	
Depreciation and Amortization	3.4%	3.4%	3.4%	3.5%	3.1%	3.2%	3.4%	3.5%	3.3%	3.3%	3.5%	3.5%	3.7%	3.4%	3.3%	3.4%	
Other Non-Operating Expenses	(0.1%)	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
General and Administrative Expense	4.1%	4.8%	4.3%	4.0%	4.2%	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	
Operating Income	9.1%	8.4%	7.6%	6.8%	8.6%	8.1%	7.4%	7.4%	8.8%	8.7%	8.2%	8.4%	8.6%	8.0%	7.9%	8.5%	
Interest Expense, Net	0.0%	0.0%	0.0%	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	0.1%	0.0%	(0.1%)	(0.1%)	
Equity Income from Investments	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(0.0%)	0.0%	0.0%	0.0%	
Income (Loss) Before Income Taxes	9.1%	8.4%	7.6%	6.9%	8.8%	8.3%	7.5%	7.5%	8.9%	8.8%	8.3%	8.5%	8.5%	8.0%	8.0%	8.6%	
Income Tax Expense (Benefit)	14.2%	13.4%	15.2%	11.5%	13.9%	12.7%	11.0%	11.0%	14.0%	14.0%	14.0%	14.0%	1.1%	13.6%	13.8%	14.0%	
Operating Net Income (Including NCI)	7.8%	7.3%	6.4%	6.1%	7.5%	7.2%	6.5%	6.5%	7.6%	7.6%	7.1%	7.2%	7.3%	6.9%	6.7%	7.4%	
Income Attributable to NCI	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
Operating Net Income (Less NCI)	7.6%	7.1%	6.3%	5.9%	7.4%	7.0%	6.3%	6.3%	7.4%	7.4%	6.9%	7.1%	7.1%	6.7%	6.7%	7.2%	
Non-Operating Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Reported Net Income	7.6%	7.1%	6.3%	5.9%	7.4%	7.0%	6.3%	6.3%	7.4%	7.4%	6.9%	7.1%	7.1%	6.7%	6.7%	7.2%	
EBITDA	12.5%	11.7%	10.9%	10.3%	17.2%	16.3%	12.6%	12.6%	15.1%	15.1%	14.2%	14.6%	12.2%	11.9%	11.2%	11.9%	
Company-Owned Units	85.7%	85.8%	85.7%	85.7%	86.8%	86.6%	86.4%	86.1%	86.1%	86.2%	86.2%	86.1%	84.9%	85.7%	86.1%	86.1%	
Franchised Units	14.3%	14.2%	14.3%	14.3%	13.2%	13.4%	13.6%	13.9%	13.9%	13.8%	13.8%	13.9%	15.1%	14.3%	13.9%	13.9%	
Total Units	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
YEAR-OVER-YEAR % CHANGE																	
Restaurant and Other Sales	23.4%	14.1%	14.4%	12.8%	19.0%	14.4%	13.6%	13.0%	8.8%	8.0%	8.5%	8.5%	44.5%	6.0%	5.0%	8.4%	
Franchise Royalties and Fees	14.1%	3.2%	18.1%	3.6%	4.0%	4.1%	1.9%	2.6%	3.2%	3.2%	19.8%	9.8%	38.0%	5.5%	3.2%	19.9%	
Total Revenues	23.3%	14.0%	14.3%	12.7%	19.1%	14.3%	13.6%	12.9%	8.8%	8.0%	8.5%	8.5%	44.4%	5.9%	14.9%	8.4%	
General and Administrative Expense	9.8%	33.5%	3.8%	(5.3%)	23.8%	3.6%	11.3%	20.6%	9.3%	6.0%	9.7%	8.5%	31.8%	9.7%	14.2%	8.3%	
Operating Net Income (Less NCI)	17.2%	(4.1%)	18.5%	12.8%	14.9%	13.6%	13.7%	19.7%	9.5%	6.6%	9.2%	22.9%	68.4%	10.0%	5.3%	15.7%	
Operating EPS	12.5%	(0.8%)	12.6%	8.4%	14.7%	14.7%	10.8%	10.8%	20.6%	19.7%	12.0%	16.1%	20.6%	16.9%	16.9%	16.9%	
EBITDA	17.2%	(0.9%)	16.8%	7.0%	18.8%	10.4%	11.3%	11.4%	14.3%	14.3%	17.7%	17.6%	19.0%	7.9%	12.9%	14.4%	
Company-Owned Stores (Roadhouse)	6.1%	5.9%	5.4%	4.9%	5.2%	4.6%	4.8%	4.7%	3.2%	3.9%	4.0%	4.5%	4.6%	4.9%	4.7%	4.5%	
Company-Owned Stores (Bubba's 33)	12.5%	8.8%	8.6%	11.1%	11.1%	10.8%	15.8%	20.0%	22.5%	22.0%	19.2%	12.5%	6.1%	11.1%	20.0%	12.5%	
Company-Owned Stores (Jaguers)	33.3%	33.3%	33.3%	25.0%	75.0%	75.0%	75.0%	40.0%	14.3%	28.6%	42.9%	57.1%	33.3%	25.0%	40.0%	57.1%	
International Franchised Stores	19.1%	9.3%	9.3%	20.6%	22.6%	20.6%	16.9%	16.9%	8.2%	8.2%	9.7%	11.8%	9.1%	9.1%	11.8%	11.8%	
Domestic Franchised Stores	(6.7%)	(10.3%)	(10.3%)	(11.4%)	(14.3%)	(12.9%)	(9.7%)	(8.8%)	9.3%	9.3%	5.4%	17.1%	14.4%	(11.4%)	(4.8%)	17.1%	
Total Unit Growth	5.5%	4.8%	4.7%	4.5%	4.8%	4.6%	5.1										

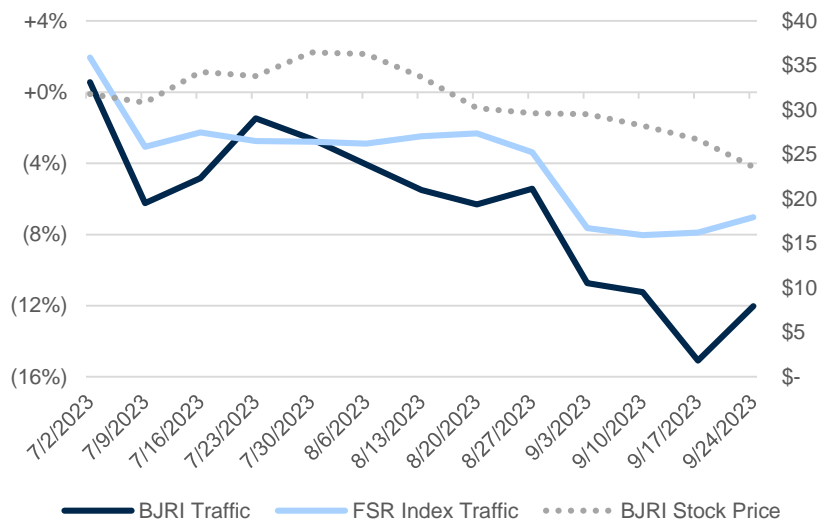


## Our Thoughts Into The Quarter

**Stephens Focus:** We are maintaining our estimates on BJ's into the quarter. The company is in the early stages of rolling out a series of sales and operations focused initiatives including a more streamlined menu (~10% fewer menu items started in July), a combination of improvements in back of the house operations, and sourcing initiatives (including new recipes and menu innovation efforts such as those seen in the new slow roasted chicken wings product). Training and technology investments could also help build upon improving retention rates over the next 12-18 months. The potential of these efforts were on display in the 2Q earnings period where margins came in ahead of expectations. We believe there is room for potential upside to our 3Q estimates, however, we also note that the 3Q period is a seasonally slower quarter with lower overall sales volumes. This dynamic is likely to (we believe) overshadow the upside potential which could mean that the November analyst day and 4Q earnings could be needed before investors meaningfully reengage with the long-term investment thesis.

**BJ's Traffic and Credit Card Sales Trends Appear to Trail Full Service Peers in 3Q:** On the 2Q23 call, the company cited choppy topline trends in early July with pressure steady into the (LSD%) range as it's moved past the 4th of July period which gave management confidence to guide 3Q23 same-store sales of high 3% to low 4%. We believe BJ's traffic trailed full service peers from the perspective of traffic and other credit card data sets that we follow.

## 3Q23 BJRI Traffic vs. FSR Index Traffic



## Stephens Estimates vs. Consensus

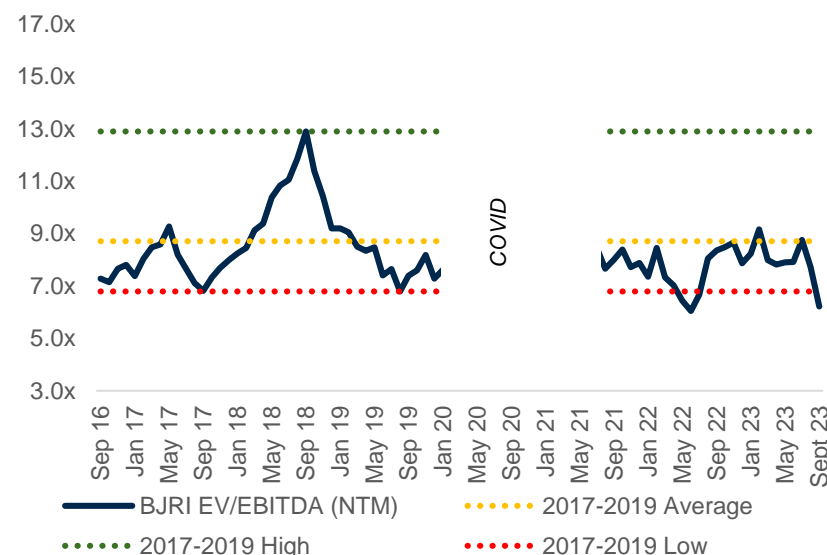
BJRI	Fiscal 3Q23E			Fiscal 2023E		
	Stephens		Consensus	Stephens		Consensus
	Prior	New		Prior	New	
SSS	+3.8%	+3.8%	+3.3%	+5.6%	+5.6%	+5.2%
Revenue in mil. \$	329.7	329.7	327.6	1,356.8	1,356.8	1,355.3
RLM	12.3%	12.3%	12.4%	13.4%	13.4%	13.4%
Adjusted EPS \$	(0.01)	(0.01)	0.01	0.88	0.88	0.96

Unchanged

Unchanged

**Maintaining Estimates & Price Target:** We are maintaining our 3Q23 estimates. Our EPS estimate of (\$0.01) is a touch below consensus at \$0.01 driven primarily by our lower restaurant-level margin and middle of the P&L estimates. We maintain our \$38 price target based on ~9x our FY24E EV/EBITDA with our multiple being a half tour below the stock's ten-year average. We believe greater visibility into traffic, sales, and margin opportunities could be needed before valuations for full service stocks (BJRI included) can stabilize. That said, BJRI shares are trading below the low-end of the stock's pre-Covid range which could ultimately prove to be a compelling entry point for patient investors with a long-term time horizon. From a sensitivity perspective, each 1x in valuation multiple equates to \$4/share for BJRI shares. Each 100 bps in margin equates to \$0.56 in incremental EPS on an annual basis which equates to a ~47% lift vs. our estimates.

