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Siena Market Line
3rd Week of October 2016

Cracker Barrel Old Country Store, Inc.

NASDAQ: CBRL

Analyst: Austin Bitzas

Sector: Consumer Discretionary

BUY

Price Target: $154

Key Statistics as of 10/21/2016

Market Price:	$135.19
Industry:	Restaurants
Market Cap:	$3,174.9 M
52-Week Range:	$118.01-172.89
Beta (levered):	0.48
P/E:	17.45
EV/EBITDA:	9.75
High (2015):	12.99
Low (2015)	9.18
ROIC:	2.04

Catalysts:

- **Short term:** FQ1 2017 earnings on Nov. 22nd 2016
- **Mid-term:** Restaurant industry gains traction again
- **Mid to Long-term:** Implementation of growth expansion plan

Company Description:

Cracker Barrel Old Country Store, Inc. (NASDAQ: CBRL) operates under the "Cracker Barrel Old Country Store" and "Holler & Dash Biscuit House" concept in the United States. Cracker Barrel was founded in 1969, where it is headquartered in Lebanon, Tennessee. Cracker Barrel Stores consist of a full serviced restaurant that serves breakfast, lunch, and dinner and a gift shop. The company's gift shops have a variety of foods, decorative and functional items centered on the rustic old country atmosphere. The company's restaurants offer home-style country cooking featuring various recipes.

Thesis

Cracker Barrels is currently suffering from industry related effects. These harsh conditions did not help CBRL meet FQ4 earnings estimates. However, mid to long term CBRL has a foreseeable growth outlook, especially when compared to its competitors. CBRL is down nearly 30% since late June of 2016 and is trading at EV/EBITDA of below its EV/EBITDA of 11.21 in June. In the mist of harsh restaurant market conditions CBRL has illustrating better margins than its competitors. Since it is trading at low multiples and under valued currently CBRL has mid to long term potential as a growth stock with managements 2017 planned initiatives.

Restaurant Industry Outlook

Restaurants are losing sales growth as a result of soft consumer spending. Due to high competition and low consumer spending many restaurants are suffering. It must also be stated that due to lower grocery prices consumers are favoring grocery shopping versus dining out. However, discounting is being extended due to ongoing demand and favorable commodity prices for some products, mostly eggs. This results in lower input costs have helped make these discounts easier and offset higher restaurant wages. Restaurant chains are now focusing on ways to drive traffic and sales growth in such a competitive market. Chains are using technology and optimizing economics to increase traffic and sales while offsetting rising labor costs.

Business Model

CBRL stores are centered on a unique mix of restaurant and retail. With a 47 year old successful growth history and financial success. CBRL business model is currently focused around enhancing its core business:

This involves protecting its current guest base while expanding top new generations such as millennials by:

- Growing off premise business
- Maintaining brand differentiation
- Investing in digital and social capabilities
- Shift to external driven marketing strategy to drive incremental frequency.

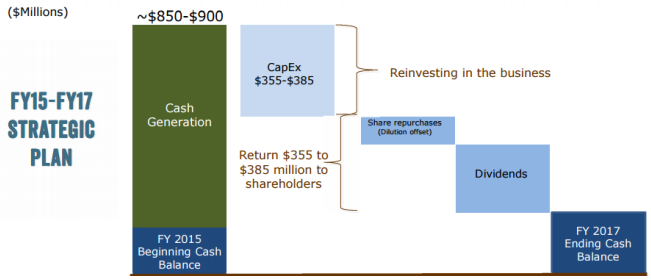
This will also be done by improving the current business model by enhancing its business externally through expansion of profitable stores as well as extending its brand through growing Holler and Dash.

Currently, CBRL has 641 stores and plans to open 7 to 8 new stores during in Fiscal 2017. All CBRL stores are strategically located off-interstate or near tourist destinations. This is to capitalize on brand recognition associated with travelers. However, the company believes in moving towards certain local markets where guests live and work, including locations outside of its existing core markets.

In 2016, the company launched, Holler and Dash Biscuit House, its new fast casual concept. It offers biscuit-inspired entrees and a wide variety of alcoholic and non-alcoholic beverage options. These are smaller locations limited to breakfast and lunch. These stores are part of management's initiative to extend its core business to the fast-casual restaurant segment.

