BSVI
Value Investing

EQUITY RESEARCH REPORT – JACK IN THE BOX

Jack in the box

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SECTOR & STRATEGY ANALYSIS

COMPANY AND INDUSTRY OVERVIEW

Valuation Date: 2 December 2024
Price: 49.20 USD
52-week range: 40.84 – 86.20
Average Volume: 580,333
PE Ratio: N.A.
EPS: (1.87)

Jack in the Box (JACK) is an American fast-food chain founded in 1951 in San Diego, CA. It is currently present in 21 states with 2200 locations nationwide. It used to own Qdoba Mexican Grill from 2003 to 2017 when it was acquired by Apollo Global Management.

JACK is a small competitor in a **strongly competitive industry** that is driven by the increasing consumption of fast-food products by American consumers. According to the OECD, US annual fast-food consumption per household reached $11.6k in 2023, marking a strong 30.6% growth since pre-pandemic times. This is due to the widespread implementation of take-out and home deliveries, and the general increase of the need for convenient food sources for busy working Americans.

In 2023 revenues industry-wide reached $1.438tn, representing a CAGR of 6.7% between 2018 and 2023. Such growth has been severely stunted in 2020, where the total **market value for the fast-food industry fell by 20.4%** due to widespread lockdowns. The industry has reached a plateau, with CAGR until 2028 at 3.2%, with a particularly sharp fall in growth in 2024 (YoY fall of 5.89%). The same is true for the number of transactions: CAGR until 2028 is 0.7% signalling a de facto **saturation of the industry** with an almost fixed number of consumers across all firms.

Overall, one can distinguish between two types of fast-food restaurants in the United States:

1. Large chains, which incur significant fixed costs and exit costs, forced to engage in fierce monopolistic competition to cut costs and increase profits. They represent most of the market with players like **McDonalds Corporation** and **Yum! Brands** and are mostly focused on Quick Service Restaurants (QSR), which accounts for more than 50% of the entire US fast food market.

2. Smaller chains which focus on Full-Service Restaurant (FSR) and are more focused on diversification of menus and better experiences. Prominent names are Darden Restaurants, which parents Olive Garden and LongHorn Steakhouse.

PRODUCTS AND PRODUCTION

JACK is known for its pretty eclectic menu made up of classic American fast-food items and Americanised ethnic food. The two best-selling items are the *Sourdough Jack* and the *Two Tacos Combo*, a classic of the chain for the former, and a quick finger food for the latter. Other items include great classics of the American fast-food scene, often with a peculiar twist, like the addition of Swiss cheese to normal cheeseburgers, and Mexican spices to fried chicken tenders or popcorn. Locations are **open 24 hours per day**, the *"Munchie Meals"* menus are served late at night for partygoers and younger patrons. Moreover, menu customization is particularly developed, with many options for the same items (extra protein, grilled or fried, etc...). All this could represent a significant competitive edge with younger and alternative audiences seeking a unique experience.

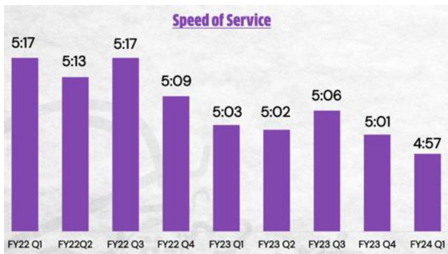
The supplier base of the corporation is concentrated. A significant portion of the company's supply chain is handled by **McLane Foodservices**, playing a key role in coordination and logistic. However, JACK collaborates with many others national businesses, such as **Presto Automation** for commerce equipment services and **Grubhub Inc**. to produce key ingredients. The only relevant non-US based supplier is Siemens. Most suppliers are U.S.-based, limiting exposure to risks related to tariffs and political instability. The company has also established the **Allied Partner Program**, which fosters cooperation with local farmers and producers, making sure to **still import a smaller share of specialty items from foreign markets**. This strategy ensures JACK remains shielded from disruptions in the international supply chain: by integrating its inventory with locally sourced and fresher ingredients, JACK can deliver higher-quality meals, appealing also to the segment of the market whose main priorities are sustainable local sources. However, the use of foreign suppliers for certain exotic ingredients still makes the company vulnerable to potential major disruptions in the international supply chain, that could suppress part of its competitive edge.

JACK centrally manages the **value chain** to guarantee uniformity in operations throughout all locations, establishing standards and harmonizing the restaurant experience. Franchisees still retain autonomy, which allows them to easily adapt to local market conditions and customer preferences, allowing JACK to maintain consistency while staying agile and ready to respond in diverse markets.

Demand for products is strongly **elastic** since a significant price increase could lead customers toward competitors. More specifically, this phenomenon affects small and medium companies like JACK, which do not benefit from a strong brand loyalty as much as largest fast-food in the industry. However, the company repeatedly proved to be able to successfully overcome crises, notably during the 2008 Financial Crisis and the COVID-19 Pandemic. Particularly relevant are the strong stock performances of the company through phases of low interest rates, showing resilience during uncertain periods: these kinds of businesses tend to be attractive to investors seeking recession-proof industry.