## Historical EV/EBITDA (NTM, Consensus)







# BJ's Restaurants (BJRI): EW-Rated; \$38 Price Target

BJ's Restaurants, Inc. Earnings Model	Extra Week								Extra Week								
Fiscal Year Ended December	2022 Actual				2023 Estimate				2024 Estimate				Fiscal Year Ended December				
Revised 10/19/23 (\$ millions)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2020	2021	2022	2023E	2024E
	03/28/22	06/28/22	09/27/22	12/27/22	03/28/23	06/29/23	09/27/23	12/27/23	03/27/24	06/28/24	09/26/24	12/26/24	52-wks	52-wks	53-wks	52-wks	52-wks
BJ's System-Wide SSS	+33.9%	+11.7%	+8.9%	+6.6%	+9.0%	+4.7%	+3.8%	+5.0%	+3.0%	+3.0%	+3.0%	+3.0%	(33.8%)	+49.1%	+5.3%	+5.6%	+3.0%
BJ's System Wide Two-Year Stack	+8.5%	+14.7%	+54.4%	+55.2%	+46.0%	+16.9%	13.0%	11.9%	12.3%	7.8%	6.9%	8.2%	(33.1%)	(8.5%)	+68.5%	+22.0%	+8.8%
INCOME STATEMENT																	
Total Revenues	\$ 298.7	\$ 329.7	\$ 311.3	\$ 341.0	\$ 341.3	\$ 349.7	\$ 329.7	\$ 336.2	\$ 353.7	\$ 364.0	\$ 345.0	\$ 352.6	\$ 778.5	\$ 1087.0	\$ 1280.7	\$ 1356.8	\$ 1415.3
Cost of Sales	81.5	90.9	85.0	92.2	90.9	90.6	86.4	87.4	92.7	95.0	90.0	91.7	195.6	288.1	349.6	355.3	369.4
Labor and Benefits	16.3	12.3	17.5	12.5	12.3	12.5	12.3	12.7	10.9	11.1	12.5	12.0	305.6	403.0	483.4	498.9	515.8
Operating and Occupancy	71.7	76.6	76.9	81.0	79.1	81.9	81.4	79.0	81.3	83.7	84.5	82.2	220.9	267.9	306.2	321.5	331.8
Restaurant Profit	29.3	39.1	31.9	41.3	42.9	50.6	40.6	47.1	48.8	54.2	44.5	50.8	56.4	128.0	141.6	181.2	198.3
General & Administrative	18.3	16.9	18.9	19.3	19.7	21.2	20.4	20.5	20.9	20.4	21.4	21.5	54.7	68.0	73.3	81.8	84.2
Depreciation & Amortization	18.0	17.6	17.4	17.5	17.6	17.7	18.1	18.2	18.4	18.6	19.0	19.1	73.1	72.8	70.4	71.6	75.1
Preopening	0.6	1.0	0.5	1.5	0.8	0.4	1.0	0.8	0.9	0.9	0.5	0.7	1.2	1.5	3.6	3.0	3.0
Other	0.2	0.4	0.4	1.9	2.1	1.1	0.5	0.5	0.6	0.6	0.6	0.6	2.3	1.2	2.9	4.3	2.5
Operating Income	(7.7)	3.1	(5.2)	1.1	2.6	10.2	0.4	7.1	8.0	13.8	3.0	8.8	(74.9)	(5.4)	(8.7)	20.4	33.6
Interest Income/(Expense)	(0.6)	(0.4)	(0.6)	(1.2)	(1.1)	(1.1)	(1.0)	(1.0)	(0.9)	(0.9)	(0.9)	(0.9)	(7.1)	(5.0)	(2.9)	(4.2)	(3.5)
Other Income/(Expense)	(0.4)	(0.2)	0.1	0.6	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2	1.3	2.3	0.1	1.3	0.9
Pre-Tax Income	(8.7)	2.5	(5.8)	0.5	1.7	9.7	(0.3)	6.3	7.4	13.1	2.3	8.1	(80.7)	(8.1)	(11.5)	17.4	31.0
Income Tax Benefit/(Expense)	10.2	(2.2)	4.1	1.1	1.8	2.2	0.0	(0.3)	(0.7)	(1.3)	(0.1)	(0.8)	29.8	12.6	13.2	3.7	(3.0)
Operating Net Income	1.5	0.3	(1.6)	1.546	3.5	11.9	(0.3)	6.0	6.6	11.8	2.2	7.3	(50.9)	(5.5)	1.7	21.2	28.0
Non-Operating Income/(Expense)	-	-	-	2.4	-	-	-	-	-	-	-	-	(7.0)	2.7	2.4	-	-
Reported Net Income	\$ 1.5	\$ 0.3	\$ (1.6)	\$ 4.0	\$ 3.5	\$ 11.9	\$ (0.3)	\$ 6.0	\$ 6.6	\$ 11.8	\$ 2.2	\$ 7.3	(57.9)	(2.8)	4.1	21.2	28.0
Shares Outstanding--Diluted	23.7	23.6	23.4	23.8	23.9	24.0	24.0	23.9	23.5	23.27	23.2	23.1	21.2	23.4	23.6	23.9	23.2
EBITDA	10.3	20.7	12.2	18.5	20.2	27.9	18.6	25.3	26.4	32.3	22.0	27.9	(1.7)	57.4	61.7	92.0	108.7
Adjusted EBITDA	13.2	23.4	15.2	25.4	25.0	31.8	21.7	28.4	29.8	35.7	25.4	31.4	10.3	68.9	74.7	107.0	122.3
EPS--Operating	\$ 0.06	\$ 0.01	\$ (0.07)	\$ 0.07	\$ 0.15	\$ 0.50	\$ (0.01)	\$ 0.25	\$ 0.28	\$ 0.51	\$ 0.10	\$ 0.32	\$ (2.40)	\$ (0.23)	\$ 0.07	\$ 0.88	\$ 1.20
EPS--Extraordinary	\$ -	\$ -	\$ -	\$ 0.10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.33)	\$ 0.11	\$ 0.10	\$ -	\$ -
EPS--Reported	\$ 0.06	\$ 0.01	\$ (0.07)	\$ 0.17	\$ 0.15	\$ 0.50	\$ (0.01)	\$ 0.25	\$ 0.28	\$ 0.51	\$ 0.10	\$ 0.32	\$ (2.74)	\$ (0.12)	\$ 0.17	\$ 0.88	\$ 1.20
MARGIN ANALYSIS																	
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	27.3%	27.6%	27.3%	27.1%	26.6%	25.9%	26.2%	26.0%	26.2%	26.1%	26.1%	26.0%	25.1%	26.5%	27.3%	26.2%	26.1%
Labor and Benefits	38.9%	37.3%	37.7%	37.1%	37.6%	36.2%	36.8%	36.5%	37.0%	36.0%	36.5%	36.3%	39.3%	37.1%	37.7%	36.8%	36.4%
Operating and Occupancy	24.0%	23.2%	24.7%	23.7%	23.2%	23.4%	24.7%	23.5%	23.0%	23.0%	24.5%	23.3%	28.4%	24.6%	23.9%	23.7%	23.4%
Restaurant Profit	9.8%	11.9%	10.3%	12.1%	12.6%	14.5%	12.3%	14.0%	13.8%	14.9%	12.9%	14.4%	7.2%	11.8%	11.1%	13.4%	14.0%
General & Administrative	6.1%	5.1%	6.1%	5.7%	5.8%	6.1%	6.2%	6.1%	5.9%	5.6%	6.2%	6.1%	7.0%	6.3%	5.7%	6.0%	5.9%
Depreciation & Amortization	6.0%	5.3%	5.6%	5.1%	5.2%	5.1%	5.5%	5.4%	5.2%	5.1%	5.5%	5.4%	9.4%	6.7%	5.5%	5.3%	5.3%
Preopening	0.2%	0.3%	0.2%	0.4%	0.2%	0.1%	0.3%	0.2%	0.3%	0.3%	0.2%	0.2%	0.2%	0.1%	0.3%	0.2%	0.2%
Other	0.1%	0.1%	0.1%	0.6%	0.6%	0.3%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%	0.1%	0.2%	0.3%	0.2%
Operating Income	(2.6%)	1.0%	(1.7%)	0.3%	0.8%	2.9%	0.1%	2.1%	2.3%	3.8%	0.9%	2.5%	(9.6%)	(1.4%)	(0.7%)	15%	2.4%
Interest Income/(Expense)	(0.2%)	(0.1%)	(0.2%)	(0.3%)	(0.3%)	(0.3%)	(0.3%)	(0.3%)	(0.3%)	(0.2%)	(0.3%)	(0.2%)	(0.9%)	(0.5%)	(0.2%)	(0.3%)	(0.2%)
Other Income	(0.1%)	(0.1%)	0.0%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.0%	0.1%	0.1%
Pre-Tax Income	(2.9%)	0.8%	(1.8%)	0.1%	0.5%	2.8%	(0.1%)	1.9%	2.1%	3.6%	0.7%	2.3%	(10.4%)	(1.7%)	(0.9%)	13%	2.2%
Income Taxes	116.8%	88.2%	71.5%	(237.6%)	(105.9%)	(22.7%)	15.0%	5.0%	10.0%	10.0%	5.0%	10.0%	36.9%	69.6%	114.5%	-214%	9.6%
Operating Net Income	0.5%	0.1%	(0.5%)	0.5%	1.0%	3.4%	(0.1%)	1.8%	1.9%	3.2%	0.6%	2.1%	(6.5%)	(0.5%)	0.1%	16%	2.0%
EBITDA	3.4%	6.3%	3.9%	5.4%	5.9%	8.0%	5.6%	7.5%	7.5%	8.9%	6.4%	7.9%	(0.2%)	5.3%	4.8%	6.8%	7.7%
Adjusted EBITDA	4.4%	7.1%	4.9%	7.4%	7.3%	9.1%	6.6%	8.5%	8.4%	9.8%	7.4%	8.9%	1.3%	6.3%	5.8%	7.9%	8.6%
YEAR-OVER-YEAR % CHANGE																	
Total Revenues	33.8%	13.6%	10.3%	17.1%	14.2%	6.1%	5.9%	(1.4%)	3.6%	4.1%	4.6%	4.9%	(33.0%)	39.6%	17.8%	5.9%	4.3%
Restaurant Profit	14.1%	(8.9%)	0.9%	48.2%	46.6%	29.5%	27.0%	14.0%	13.7%	7.2%	9.7%	7.9%	(69.6%)	126.9%	10.6%	28.0%	9.5%
General & Administrative	19.6%	(0.7%)	9.2%	5.0%	8.0%	25.4%	8.2%	6.3%	5.9%	(3.8%)	4.6%	4.9%	(12.6%)	24.3%	7.9%	11.6%	2.8%
Operating Income	(6.4%)	(52.9%)	21.4%	(110.0%)	(134.0%)	224.7%	(108.7%)	577.6%	207.3%	34.7%	566.6%	23.2%	(268.7%)	(79.4%)	(43.7%)	(335.5%)	64.5%
Pre-Tax Income	(6.4%)	(50.3%)	18.5%	(105.1%)	(118.4%)	285.6%	(94.5%)	1285.2%	336.0%	34.8%	(832.2%)	28.4%	(294.1%)	(77.6%)	(36.4%)	(251.8%)	77.5%
Operating Net Income	(46.5%)	(95.3%)	(42.8%)	(126.4%)	(138.4%)	3917.5%	(83.5%)	289.9%	90.6%	(1.1%)	(918.3%)	21.7%	(225.6%)	(89.2%)	(130.2%)	(174.5%)	32.2%
Operating EPS	(144.9%)	(95.2%)	(42.9%)	(125.8%)	(136.3%)	3851.3%	(83.9%)	288.1%	94.3%	1.8%	(946.6%)	25.9%	(222.2%)	(90.3%)	(130.0%)	(1157.7%)	36.1%
EBITDA	3.0%	(16.9%)	(12.8%)	18.3%	96.7%	34.8%	52.5%	36.4%	30.7%	15.8%	18.2%	10.5%	(10.1%)	(3392.4%)	7.6%	49.1%	8.1%
Unit Growth	14%	0.9%	0.9%	1.9%	1.9%	0.9%	1.4%	0.5%	0.9%	14%	18%	18%	0.5%	14%	19%	0.5%	18%
UNIT DATA																	
Restaurants	212	214	214	216	216	216	217	217	218	219	221	221	209	212	216	217	221

Source: Company Documents and Stephens Inc.

Joshua Long, CFA, CMT, Analyst (713) 993-4230

## Our Thoughts Into The Quarter

**Stephens Focus:** We are moderating our margin and EPS expectations (vs. prior) into the print (now in line with the Street) to better reflect what we believe are likely to be incremental challenges from slowing traffic in the quarter. We have maintained our below Street estimates for comps and revenues. We think that patient, long-term investors with a desire to be in the space should consider adding CAKE shares to their watch list. The company offers a blend of growth via its North Italia concept and return of capital via repurchase and dividends. Currently shares are trading at (or below) the low end of the stock's pre-Covid range which could prove to be an interesting entry point for patient investors.

**Recap of Prior 3Q23 Guidance:** Management previously guided for total revenue in 3Q23 of \$835 mil. - \$855 mil. Our estimates reflect the conservative end of this guidance at \$836.1 mil. driven in part by our +3.1% comp estimate vs. consensus of \$841.9 mil. reflecting consensus comp expectations of +4.1%.

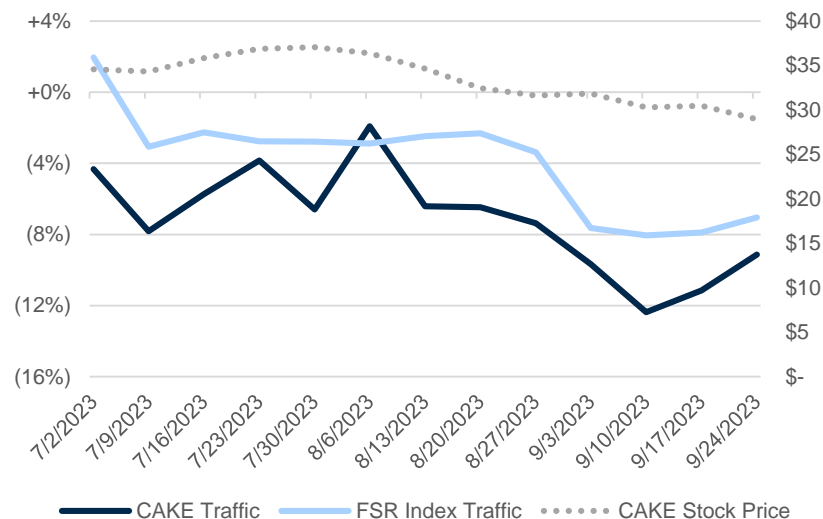
**Cheesecake Factory Traffic and Credit Card Sales Trends Appear to Trail Full Service Peers in 3Q:** Cheesecake Factory traffic trends were pressured in 3Q23 and the concept trailed the FSR index. According to Bloomberg's Second Measure credit card data set, The Cheesecake Factory also appeared to trail the FSR index.