Marketing is centered on outdoor advertising, which is the largest marketing vehicle used to attract travelers and local guests. CBRL is among the industry leaders in billboard advertisers. Increase in media exposure in 2016 was also used to advertise. The company plans to increase marketing from 2.7% in 2016 to 2.9% in 2017. CBRL will also focus on its exclusive music program that drives awareness for their brand and builds cultural relevance and affinity to their guests.

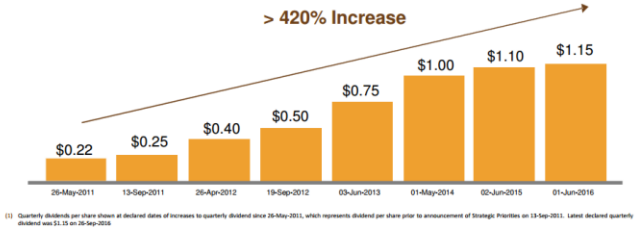
Exhibit 1:



As scene in Exhibit 1 the company has a maintained a balanced approach to capital allocations from Fiscal 2015 to 2017. Management plans on increasing the ending cash balance in 2017. This will be done through continuing to invest a large portion of profits back in to the business. There are also plans however to repurchase shares and pay sufficient dividends to return returns back to shareholders. On September 26, 2016 CBRL

announced a quarterly dividend of $1.15 per share and new share repurchases for up to $25million of outstanding common stock for the company. This new strategic plan to balance capital allocation will give CBRL a higher ending cash balance and focuses on growth as well as supplying its shareholders with value through high dividends as scene in Exhibit 2.

Exhibit 2:



Company Initiatives

1. **To cut cost, which will drive operating margins:**
   CBRL is expected to receive $15 to $20 million in reduced expenses as a result of managements cost saving initiatives. These initiatives are include targeted food management, new LED lighting technology, and food processors. These cost saving initiatives will be in addition to cost saving seen through lower commodity prices as well. In 2016 the company was able to achieve $7 million in reduced operating expenses.

2. **Adopt Omni-channel business extending to fast casual concept:**
   This will be accomplished by expanding the Holler & Dash restaurant brand. The combination of comp store sales and new stores is expected to drive sales about 3 to 4% annually over the next 2years. This will be done by adding new digital technology as a way to add convenience and enhance the guest experience. The company will also test online waitlist capabilities through new dining and management system. As well as launch the Cracker Barrel Games App. Despite the fast-casual style of dining the company will still stay true to its rustic old country atmosphere.

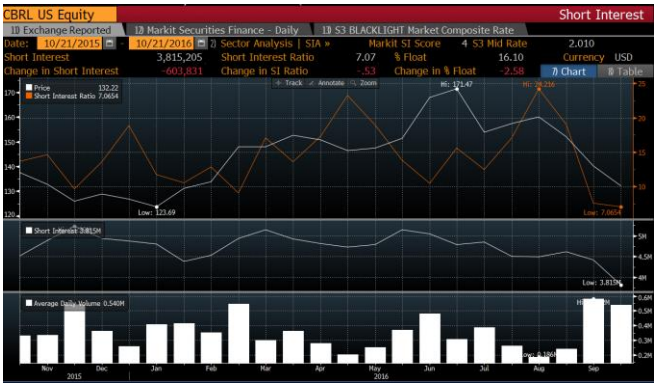
3. **CBRL has begun and will continue a fully integrated marketing campaign including revamping its music program to increase brand awareness:**
   Through partnerships, CBRL offers new album releases and sells music and related items online and in company stores. As in the company's latest album under its Spotlight Music Program release "Tennessee Christmas" partnering with Amy Grant, a six-time Grammy Award-winning signer. The result is that it increases attraction and connection with country music fans, leading to an increase in sales. Through targeted advertising and this music program CBRL is able to target millennials, which are the largest current living generation, to expand the company's customer base.

