

Jack In The Box Inc.

NASDAQGS: JACK

Analyst: Dominick Iachetta
Sector: Consumer
Discretionary

BUY

Price Target: \$82.16

Key Statistics as of 12/01/2015

Market Price:	\$73.66
Industry:	Restaurants
Market Cap:	\$2.69 Billion
52-Week Range:	\$63.94-\$99.99
Beta:	0.72

Thesis Points:

- Rebranding of Jack in the Box and Qdoba through company innovations
- Management's continued dedication to increasing shareholder returns through buy backs & dividends
- Strong 2015 financial performance to continue into 2016

Company Description:

Jack in the Box Incorporated operates and franchises fast-food restaurants Jack in the Box and Qdoba Mexican Grill. Headquartered in San Diego, CA, JACK offers a very diverse menu which includes its famous hamburgers along with specialty sandwiches, finger foods and Mexican food.



Thesis

I am recommending a BUY on JACK based on the following: menu and infrastructure innovation which will lead to increased brand recognition, a continued share repurchase program which will carry into 2017 and strong historical and forward looking financial statements.

Increasing Brand Recognition

JACK is in the process of implementing changes that will increase overall awareness of both their Jack in the Box and Qdoba franchises. Jack in the Box is the fifth largest hamburger chain in the United States but is ranked number two in the top ten major markets in which it conducts business. In order to further establish its brand nationwide, JACK has recently released a number of high quality menu options. Already famous for its all day menu, which consists of everything from tacos to egg rolls, these new menu items have been a huge success with their customers.

One of the most successful product launches in franchise history, the Buttery Jack platform, was one of the main successes of 2015. In addition to expanding on Buttery Jack, JACK is set to improve the quality of their entire core burger menu. These new items, along with customer favorite limited time offers, are set to be added to the menu by the second quarter in 2016. Along with their burger selection, boosts in late night fare and all day breakfast were catalysts for sales growth. JACK intends to highlight these upgrades to their Jack in the Box brand through television and digital advertising, point of purchase displays, packaging, new uniforms, and updated menu boards.



The overall strength of Jack in the Box's brand is that they consistently deliver exactly what their customers demand. Many of Jack in the Box's competitors are transitioning their menus to offer much healthier options. JACK's management understands that its customers do not eat at their restaurants because of their salads but rather for their famous "buttery" burgers. The Buttery Jack platform is the first of many new menu options that will help them continue their streak of same store sales growth.

Qdoba is the second largest Mexican fast casual food chain in the United States behind only Chipotle. In an effort to further rebrand its well established locations, the franchise plans to officially change the descriptor of the name from Qdoba Mexican Grill to Qdoba Mexican Eats. JACK's management team views this change to better reflect the flavors and variety that the restaurant offers. In October, Qdoba launched Knockout Tacos which feature six different chef inspired, unique recipes. Knockout Tacos represent the first of many new innovations to the menu that are in the pipeline for 2016 and beyond. Along with menu additions, JACK plans to increase the number of Qdoba locations. Currently there are 660 Qdoba restaurants in operation while JACK's management believes that there is potential to reach 2000 in the long term. In 2016 it is projected that 50 to 60 new Qdoba locations will be opened which represents an 8% to 9% growth.



In 2016, along with their traditional channels of advertising, JACK plans to increase its television presence in select markets. The company will also begin testing a digital platform that will incentivize customers with rewards. Additionally, JACK has begun remodeling Qdoba's across the country with new building

breadth of their brand. JACK's management has estimated a 2016 EPS of \$3.55-\$3.70.

designs, fixtures, furnishings, and graphics. Overall, JACK's management team is in the process of enhancing the brand of Qdoba in order for it to increase its market share in the \$38 billion Mexican food industry.

Returns to Shareholders

The management team at JACK has made increasing returns to shareholders a priority for the company. Since fiscal year 2012, the company has repurchased a total of \$489 million outstanding shares. In 2015 JACK continued this trend by repurchasing about \$317 million worth of shares. Additionally in September JACK's board of directors authorized an additional round of share buy backs that that will total \$200 million and expire in 2017. This repurchase program is telling of JACK's management's goal of constantly seeking to maximize shareholder value.

Along with their consistent stock repurchases, JACK looks to enhance shareholder wealth through the payment of a dividend. The company first started paying dividends in the third quarter of 2014 and recently increased its dividend by 50% in May 2015.