## Stephens Estimates vs. Consensus

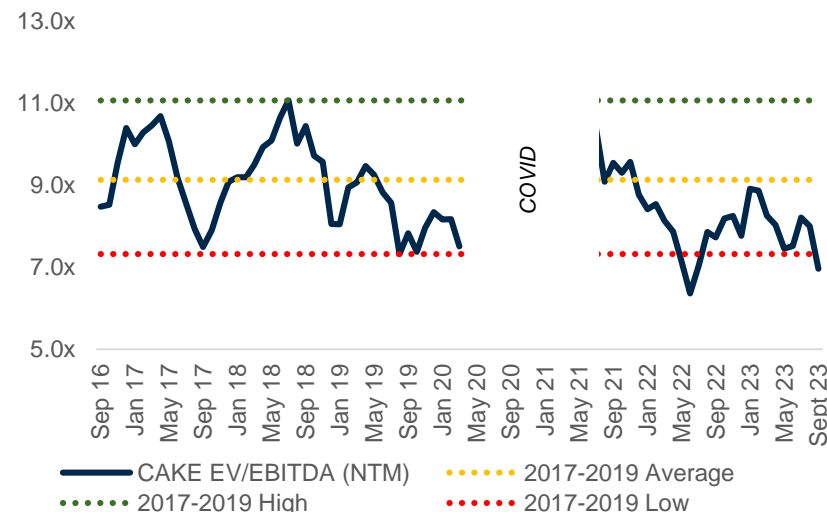
CAKE	Fiscal 3Q23E			Fiscal 2023E		
	Stephens		Consensus Expectations	Stephens		Consensus Expectations
	Prior	New		Prior	New	
SSS - System	+3.1%	+3.1%	+4.1%	+4.0%	+4.0%	+3.8%
Revenue in mil.	\$ 836.1	\$ 836.1	\$ 841.9	\$ 3,466.0	\$ 3,466.0	\$ 3,466.2
RLM	14.0%	13.8%	13.5%	14.4%	14.3%	14.3%
Adjusted EPS	\$ 0.47	\$ 0.43	\$ 0.43	\$ 2.73	\$ 2.71	\$ 2.71
		Lowered			Lowered	

**Maintaining Revenue Estimates and Moderating Margin and EPS Estimates; Maintaining Price Target:** Our 3Q23 restaurant-level margin and EPS estimates move lower to 13.8% and \$0.43 (vs. the Street at 13.5% and \$0.43, respectively). Our FY23E estimates around restaurant-level margins move to 14.3% (vs. 14.4% prior) and our operating EPS estimate moves to \$2.71 (vs. \$2.73 prior) vs. the Street at 14.3% and \$2.71, respectively. Our FY24 estimates are unchanged. We maintain our \$40 price target based on ~8x our FY24E EV/EBITDA. Our multiple is a 1x discount to the stock's ten-year pre-Covid average.

## 3Q23 CAKE Traffic vs. FSR Index Traffic



## EV/EBITDA (NTM, Consensus) Analysis



**Industry Note**  
**October 20, 2023**

Joshua Long, CFA, CMT, Analyst (713) 993-4230

# Chuy's (CHUY): OW-Rated; \$45 Price Target

## Our Thoughts Into The Quarter

**Stephens Focus:** Our checks suggest Chuy's same-store sales were in the +LSD% range in July/August/Sept (vs. 3Q23 consensus expectations of +2.0%). That said, our conversation with operators suggest that Chuy's could be on the verge of unlocking comp tailwinds in the near-term quarters given the menu innovation efforts around the Chuy's Knock Out (CKO) value platform. Our checks suggest these items are easy on operations, offer better relative margins, and appear to be popular with customers across on- and off-premise channels. Said differently, the new menu innovation efforts appear to be working. We believe Chuy's could be positioned to deliver continued operational execution along with sales and margin performance to help the stock to work higher from here. From a multiple perspective, we note that CHUY shares are trading near the average of the stock's pre-Covid range.

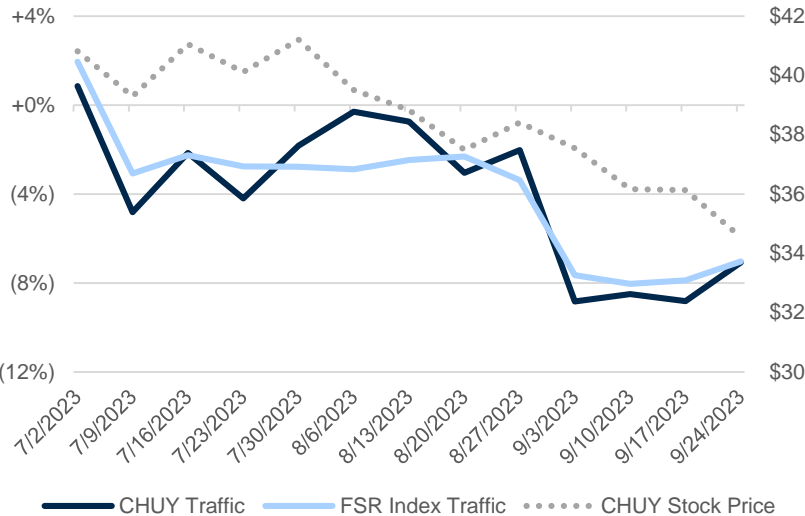
**Chuy's Traffic Trends Appear to Perform In-Line With Full Service Peers in 3Q:** Chuy's 3Q23 traffic data appears to be relatively in-line with the FSR index while credit card data suggests trends trailed the FSR index.

## Stephens Estimates vs. Consensus

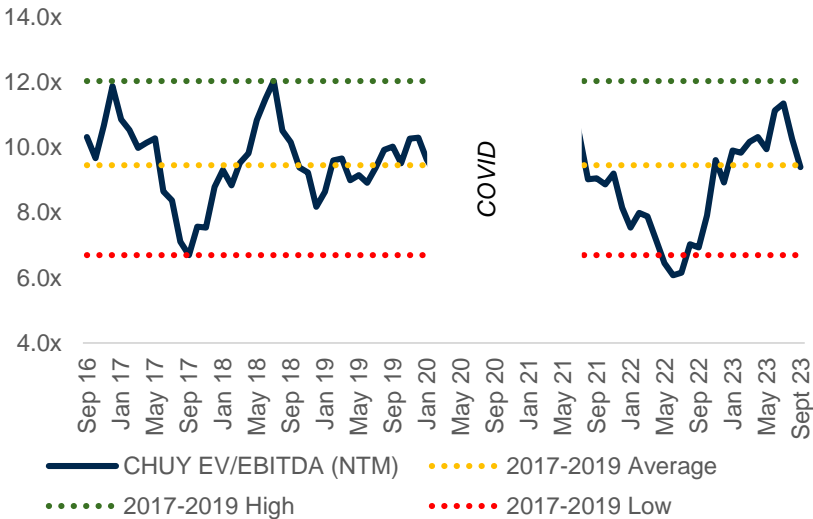
CHUY	Fiscal 3Q23E			Fiscal 2023E		
	Stephens		Consensus	Stephens		Consensus
	Prior	New		Prior	New	
SSS	+2.5%	+2.5%	+2.0%	+4.1%	+4.1%	+3.8%
Revenue in mil.	\$ 112.2	\$ 112.2	\$ 111.5	\$ 462.6	\$ 462.6	\$ 461.5
RLM	17.6%	18.0%	18.0%	19.4%	19.5%	19.4%
Adjusted EPS	\$ 0.34	\$ 0.36	\$ 0.36	\$ 1.83	\$ 1.85	\$ 1.84
	Increased			Increased		

**Increasing Estimates & Maintaining Price Target:** We are increasing our 3Q23 EPS estimate to \$0.36 (vs. \$0.34 prior) driven in part by our maintained expectations for a +2.5% comp (vs. the Street at +2.0%) where we believe momentum is being driven by new menu introductions and operational execution. Our +4.1% comp estimate for the year is maintained and above the Street at +3.8%. Our operating EPS for the year moves higher to \$1.85 (vs. \$1.83 prior and the Street at \$1.84). For FY24E, we are maintaining our revenue estimate at \$489.5 mil. and increasing our EPS estimate to \$1.92 vs. \$1.87 prior. We are maintaining our price target of \$45 based on ~12x our FY24E. From a valuation perspective, shares of CHUY have moved back in-line with the stock's pre-Covid average range of late. Similarly, the stock has held up well on a YTD basis relative to full service peers with CHUY shares up 18% vs. the SP500 up 11%.