4. **Growth and Expansion Plan 2017:**
   The company plans on opening 7 to 8 new Cracker Barrel stores and 4 to 5 new Holler & Dash stores in 2017, according to its Q4 earnings estimates. CBRL plans to extend not only into off interstate location but also populated local areas were customers live and work. Management feels this will build brand awareness increasing sales.

Ownership

As illustrated in Exhibit 3 CBRL's short interest has begun to plummet from all-time highs in mid-August and then just recently has begun to decline once again in the last few weeks to all-time lows with an increase in volume. This indicates that investors are selling off their short positions, which could indicate that they believe the share price has bottomed out and will gain traction once again. A declining short interest ratio further supports the claim for a buy position in CBRL.

Exhibit 3:



Financials

Exhibit 4:

ROIC /WACC	History	LFY
cbrl	1.40	2.06
Competitors	1.04	1.38

Unlevered Beta	History	LFY
cbrl	0.68	0.45
Competitors	0.86	0.61

ROIC	History	LFY
cbrl	13.3%	17.8%
Competitors	9.9%	13.5%

Capitalization (Debt/Equity)	History	LFY
cbrl	0.18	0.11
Competitors	0.17	0.15

WACC	History	LFY
cbrl	9.8%	8.6%
Competitors	9.5%	9.7%

COR/Revenue	History	LFY
cbrl	67.4%	66.4%
Competitors	74.5%	73.2%

Kd	History	LFY
cbrl	7.4%	3.4%
Competitors	4.9%	4.4%

Ke	History	LFY
cbrl	13.4%	9.4%
Competitors	10.9%	10.4%

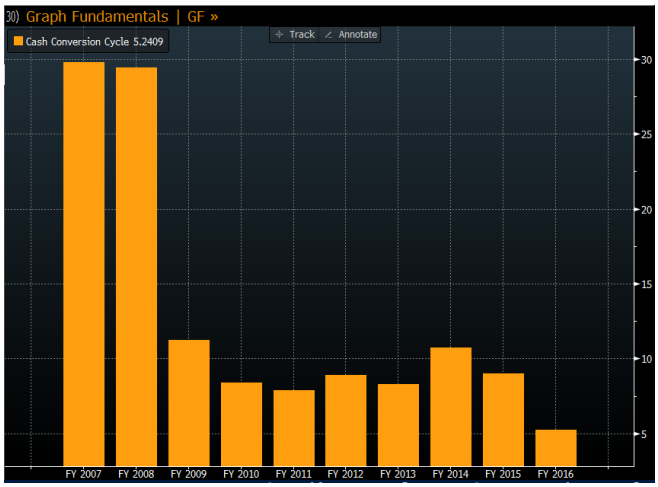
As seen in Exhibit 4 CBRL was compared to its close industry competitors, as seen in Exhibit 5. CBRL outperforms its competitors and therefore is an industry leader according to margins. CBRL's return on invested capital (ROIC) is far above its competitors meaning that it is efficiently generating returns above its competitors. In addition, ROIC has improved from 13.3% historically to 17.8% in the last fiscal year, which just ended for CBRL. Further, CBRL has a slightly lower risk than its competitors as seen in its weighted average cost of capital (WACC) of 8.6% when compared to its competitors of 9.7% for the last fiscal year. Moreover, CBRL is generating more value than its competitors as illustrated with its ROIC/WACC of 2.04 versus its competitor's average of 1.38. CBRL has been able to do so at lower risk than its competitors as also expressed through its lower unlevered beta. Unlevered beta allows one to compare the risk of these companies without the beneficial effects gained by adding leverage to a firm's capital structure. Further, as part of the firm's capital structure is the cost of debt and the cost of equity, which again shows that CBRL is less risky than its competitors. The last metric used was to express CBRL's capitalization through its debt to equity ratio. CBRL's debt to equity ratio has been declining and now is below the levels of its competitors. This indicates CBRL has been decreasing the amount of debt it has been using to finance its assets relative to the amount of value represented in shareholder's equity making CBRL less risky than its competitors.

