



# Jack in the Box (JACK)

Investment Proposal

March 15, 2021

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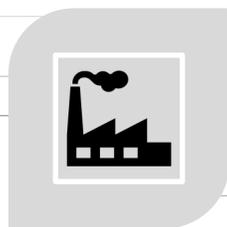
# Outline



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SUMMARY



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OVERVIEW



INDUSTRY  
OVERVIEW



RATIO ANALYSIS



VALUATION



RECOMMENDATION

# Investment Summary



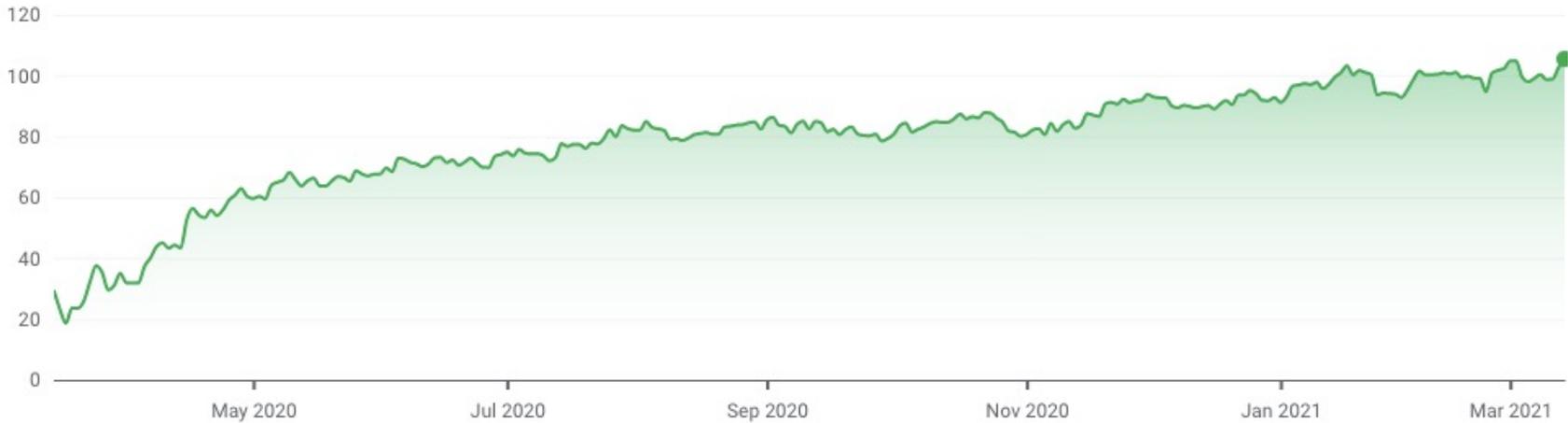
**Recommendation: BUY \$50,000 share equivalent**

**Valuation Price: \$99.43**

**Target Price: \$128.00**

- ### Reasoning
- Jack in the Box's sales have recovered well from the start of the global pandemic
  - The company is planning to add 950 to 1,200 new locations

## Jack in the Box 1 Year Trend



## Market Data (\$ in Billions)

**Share Price: \$99.43**  
**Market Price (As of 9/27/20): \$80.24**  
**Shares Outstanding: 22,723**  
**Market Cap: 2.25**  
**CAGR: 4.11%**  
**Long Term Growth Rate: 2.00%**

# Company Overview



## Company Background

- Jack in the Box is an American fast-food restaurant chain headquartered in San Diego, California.
- The chain has over 2,200 locations primarily in the West Coast, but also in OH, NC, TN, CO, IL, etc.
- Jack in the Box operated Qdoba Mexican Grill until its sale to Apollo Global Management in December 2017.



## CEO - Darrin Harris

- In April of 2020, Darrin Harris was named CEO, previously known as Cici's Pizza CEO and Arby's Senior Vice President.
- Harris announced a new "operating prototype" that has reduced costs between 18-23%.
- Profitability of the company-owned stores have increased by 20% since 2020.



## Future Expansion

- Harris has an aggressive expansion vision suggesting the company add 950 to 1,200 new locations.
- The company will continue to offer all its products at any time of the day in order to maintain a competitive advantage.
- 2/3 of existing franchisees have expressed interest in expanding.
- The company will attract new investors by "becoming more friendly to inviting in capital" by better engaging with capital providers, whether its private equity or family office.