## 3Q23 CHUY Traffic vs. FSR Index Traffic



## Historical EV/EBITDA (NTM, Consensus)



# Chuy's (CHUY): OW-Rated; \$45 Price Target

Chuy's Holdings, Inc. Earnings Model Fiscal Year Ended December Revised 10/19/23 (\$ millions)	2022 Actual				2023 Estimates				Extra Week	2024 Estimates				Fiscal Year Ended December					Extra Week
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E		1Q24E	2Q24E	3Q24E	4Q24E	2020	2021	2022	2023E	2024E	
	03/27/22	06/26/22	09/25/22	12/25/22	03/25/23	06/25/23	09/23/23	12/31/23		03/29/24	06/28/24	09/27/24	12/28/24	52-wks	52-wks	52-wks	53-wks	52-wks	
Company Owned Same-Store-Sales	+11.4%	+17%	+2.6%	+3.4%	+8.0%	+3.2%	+2.5%	+2.5%		+2.0%	+2.0%	+2.0%	+2.0%	(217%)	+24.5%	+4.8%	+4.1%	+2.0%	
Company Owned Same-Store-Sales (Two-Year)	+7.8%	+62.7%	+23.6%	+24.9%	+20.3%	+5.0%	+5.2%	+6.0%		+10.2%	+5.3%	+4.6%	+4.6%	(19.6%)	(4.9%)	+29.8%	+9.1%	+6.1%	
Company Owned Same-Store-Sales (Three-Year)	(2.6%)	+0.6%	(0.8%)	+2.0%	+16.5%	+67.9%	+26.7%	+28.0%		+22.7%	+7.1%	+7.3%	+8.1%	(19.5%)	(2.4%)	(0.2%)	+34.8%	+11.3%	
INCOME STATEMENT																			
Total Revenue	100.5	10.9	106.7	104.1	12.5	19.0	12.2	18.9		19.7	12.5	12.1	12.0	3210	396.5	422.2	462.6	489.5	
Cost of Sales	26.2	30.9	29.1	28.6	28.7	29.4	28.8	30.3		30.5	31.8	31.7	30.7	79.0	96.5	114.9	117.3	124.7	
Labor	29.8	32.3	32.4	31.8	34.1	35.2	35.2	36.9		36.6	38.1	37.5	37.6	98.2	113.6	126.2	141.3	149.9	
Operating	16.2	17.5	17.4	17.3	18.1	18.9	18.3	19.6		19.3	20.4	19.9	20.1	50.4	59.6	68.4	74.9	79.6	
Occupancy	7.7	7.6	7.5	7.3	7.9	8.1	8.0	8.3		8.6	8.7	8.5	8.4	29.4	29.3	30.0	32.3	34.2	
Marketing	1.4	1.6	1.5	1.4	1.6	1.7	1.7	1.8		1.7	1.8	1.8	1.8	2.7	4.4	6.0	6.7	7.1	
Restaurant-Level Income	19.1	21.1	18.7	17.7	22.2	25.7	20.2	22.0		22.9	26.8	22.4	21.8	61.2	93.1	76.7	90.1	93.9	
General and Administrative Expense	6.7	6.5	6.7	6.5	7.8	7.7	7.4	7.5		7.5	7.8	7.7	7.5	22.2	26.6	26.3	30.4	30.5	
Restaurant Pre-Opening	0.1	0.3	0.3	0.6	0.5	0.6	0.6	1.1		0.7	0.8	0.9	1.3	1.8	1.7	1.4	2.7	3.8	
Depreciation and Amortization	5.0	5.0	5.1	5.1	5.1	5.2	5.4	5.5		5.6	5.7	5.8	5.8	20.0	20.2	20.2	21.3	22.9	
Other	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	
Operating Income	7.4	9.3	6.6	5.5	8.7	12.2	6.8	7.9		9.1	12.4	8.0	7.2	17.3	44.6	28.8	35.7	36.8	
Interest Expense	0.0	(0.1)	(0.3)	(0.5)	(0.8)	(0.9)	(0.8)	(0.8)		(0.8)	(0.8)	(0.8)	(0.8)	0.3	0.1	(0.9)	(3.2)	(3.2)	
Income (Loss) Before Income Taxes	7.3	9.4	6.9	6.0	9.5	13.0	7.6	8.7		9.9	13.2	8.8	8.0	17.0	44.4	29.7	38.9	40.0	
Income Tax Expense/(Benefit)	0.8	1.0	1.0	1.0	1.0	1.9	1.1	1.2		1.3	1.7	1.1	1.0	1.6	6.4	3.8	5.2	5.2	
Operating Net Income	6.5	8.4	5.9	4.977	8.5	11.1	6.6	7.5		8.6	11.5	7.7	7.0	15.4	38.0	25.8	33.7	34.8	
Non-Operating Items	(1.0)	(0.6)	(0.9)	(2.5)	(0.3)	(0.4)	-	-		-	-	-	-	(18.7)	(7.8)	(5.0)	(0.7)	-	
Reported Net Income	5.5	7.9	5.0	2.477	8.2	10.7	6.6	7.5		8.6	11.5	7.7	7.0	(3.3)	30.2	20.9	33.0	34.8	
Basic Shares Outstanding	19.1	19.9	18.0	18.0	18.0	18.1	18.1	18.1		17.9	17.7	17.5	17.4	18.4	19.8	18.7	18.1	17.6	
Diluted Shares Outstanding	19.3	19.0	18.7	18.2	18.2	18.2	18.1	18.1		18.1	18.1	18.1	18.1	18.5	20.1	18.8	18.2	18.1	
EBITDA	12.3	14.3	11.7	10.6	13.9	17.4	12.2	13.4		14.7	18.1	13.8	13.0	37.3	64.8	49.0	57.0	59.6	
Adjusted EBITDA	12.5	14.6	12.0	11.2	14.4	18.0	12.8	14.5		15.4	18.9	14.7	14.3	39.1	66.5	50.0	57.5	60.2	
EPS--Operating	\$ 0.34	\$ 0.44	\$ 0.32	\$ 0.27	\$ 0.47	\$ 0.61	\$ 0.36	\$ 0.41		\$ 0.48	\$ 0.63	\$ 0.42	\$ 0.38	\$ 0.83	\$ 1.89	\$ 1.38	\$ 1.85	\$ 1.92	
EPS--Extraordinary	\$ (0.05)	\$ (0.03)	\$ (0.05)	\$ (0.14)	\$ (0.02)	\$ (0.02)	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ (1.01)	\$ (0.39)	\$ (0.26)	\$ (0.04)	\$ -	
EPS--Reported	\$ 0.29	\$ 0.41	\$ 0.27	\$ 0.14	\$ 0.45	\$ 0.59	\$ 0.36	\$ 0.41		\$ 0.48	\$ 0.63	\$ 0.42	\$ 0.38	\$ (0.18)	\$ 1.50	\$ 1.11	\$ 1.82	\$ 1.92	
MARGIN ANALYSIS																			
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Cost of Sales	26.1%	27.8%	27.3%	27.5%	25.5%	24.7%	25.7%	25.5%		25.5%	24.9%	26.0%	25.5%	24.6%	24.3%	27.2%	25.4%	25.5%	
Labor	29.7%	29.1%	30.4%	30.5%	30.3%	29.5%	31.4%	31.0%		30.6%	29.9%	30.8%	31.2%	30.6%	28.7%	29.9%	30.6%	30.6%	
Operating	16.2%	15.8%	16.3%	16.6%	16.1%	15.9%	16.3%	16.5%		16.1%	16.0%	16.3%	16.7%	15.7%	15.0%	16.2%	16.2%	16.3%	
Occupancy	7.6%	6.8%	7.0%	7.0%	7.0%	6.8%	7.0%	7.0%		7.2%	6.8%	7.0%	7.0%	9.2%	7.4%	7.1%	7.0%	7.0%	
Marketing	1.4%	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%		1.4%	1.4%	1.5%	1.5%	0.9%	1.1%	1.4%	1.5%	1.4%	
Restaurant-Level Income	19.0%	19.1%	17.5%	17.0%	19.7%	21.6%	18.0%	18.5%		19.2%	21.0%	18.4%	18.1%	19.1%	23.5%	18.2%	19.5%	19.2%	
G&A	6.6%	5.9%	6.3%	6.2%	6.9%	6.5%	6.6%	6.3%		6.3%	6.2%	6.3%	6.2%	6.9%	6.7%	6.2%	6.6%	6.2%	
Restaurant Pre-Opening	0.1%	0.3%	0.2%	0.6%	0.4%	0.5%	0.5%	0.9%		0.6%	0.7%	0.8%	1.1%	0.6%	0.4%	0.3%	0.6%	0.8%	
Depreciation and Amortization	5.0%	4.5%	4.8%	4.9%	4.6%	4.4%	4.8%	4.7%		4.7%	4.5%	4.8%	4.8%	6.2%	5.1%	4.8%	4.6%	4.7%	
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Operating Income	7.3%	8.4%	6.2%	5.3%	7.8%	10.2%	6.1%	6.6%		7.6%	9.7%	6.6%	6.0%	5.4%	11.2%	6.8%	7.7%	7.5%	
Interest Expense	0.0%	(0.1%)	(0.3%)	(0.5%)	(0.7%)	(0.7%)	(0.7%)	(0.7%)		(0.7%)	(0.6%)	(0.7%)	(0.7%)	0.1%	0.0%	(0.2%)	(0.7%)	(0.7%)	
Income (Loss) Before Income Taxes	7.3%	8.5%	6.5%	5.7%	8.5%	10.9%	6.8%	7.3%		8.3%	10.4%	7.2%	6.6%	5.3%	11.2%	7.0%	8.4%	8.2%	
Income Tax Expense/(Benefit)	11.3%	10.3%	15.0%	16.8%	10.6%	14.7%	14.0%	14.0%		13.0%	13.0%	13.0%	13.0%	9.4%	14.5%	12.9%	13.4%	13.0%	
Operating Net Income	6.5%	7.6%	5.5%	4.8%	7.6%	9.3%	5.9%	6.3%		7.2%	9.0%	6.3%	5.8%	4.8%	9.6%	6.1%	7.3%	7.1%	
Non-Operating Items	(1.0%)	(0.5%)	(0.9%)	(2.4%)	(0.3%)	(0.3%)	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%	(5.8%)	(2.0%)	(1.2%)	(0.1%)	0.0%	
Reported Net Income	5.5%	7.1%	4.7%	2.4%	7.3%	9.0%	5.9%	6.3%		7.2%	9.0%	6.3%	5.8%	(1.0%)	7.6%	4.9%	7.1%	7.1%	
EBITDA	12.3%	12.9%	11.0%	10.2%	12.3%	14.6%	11.3%	11.3%		14.2%	14.2%	11.4%	10.8%	11.6%	16.3%	11.6%	12.3%	12.2%	
Adjusted EBITDA	12.4%	13.2%	11.2%	10.8%	12.8%	15.1%	11.4%	12.2%		12.9%	14.9%	12.1%	11.9%	12.2%	16.8%	11.8%	12.4%	12.3%	
YEAR-OVER-YEAR % CHANGE																			
Total Revenues	14.6%	2.6%	4.7%	5.5%	12.0%	7.3%	5.1%	14.2%		6.4%	7.2%	8.7%	1.3%	(24.7%)	23.5%	6.5%	9.6%	5.8%	
General & Administrative	(2.8%)	(2.8%)	(4.2%)	(3.4%)	6.7%	17.3%	(2.8%)	15.5%		(3.4%)	1.9%	3.7%	(0.3%)	(6.3%)	19.8%	(1.0%)	15.4%	0.4%	
Operating Net income	(23.1%)	(33.1%)	(34.8%)	(36.9%)	30.8%	31.6%	11.2%	50.3%		1.4%	3.5%	17.0%	(6.8%)	(12.7%)	146.9%	(32.1%)	30.4%	3.3%	
Operating EPS	(19.8%)	(28.8%)	(29.9%)	(30.8%)	38.8%	37.6%	14.6%	50.4%		1.7%	3.6%	17.1%	(6.8%)	(20.7%)	127.3%	(27.4%)	34.8%	3.4%	
EBITDA	(6.6%)	(28.7%)	(29.7%)	(28.7%)	12.5%	21.6%	4.3%	26.9%		5.8%	4.1%	13.1%	(3.3%)	(4.3%)	73.8%	(24.4%)	16.3%	4.7%	
Adjusted EBITDA	(10.3%)	(30.1%)	(28.3%)	(24.9%)	15.2%	22.9%	6.7%	29.2%		7.2%	5.2%	15.3%	(1.2%)	(6.8%)	70.3%	(24.8%)	15.0%	4.6%	
Total Unit Growth	3.2%	2.1%	10%	2.1%	3.1%	2.1%	3.1%	4.1%		4.0%	6.1%	7.0%	6.9%	(8.0%)	4.3%	2.1%	4.1%	6.9%	
UNIT DATA																			
Company-Owned Units (Beginning)	96	96	97	97	98	99	99	100		102	103	1							

Source: Company reports and Stephens Inc. estimates.

Joshua Long, CFA, CMT, Analyst (718) 993-4230

## Our Thoughts Into The Quarter

**Stephens Focus:** We view Kura Sushi as a compelling restaurant growth story. Heading into the quarter we believe the company is positioned for continued strength in sales, traffic, and new unit development. From an estimate perspective, we have maintained our revenue and same-store sales estimates into the quarter. On its last call, the company discussed June comps were running at +14.7% for the 4Q23-to-date period. Our maintained +9% comp estimate bakes in an assumption of +14.7% for June, +6.5% in July, and +5.5% in August. We believe that there could upside to our and street top-line estimates as the company leverages more mainstream brand collaborations and continues to execute against its efforts to improve the efficiency and reach of its marketing. See the following page for an updated view on the company's recent collaboration partnerships.

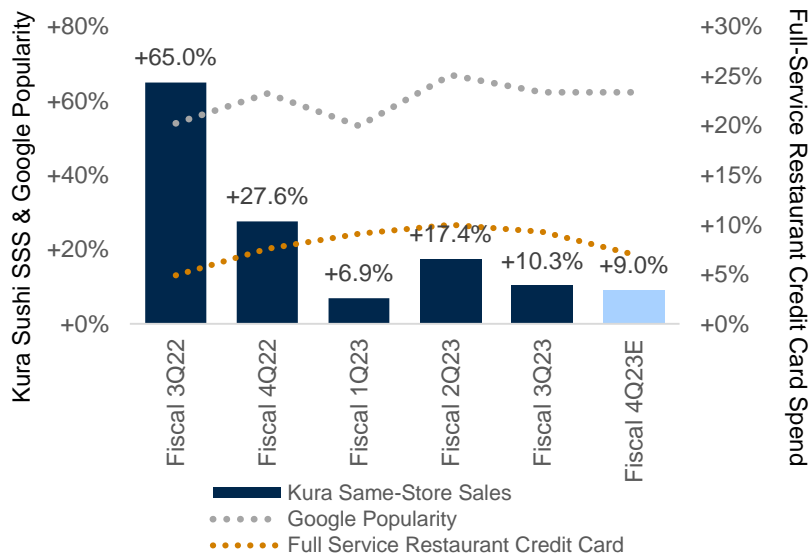
**New Unit Development Progressing:** We believe the company's new unit pipeline remains in good shape. See the following page for a deeper dive into our proprietary unit scraping analysis as it relates to development for the fiscal 4Q23 period.