CLIENTS

As expected, JACK is a B2C operation, and it appeals to a broad and diverse demographic, including families, young adults, and individuals seeking late-night, quick, and affordable dining options, particularly with its Munchie Meals offerings. Operating on a national level, geographical segmentation plays a key role in the company's client profile. While most popular in Western and Southern states, JACK has reached other regions, although with less saturation and a lower market share. Being present in different and diverse locations, the company has adapted its menus offerings and **marketing strategies**, offering items tailored to local tastes.



Geographical expansion, accompanied by innovative and increased digital engagement, could represent a unique opportunity to further expand the customer base, diving into new regions and leveraging delivery platforms to improve its presence in the online market. Clients primarily choose brands looking at price, convenience, and quality: QSRs are sought out for their affordability, and JACK offers competitive pricing, especially through value meals and promotions, but it is also appealing to those who look for quality and variety in the menu offerings.

However, the market is **competitive**, crowded, and dominated by major players. While there exists a solid loyal customer base, thanks to the uniqueness of JACK's products as well as the low prices and frequent promotions that fit the necessities of budget-conscious consumers, brand-switching is still common due to frequent changes in consumer tastes and preferences, and the alternative options for clients are abundant. To mitigate this and survive in such a competitive market, JACK differentiates itself with a quirky brand identity, extensive menu, and constant innovation to stay competitive with pricing while also preserving quality.

DISTRIBUTION AND LOGISTICS

JACK distributes its goods to consumers using a combination of franchised and direct distribution methods. Among its main channels are:

- **Company-Owned Stores** in which JACK has more control over operations, the supply chain, and the customer experience.
- **Franchised Locations**, which represent most locations and leverage the experience of local franchisees.
- **Online and Delivery Platforms** in which JACK either collaborates with DoorDash and Uber Eats because of the growth of digital meal ordering or uses its website and mobile app to offer direct ordering choices.

Profitability is directly impacted by the effectiveness of logistics, as QSR companies have narrow profit margins increasing the need for affordable and sustainable supply chain management. JACK uses a hybrid logistics network that combines internal systems with outside partnerships:

- **External Distributors** or 3PLs which are contracted by JACK to leverage their optimized routes, reduced expenses, and guaranteed on-time delivery.
- **Centres for Regional Distribution** used by JACK to locally distribute items, enabling it to cut shipping times and effectively manage inventories.
- **Franchisee-Specific Logistics** which is carried out by authorized companies contracted by JACK's franchisees. They are integrated into the larger network, ensuring uniformity.

Running such a distribution network entail significant expenses to cover the handling of perishable commodities, storage, and transportation: they account for 10% to 25% of overall operating costs in the fast-food sector. The following items represent sources of risk regarding the handling of operating expenses on JACK's part:

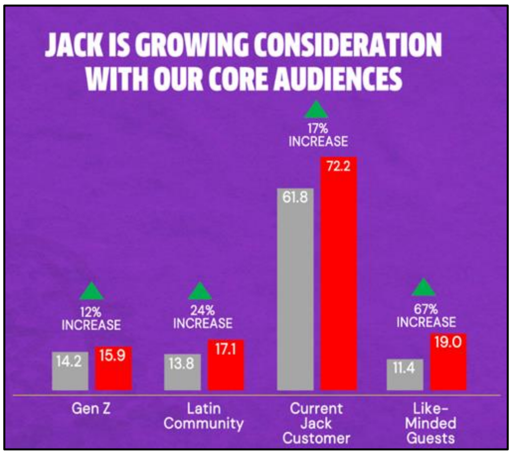
- **Fuel Prices** which can easily fluctuate.
- **Labor Costs** which are influenced by factors such as inflation.
- **Specialized Storage** for perishable items in the menu, which can be expensive and force JACK to contract 3PLs to cut back on cost.

Due to the perishability of its products and the geographic dispersion of its restaurants, JACK has somewhat complicated distribution routes, which require the following to mitigate complexity:

- **Temperature-Controlled Logistics** for fresh produce like meat, dairy, and vegetables.
- **Route Optimization** which JACK utilizes to reduce transportation time and expense.
- **Differentiated Delivery in Metropolitan and Rural Areas** to properly consider the uniqueness of both landscapes.
- **Third-Party Collaboration** made possible with strong communication and technological.

MARKETING

JACK also has a **unique** position in the industry in terms of marketing, leveraging funny and daring messages to get the attention of new potential customers. JACK also collaborates with celebrities, such as Snoop Dogg, to target a younger audience. Brand image is quirky, entreating and bold: it is meant to stand out thanks to its innovative features. Not by chance, the absurd mascot is "*Jack*", a suited man with a round clown-like head. CMO Ryan Ostrom, announced that JACK aims creating a cultural, authentic and distinctive advertisements. As he reported in a recent interview, **marketing campaigns** play a key role in attracting new customers, even if he highlights that JACK has a limited budget compared to other larger fast-food companies: highly distinctive advertisement is supposed to increase effectiveness and offset the economic disadvantage.



JACK uses **digital platforms** (social media and online advertisement through YouTube) and traditional media, such as TV advertisements. Specifically, 50-60% of the marketing budget is spent on TV and digital advertisement, and approximately 30% on social media and influencer marketing. A minority of the budget is also directed towards live events in JACK's locations.