Exhibit 5:

COMPETITORS	SYMBOL
Brinker International, Inc.	NYSE:EAT
The Cheesecake Factory Incorporated	NasdaqGS:CAKE
Panera Bread Company	NasdaqGS:PNRA
Chipotle Mexican Grill, Inc.	NYSE:CMG
Darden Restaurants, Inc.	NYSE:DRI
Buffalo Wild Wings Inc.	NasdaqGS:BWLD
Texas Roadhouse, Inc.	NasdaqGS:TXRH
Bloomin' Brands, Inc.	NasdaqGS:BLMN
The Wendy's Company	NasdaqGS:WEN
Jack in the Box Inc.	NasdaqGS:JACK

The company has also been able to lower its cash conversion cycle as scene in Exhibit 5. This is a positive sign as it implies the company has been able to improve how fast management can turn cash on hand into inventory and accounts payable, through sales and accounts receivable, and then back into cash. Therefore, a low cash conversion cycle ratio implies a healthy company with low liquidity risk. It must be considered that historically CBRL has had a slightly higher cash conversion cycle then industry competitors as the company relies on about 20% of its sales from retail. It is still an optimistic sign that the company has drastically decreased its cash conversion cycle over the years signifying positive management decisions.

Exhibit 5:



According to Exhibit 6, which shows CBRL's price to earnings and enterprise value to EBITDA multiples that support the claim to buy at the current price. The company's current P/E ratio is 17.45 which means that the stock is priced below 3 year historic lows. CBRL's EV/EBITDA is 9.75 right around 3 year historic lows. EV/EBITDA is a true measure of company's value as it takes into account a company's debt. A low multiple could indicate that the company is undervalued, with consideration to other factors.

Exhibit 6:

In Millions of USD except Per Share	FY 2014	FY 2015	FY 2016	Current
12 Months Ending	08/01/2014	07/31/2015	07/29/2016	10/21/2016
P/E	17.54	22.26	20.34	17.45
Average	20.61	23.68	21.27	
High	23.90	29.17	25.24	
Low	17.54	17.57	17.60	
EV/EBITDA	9.33	11.52	11.21	9.75
Average	10.10	12.28	11.02	
High	11.54	14.93	12.99	
Low	9.33	9.35	9.18	

Valuation

To get a deeper understanding of CBRL's sales drivers a 10 year historical valuation of new store to sales growth and comparable stores to sales growth was done using past 10k. CBRL's historical new store sales growth was 1.54% and comparable sale growth was 1.25% giving a total average sales growth of 2.79%. Sales per new store were $3,018,000 whereas sales per comparable stores were $53,400. A four year forecast was then created off using historical data and Q4 2016 earnings guidance. In 2016, comparable sales growth was 2.3% and management gave guidance that it would continue at a rate of 1-2% for 2017. Therefore, a moderate assumption of 1.5% for 2017 was used in the forecast. For the 2018 to 2020 a 2% comparable sales growth was used based on the assumption that the restaurant industry will have recovered by then and sales growth will level off to GDP growth in the long run.

The next forecast driver used was sales per new store. In 2016 sales per new store was $947,000 far below the historic average of $3,018,000. The low sales growth of 2.9% year to date for 2016 was due to industry related slowing of growth as seen through out the chain restaurant industry. With the low estimate that sales growth per new store will continue at a low rate going into 2017 it was assumed that 2017 sales per new store was $1,000,000. For the years 2018 to 2020 it was assumed through a low estimate sales per new store would gradually increase to reach the historic average of $3,018,000 by 2020. The last forecast driver was the amount of new store CBRL would add in 2017. Using Q4 2016 earnings guidance of 7 to 8 new stores a low estimate of 7 new stores was used do to the current status of the restaurant industry. Using this model under the noted forecast drivers and assumptions for 2017 total sales would equal $2,963,036,000 a 1.7% growth rate and then continue to reach CBRL's historic average growth rate of 2.79% by 2020.

This means that even using low estimates for CBRL sales growth will continue to increase and adding new stores is still profitably. Therefore, CBRL's plan to broaden its footprint and expand stores will be profitably in the future to drive sales especially if the restaurant industry recovers to historic growth rates.

