www.crackerbarrel.com (CBRL)

Headquartered in Lebanon, Tennessee, Cracker Barrel is an American chain of a combined restaurant and gift store that offers a Southern country theme in both its food and décor. Most Cracker Barrel stores are positioned near interstate highway exits in the Southeast and Midwest United States, but the company has expanded across the country. Each Cracker Barrel restaurant features a front porch lined with wooden rocking chairs, a stone fireplace, and decorative artifacts tailored to the local area such as college football attire for teams in the particular state. Cracker Barrel is known for its partnerships with country music performers.

All Cracker Barrel stores are owned and operated by the company as opposed to using a franchised licensee business model so common among restaurant chains. The firm has a menu based on traditional deep Southern cooking, also known as country cooking, that tends to be high in calories, fat, sugar, and salt. Much of the food is made to order and serves breakfast, lunch, and dinner. Popular servings include fried chicken, chicken and dumplings, country-fried steak, hamburger steak, turkey with dressing, over 10 different vegetables, corn bread and biscuits, and breakfast foods available throughout the day, plus desserts such as pecan pie and brownies.

Alcoholic beverages are not sold at Cracker Barrel but are sold at the firm's relatively new Holler & Dash Biscuit House restaurants. Cracker Barrel is unique in having a merchandise store located in every restaurant; merchandise sales account for about 20 percent of company revenues. The company's gift shops offer various decorative items such as rocking chairs, holiday and seasonal gifts, toys, apparels, music CDs, cookware, and various other gift items, as well as candies, preserves, pies, cornbread mixes, coffee, syrups, pancake mixes, and other food items. As of early 2018, the company operated 649 Cracker Barrel Old Country stores in 45 states.

In fiscal 2017, the firm had sales of nearly $3 billion with a staggering profit margin of 70 percent. Cracker Barrel is listed in *Forbes Magazine* Top 100 most reputable companies and ranks number one in the American Customer Satisfaction Index as the best full-service restaurant in the United States.

For the second year in a row, at Nashville, Tennessee's Ascend Amphitheater from June 7 through June 9, 2018, Cracker Barrel and the Country Music Association (CMA) teamed up to bring hospitality, charm, and an impressive lineup of country music artists to sponsor the annual CMA Fest's Country Roads Stage festival. Cracker Barrel flew two lucky fans to Nashville to experience the CMA Fest in true VIP style.

History

Founded by Dan Evins in 1969, Cracker Barrel was originally a single restaurant in Lebanon, Tennessee. Dan passed away in 2012, but his company expanded to 13 locations by 1977 and became a publicly traded company in 1981. By 2000, the firm had 420 locations. During the 1990s, the company encountered legal problems for its stance on gay rights and minorities and was subject to several race and gender discrimination lawsuits. In the years since, the company has provided scholarships and other contributions to aid people of all races and sexual orientation and religions. In 2013, the company began providing supermarkets Cracker Barrel branded foods including: bacon, hams, deli meats, and baking products through a partnership with Smithfield. In 2016, the firm expanded into a fast casual restaurant by introducing its Holler & Dash Biscuit House. The company continues to expand, moving into California in 2018, after opening stores in Las Vegas and Portland, Oregon in 2017.

EXHIBIT 3 Cracker Barrel's Income Statements (in thousands USD)

Income Statement	7/29/16	7/28/17		Percent Change
Revenues	$2,912,351	$2,926,289	↑	0.48%
Cost of Goods Sold	928,176	891,293	↓	−3.97%
Gross Profit	1,984,175	2,034,996	↑	2.56%
Operating Expenses	1,703,704	1,721,838	↑	1.06%
EBIT	280,471	313,158	↑	11.65%
Internet Expense	14,052	14,271	↑	1.56%
EBT	266,419	298,887	↑	12.19%
Tax	77,120	96,988	↑	25.76%
Non-Recurring Events	0	0	NA	NA
Net Income	189,299	201,899	↑	6.66%

Source: Based on company documents.

As revealed from studying Exhibit 3, the overall profit margin of Cracker Barrel in 2017 was 70 percent. Darden, by comparison had a profit margin of 22 percent and Dine Equity's ratio was 60 percent, both without the burden of a retail store. The firm is healthy financially with no goodwill on the balance sheet, but surprisingly, the firm did not borrow or pay down any debt in 2017, as indicated by long-term debt not changing. See the 2017 balance sheet as shown in Exhibit 4.