JACK doesn't specify its marketing budget, however the expenses likely exceeded $250mln in 2023: according to SG&A, around $50mln was used as corporate marketing, with "Franchise Contributions" making up a sizable chunk of funding for marketing. This fund is managed by JACK and sourced from the franchisees (5% of the restaurant's annual gross sale) and collected around $240 million in 2023. Assuming an overall cost of marketing of $250 million and 57.6 million unique customers annually (based on average check size and number of visits per customer, using industry benchmark for QSRs), JACK's marketing cost per unique customer is approximately $4.34. Another key value to consider is the ROI related to marketing expenses. Since total revenue in 2023 is $4.9 billion and according to estimation, around 10% can be attributed to advertising, the ROI is considerably high, around 1.96.

CORPORATE STRATEGY AND GROWTH

JACK is committed to pursue an aggressive growth strategy, based on the ambition of enhance profitability, while expanding restaurant footprint: its annual growth target is around 2.5%, aiming for 4% annual growth after 2025, with EBITDA margin targets at 15%. To achieve the goal, JACK has plans for **opening over 300 new restaurants by 2027**.

The growth strategy covers several key sectors, such as franchise growth and product development, new prototypes of locations consisting of drive-thru-only model or improved online-ordering capabilities of the company. Furthermore, the company is signing new franchise agreements, taking advantage of a rapid expansion model which requires low capital investment. However, this expansion plan also involves the closure of underperforming locations, reducing losses, and concentrating resources on more profitable areas. Crucial is planning the entrance in new markets, as recently did with the Mexican one. The objective is **to target "*whitespace*" opportunities**, area where there is little or no competition.

PARTNERSHIPS

JACK has adopted a strategy of combining internal growth and acquisitions to boost the company's expansion. An inorganic growth has been especially important, with the **2022 purchase of Del Taco** for $585 million, which added new locations and expanded the menu offerings for its brands. This acquisition

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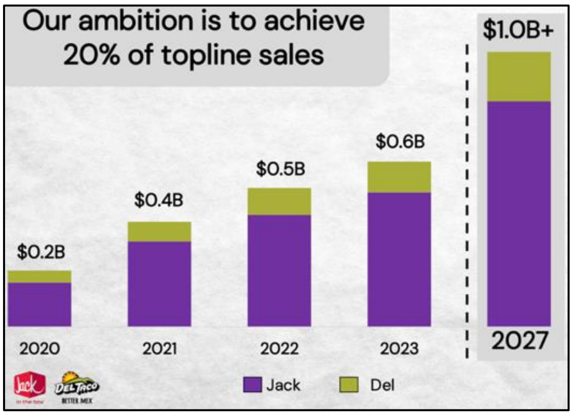
supports JACK's asset-light approach by leveraging franchise partnerships, the company minimizes direct capital expenditures while expanding its footprint, allowing for faster market penetration, the company can reduce its capital investments while expanding into new markets more quickly.

The addition of Del Taco has enabled JACK to create shared efficiencies in store design and operations, supporting continued growth in key regions across the US, whilst disregarding foreign markets. Focusing internationally allows the company to manage regulatory and supply chain challenges faster and more effectively, avoiding the risks of navigating international complexities.



The company's new "*CRAVED*" store model, which emphasizes smaller, drive-thru-focused locations, aids its goal of efficient and rapid expansion. Partnerships, such as the **refranchising collaboration with The Cypress Group** for Del Taco locations, strengthen this asset-light model and highlight the company's focus on streamlined growth. JACK's management has proven adept at identifying acquisition opportunities that align with its growth objectives.

The integration of Del Taco, combined with ongoing refranchising efforts, has diversified the brand and helped it achieve its financial targets. Despite challenges such as rising labour costs and inflation, the company's investment in innovative technologies, like robotics for kitchen tasks, positions JACK for steady growth in the fast-food industry.

CAPITAL STRUCTURE

JACK aims to stabilize its leveraged capital structure. Leveraging its intellectual properties and franchise agreements, the company was able to **securitize the debt**, to manage it more efficiently. As part of its strategy, the leverage ratio aimed is around **5.0x EBITDA**.

As of September 2023, company's capital structure is based on $1,755 million in total debt (only financial debt considered), suggesting debt as the primary means used to finance its growth opportunities. The **EBITDA** is equal to $341 million and consequently the leverage ratio (Debt/EBITDA) is around 5.2x, slightly over the target. Furthermore, the limited capacity for self-financing is highlighted by an equity position of -$718 million, caused by a huge amount of treasury stock around $3,125 million (registered on the balance sheet in the equity section with a negative sign).

The **securitized model** plays a key role, allowing JACK to perform share repurchase and occasional acquisitions, like the recent one of Del Taco Restaurants: the latest happened in 2022 and presented a total cost of $575 million, including debt. This acquisition was financed with cash transactions and did not require additional debt, and the company refinanced part of its securitization debt.

According to internal estimation (look at finance section for more details) the estimated **WACC is 6.41%** which is a relatively low value, indicating the possibility of accessing external capital at a reasonable cost. The interest coverage ratio is about 3.23, which implies that JACK relies on a high leveraged structure: the company profitability and financing ability could be **strongly impacted by an increase in interest expenses**. The maturity profile is significantly **skewed toward long-term debt**, which consists of $1725mln, while short-term obligations only of $30mln. While the company has minimized immediate liquidity risk, it has pledged on long-term commitments to service debt, which could impact cash flow over time. Instead, since its financial operations only concern USD currency, its **limited exposure to exchange rate risk** constitutes a great advantage for the company, enhancing its financial stability.