## Stephens Estimates vs. Consensus

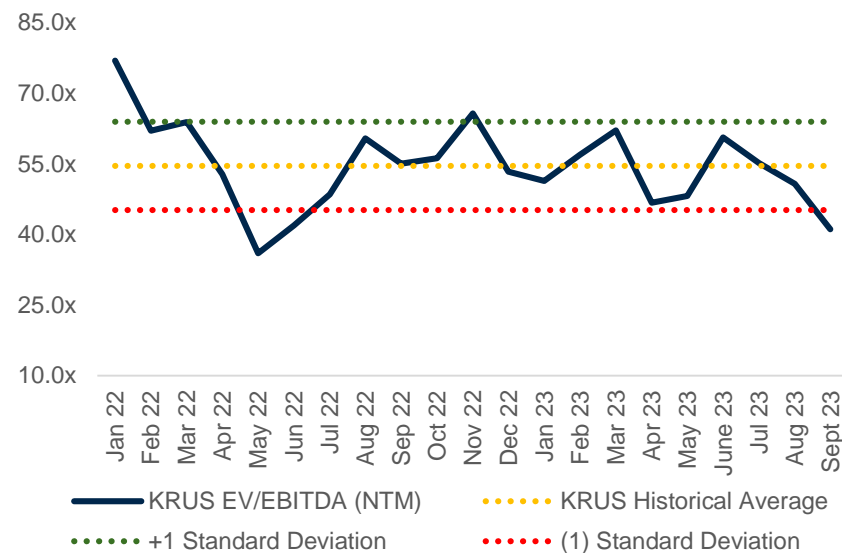
KRUS	Fiscal 4Q23E			Fiscal 2023E		
	Stephens		Consensus Expectations	Stephens		Consensus Expectations
	Prior	New		Prior	New	
SSS	+9.0%	+9.0%	+9.6%	+10.9%	+10.9%	+11.0%
Revenue in mil. \$	55.5	55.5	55.8	188.0	188.0	188.3
RLM	17.5%	17.7%	17.7%	15.3%	15.4%	15.4%
Adjusted EPS \$	0.22	0.24	0.24	0.11	0.13	0.13
		Increased			Increased	

**Increasing Estimates & Maintaining Price Target:** We are maintaining our +9.0% comp estimate which is a touch below consensus expectations at +9.6% (noting there are only 3 analysts in the consensus data set we are referencing with a range of +9.0%--10%). We have moved our store-level margin estimates up marginally as food cost inflation has slowed, the labor environment has largely stabilized, and we believe the company continues to dial in operational execution at the store-level. Our 4Q23 EPS estimate moves higher to \$0.24 (vs. \$0.22 prior). For FY24, we are maintaining our revenue estimate at \$237.4 mil. and increasing our EPS estimate to \$0.40 vs. \$0.33 prior reflecting our now higher restaurant-level margin assumption of 15.6% vs. 15.3% prior. Our maintained \$95 price target is based on our 11-year DCF. From a multiple perspective, KRUS shares are now trading near the one standard deviation below the stock's average multiple since the beginning of 2022 (noting this time frame was chosen in an attempt to avoid Covid-related disruptions).

## 4Q23E KRUS Same-Store Sales



## Historical EV/EBITDA (NTM, Consensus)





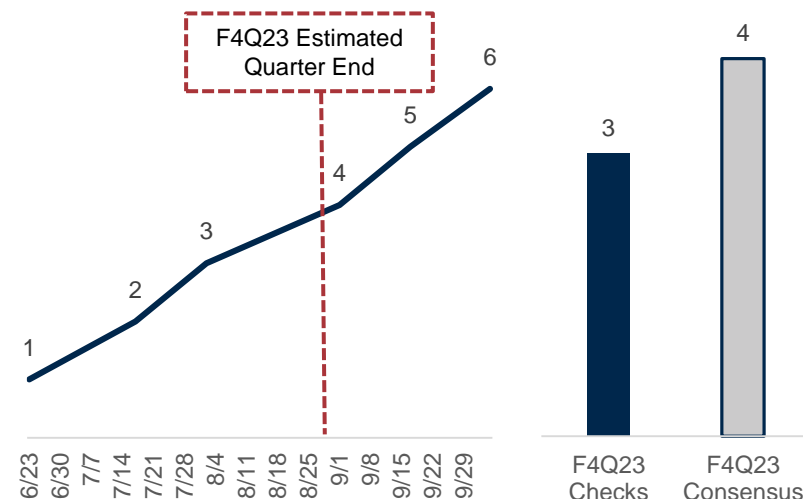
# Kura Sushi (KRUS): Top-Line Drivers

## Commentary

**Unit Analysis:** Kura's FY23 new store guidance is 9-11 new units for the year (midpoint of 25%). A reminder, Kura has opened 6 units for the fiscal year in F1Q23 (+2), F2Q23 (+3), and F3Q23 (+1). Regarding F4Q23, we calculated 3 net openings in F4Q23E (vs. consensus of 4). That said, we believe the slight miss is due to timing as we estimate the F4Q23 quarter close of 8/31/23 and the company has opened additional units on 9/1/23, 9/17/23, and 10/5/23.

**Growing Collaboration Pipeline:** Kura has a stated goal of capturing a greater number of first-time guests in FY23. We believe a refined approach to targeted marketing, search engine optimization, and strengthened engagement across digital marketing channels are likely to prove the most impactful within this overarching strategy. Although it remains early, we believe the company is gaining traction through its initial efforts. In part, we believe the company's collaborations pipeline with a growing list of impressive partner brands (including Hello Kitty, anime hits Demon Slayer & My Hero Academia, DC Comics, and Jujutsu Kaisen as examples) can help drive awareness, customer traffic, and revenue, going forward (*below*).

## F4Q23 New Unit Openings



## Driving Top-Line Momentum With Expanded Reach + Growing Collaboration Pipeline

	Fiscal Period		Collaboration Pipeline				Social Media Followers (in Millions)					
	Quarter	Start - End Date	Partner	Start	End	Days	Twitter	Instagram	TikTok	Facebook	Total	Average
Hello Kitty Holds an Impressive Global Fan Base ★	F3Q22	2/29/2022	Hello Kitty	2/1/2022	3/29/2022	56	0.3	3.0	2.5	12.0	17.8	
		5/31/2022	Origami Crane	4/6/2022	4/26/2022	20	0.0	0.0	0.0	0.0	0.0	
			Puglie Pug	4/11/2022	6/2/2022	52	0.0	0.0	0.0	0.0	0.1	6.0
First Iteration of Demon Slayer Collab Very Popular ★	F4Q22	6/1/2022	Puglie Pug	4/11/2022	6/2/2022	52	0.0	0.0	0.0	0.0	0.1	
		8/31/2022	Demon Slayer	7/1/2022	8/20/2022	50	1.5	0.5	0.3	1.3	3.6	1.8
Tetris Holds Multi-Generational Appeal ★	F1Q23	9/1/2022	Pacman	9/1/2022	10/23/2022	52	0.0	0.1	0.0	7.1	7.2	
		11/30/2022	Tetris	11/1/2022	12/22/2022	51	0.0	0.0	0.0	1.7	1.8	4.5
2 <sup>nd</sup> Iteration of Highly Popular Demon Slayer Collab ★	F2Q23	12/1/2022	Tetris	11/1/2022	12/22/2022	51	0.0	0.0	0.0	1.7	1.8	
		2/28/2023	My Heros Academia	2/1/2023	3/14/2023	41	1.6	1.0	0.2	1.3	4.1	2.9
DC Comics Has 2 <sup>nd</sup> Largest Reach of Collab Partnerships ★	F3Q23	2/29/23	My Heros Academia	2/1/2023	3/14/2023	41	1.6	1.0	0.2	1.3	4.1	
		5/31/2023	Demon Slayer	4/1/2023	5/23/2023	52	1.5	0.5	0.3	1.3	3.6	3.8
Jujutsu Kaisen has a strong IG Following ★	F4Q23E	6/1/2023	We Bare Bears	6/1/2023	7/31/2023	60	0.0	0.6	0.0	1.6	2.2	
		8/31/2023	DC Comics	8/8/2023	9/20/2023	43	5.7	0.6	1.7	6.5	14.5	8.4
	F1Q24E	9/1/2023	DC Comics	8/8/2023	9/20/2023	43	5.7	0.6	1.7	6.5	14.5	
		11/30/2023	Jujutsu Kaisen	10/1/2023	TBD	nm	0.3	2.3	0.6	0.6	3.9	9.2