Further as scene in Exhibit 7, one can see that in 2011 the S&P 500 index(blue), S&P supercomposite index (white), and CBRL (green) declined slightly. According to historical data in the model created there was a decline in sales per new store of 1.20% in 2010 to 0.90% in 2011. Moreover, as the resteraunt industry improved into 2012 sales per new stores rose to 3.90% more than double the historic average of 1.54%. In 2013 a similar trend was sceen with the stagnation of the resteraunt industry. This being said currently the resteraunt industry is suffering from a minor "recession" worse than that in 2011 and 2013. Therefore, if sales per new store was 1.10% in 2015 and 0.20% in 2016 if historic evidence proves true then we can expect sales per new store to increase with the recovery of the resteraunt industry.

Exhibit 7:

Conclusion

Cracker Barrels is currently suffering from industry related effects. These harsh conditions did not help CBRL meet FQ4 earnings estimates. However, mid to long term CBRL has a foreseeable growth outlook, especially when compared to its competitors. With a current market price of $135.19 and an intrinsic value of $145.56 CBRL is undervalued at this time. My current one year target price is $154. CBRL is undervalued currently and a buy at its current price for these reasons. CBRL has a promising future supported by strong financials when compared to competitors and will return stock value with the health of the restaurant industry.

Cracker Barrel Old Country Store, Inc. (cbrl)

CENTER FOR GLOBAL FINANCIAL STUDIES

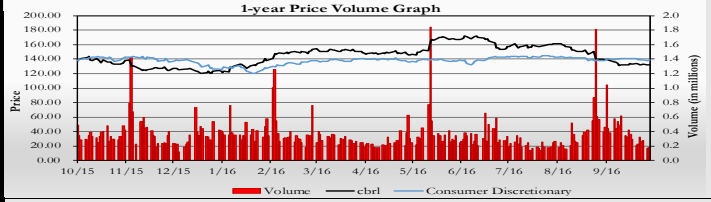
BULLISH

Analysis by Austin Bitzas
10/21/2016

Current Price:	$135.19	Intrinsic Value	$146.56
Divident Yield:	3.4%	Target Price	$154.57

Target 1 year Return: 17.73%
Probability of Price Increase: 90.5%

1-year Price Volume Graph



Description

Cracker Barrel Old Country Store, Inc. develops and operates the Cracker Barrel Old Country Store concept in the United States.

General Information

Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	November 3, 2015
Next earnings date	November 22, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	39%

Market Data

Market Capitalization	$3,174.90
Daily volume (mil)	0.46
Shares outstanding (mil)	24.03
Diluted shares outstanding (mil)	24.07
% shares held by institutions	80%
% shares held by investments Managers	59%
% shares held by hedge funds	23%
% shares held by insiders	1.16%
Short interest	15.88%
Days to cover short interest	10.90
52 week high	$172.89
52-week low	$118.01
Levered Beta	0.48
Volatility	20.97%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
7/31/2015	-0.90%	8.01%
10/30/2015	-1.18%	4.86%
1/29/2016	-0.91%	-1.23%
4/29/2016	-1.44%	1.63%
7/29/2016	-0.67%	0.88%
Mean	-1.02%	2.83%
Standard error	0.1%	1.6%

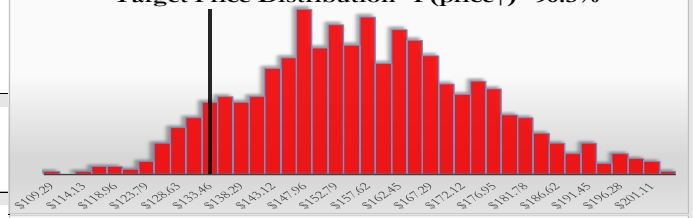
Peers

Brinker International, Inc.
The Cheesecake Factory Incorporated
Panera Bread Company
Chipotle Mexican Grill, Inc.
Darden Restaurants, Inc.
Buffalo Wild Wings Inc.
Texas Roadhouse, Inc.
Bloomin' Brands, Inc.