OWNERSHIP AND MANAGEMENT

JACK's ownership structure is representative of the recent year-long stock price slump. More than 110% of outstanding shares is owned by Institutional Investors, with the largest contributors of capital being **BlackRock Fund Advisors**, **Vanguard Group**, **Capital Research**, **Biglari Capital LLC**, **LSV Asset Management**, all of them accounting for 46.6% of the overall float. Their activism level is considered **very low** with Biglari being the only outlier in this regard, but their ownership is **rather limited**, representing a mere 30% of BlackRock's total ownership share.

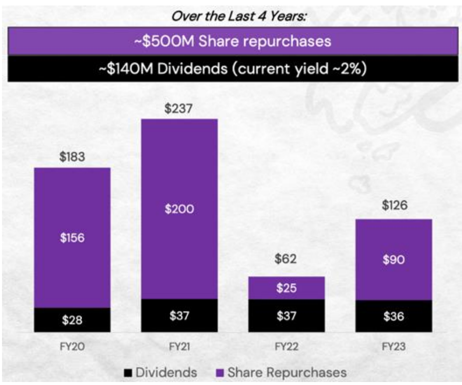
This is telling of the overall investors' faith in the company: the company is heavily (and rather successfully) shorted. Float short interest is 10.4% with almost 2mln shares being interested by short-selling operations with Coverage Ratio being only 3.8 days and **declining since 2022**. This signifies that, over time, **short**

positions have been increasingly efficient in taking advantage of stock slumps, with large Wall Street Investors reaping the benefits from a company in clear financial distress and betting in favour of further downturns: stock price is down almost 41% YTD, and the probability of a short squeeze is low.

The economic troubles for the company started in 2020 right at the onset of the COVID-19 Pandemic, in which the stock price plunged to its all-time-low amidst expectations of massively reduced revenues for the company. JACK's then-CEO resigned, and current CEO Darin Harris swept in to oversee the company recovery in early 2021 to its all-time-high stock price. However, this **growth has proven largely synthetic,** as the company struggled to expand to new US states and improve profitability despite slightly increasing revenues.

For this, the managerial structure is going through a time of restructuring: CFO and Executive Vice-President Brian Scott resigned his position and left the restaurant business altogether, effective on November 20th. In the interim, JACK nominated Dawn Hooper as CFO, a KPMG's senior manager and controller in JACK before her nomination. Overall, the board of directors and the managers show no exceptional features in overall structure: it is made up of 19 members and together they control 1.84% of total insider share count. Average age is 57 years old, with David Goebel (Independent Non-Executive Chairman) being the oldest at 73 years old. Darin Harris, CEO, is the only director involved in the day-to-day management of JACK, with all the others being independents.

Information on both the directors and management is relatively sparse, but nothing points out to the CEO's previous skills in weathering crises: Harris has been involved in the Regus Group as CEO before leaving right at the onset of COVID. According to Comparably, he led the company in a less-than-stellar way in the words of his ex-employees. Having switched over to JACK right after the massive slump in stock price at the pandemic's onset and the correlated spike during the early stages of recovery. Right now, even with increasing revenues, the company struggles to retain profit and expand in other states in the US. This may reflect management's struggles in properly leveraging the company's assets and name to provide actual value to shareholders. Finally, Harris is also a major insider shareholder, holding a 0.475% stake;



other managers own very meagre stakes in the company. Limited insider ownership may be instrumental in stifling aggressive change needed to stave off the increasingly declining company situation.

There are no clear clauses that dictate debt approval in the company's charter documents, but there is more closure on the dividend and buy-back strategies. For the former, JACK has kept a **consistent commitment to reward owners** with constant and slightly increasing yearly dividends that are paid quarterly. Right now, dividend yield is 3.79%, with an annual value of $1.76/share: however, this year the company is recording quarterly net losses, so more analysis will be required at the end of FY2024. The buy-back strategy is murkier, but we can assume from previous company history that buy-back operations occur quarterly, with a 5-year peak of $155.39mln for the December 31st operation.

To halt the constant bleed of capital and consistent investors' pessimism, JACK must deeply overhaul its strategy without trying to forge a narrative of stability through buy-back operations and increasing dividends. The company seems to have a **multi-year long** problem of liquidity, with current and quick ratio falling by more than 50% in the last 5 years and now being at around 0.58 each, and accrued payroll liabilities increasing to $49.5mn in 2023, from $34.6mn in 2021.

COMPETITORS

As said at the beginning of the analysis, the market for fast-food products in the US is extremely entrenched and **expected to plateau in the following years**, even in spite the possible upsides of the expansion of delivery services after the COVID-19 Pandemic. The main barrier to entry in the market is the absolute predominance of larger players: McDonald's alone occupies more than 17% of total market share; Starbucks is at 8% after its opening to food offerings.