# Kura Sushi (KRUS): OW/Vol.-Rated; \$95 Price Target

Kura Sushi USA, Inc. Earnings Model																	
Fiscal Year Ended August Revised 10/19/23 (\$ millions)	2022 Actual				2023 Estimate				2024 Estimate				Fiscal Year Ended August				
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2020	2021	2022	2023E	2024E
	11/30/21	02/28/22	05/31/22	08/31/22	11/30/22	02/28/23	05/31/23	08/31/23	11/30/23	02/28/24	05/30/24	08/30/24	52-wks	52-wks	52-wks	52-wks	52-wks
Company-Owned Same-Store Sales	+54.0%	+83.0%	+65.0%	+27.6%	+6.9%	+17.4%	+10.3%	+9.0%	+6.0%	+4.0%	+3.0%	+3.0%	(37.8%)	+6.0%	+81.9%	+10.9%	+4.0%
Company-Owned Same-Store Sales (2-Yr Stack)	+25.0%	+2.6%	+87.4%	+398.9%	+17.15%	+232.2%	+82.0%	+39.1%	+13.3%	+22.1%	+13.6%	+12.3%	+22.6%	(27.8%)	+111.0%	+101.7%	+5.3%
Company-Owned Same-Store Sales (3-Yr Stack)	+34.8%	+24.8%	+33.9%	+36.2%	+33.6%	+32.2%	+91.1%	+443.8%	+187.8%	+245.5%	+87.5%	+43.3%	(30.5%)	(22.8%)	+312%	+134.0%	+109.8%
INCOME STATEMENT																	
Revenue	\$ 29.8	\$ 31.3	\$ 38.0	\$ 42.0	\$ 39.3	\$ 43.9	\$ 49.2	\$ 55.5	\$ 50.6	\$ 54.2	\$ 64.3	\$ 68.4	\$ 45.2	\$ 64.9	\$ 111	\$ 188.0	\$ 237.4
Food and Beverage Costs	9.0	9.4	11.3	12.9	12.4	13.2	14.8	16.7	15.7	16.3	19.2	20.4	14.7	20.7	42.5	57.1	71.6
Labor & Related	9.7	10.3	11.8	12.2	12.5	13.9	14.4	16.1	16.0	17.0	18.9	20.0	18.7	16.4	44.0	56.8	71.0
Occupancy & Related	2.2	2.3	2.7	2.7	2.9	3.1	3.6	3.9	3.7	3.8	4.6	4.9	6.4	7.1	9.9	13.4	17.0
Depreciation & Amortization (Store-Level)	1.2	1.3	1.4	1.4	1.6	1.8	2.0	2.1	2.3	2.3	2.4	2.7	3.0	4.1	5.3	7.4	9.8
Other Restaurant-Level Costs	3.6	4.3	4.4	5.2	5.3	5.9	6.2	6.9	6.7	6.8	8.0	8.6	6.7	10.4	17.5	24.3	30.1
Restaurant-Level Income	4.2	3.7	6.5	7.6	4.6	6.2	8.4	9.8	6.2	7.9	11.2	11.8	(4.3)	6.1	21.9	29.0	37.1
General & Administrative	5.4	5.5	5.9	5.4	6.6	7.1	7.0	7.8	8.4	8.4	9.0	9.6	12.1	21.3	22.1	28.5	35.3
Depreciation & Amortization	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.4	0.4	0.4	0.5
Impairment of Long-Lived Assets & Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	(13)	(19)	0.5	2.1	(2.2)	(10)	13	19	(2.3)	(0.6)	2.1	2.1	(16.5)	(15.6)	(0.6)	0.0	12
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.2
Interest Income	0.0	0.0	0.0	0.1	0.1	0.1	0.4	0.9	0.9	0.9	0.9	0.9	0.5	0.0	0.2	1.5	3.6
Income (Loss) Before Income Taxes	(13)	(19)	0.5	2.1	(2.1)	(10)	17	2.8	(15)	0.2	2.9	3.0	(16.2)	(15.8)	(0.5)	1.4	4.6
Income Tax Expense/(Benefit)	0.0	0.0	(0.0)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	2.7	0.1	0.1	0.1
Operating Net Income	(13)	(19)	0.5	2.1	(2.1)	(10)	17	2.8	(15)	0.2	2.9	3.0	(17.4)	(18.5)	(0.6)	1.3	4.6
Non-Operating Items	-	-	-	0.2	-	-	-	-	-	-	-	-	-	(8.1)	0.2	-	-
Reported Net Income	(13)	(19)	0.5	1.9	(2.1)	(10)	17	2.8	(15)	0.2	2.9	3.0	(17.4)	(10.4)	(0.8)	1.3	4.6
Shares Outstanding -- Fully Diluted	9.7	9.7	10.1	10.1	9.8	9.8	10.8	11.5	11.5	11.5	11.5	11.5	8.3	8.6	9.9	10.5	11.5
Shares Outstanding -- GAAP	9.7	9.7	9.7	9.7	9.8	9.8	10.5	11.5	11.5	11.5	11.5	11.5	8.3	8.5	9.7	10.4	11.5
EBITDA	(0.0)	(0.5)	1.9	3.6	(0.5)	0.8	3.4	4.2	0.1	1.8	4.6	5.0	(13.3)	(11.1)	5.0	7.8	11.5
Adjusted EBITDA	0.8	0.4	3.2	4.8	0.6	2.3	5.1	6.0	1.9	3.6	6.4	6.8	(12.5)	(7.9)	9.2	14.0	18.7
EPS--Operating	\$ (0.13)	\$ (0.19)	\$ 0.05	\$ 0.21	\$ (0.21)	\$ (0.10)	\$ 0.16	\$ 0.24	\$ (0.13)	\$ 0.02	\$ 0.25	\$ 0.26	\$ (2.08)	\$ (2.16)	\$ (0.06)	\$ 0.13	\$ 0.40
EPS--Extraordinary	\$ -	\$ -	\$ -	\$ 0.02	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.94)	\$ 0.02	\$ -	\$ -
EPS--Reported	\$ (0.13)	\$ (0.19)	\$ 0.05	\$ 0.19	\$ (0.21)	\$ (0.10)	\$ 0.16	\$ 0.24	\$ (0.13)	\$ 0.02	\$ 0.25	\$ 0.26	\$ (2.08)	\$ (1.22)	\$ (0.08)	\$ 0.13	\$ 0.40
MARGIN ANALYSIS																	
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Food and Beverage Costs	30.0%	30.0%	29.7%	30.7%	31.6%	30.1%	30.0%	30.0%	31.0%	30.1%	29.9%	29.8%	32.6%	31.9%	30.1%	30.4%	30.2%
Labor & Related	32.5%	33.1%	31.0%	28.9%	31.9%	31.5%	29.2%	29.0%	31.7%	31.3%	29.4%	29.3%	41.3%	25.3%	31.2%	30.2%	30.3%
Occupancy & Related	7.4%	7.4%	7.1%	6.5%	7.3%	7.0%	7.2%	7.0%	7.3%	7.1%	7.1%	7.1%	14.1%	10.9%	7.0%	7.1%	7.2%
Depreciation & Amortization (Store-Level)	3.9%	4.0%	3.6%	3.4%	4.0%	4.0%	4.0%	3.8%	4.5%	4.3%	3.8%	4.0%	6.6%	6.4%	3.7%	3.9%	4.1%
Other Restaurant-Level Costs	12.1%	13.9%	11.5%	12.4%	13.5%	13.3%	12.5%	12.5%	13.3%	12.6%	12.4%	12.5%	14.8%	16.1%	12.4%	12.9%	12.7%
Restaurant-Level Income	14.0%	11.7%	17.0%	18.1%	11.6%	14.0%	17.1%	17.7%	12.2%	14.6%	17.4%	17.3%	(9.4%)	9.4%	15.5%	15.4%	15.8%
General & Administrative	18.0%	17.4%	15.5%	12.9%	16.9%	16.2%	14.2%	14.0%	16.5%	15.5%	14.0%	14.0%	26.7%	32.8%	15.7%	15.2%	14.9%
Depreciation & Amortization	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.2%	0.2%	0.4%	0.6%	0.3%	0.2%	0.2%
Impairment of Long-Lived Assets & Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	(4.2%)	(6.0%)	1.2%	5.0%	(5.5%)	(2.4%)	2.7%	3.5%	(4.6%)	(1.2%)	3.2%	3.1%	(36.5%)	(24.0%)	(0.4%)	0.0%	0.5%
Interest Expense	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.3%	0.1%	0.1%	0.1%
Interest Income	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.9%	1.6%	1.8%	1.7%	1.4%	1.3%	1.0%	0.0%	0.1%	0.8%	1.5%
Income (Loss) Before Income Taxes	(4.2%)	(6.0%)	1.3%	5.1%	(5.3%)	(2.3%)	3.5%	5.0%	(2.9%)	0.4%	4.5%	4.4%	(35.8%)	(24.3%)	(0.4%)	0.8%	2.0%
Income Tax Expense/(Benefit)	0.0%	0.0%	(0.0%)	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	4.2%	0.1%	0.0%	0.0%
Operating Net Income	(4.3%)	(6.0%)	1.3%	5.0%	(5.3%)	(2.3%)	3.4%	5.0%	(2.9%)	0.4%	4.5%	4.3%	(38.4%)	(28.6%)	(0.4%)	0.7%	1.9%
Non-Operating Items	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(12.5%)	0.1%	0.0%	0.0%
Reported Net Income	(4.3%)	(6.0%)	1.3%	4.6%	(5.3%)	(2.3%)	3.4%	5.0%	(2.9%)	0.4%	4.5%	4.3%	(38.4%)	(16.1%)	(0.5%)	0.7%	1.9%
EBITDA	(0.0%)	(1.7%)	5.1%	8.7%	(1.3%)	1.8%	6.9%	7.5%	0.2%	3.4%	7.2%	7.3%	(29.5%)	(17.1%)	3.6%	4.2%	4.9%
Adjusted EBITDA	2.7%	1.2%	8.4%	11.4%	1.6%	5.3%	10.4%	10.7%	3.7%	6.7%	10.0%	9.9%	(27.6%)	(12.1%)	6.5%	7.5%	7.9%
YEAR-OVER-YEAR % CHANGE																	
Total Revenues	216.9%	244.5%	105.6%	50.4%	31.8%	40.4%	29.7%	32.2%	28.7%	23.2%	30.5%	23.2%	(29.7%)	43.7%	117.4%	33.3%	26.3%
General & Administrative	71.2%	89.8%	(39.4%)	(2.9%)	23.9%	30.6%	18.8%	43.9%	25.7%	17.9%	28.3%	23.2%	55.7%	76.6%	3.8%	29.1%	23.7%
Operating Net Income	(78.6%)	(71.2%)	(10.2%)	(251.2%)	63.8%	(46.0%)	252.2%	32.1%	(28.7%)	(121.9%)	72.1%	7.3%	(129.2%)	6.8%	(96.8%)	(326.7%)	243.1%
Operating EPS	(81.6%)	(75.1%)	(108.8%)	(233.3%)	62.4%	(46.5%)	228.1%	16.2%	(39.3%)	(118.6%)	61.7%	7.3%	(97.5.6%)	3.8%	(97.2%)	(314.3%)	212.5%
EBITDA	(99.9%)	(80.5%)	(157.5%)	(369.7.0%)	9800.0%	(250.9%)	74.5%	14.6%	(116.4%)	131.0%	37.1%	19.9%	(448.6%)	(17.0%)	(145.5%)	55.7%	47.2%
Adjusted EBITDA	(121.6%)	(108.2%)	(139.6%)	6558.3%	(19.6%)	498.4%	60.8%	24.3%	194.2%	57.3%	25.4%	13.9%	(410.8%)	(36.8%)	(216.1%)	53.2%	33.4%
Total Unit Growth	17.9%	20.0%	19.4%	25.0%	27.3%	25.0%	24.3%	25.0%	23.8%	22.2%	28.3%	24.0%	8.7%	28.0%	25.0%	25.0%	24.0%
UNIT DATA																	
Company-Owned Units	33	36	37	40	42	45	46	50	52	55	59	62	25	32	40	50	62

Source: Company reports and Stephens Inc. estimates.

Joshua Long, CFA, CMT, Analyst (713) 993-4230

Kura Sushi (KRUS): OW/Vol.-Rated; \$95 Price Target



Industry Note  
October 20, 2023

Kura Sushi USA, Inc. Earnings Model Revised 10/19/23 (\$ millions)											
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Unit Growth</b>											
Starting Units	40	50	62	75	90	108	130	154	180	210	245
Net New Units	10	12	13	15	16	22	24	26	30	35	40
Ending Units	50	62	75	90	108	130	154	180	210	245	285
Net Growth YOY	25%	24%	21%	20%	20%	20%	16%	17%	17%	17%	16%
<b>Revenue Build</b>											
Same-Store Sales	+10.9%	+4.0%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%
AWS	\$0.080	\$0.082	\$0.084	\$0.086	\$0.089	\$0.092	\$0.095	\$0.097	\$0.100	\$0.103	\$0.106
Base Weeks											
New Weeks											
Total Weeks											
Operating Weeks	52	52	52	52	52	52	52	52	52	52	52
AUV	\$ 4.17	\$ 4.24	\$ 4.37	\$ 4.50	\$ 4.63	\$ 4.77	\$ 4.91	\$ 5.06	\$ 5.21	\$ 5.37	\$ 5.53
Growth YOY		16%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total Sales	\$ 187.7	\$ 237.4	\$ 299.1	\$ 371.0	\$ 458.6	\$ 567.8	\$ 697.9	\$ 845.3	\$ 1,016.7	\$ 1,221.7	\$ 1,465.8
Check	\$ 188.0	\$ 237.4									
<b>EBITDA BUILD</b>											
RL Profit	\$ 28.9	\$ 37.1	\$ 47.6	\$ 60.9	\$ 77.6	\$ 99.5	\$ 126.4	\$ 158.2	\$ 196.4	\$ 243.4	\$ 294.9
RLM	15.4%										
RLM Check	15.4%	15.6%	15.9%	16.4%	16.9%	17.5%	18.1%	18.7%	19.3%	19.9%	20.1%
G&A	\$ 28.5	\$ 35.3	\$ 41.9	\$ 50.1	\$ 61.9	\$ 73.8	\$ 87.2	\$ 101.4	\$ 116.9	\$ 140.5	\$ 165.6
% of Sales	15.2%	14.9%	14.0%	13.5%	13.5%	13.0%	12.5%	12.0%	11.5%	11.5%	11.3%
% of Sales Check	15.2%										
Growth YOY		24%	19%	20%	24%	19%	18%	16%	15%	20%	18%
D&A	0.4	0.5	0.8	1.0	1.3	1.6	2.0	2.4	2.8	3.4	4.1
D&A Margin	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
EBIT	\$ (0.0)	\$ 12	\$ 4.9	\$ 9.8	\$ 14.4	\$ 24.1	\$ 37.3	\$ 54.4	\$ 76.6	\$ 99.4	\$ 125.2
EBIT Check	\$ 0.0	\$ 12									
Add back D&A - Corporate	0.4	0.5	0.8	1.0	1.3	1.6	2.0	2.4	2.8	3.4	4.1
Add back D&A - Restaurant Level	7.4	9.8	12.0	14.8	16.1	19.9	24.4	25.4	30.5	36.7	44.0
% of Sales	3.9%	4.1%	4.0%	4.0%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%
EBITDA	\$ 7.8	\$ 115	\$ 17.7	\$ 25.7	\$ 31.7	\$ 45.5	\$ 63.6	\$ 82.2	\$ 110.0	\$ 139.5	\$ 173.2
EBITDA Check	\$ 7.8	\$ 115									
EBITDA Margins	4.1%	4.9%	5.9%	6.9%	6.9%	8.0%	9.1%	9.7%	10.8%	11.4%	11.8%
Capex per store	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50
New Unit Capex	25.0	30.0	32.5	37.5	45.0	55.0	60.0	65.0	75.0	87.5	100.0
Other Capex	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Capex	29.0	35.0	37.5	42.5	50.0	60.0	65.0	70.0	80.0	92.5	105.0
Capex per store	\$ (2.90)	\$ (2.92)	\$ (2.88)	\$ (2.83)	\$ (2.78)	\$ (2.73)	\$ (2.71)	\$ (2.69)	\$ (2.67)	\$ (2.64)	\$ (2.63)
Less: BS A adjustments	3.4	3.6	3.8	4.8	5.9	6.8	8.7	10.6	12.8	16.2	17.7
After Tax Unlevered Free Cash Flow	14	18	24	33	40	55	75	95	125	158	193
<b>Cash Build/Burn</b>											
Starting	35.8	79.5	56.0	36.2	19.4	11	(13.3)	(14.7)	(2.5)	27.5	74.5
EBITDA	7.8	115	17.7	25.7	31.7	45.5	63.6	82.2	110.0	139.5	173.2
Capex	(29.0)	(35.0)	(37.5)	(42.5)	(50.0)	(60.0)	(65.0)	(70.0)	(80.0)	(92.5)	(105.0)
Equity Raise	64.9	-	-	-	-	-	-	-	-	-	-
Ending Cash	79.5	56.0	36.2	19.4	11	(13.3)	(14.7)	(2.5)	27.5	74.5	142.7
Terminal Value	14	16	20	25	27	34	42	49	58	67	74
<b>12-Months From Today</b>											
PV of FCF	\$ 426										
Add: Terminal Value (10% disc. rate)	667										
Total Enterprise Value	1,094										
Add: End of Year Cash	\$ 70.5										
Less: End of Year Debt	-										
Net Asset Value	\$ 1,164.2										
Fully Diluted Shares Outstanding	115										
Per Share Value	\$ 95										

Source: Company reports and Stephens Inc. estimates.

Multiple	10
Discount Rate	10.0%

7.0%	SP500 Return
4.75%	3 Year Treasury Yield / Risk Free Return
1.23	KRUS Beta
7.5%	Discount Rate
2.5%	Small Cap Premium
10.0%	Discount Rate w/ Premium

## Our Thoughts Into The Quarter

**Stephens Focus:** We believe execution against an ambitious unit development pipeline and getting into a cadence of under promising and over delivering relative to expectations are the two big focal points coming out of our recent investor conversations.