# Industry Overview



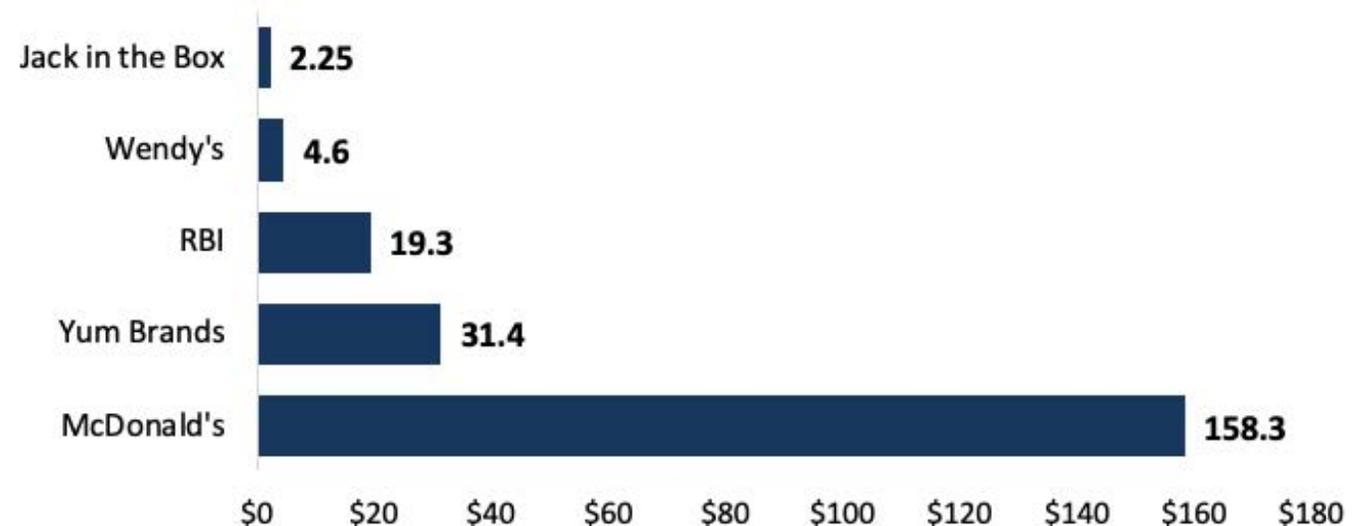
## 5 Year Industry Outlook

- The Fast-Food industry's revenue growth is expected to increase 5.9% annually amounting to \$320.4B within the next 5 years.
- Despite Covid-19 dining restrictions, the industry has made a significant recovery due to the inexpensive product offerings amidst decreased disposable income.
- Due to the high level of competition in the industry, prices are driven down in order to compete against the big corporations like McDonald's.
- The industry concentration is low – as a result the top four Fast-Food chains only garner less than 10% of the available market share.

### Main Competitors



### Market Capitalization Comparison (\$ in Billions)



# Ratio Analysis



(\$ in Billions)	Market Data		Valuation			Liquidity		
	Price	Market Cap	EV	EV/Revenue	EV/EBITDA	Cash	Quick	Current
McDonald's	\$212.34	159.95	207.55	39.06	79.31	0.56	1.00	1.01
Wendy's	\$20.51	4.91	8.22	17.47	58.43	0.74	1.65	1.66
Yum Brands	\$104.81	32.6	42.6	24.4	80.3	0.44	1.01	1.01
RBI	\$63.49	18.6	30.6	22.5	95.8	0.97	1.35	1.41
Average		54.0	72.2	25.9	78.5	0.7	1.3	1.3
<b>Jack in the Box</b>	<b>\$99.43</b>	<b>2.3</b>	<b>3.5</b>	<b>3.5</b>	<b>12.4</b>	<b>0.59</b>	<b>0.98</b>	<b>0.99</b>

	Leverage			Profitability Margins		
	Debt/Assets	Debt/Equity	Interest	Gross	EBITDA	Profit
McDonald's	0.71	N/A	3.88	50.77%	47.25%	58.12%
Wendy's	0.45	4.09	2.86	14.92%	55.63%	16.30%
Yum Brands	1.85	N/A	3.15	47.54%	30.24%	81.17%
RBI	0.62	6.48	3.05	56.96%	30.11%	74.88%
Average	0.91	5.28	3.23	42.55%	40.81%	57.62%
<b>Jack in the Box</b>	<b>0.72</b>	<b>0.76</b>	<b>3.45</b>	<b>74.34%</b>	<b>26.92%</b>	<b>21.75%</b>

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## Discounted Cash Flow Valuation

### Valuation Overview

- Arrived at a valuation using a Discounted Cash Flow (DCF) Valuation.
- This valuation was considerably dependent on the forecasting of revenue based on future store growth. Based on the company's expectation to add roughly 1,000 stores in the future, we chose a realistic forecast of 500 new stores over the next five years.
- If priced based on this expected store growth, we determine JACK's equity to be **23.92% Undervalued**.