Segment Data

Approximately 80 percent of Cracker Barrel's revenue is derived from the restaurant with the remaining 20 percent derived from the store. Exhibit 5 reveals the breakdown of restaurant sales by time of day. Note that breakfast can be purchased anytime during store hours. Note also the remarkable even distribution of revenues across the full day indicating the restaurant is not simply a breakfast, lunch, or dinner establishment. Breakfast items included pancakes, fruit parfaits, bacon, sausage, grits, biscuits, eggs, juice, and many other options. Lunch and dinner operate under the same menu and prices with country fried steak, pork chips, fish, steak, soups, sandwiches, salads, and a litany of vegetables. The firm does offer lunch specials. Most vegetables are cooked in meat broth or with meat, generally ham, to enhance the flavor. The restaurant offers low-calorie food options for customers on low-calorie diets. Top restaurant food expenses for the firm include beef, dairy, fruits and vegetables, poultry, and pork ranging from 14 to 10 percent of revenues, respectively. Chicken fingers are the single largest expense, accounting for 5 percent of revenues. The average check price per Cracker Barrel guest was $10.19 in 2017; the food appears reasonably priced.

Exhibit 6 reveals retail sales by product type. Food in this table represents food purchased in the retail store, such as candy, and not in the restaurant. However, it is unclear if the item includes food sold in grocery stores as the company does not clearly report segmented revenue from this product line. In total, retail sales account for 20 percent of 2017 revenues. Approximately 22 percent of a Cracker Barrel store is devoted to retail space selling the items provided in Exhibit 6, yet only 20 percent of revenues are derived from retail sales. In comparison, 26 percent of available square footage is dining space yielding 80 percent of revenues from the restaurant. The disparity is mediated somewhat by the need for a kitchen, which is included in the balance of 52 percent of store space. Yet, it still raises the question, is Cracker Barrel allocating too large of a space to retail store space? What percentage of customers would not dine at Cracker Barrel if there was less space devoted to retail? About one-third of retail store inventory is purchased from China.

Holler & Dash Biscuit House

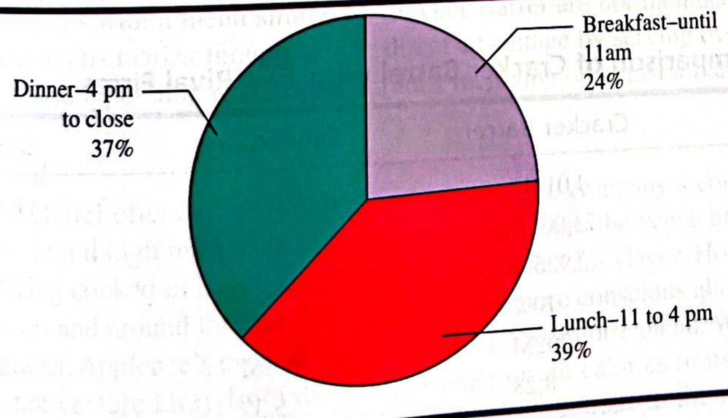
Cracker Barrel operated five Holler & Dash restaurants in 2017 located in Alabama, Florida, Tennessee, and Georgia, with plans to open 4 more stores in 2018. The restaurants are smaller, offer no retail store, and are only open from breakfast to lunch. Unlike Cracker Barrel

EXHIBIT 4 Cracker Barrel's Balance Sheets (in thousands USD)

Balance Sheet	7/29/16	7/28/17	Percent Change
Assets			
Cash and Short Term Investments	$150,966	$161,001	↑ 7%
Accounts Receivable	19,389	18,116	↓ −7%
Inventory	152,308	156,367	↑ 3%
Other Current Assets	33,077	23,373	↓ −29%
Total Current Assets	355,740	358,857	↑ 1%
Property Plant & Equipment	1,080,189	1,098,097	↑ 2%
Goodwill	0	0	NA NA
Intangibles	0	0	NA NA
Other Long-Term Assets	61,735	64,988	↑ 5%
Total Assets	**1,497,664**	**1,521,942**	↑ **2%**
Liabilities			
Accounts Payable	37,561	36,725	↓ −2%
Other Current Liabilities	331,256	339,103	↑ 2%
Total Current Liabilities	368,817	375,828	↑ 2%
Long-Term Debt	400,000	400,000	→ 0%
Other Long-Term Liabilities	202,404	201,607	↓ 0%
Total Liabilities	971,221	977,435	↑ 1%
Equity			
Common Stock	240	241	↑ 0%
Retained Earnings	488,481	492,836	↑ 1%
Treasury Stock	0	0	NA NA
Paid in Capital & Other	37,722	51,430	↑ 36%
Total Equity	526,443	544,507	↑ 3%
Total Liabilities and Equity	**1,497,664**	**1,521,942**	↑ **2%**

Source: Based on company documents.

EXHIBIT 5 Sales by Time of Day.



Source: Based on 2017 *Annual Report*.