Financial Analysis

JACK has experienced very strong financial performance for the entirety of fiscal 2015. The firm's operating EPS for the year finished at an even \$3, a 22% increase. Both Jack in the Box and Qdoba experienced strong system wide same-store sales growth for the year. Qdoba finished with 9.3% system wide same store sales growth while Jack in the Box finished with a 6.5% growth. Jack in the Box's same store sales growth exceeded the NPD sandwich category by 4.9%. Along with positive sales growth for the year, JACK's consolidated restaurant operating margins increased by 1.9% from the year prior.

Fiscal 2015 was highlighted by a very strong fourth quarter performance. Operating EPS rose 15% in Q4. Same stores sales for Jack in the Box and Qdoba were 4.1% and 6.6% respectively. Jack in the Box's sales growth outperformed the quick service restaurant segment by 350 basis points. Overall, JACK's strong 2015 will carry over into 2016 due to their menu innovations and increased

Summary

I am recommending a BUY on JACK based on its immediate growth trajectory and overall upside potential. Management's continued emphasis on value creation bodes well for all stakeholders. In conclusion, JACK's expansion and innovative changes to their product lines will ultimately increase the recognition of their brand and lead to increased long term success.

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Jack in the Box Inc.	JACK	Analyst Dom Iachetta	Current Price \$73.66	Intrinsic Value \$82.72	Target Value \$82.16	Dividend Yield 2%	1-y Return: 13.16%	NEUTRAL			
General Info		Peers		Management							
Sector	Consumer Discretionary	Red Robin Gourmet Burgers Inc.	\$915.35	Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015			
Industry	Hotels, Restaurants and Leisure	The Wendy's Company	\$2,838.72	Comma, Leonard	Chairman, Chief Executive Officer and Chair	\$2,634,017	\$5,500,866	\$0			
Last Guidance	November 17, 2015	Dominio's Pizza, Inc.	\$5,948.90	Rebel, Jerry	Chief Financial Officer and Executive Vice Pre	\$2,636,655	\$3,725,095	\$0			
Next earnings date	February 14, 2016	Chipotle Mexican Grill, Inc.	\$18,111.83	Rudolph, Phillip	Chief Legal & Risk Officer, Executive Vice Pre	\$1,794,347	\$2,315,458	\$0			
Market Data		Buffalo Wild Wings Inc.	\$3,042.83	Blankenship, Mark	Chief People, Culture & Corporate Strategy O	\$1,128,318	\$2,418,042	\$0			
Enterprise value	\$3,360.40	Texas Roadhouse, Inc.	\$2,426.30	Casey, Timothy	President of Qdoba Restaurant Corporation	\$0	\$1,333,326	\$0			
Market Capitalization	\$5,961.95	Panera Bread Company	\$4,853.84	Allen, Frances	President	\$0	\$0	\$0			
Daily volume	0.80	The Cheesecake Factory Incorporated	\$2,235.94	Past Earning Surprises							
Shares outstanding	35.79	Dunkin' Brands Group, Inc.	\$3,863.07	Revenue		EBITDA		Norm. EPS			
Diluted shares outstanding	38.22	Current Capital Structure		Last Quarter		Last Quarter-1		Last Quarter-2			
% shares held by institutions	87.98%	Total debt/ Common Equity (LTM)	0.52	Last Quarter-1		Last Quarter-2		Last Quarter-3			
% shares held by insiders	1.19%	Cost of Borrowing (LTM)	3.07%	Last Quarter-2		Last Quarter-3		Last Quarter-4			
Short interest	6.53%	Estimated Cost of new Borrowing	5.53%	Last Quarter-3		Last Quarter-4		Standard Error of "Surprise"			
Days to cover short interest	3.87	Altman's Z	4.54	Last Quarter-4		Standard error		Last Quarter			
52 week high	\$99.99	Estimated Debt Rating	BB	Standard error		Imputed Standard Error of Op. Cost prediction		Last Quarter			