Looking ahead, we believe the company's stepped up efforts around guidance and communication can help add helpful guard rails to the story. We believe that as confidence around the company's ability to guide and communicate the near- and long-term plans continues to build there is an opportunity to attract new small cap growth investors to the name.

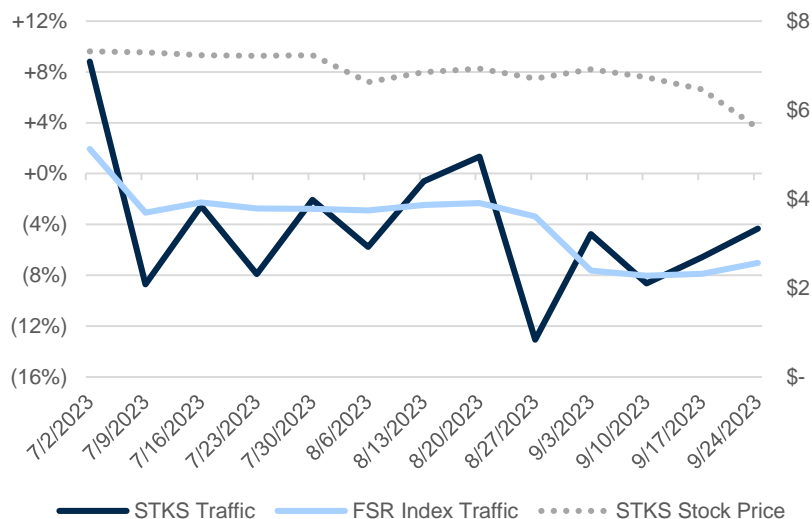
Concerns around a slowing macro environment also continue to weigh on the higher-end sector which we believe make consistent operational execution all the more important for The ONE Group going forward.

## Stephens Estimates vs. Consensus

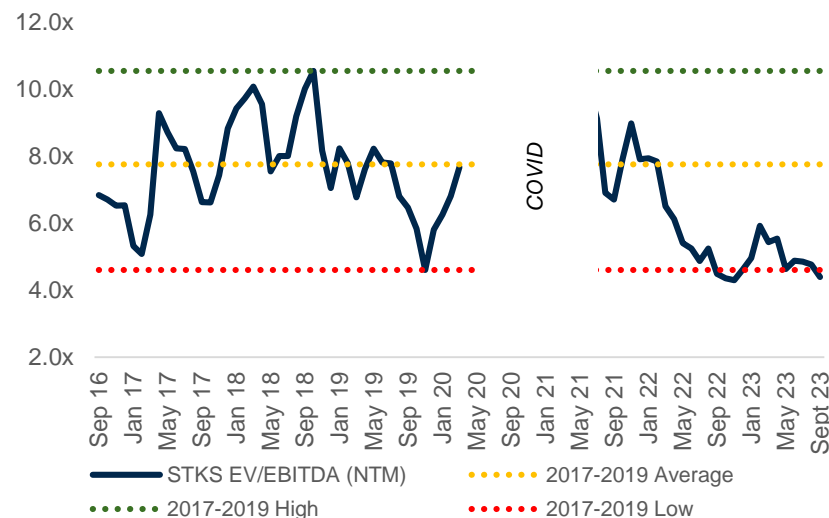
STKS	Fiscal 3Q23E			Fiscal 2023E		
	Stephens		Consensus Expectations	Stephens		Consensus Expectations
	Prior	New		Prior	New	
SSS - STK	(1.0%)	(1.0%)	+0.1%	(1.0%)	(1.0%)	+0.7%
Revenue in mil. \$	81.5	\$ 81.5	\$ 82.5	\$ 348.7	\$ 348.7	\$ 351.4
RLM	15.5%	15.5%	15.5%	17.0%	17.0%	17.1%
Adjusted EPS \$	0.01	\$ 0.01	\$ 0.04	\$ 0.39	\$ 0.39	\$ 0.44
	Unchanged			Unchanged		

**Maintaining Estimates & Price Target:** We are maintaining our estimates and \$12 price target based on a sum-of-the-parts analysis (with 8x STK and Kona Grill EBITDA and 15x high-margin managed EBITDA). From a valuation perspective, shares are trading at the lower end of the stock's pre-Covid range.

## 3Q23 STKS Traffic vs. FSR Index Traffic



## Historical EV/EBITDA (NTM, Consensus)



**Industry Note**  
**October 20, 2023**

Joshua Long, CFA, CMT, Analyst (713) 993-4230

# Commodity Cost Trends Moderating

## Thoughts on Commodities

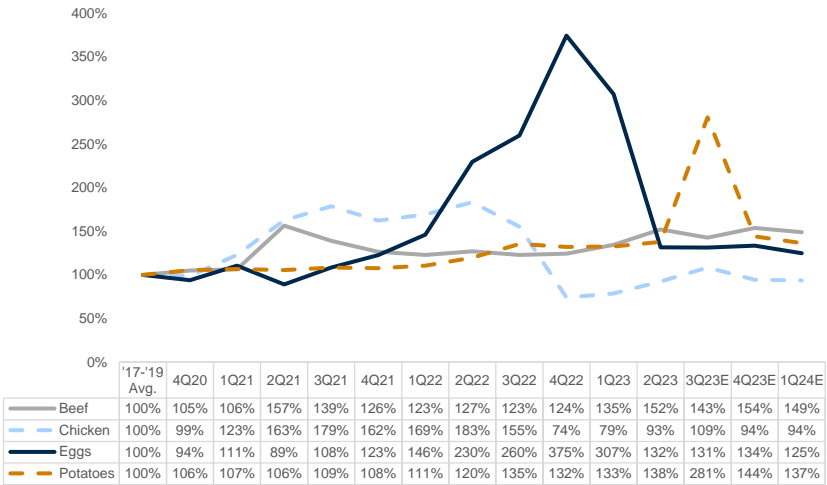
**Chicken Breast Prices Favorable:** Breast meat is in a relatively favorable position from the perspective of many of our covered companies. NDLS, WEN, and CHUY are arguably better examples of operators across our coverage list positioned to benefit from more favorable chicken breast pricing.

**Chicken Wings Moving Back to Average:** Spot wing prices have moved higher off of the recent lows back towards the longer-term average of ~\$1.50/lb. The upward trajectory is catching some attention; however, we understand that additional chicken capacity could be coming on-line driven by lower feed costs, which could help soften pricing levels.

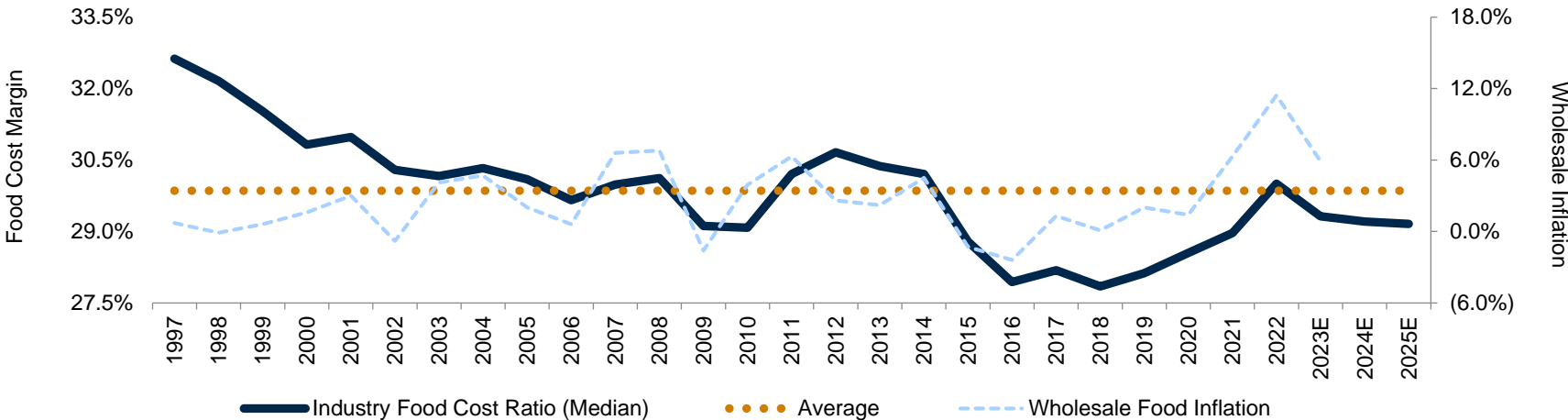
**Beef Still Inflationary:** Prices in 3Q23 remained inflationary driven by a continuation in the overarching, multiyear supply/demand backdrop. We continue to expect beef prices to experience steady upward price pressure, which is a net negative for TXRH, STKS, and limited service hamburger QSR names. Percent inflation estimates vary by company and cut/spec of product but seem to generally coalesce around the +MSD% to +HSD% (or higher) inflation range.

**Egg Prices Look Steady:** Eggs generally represent a small piece of the overall basket but remain key inputs for breakfast-focused concepts/dayparts. Prices of late have come back in line with the longer-term average, which is a net positive for the space.

## Commodity Prices Indexed to Pre-COVID Trend



## Industry Food Cost Margins & Inflation



For added perspective, the heat map below illustrates YoY changes in commodity prices through 2Q24 (assuming current spot rates hold). This is admittedly not a realistic assumption but rather a tool for sizing up the relative size of potential relief/pressure points on a YoY basis.

		4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23	4Q23E*	1Q24E*	2Q24E*
Beef	Primal Rib (wholesale)	6%	11%	24%	43%	15%	5%	(18%)	(20%)	(2%)	19%	15%	19%	4%	4%	3%
	Primal Loin (wholesale)	(2%)	10%	22%	32%	22%	16%	(17%)	(8%)	(4%)	9%	20%	15%	27%	7%	(7%)
	Primal Flank (wholesale)	(8%)	(9%)	15%	33%	51%	43%	1%	2%	(9%)	7%	33%	27%	44%	23%	(5%)
	Ground Beef 81% - Steer/Heifer	(10%)	(7%)	(5%)	45%	44%	51%	7%	3%	(11%)	(17%)	2%	12%	35%	21%	2%
	Rib, ribeye, lip-on, bn-in (wholesale)	13%	17%	31%	47%	11%	(4%)	(24%)	(27%)	(3%)	25%	15%	21%	(4%)	2%	2%
	Loin, strip, bnls, 0x1 (wholesale)	11%	29%	11%	17%	12%	1%	(17%)	3%	(8%)	10%	11%	1%	33%	(3%)	(10%)
	Loin, tndrloin, trmd, heavy (wholesale)	(13%)	10%	78%	68%	26%	21%	(19%)	(25%)	14%	22%	18%	21%	(7%)	(6%)	(8%)
Chicken	Boneless, Skinless Breast (wholesale)	1%	34%	87%	90%	109%	101%	68%	19%	(42%)	(50%)	(59%)	(37%)	33%	13%	8%
	Wing (wholesale)	27%	52%	131%	85%	38%	(1%)	(44%)	(61%)	(67%)	(62%)	(54%)	(5%)	27%	27%	55%
Pork	Derind Belly 13-17# (wholesale)	13%	55%	103%	66%	22%	11%	(15%)	(16%)	(37%)	(48%)	(49%)	(26%)	20%	39%	50%
	Bacon	4%	7%	17%	25%	26%	23%	15%	5%	0%	(7%)	(14%)	(14%)	(12%)	(5%)	(0%)
Other	Hass Avocados	(31%)	(26%)	(9%)	79%	96%	60%	92%	(28%)	(42%)	(50%)	(52%)	(1%)	48%	42%	16%
	Potatoes	(1%)	(3%)	(9%)	(5%)	2%	4%	4%	25%	23%	20%	15%	9%	12%	11%	7%
	Beans (price / lb)	1%	(1%)	(0%)	0%	6%	8%	8%	17%	14%	9%	3%	2%	2%	1%	2%
	Retail Milk (price / gal)	9%	5%	9%	7%	8%	14%	18%	16%	15%	8%	(2%)	(5%)	(6%)	(4%)	(2%)
	Shortening, Cooking Oil, & Margarine	7%	16%	36%	42%	41%	41%	35%	21%	13%	(2%)	(17%)	(11%)	(8%)	(3%)	2%
	Veggie/Fruit	3%	3%	3%	3%	4%	7%	8%	10%	9%	5%	2%	2%	1%	1%	2%
	Eggs	6%	9%	(18%)	41%	29%	32%	173%	139%	233%	183%	(54%)	(52%)	(69%)	(70%)	13%
	Block 40 lb Cheddar (price / lb)	7%	5%	(13%)	(18%)	(18%)	21%	26%	16%	14%	(6%)	(24%)	(11%)	(11%)	(6%)	16%
	Packing Materials	1%	4%	8%	16%	18%	16%	13%	7%	3%	3%	2%	0%	1%	1%	(0%)
	Soda	4%	4%	(3%)	2%	9%	6%	14%	20%	26%	28%	27%	12%	6%	0%	(4%)