EXHIBIT 6 Approximate 2017 Cracker Barrel Sales by Retail Products (in thousands)

Apparel and Accessories	$175,600
Food	105,300
Décor	76,000
Toys	64,400
Bed and Bath	46,800

Source: Based on 2017 *Annual Report*.

stores, customers can purchase alcoholic beverages. The new restaurant concept accounts for less than 1 percent of total Cracker Barrel stores, but moving forward, the company is faced with a decision how best to allocate funds between adding Holler & Dash restaurants in their primary market of the south, or adding Cracker Barrel stores in other parts of the country, most notably out west.

Competitors

Cracker Barrel's industry can best be considered the chain restaurant industry, where customers rely on table service, as opposed to the quick service restaurant (QSR) business like McDonald's where customers pay ahead of time and are not normally served at the table. The U.S. chain restaurant business is a $110 billion business with revenue growth expected of 2 percent through 2023, and profits of over $5 billion. There are nearly 800 chain businesses that compete in the industry and countless other mom-and-pop type bars and restaurants.

QSR must also be considered serious competitors with firms like Cracker Barrel, especially DineEquity and Darden, as they compete heavily for lunch business. The two largest chain restaurant brands in the United States are in fact DineEquity and Darden, with Bloomin' Brands operators of Outback Steakhouse, Carrabba's Italian Grill and Bonefish Grill third, at 3.1 percent market share, and Cracker Barrel fourth with 2.2 percent market share. Perkins & Marie Callender's is a privately owned chain that offers a menu similar to Cracker Barrel, and there are thousands of mom-and-pop type restaurants in the United States that specialize in southern-American style home cooking. Denny's, Waffle House, and International House of Pancakes (IHOP, owned by DineEquity) are serious competitors as well.

DineEquity, Inc. (DIN)

Formally known as International House of Pancakes (IHOP)) and founded in 1980, DineEquity acquired Applebee's in 2007. DineEquity is based in California. The firm accounts for about 7 percent of the market share based on restaurant numbers, which total over 3,200 with locations in 49 states and 15 countries. Despite the larger volume of restaurants under the DineEquity umbrella, compared to Cracker Barrel, the firm is worth significantly less than both Cracker Barrel and Darden, based on data in Exhibit 7. However, DineEquity's revenues and profits are derived from franchised business, not company-owned businesses, so numbers such as revenue

EXHIBIT 7 A Comparison of Cracker Barrel with Two Rival Firms

	Cracker Barrel	DineEquity	Darden
$ Market Cap.	4,013M	979M	11,659M
# Employees	73,000K	500	178K
$ Revenue	2,926M	634M	7,170M
% Gross Margin	70%	60%	22%
$ Net Income	202M	96.6M	479M
$ EPS Ratio	8.28	5.37	3.90
$ P/E Ratio	20.20	10.14	24.19

Source: Based on a variety of sources.

and employees will naturally be lower as much of these numbers are counted by the franchisee. The firm divested all company-owned Applebee's in 2015 to become a fully franchised operation, the exact opposite of Cracker Barrel's strategy of owning 100 percent of its stores. IHOP's menu is more similar to Cracker Barrel's than Applebee's, providing breakfast all day long as well as providing burgers and a few Southern-style foods. In contrast, Applebee's is not open for breakfast and serves American bar-style food with a full bar in every location allowed by law. IHOP is performing better of the two businesses, opening around 50 stores between 2010 and 2015, while Applebee's closed 160 during that time period.

Darden Restaurants, Inc. (DRI)

Headquartered in Orlando, Florida, also home to Disney World, Darden Restaurants became a public company in 1996 and employs over 178,000 workers. Like Cracker Barrel, Darden owns all of its more than 1,700 restaurants except for 8. The firm has an international presence in Canada, South and Central America, Middle East, and Malaysia, but over 98 percent of revenue is derived from the United States. Popular brands with store numbers include: 840 Olive Gardens focusing on American-Italian food, 490 LongHorn Steakhouses, 56 Capital Grilles, 37 Bahama Breezes, 41 Seasons 52s, 18 Eddie V's Prime Seafood, and 3 Wildfish Seafood Grille establishments. Darden divested its stake in Red Lobster in 2014 to Golden Gate for $2.1 billion. Darden acquired Cheddar Scratch Kitchen for $780 million in cash in 2017.

Perkins & Marie Callender's LLC

Perkins, as it is often referred to by the name on the sign, is a direct competitor to Cracker Barrel—offering a menu close to what Cracker Barrel offers. The firm was founded in 1958 in Memphis, Tennessee, and currently employs over 25,000 workers. The firm filed for bankruptcy in February 2017. Perkins operates restaurants and bakeries in the United States and Canada including breakfast, lunch, dinner, and snacks. The Marie Callender's brand manufactures bakery desserts that can be purchased at most grocery stores across the United States .