Discounted Cash Flow Valuation					
	2021	2022	2023	2024	2025
EBIT	226,671	238,859	251,548	264,758	278,511
Tax	(46,745)	(52,025)	(56,938)	(62,137)	(67,638)
NOPAT	\$179,927	\$186,834	\$194,610	\$202,621	\$210,872
PPE Changes	(6,751)	(14,086)	(14,665)	(15,268)	(15,896)
NWC Changes	807	1,684	1,753	1,825	1,900
Free Cash flows	\$172,368	\$171,063	\$178,192	\$185,527	\$193,076
			Smooth TV	\$208,972	

Revenue Forecast	2019	2020	2021	2022	2023	2024	2025
Number of Stores	2,243	2,241	2,333	2,429	2,529	2,633	2,741
New Stores	-	(2)	92	96	100	104	108
Average Stores	2,243	2,242	2,287	2,381	2,479	2,581	2,687
Sales Revenue	\$950,107	\$1,021,506	\$1,042,033	\$1,084,861	\$1,129,448	\$1,175,869	\$1,224,197
Avg Sales Per Store	424	456	456	456	456	456	456

Value Per Share	
WACC	7.35%
TV	3,987,404
PV of TV	2,797,491
Enterprise Value	\$3,525,756
Net Debt	(1,266,347)
Equity Value	\$2,259,409
Shares O/S	22,723
<b>Value Per Share</b>	<b>\$99.43</b>
Market Price	\$80.24
<b>Undervalued</b>	<b>23.92%</b>

# Recommendation



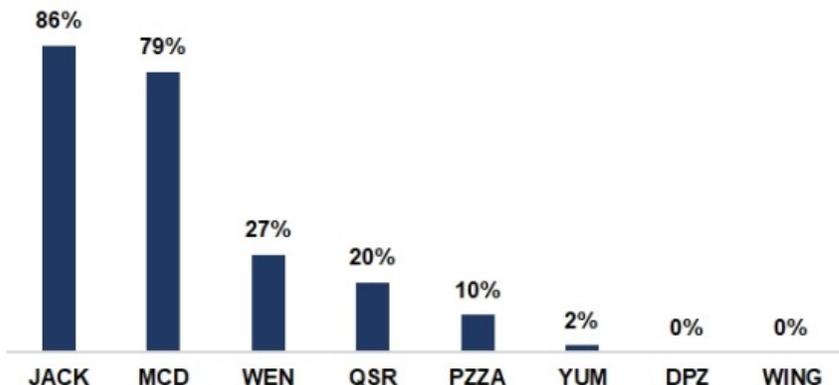
## Recommendation Overview

- Despite the COVID-19 pandemic, Jack in the Box announced its strongest quarter since 1994 in terms of same-store sales, which grew by 12.5%.
- We expect that the combination of its product differentiation, new cost-reducing “operating prototype”, and forecasted expansion of stores, offers great potential for growth.
- We recommend **buying \$50,000 worth of JACK stock**.

## Exit Strategy

- The market price of the stock has gradually increased since the last annual report in September 2020, though we still see plenty of room for further improvement.
- We recommend **selling JACK in 12 months if it does not reach our target price of \$128.00 a share**.
- Since JACK has increased significantly over the past 6 months despite the effects of the global pandemic, we decided a conservative approach for JACK’s exit strategy would be suitable.

Est. % of Franchised Real Estate Controlled by Franchisor



Competitive Advantages of JACK

- Jack in the Box owns or subleases most its franchisees’ locations, collecting rent from franchisees based on a percentage of sales.
- JACK's combined rent and royalty rates are close to the restaurant margin for many restaurant companies that own and operate stores. JACK is almost capturing the same level of store profits without having the direct exposure to the volatility of commodity, labor, and other operating costs.
- Jack in the Box will maintain its strategy of providing all menu offerings during all operating hours.