52-week low	\$63.94	Current levered Beta	0.59	Standard Error of Revenues prediction		Imputed Standard Error of Non Op. Cost prediction		Last Quarter-1			
5y Beta	0.55	LTM WACC	4.72%	Imputed Standard Error of Revenues prediction		Imputed Standard Error of Non Op. Cost prediction		Last Quarter-2			
6-month volatility	29.90%			Imputed Standard Error of Non Op. Cost prediction		Imputed Standard Error of Non Op. Cost prediction		Last Quarter-3			
Industry Outlook (Porter's Five Forces)											
Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th Percentile)											
Proforma Assumptions											
Convergence Assumptions			General Assumptions			Items' Forecast Assumptions			Other Assumptions		
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years			Money market rate (as of today)	0.38%	Operating Cash/Rev.	1.15%	2.21%	0.1%	Tobin's Q	80%	
			Risk-Free rate (long term estimate)	2.98%	NWV/Rev.	-3.33%	1.58%	0.5%	Excess cash reinvestment	Money market rate	
			Annual increase (decrease) in interest rates	0.1%	NPPE/Rev.	47.28%	44.20%	-0.3%	Other claims on the firm's assets	\$0.00	
			Marginal Tax Rate	37.5%	Dpr/NPPE	12.18%	12.37%	0.0%	Capitalization		
			Country Risk Premium	6.0%	NOPAT MARGIN	9.95%	8.97%	-0.1%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years		
					Op. Exp./Rev.	79.79%	82.05%	0.2%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years		
					SBC/Rev.	0.81%	0.79%	0.0%	E&P expenses are not capitalized		
					Rent Exp./Rev.	4.76%	3.22%	-0.2%	SG&A expenses are not capitalized		
					R&D/Rev.	0.00%	0.61%	0.1%	Valuation Focus		
					E&D/Rev.	0.00%	0.00%	0.0%	DCF Valuation		
					SG&A/Rev.	13.55%	12.92%	-0.1%	Relative valuation		
					ROC	10%	15.28%	0.52%	Distress Valuation		
					EV/Rev.	2.31x	1.35x	-0.10x	Monte Carlo Simulation Assumptions		
					EV/EBITA	14.99x	9.24x	-0.58x	Revenue Growth deviation		
					Debt/Equity	52%	106%	5.4%	Operating expense deviation		
					Unlevered beta	0.44	0.73	0.03	Normal (0%, 1%)		
					Dividends/REV	2%	2%	0.0%	Normal (0%, 1%)		
									Triangular (5.82%, 6%, 6.18%)		
									Country risk premium		
									Triangular (2.91%, 3%, 3.09%)		
									Intrinsic value $\sigma(\epsilon)$		
									1-year target price $\sigma(\epsilon)$		
									\$0.09		
									\$0.10		
Valuation											
Forecast Year	ROC	WACC	Total Capital	Implied Enterprise Value	Other Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share	Monte Carlo Simulation Results			
LTM	10.1%	4.7%	\$1,529.14	\$2,890.20	\$52.78	35.79	\$82.81				
FY2016	11.0%	4.9%	\$1,547.33	\$2,882.84	\$53.10	35.79	\$82.27				
FY2017	11.2%	4.3%	\$1,604.17	\$2,889.36	\$53.14	35.79	\$81.68	The 3 σ (ϵ)-adjusted intrinsic value is \$82.72; the 3 σ (ϵ)-adjusted target price is \$82.16; and the analysts' median target price is \$92.82			
FY2018	11.1%	-4.3%	\$1,692.03	\$2,674.14	\$53.32	35.79	\$74.19				
FY2019	10.8%	10.0%	\$1,789.37	\$2,855.70	\$53.68	35.79	\$77.66				
FY2020	10.4%	8.5%	\$1,892.02	\$3,013.03	\$19.07	35.79	\$80.72				
FY2021	10.1%	8.2%	\$1,997.93	\$3,176.43	\$19.64	35.79	\$83.28				
FY2022	9.7%	8.3%	\$2,106.04	\$3,353.24	\$20.21	35.79	\$86.03				
FY2023	9.3%	8.4%	\$2,215.83	\$3,547.57	\$20.78	35.79	\$89.06				
FY2024	9.0%	8.6%	\$2,326.98	\$3,762.80	\$0.00	35.79	\$92.46	Revenue growth variations account for 95.9% of total variance			
FY2025	8.7%	8.8%	\$2,439.32	\$4,002.28	\$0.00	35.79	\$97.05	Risk premium's variations account for 2.5% of total variance			
Continuing Period	15.3%	8.8%	\$1,346.29					Operating expenses' variations account for 1.4% of total variance			
Continuing period growth variations account for 0.2% of total variance											
Sensitivity Analysis											