These are massive, multinational corporations that **leverage economies of scale** and scope to monopolize suppliers and lower their prices in a monopsony-style agreement that can often end up in vertical integrations carried by holding groups. Customers, on the other hand, **hold significant power** and are inherently seeking lower prices and increasingly convenient experiences with faster delivery and fulfilment: their loyalty is key to most QSRs business model, and this explains the demand-side incentives to engage in

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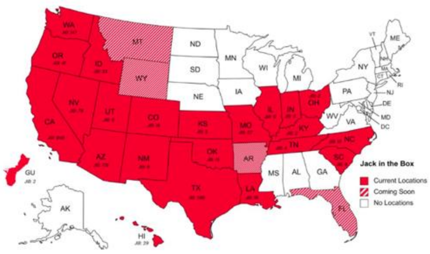
competitive pricing, and the consequently low profit margin industry-wide (5%-8% for QSRs).

By this, barriers are very tough, and the market operates on razor-thin, monopolistic-competition-styled margin: price wars are the norm between large competitors and, even if smaller QSRs are the supermajority of market-share, it is to nobody's surprise that many go bankrupt (approximately 17% fail in the first year) or franchise their restaurant to a larger player. Moreover, **major franchise locations have been failing lately**, with PizzaHut reducing its presence in Ohio and Indiana, and Wendy closing 140 locations nation-wide. With such a competitive and oversaturated market, JACK's hurdles are clear as day to see.



The company is too small and its failure to expand beyond its current state is severely hurting its prospects. Moreover, unlike similarly sized companies, like In-N-Out and Whataburger, the company is publicly traded and **exposed to the financial markets' whims and volatility**: the heavy short interest is a direct result to public trading exposition. The acquisition of DelTaco is a step in the right direction, but the overall strategy is not allowing the company to flourish as it should: the projected increase in the number of locations is not going to necessarily break JACK into "whitespaces" untapped by competition, but only further expose it to fierce local and international competition, which could result in further pessimism and stronger short attacks on its stock, further draining funds from the company. The ideal way of going about this situation would be adopting a "In-N-Out strategy" of lowering store openings but making every opening both an event and an opportunity to spread a high-quality and high-customer fidelity message to the public and the stock market. Naturally, In-N-Out is smaller than JACK (400 locations against 2218) and privately and family-owned, and it follows an entirely different set of strategies for its dining experience, but redirecting JACK towards such a limited growth, high quality model could turn around the company's current woes. More specifically, as said before, JACK already focuses on high quality premium offerings in its menus (just like In-N-Out), whilst keeping interesting and youthful its marketing: the company may be **victim of its shareholder commitments of ever-increasing growth** in an industry that is slowly coming to a standstill.

ESG COMMITMENT

JACK reports its **sustainability progress** yearly on its website, and from their filings it is clear to see how their overall business strategy fits within their ESG goal. In fact, the company reports among its highest priority supply-chain management, employee retention and recruitment, and product quality and safety: all of these are under the "*Social and Governance*" side of **ESG**, with Environmental sustainability being at a lower priority and concentrated on waste and energy management.

JACK is invested in **efficient and cost-effective usage of resources**, and in e-waste retrofitting schemes cantered around the San Diego area: the company has a vested interest in cutting on energy bills by shifting to LED lighting in all its locations (in the US incandescent lighting is still allowed, unlike the EU) and by employing better systems to monitor gas usage in the kitchen. Packaging is also discussed, as JACK boasts the shift from using 92% of virgin plastic in 2020 to using 85% fibre recycled plastic today.

Again, in the San Diego area, JACK **collaborates with local charities** and unhoused youth schools to provide meal packs from excess inventory, and to run charity golf events to raise funds alongside other partners like The CocaCola Company. Most importantly, JACK provides its employees rather generous benefits and training programmes: this is rather impressive, as they are under no statutory requirement to provide sick-leave or maternity leave for workers, representing a relatively rare occurrence in the American QSR industry. DEI&B commitments are also considered, with an ongoing effort to attract a local and diverse workforce, whilst a dedicated board council reviews related results.

Moreover, JACK is strongly committed to a **high quality**, safe food sourcing scheme from their suppliers, large and small. They were among the first to employ the HACCP system in 1993 and, because of that, they had a better framework to fight against the COVID-19 personnel shortage. The company is also involved in animal welfare schemes, aiming to phasing out caged-eggs and closed-pen pork by 2025. This will, eventually, allow them to gain certifications in that sector, alongside the approval to operate in school and children's meals soon. Finally, JACK is committed to data privacy and cybersecurity as a part of its pivot to an online model.

CRITICAL FACTORS AND CATALYSTS

POSITIVE CATALYSTS

Digital and Technological Investments: Rollout of new kiosk-enabled point-of-sale systems and enhanced focus on **loyalty programs** along with mobile apps could increase the average ticket size and boost operational efficiency. This should enhance margins and support sales growth.

Menu Innovation and Value Offerings: Ongoing testing and successful launches of **new menu** items such as premium chicken offerings and updated late-night menus are paying off. These initiatives can be better if they lead to higher customer transactions.

Expansion Plans: Entry into new markets, such as Chicago, and the planned opening of 25–35 **new Jack in the Box locations** and 10–15 Del Taco restaurants this fiscal year, could contribute to revenue growth.

Operational Efficiency: Reimaging and remodelling programs are **improving consumer perceptions** and may drive higher same-store sales in rebranded outlets, potentially lifting overall company performance.