\*2023 prices are not "forecasts". They are simply scenarios for Y/Y inflation if we assume the latest spot prices hold constant

Note: all prices listed are per pound, unless otherwise noted

**Industry Note**  
**October 20, 2023**

# Stephens



# Labor Trends Steadying

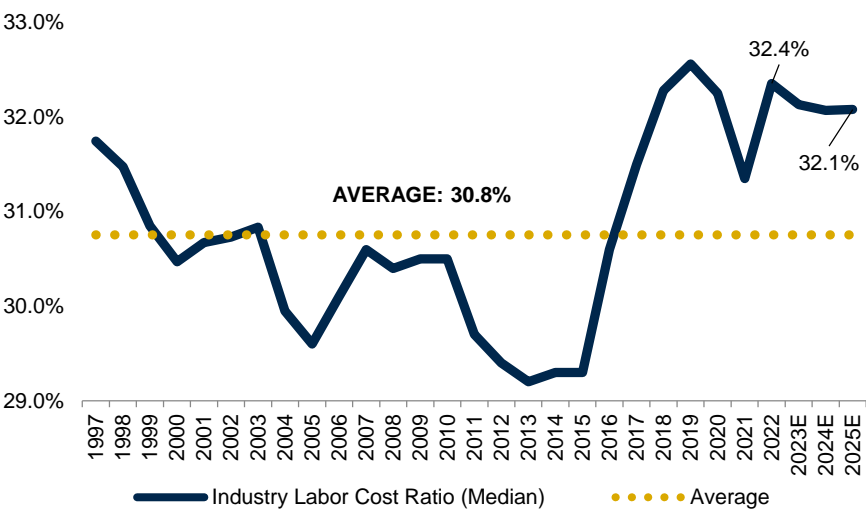
## Labor & Human Capital Remain In Focus

**Labor Market Stabilizing:** The restaurant industry appears to be stabilizing as employment (at a high-level) is increasingly moving towards pre-Covid levels (*bottom right*).

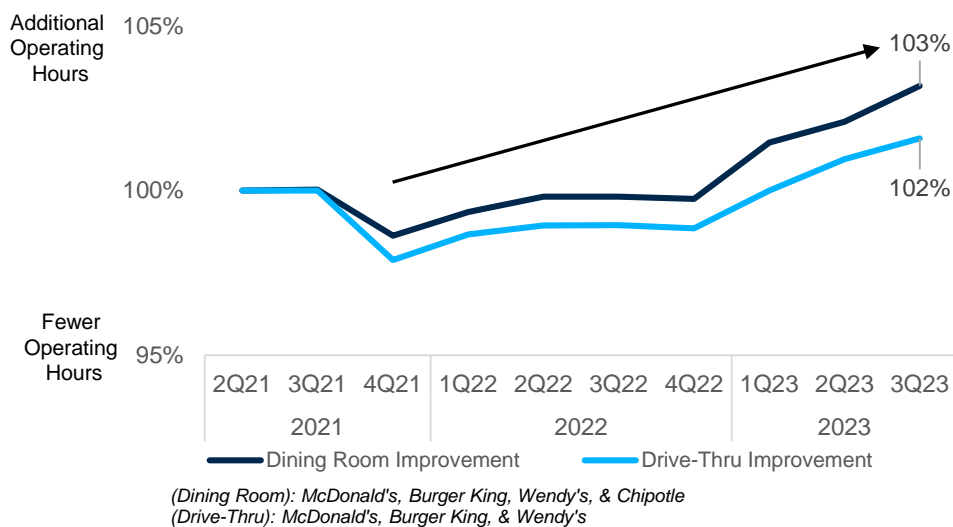
**Next Unlocks Productivity Driven?** At the store level, staffing seems to be “sufficient” (but far from perfect) as many companies are able to increase operating hours as outlined using limited service as a proxy in the chart below. We believe the next unlock for store-level profitability is driving increased productivity and throughput via retention and training among a generally less seasoned workforce. With a softer macroeconomic environment expected in the second half, there may be more job seekers, leading to further increases in labor supply (balanced, of course, against the potential for a softer demand environment).

**Labor Margins to Remain At Higher End of Range; Brands That Elevate Human Capital Best Positioned:** Moving ahead, we anticipate labor margins will remain elevated vs. the decade offset. In this context, we see investing in human capital and enhancing the employee experience as critical factors for brands to consider when aiming to become/remain employers of choice and magnets for attracting best-in-class human capital talent.

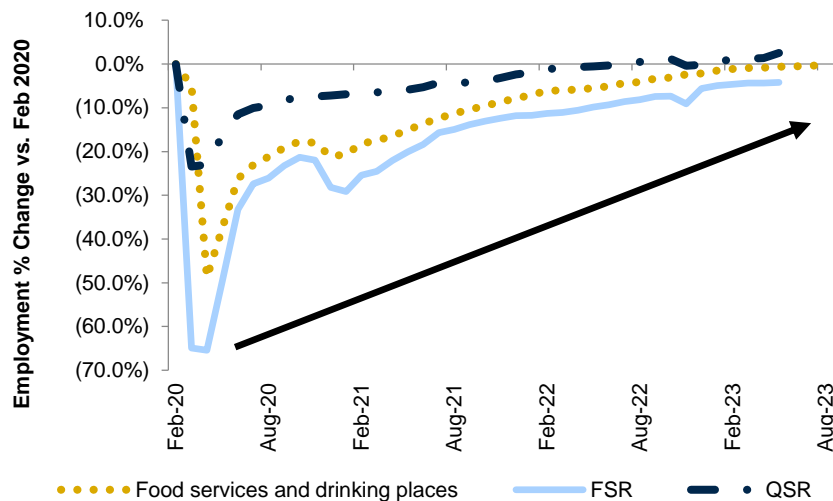
## Restaurant Industry Labor Cost Margins



## Operating Hours Continue to Improve



## Employment Returning to Pre-Covid Levels

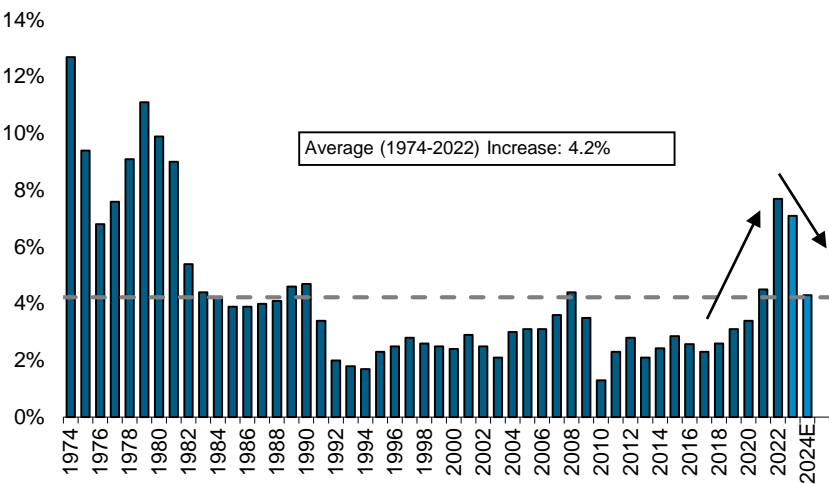


Thoughts on Restaurant Menu Pricing

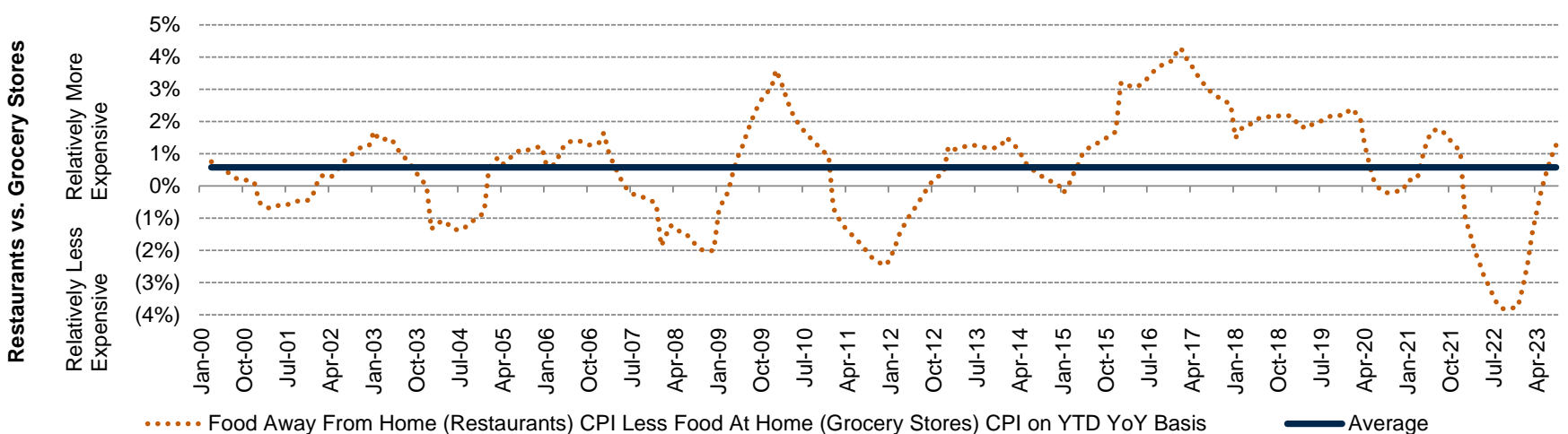
**Menu Prices Working Lower:** With food costs moderating and labor (both in terms of costs and availability) somewhat steady, we believe that operators are in a decent position to let menu pricing roll off on a go forward basis. This is in line with the current industry expectations and should create a set up for a return to more normalized menu pricing in 2024. As outlined in the chart to the right, we believe menu pricing for the industry has peaked and should be on the down swing with operators more likely to return to pricing the +LSD% range (similar to prior ranges). This, of course, assumes no major spikes in key input costs.

**Pace of Restaurant Pricing More Balanced vs. Grocery Channel:** From the perspective of the consumer, we believe this dynamic will be welcomed; however, we think it could take some time for it to be “felt” given the impact from compounded prices over the last few years. One additional net positive for restaurants (and secondarily foodservice distribution) is the relative affordability of the restaurant segment (outlined below). The recent datasets suggest the pace of pricing relative to the grocery channel has narrowed of late; however, we believe the convenience and experience offered by the restaurant category remain points of attraction for consumers.

Restaurant Industry Menu Pricing Peaking?



Grocery vs. Restaurant Price Differential Trend



Company	Ticker	Concept	Price
Alphabet Inc. Class A	GOOGL	Google Trends	\$138.39
Bandai Namco Holdings	Private	Pacman	-
ByteDance	Private	TikTok	-
Factset Research Systems Inc	FDS	Factset	\$442.34
Hub Park	Private	Origami Crane	-
Knapp Track	Private	Knapp Track	-
Meta Platforms Inc. Class A	META	Facebook & Instagram	\$313.91
My Hero Academia	Private	My Hero Academia	-
Puglie Pug	Private	Puglie Pug	-
Sanrio Company, Ltd.	SNROF	Hello Kitty	\$43.71
Sony Group Corporation Sponsored ADR	SONY	Demon Slayer	\$84.37
Tetris	Private	Tetris	-
Time Warner, Inc	Private	DC Comics	-
X Corp.	Private	Twitter	-
Jujutsu Kaisen	Private	Jujutsu Kaisen	-

## COMPANIES MENTIONED

See page 25 for companies mentioned.

## APPENDIX A

### ANALYST CERTIFICATION

The analyst primarily responsible for the preparation of the content of this report certifies that (i) all views expressed in this report accurately reflect the analyst's personal views about the subject company and securities, and (ii) no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in this report.

### REQUIRED DISCLOSURES

The research analyst principally responsible for preparation of this report has received compensation that is based on the firm's overall revenue which includes investment banking revenue.

### Ratings Definitions

OVERWEIGHT (O) - The stock's total return is expected to be greater than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. EQUAL-WEIGHT (E) - The stock's total return is expected to be equivalent to the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. UNDERWEIGHT (U) - The stock's total return is expected to be less than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. VOLATILE (V) - The stock's price volatility is potentially higher than that of the company's industry sector. The company stock ratings may reflect the analyst's subjective assessment of risk factors that could impact the company's business.

### Distribution of Stephens Inc. Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	249	56.59	26	10.44
HOLD [EW]	186	42.27	19	10.22
SELL [UW]	5	1.14	0	0.00

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