

Jack in the Box (JACK) – Long PT: \$135



Today's Price: \$99
 Dividend Yield: 1.6%
 Market Cap: \$2.26B
 Industry: Fast Food Restaurant
 Headquarters: San Diego, CA

With new management, company is refocusing on core brand business and outpacing industry peers in organic growth

Business Overview

Jack in the Box, Inc. engages in operating and franchising a chain of quick-service and fast-casual restaurants. They offer a broad selection of distinctive products, like Jumbo Jack burgers.

Revenue Segmentation: 34% company restaurant, 31% franchise rent, 17% franchise royalties, 16% marketing, 2% other

Thesis Points

- 1. Organic Sales Growth Underappreciated:** Q1 2021 saw 12.2% YoY same-store sales growth. This strongly outpaced industry peers, even during the pandemic. In addition, the company currently trades at a discount to peers, despite its significant relatively higher earnings growth.
- 2. Menu Innovation:** Jack in the Box routinely breaks into completely new food styles. This wide variety of options makes Jack in the Box desirable more often, for people looking for all different types of food. In addition, the company has exceptional customer satisfaction and a “classier” brand image perception.
- 3. Operational Efficiency from Restructuring:** A majority of loss in profitability was due to significant RX costs, beginning in 2018. This has decreased by \$9 million (89%) by 2020. Additionally, new CEO Darin Harris was appointed in June 2020 and has 25+ years in the restaurant industry. Strategy has been to focus on digital and roll out a new loyalty program in Q2 2021.



Industry Overview

Jack in the Box is a significant player across multiple regions in the US within the fast-food restaurant industry space. Other competitors include common brands we are used to, such as McDonald's, Burger King, Wendy's, and various local players. Jack in the Box does not have many locations in the Midwest, with the closest being in Cincinnati and Indianapolis. However, it is quite dominant on the West Coast, and near its headquarters in San Diego, CA. The industry has existed for quite some time, and takeout fast-food restaurants have thrived in the pandemic environment, while dine-in restaurants have often struggled to convince consumers to eat out as much. The industry is very mature, yet Jack in the Box has outpaced many players in terms of organic sales growth.



Additional Commentary – Valuation/Risks/News

Valuation: Company is valued at a discount relative to peers. This is despite greater positive signs and potential for organic sales growth. We believe this presents an intriguing investment opportunity in a company the market may not be as conscious of. In addition, there exists a high short interest in the stock, which may pose a short squeeze opportunity as the market continues to experience unprecedented volatility. Though this is in no form a part of our long-term valuation, it may pose a great short-term opportunity.