RISKS AND POTENTIAL NEGATIVE FACTORS

Labor Costs and Wage Increases: Labor cost inflation, especially in key markets such as California, may stress margins if not mitigated by pricing strategies or operating efficiencies.

Same-Store Sales Declines: Both Jack in the Box and Del Taco have suffered from same-store sales declines of late, which reflect their challenges in sustaining traffic and transaction levels. To reverse this trend, strategies to arrest this decline will have to show measurable results.

Goodwill Impairment: Recently, the $162.6 million **non-cash goodwill impairment** of Del Taco marks risks due to underperformance in some segments, ultimately depressing investor confidence.

Franchisee Relations: Though franchisee **profitability** has increased, sustained support will be paramount as the company seeks to ensure alignment and avoid operational disruption.

By addressing the mentioned challenges and using the highlighted opportunities, Jack in the Box would be able to **considerably impact its key performance indicators.** Subsequent sections will involve monitoring the implementation of these initiatives and their market reception for a comprehensive analysis.

CONSENSUS FOR NEXT YEAR

Key assumptions underpinning the consensus for Jack in the Box's performance in the next fiscal year revolve around several themes based on its recent earnings reports and forward-looking statements:

- **Same-Store Sales Recovery:** Analysts expect Jack in the Box to recover from the recent 2.2% decline in same-store sales through menu innovations, increased digital engagement, and improved value offerings.
- **Franchise Growth and Expansion:** the company's focus on expanding into new markets like Chicago and opening 25–35 new Jack in the Box restaurants and 10–15 Del Taco restaurants are also expected to drive revenues. Franchisee-led strategy with a focus on an asset-light model.
- **Menu Innovation:** Continued testing and rollout of high-margin menu items, including new chicken products and late-night offerings, are key to driving higher transaction values and customer frequency.
- **Cost Management:** Rising labour costs in key markets such as California, through pricing adjustments and operational efficiencies, is an important assumption for margin improvement.
- **Digital and Technology Investments:** Analysts anticipate that digital solutions such as loyalty programs and kiosk systems will be implemented to improve customer interaction and make operations more efficient, thus enabling better profitability.
- Resistance to Macroeconomic Pressures The fast-food industry is assumed to be resilient in the face of macroeconomic pressures, while Jack in the Box uses affordability and convenience as competitive levers.

These assumptions are pegged on successful execution of strategic initiatives coupled with consumer behaviour influenced by the general economic environment.

PORTER'S FIVE FORCES

FORCE	ANALYSIS
Threat of New Entrants	**LOW**: The fast-food industry is characterized by a high entry barrier due to brand dominance by major companies, elevated fixed costs and a saturated market. Moreover, Jack is protected by its strong brand differentiation.
Bargaining Power of Suppliers	**LOW**: Jack In the Box values the relationship with its suppliers, relying on long-term contracts, which ensure predictability and stability.
Bargaining Power of Buyers	**HIGH**: Consumers are price-sensitive and benefit from numerous alternatives, therefore can easily switch to competitors. Nevertheless, Jack tries to maintain customer loyalty through innovative promotions and differentiated products.
Threat of Substitutes	**MEDIUM**: There exist several alternatives with low switching costs such as home-cooked meals, healthier dining, and meal kits. However, menu variety and late-night availability mitigate some substitution threats.
Industry Rivalry	**HIGH**: Competition is intense, margins are thin, and the market is heavily saturated due to the presence of several major players and regional chains. Price Wars are frequently engaged between competitors, reducing profitability and deteriorating financial health.

PESTEL ANALYSIS

CATEGORY	ANALYSIS
Political	Jack in the Box has almost no exposure to global political risk. However, it remains vulnerable to potential regulatory changes in the field of labour law and minimum wage.
Economic	The fast-food industry tends to be resilient during economic crises since consumers are attracted by affordable dining options. Nevertheless, inflation, high borrowing costs and soaring labour expenses impact profitability.
Social	Jack has to align with the shifting consumer preferences toward healthier and more sustainable food. While it can appeal to the younger generation, thanks to its unique and quirky brand image
Technological	Significant investments in cutting-edge technology are being made to enhance operational efficiency. Innovative digital marketing campaigns are launched to engage with younger consumers.
Environmental	The growing consumer demand for environmentally conscious practices is a challenge and requires the company to reduce both its carbon footprints and that of its partners.
Legal	Thanks to its HAACP programs, Jack complies with stringent food safety regulations and hygiene criteria. Moreover, it protects its proprietary menu items through trademarks.