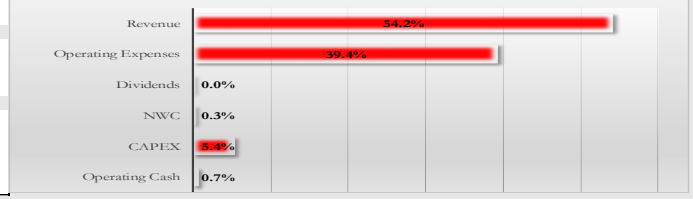
Management	Position	Total compensations growth	Total return to shareholders
Cochran, Sandra	Chief Executive Officer, Pre	15.12% per annum over 6y	0.64% per annum over 6y
Golder, Jill	Chief Financial Officer and	N/M	N/M
Flanagan, Nicholas	Senior Vice President of Ope	-6.59% per annum over 4y	15.92% per annum over 4y
Carmichael, Beverly	Chief People Officer and Sen	N/M	N/M
Daily, Laura	Senior Vice President of Ret	N/M	N/M
Wilson, Jeffrey	Principal Accounting Officer	N/M	N/M

Profitability	cbrl (LTM)	cbrl (5 years historical average)	Industry (LTM)
ROIC	16.8%	12.91%	27.99%
NOPAT Margin	8%	6.02%	12.2%
Revenue/Invested Capital	2.20	2.14	2.29
ROE	19.4%	17.51%	37.09%
Adjusted net margin	7%	5.00%	8.8%
Revenue/Adjusted Book Value	2.73	3.50	4.21
Invested Funds	**cbrl (LTM)**	**cbrl (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	11.0%	12.4%	21%
Estimated Operating Cash/Total Capital	11.0%	11.4%	N/A
Non-cash working Capital/Total Capital	-12.0%	-11.8%	-30%
Invested Capital/Total Capital	99.7%	98.9%	87%
Capital Structure	**cbrl (LTM)**	**cbrl (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.19	0.33	0.36
Cost of Existing Debt	3.41%	5.56%	3.98%
Estimated Cost of new Borrowing	2.04%	2.22%	3.98%
CGFS Risk Rating	AA	AA	CCC
Unlevered Beta (LTM)	0.43	0.63	0.80
WACC	6.22%	7.25%	8.28%

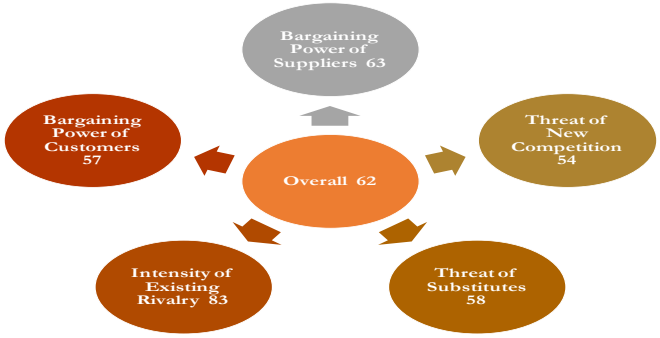
Target Price Distribution--P(price↑)=90.5%



Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	2.5%	7.6%	2.70
7/29/2017	2.2%	7.4%	2.54
7/29/2018	3.3%	7.4%	2.38
7/29/2019	3.2%	7.9%	2.47
7/29/2020	3.1%	8.4%	2.20
7/29/2021	2.9%	8.8%	2.23
7/29/2022	2.8%	9.3%	2.26
7/29/2023	2.7%	9.7%	2.29
7/29/2024	2.5%	10.2%	2.31
7/29/2025	2.4%	10.6%	2.33
7/29/2026	2.3%	11.1%	2.35
Continuing Period	2.1%	11.6%	2.39

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,188.11	$920.55	$145.95
7/29/2017	$1,226.32	$877.87	$153.20
7/29/2018	$1,229.05	$782.38	$161.60
7/29/2019	$1,301.64	$902.31	$170.72
7/29/2020	$1,321.90	$788.69	$181.47
7/29/2021	$1,365.71	$521.85	$198.55
7/29/2022	$1,436.00	$393.43	$209.85
7/29/2023	$1,465.47	$247.14	$221.86
7/29/2024	$1,731.68	$82.51	$234.59
7/29/2025	$1,790.20	-$100.83	$248.07
7/29/2026	$1,848.26	-$303.19	$262.30
Continuing Period			