Mom-and-Pop Diners

There are countless diners across the South, and United States in general, that offer a menu based on southern country cooking. Many of these establishments also offer a buffet and deep-discounted lunches significantly cheaper than Cracker Barrel. Others may offer a principle product, such as barbecue pork, in conjunction with a country-cooking buffet in an attempt to attract a wider range of customers.

External Issues

Menu Types

The restaurant business in the United States serves a wide array of foods with American food accounting for 55 percent of food served and breakfast foods accounting for 17 percent. Italian-American food accounts for 9 percent and the balance of 19 percent is derived from seafood, specialty burgers, Asian food, and other food types. It is important to remember, only chain restaurants are considered in this data, so slightly different rivals such as McDonald's and even mom-and-pops with a menu similar to Cracker Barrel are not included. Cracker Barrel is well positioned in this market though, taking direct advantage by serving over 70 percent of the most common food types among chain restaurants, including breakfast all day long.

Healthier Eating

While Cracker Barrel offers a few healthy food options, the company's core business is vastly centered around food high in calories, fat, sugar, and salt. Even the vegetables fit into this mold of generally being cooked in ham broth with extra salt added for flavor. However, customers in the United States and around the world are increasingly more conscious about the healthy quality of food options. Applebee's even promotes an under 550-calorie menu. While Cracker Barrel should likely not venture away from its core customer or cut calories in its principle products, the firm should consider adding a few additional healthier options to the menu and marketing them as many diners are with a group and a health conscious diner could rule out Cracker Barrel as an eating option for the entire group.

Growth Overseas

Cracker Barrel has a unique menu that is tailored closely to a traditional Southern diet in the United States, but the growth overseas has lured many American restaurant firms to expand as growth opportunities have previously been capitalized on in the United States. Darden recently expanded its LongHorn and Olive Garden brands into Malaysia and you can find Chili's, Applebee's, and many other similar establishments in the Middle East and other areas. Traditional fast food restaurants, such as McDonald's, KFC, and Burger King, are worldwide. For Cracker Barrel, there is still a large U.S. market to tap into, especially west of the Mississippi River, and the firm could also focus on growing its Holler & Dash chain in the South. Nevertheless, rival firms are continuing to push overseas as markets are saturated in the United States and as food consumption habits become more similar worldwide.

Merger & Acquistion (M&A)

Like many industries, over the last several years of low-interest rates and increased competition, there have been ample M&As in the restaurant industry also. In addition to the acquisitions previously mentioned, Panera Bread was acquired by a private-equity firm for $7.5 billion. Bob Evans Farms, offering a menu of breakfast items and Southern country cooking, was acquired by Golden Gate Capital for $565 million; Restaurant Brands International, owner of Burger King, purchased Popeye's Louisiana Kitchen for $1.8 billion. M&A is an excellent way to expand quickly into new markets and could possibly be an avenue for Cracker Barrel moving forward. However, the company has a clear strategy of company-owned stores with a culture of being devoted to its workers, so finding a suitable firm to acquire may be difficult and stray Cracker Barrel away from its core business. Cracker Barrel's stock price and health of the company are robust now, so it is unlikely the firm would be acquired as there are cheaper and easier targets for rival firms or private equity firms to target.

Food Prices

While Cracker Barrel has an excellent profit margin, food prices still greatly impact the firm's profits. Moving through 2018 and beyond, production of beef, pork, and poultry in the United States are expected to increase, which should help to keep food prices relatively stable. The United States Department of Agriculture projects lower prices for farm commodities due to lower fuel and materials cost. Vegetables for human consumption and feed for animals should remain at a relatively steady price after falling for much of the last few years leading into 2018.

Future

In February 2018, Cracker Barrel released its Q2 2018 financial results that revealed the following:

1. Revenue was $787.8 million, a 2 percent increase over the prior year's Q2.
2. Net income was $91.1 million, a 72.9 percent increase over the prior year Q2.
3. Comparable store restaurant sales increased 1.1 percent.
4. Comparable store restaurant traffic decreased 0.9 percent.
5. The average menu price increased 2.3 percent.

Given the Q2 2018 financial results, Cracker Barrel said it expects full year 2018 revenues to reach $3.1 billion, reflecting the expected opening of eight or nine new Cracker Barrel stores and three new Holler & Dash Biscuit House restaurants. The company projects for 2018 that comparable store restaurant sales will grow by 2 percent while comparable store retail sales will be flat. Although the retail part of the restaurants are anticipated not to grow revenues, having those unique stores with the restaurants provides a unique indirect benefit. Should Cracker Barrel accelerate expansion of its Holler & Dash restaurants? A clear strategic plan is needed to make these kinds of game-changing decisions.