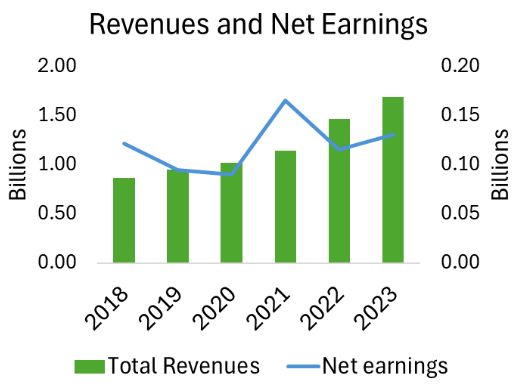
SWOT ANALYSIS

STRENGTHS	WEAKNESSES
• Strong brand image • Innovative offering and differentiated menu • Investment in technology to streamline operations. • Stable and efficient supply chain	• Small market share • Scarce financial flexibility due to high debt levels • Dependence on the US market only prevents global growth opportunity • Limited marketing budget
OPPORTUNITIES	**THREATS**
• Expansion into under-penetrated US region • Increase digital engagement • Implementing asset-light growth strategies (franchise partnership) • Target premium or healthier food segment	• Saturation in the fast-food market • Limited industry growth projection • Rising labour and input costs • Strong competition from well-established brands • Price sensitive customers

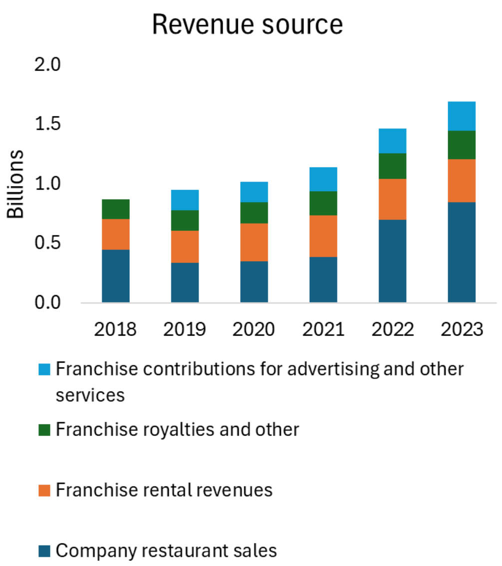
FINANCIAL STATEMENT ANALYSIS

INCOME STATEMENT

During the analysed period of 2018 to 2023, the **revenues** of Jack in the Box have increased steadily, with an impressive 5-year rise of 94.6%. Between 2018 and 2021, the company saw a relatively stable growth in its **sales** by 9.6% on average each year, however, in the final two years of the period this rate rose rapidly with 2022 providing a 28.4% rise for the fiscal year and 2023 continuing the more robust growth by 15.3%. This rapid growth was mainly attributable to the acquisition of Del Taco, the second largest Mexican quick service restaurant chain by the number of restaurants in the country, which Jack in the Box completed in 2022. In that year, Del Taco contributed to total revenues by an additional $316.9 million, significantly boosting Jack in the Box's results. In the following year, Jack in the Box could provide in its results Del Taco's performance for the whole fiscal year and further developed its franchising activities, resulting in another exceptionally **high growth** compared to the prior years in the period.



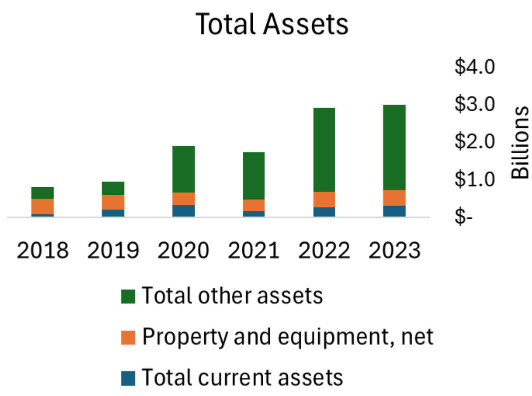
These revenues came from **four business segments**: Company restaurant sales, Franchise rental revenues, Franchise royalties and other, and Franchise contributions for advertising and other services (recognised separately from 2019). Three of these segments followed a relatively stable growth with no substantial outlier in the analysed period, however, the Company restaurant sales saw an 80.8% jump in its sales in 2022. This change was due to the large increase in company operated restaurants resulting from the Del Taco acquisition in the same period. This acquisition significantly increased the relative weight of Company restaurant sales from providing roughly one third of the revenues to now providing half of Jack in the Box's sales.



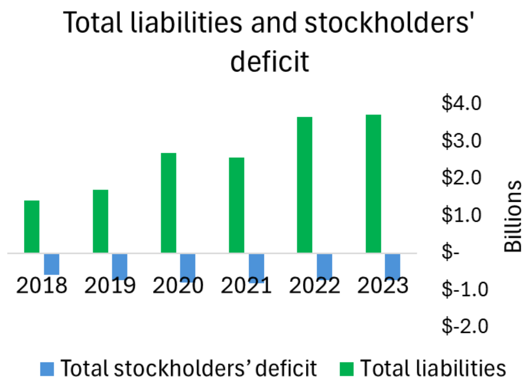
While the company's revenues saw a **steady increase**, its net earnings were substantially more volatile. In the period, Jack in the Box saw decreasing net income in three years, while only increasing it in two. In 2019, this decline was mostly attributable to a very large interest expense related to the early termination of interest rate swaps and higher operating costs for the year. In 2020, further however, smaller decline was solely attributable to higher income taxes, as their earnings before taxes were higher than in the year prior. The company achieved its highest net income level in the period in 2021, when higher sales in all segments and significantly lower pensions and post-retirement expenses that contributed to the increase of net income by 84.7%. In the following year, higher interest expense and expenses associated with the acquisition of Del Taco lowered the net income of the company despite the rapidly increasing revenues. Finally, in the last analysed year, the company managed to increase its net earnings by 13%, as it could start integrating Del Taco and further develop its franchising.

BALANCE SHEET

The **total assets** of Jack in the Box increased significantly in the analysed period, increasing 264% over the years. Its balance sheet saw major growth in two years: 2020 and 2022. In 2020, this was attributable to a large increase in operating lease right-of-use-assets, while in 2022, it was primarily due to the acquisition of Del Taco as mentioned above. In most of this period, the largest share of assets is in the form of operating lease right-of-use-assets, which constitutes almost half of total assets. After the acquisition, a significant portion is also in the form of **goodwill and trademarks**. The properties, plants, and equipment held by Jack in the Box remains relatively stable over the period, while current assets also increase significantly, mostly due to a large increase in cash holdings.



A particularity of Jack in the Box's balance sheet is the **negative stockholders' equity**, which is a result of the consistent and large share buybacks done by the company every year, making the treasury stock account larger than total assets, despite a retained earnings account which is also larger than total assets in the first two years and still composes a large portion of total assets in the final years of the period. The financing of Jack in the Box is mostly done through debt. While both short- and long-term liabilities almost triple in the period, the overwhelming majority of Jack in the Box's financing is achieved through long-term liabilities. Most of these liabilities are in the form of debt, however, by the end of the period long-term operating lease liabilities are also at a similar level.



RATIO ANALYSIS

PROFITABILITY

The **inventory turnover** ratio has experienced a significant and consistent increase, climbing from 223.23 in 2018 to an impressive 434.37 in 2023 and suggesting improved **efficiency in managing inventory** and converting it into sales. There has been steady improvement in accounts receivables turnover over the years, rising from 8.72 in 2018 to 16.98 in 2023, suggesting that the company has become increasingly effective in collecting payments from customers.

Total asset turnover has also shown gradual improvement, growing from 0.29 in 2018 to 0.56 in 2023. This reflects the company's increasing ability to generate revenue from its total assets over time.

	Inventory Turnover	Account Receivable Turnover	Total Asset Turnover
2023	434.37	16.98	0.56
2022	376.82	14.73	0.49
2021	293.55	11.47	0.38
2020	262.19	10.25	0.34
2019	243.87	9.53	0.32
2018	223.23	8.72	0.29

LIQUIDITY

The company's **liquidity** is under strain. The current ratio below 1.0, combined with declining cash coverage, suggests challenges in covering short-term liabilities. While this does not necessarily indicate insolvency, it highlights a need for improved working capital management or strategies to increase current assets, such as cash reserves or receivables. This trend is concerning and could limit operational flexibility in the short term.

EFFICIENCY

Over the years, the **ROI** has shown a significant upward trend, peaking at 89.21% in 2023, up from 76.98% in 2022 and 40.15% in 2018. Despite a consistent upward trajectory in ROI, the **ROE** values show a more fluctuating pattern, with the highest value of 6.74% recorded in 2021 and a drop to 5.32% in 2023. The **ROA** indicates steady improvement, rising from 21.20% in 2018 to 47.10% in 2023. The overall profitability indicators display a robust performance, especially evident in the ROI and ROA metrics, which both show remarkable year-on-year growth. However, the ROE demonstrates more volatility, signaling changes in equity structures (by dividends policy mainly) or financial strategies.

	ROI	ROE	ROA
2023	89.21%	5.32%	47.10%
2022	76.98%	4.71%	40.65%
2021	53.88%	6.74%	28.45%
2020	49.91%	3.65%	26.35%
2019	47.20%	3.84%	24.92%
2018	40,15%	4,94%	21,20%

SOLVENCY

- The declining **debt-to-total assets ratio** and the steady interest coverage ratio suggest that Jack in the Box has strengthened its financial position over time, reducing risk and improving its ability to manage obligations.
- However, the relatively high **D/E ratio** indicates that leverage remains an important aspect of its financial strategy.
- Overall, the data reflects prudent financial management and an improved ability to handle debt-related obligations.

	D/E	D/Total Assets	Interest Coverage Ratio
2023	71.40%	58.48%	3.38
2022	77.82%	62.61%	2.88
2021	56.26%	72.81%	4.29
2020	64.81%	72.27%	3.45
2019	61.98%	133.04%	2.38
2018	52.64%	129.92%	5.12

BSVI Value Investing

FORECAST

US RESTAURANT INDUSTRY[1]

According to the **National Restaurant Association**, the restaurant and food service industry is expected to continue its trend of growth in 2024, with record levels of forecasted total sales in the market, exceeding $1 trillion. The higher sales, however, are expected to be counterbalanced by rising competition amongst restaurants and increasing costs both in terms of wages and ingredients. **Technology** is expected to play an increasingly important role in the management of restaurants, as they provide opportunities to reduce costs, improve services, and provide additional marketing possibilities. These trends provide an opportunity for Jack in the Box to capture the rising demand, however, they need to be conscious of the pressures raising costs and heightening competition.

COMPANY-WIDE FORECAST[2,3]

In the financial year of 2024, Jack in the Box expects to continue **expanding** by establishing new restaurants and improving existing ones. To achieve this, the company expects to spend approximately $110-120 million on capital expenditure and other investments. While a portion of these investments is aimed at the general improvement of both company and franchisee owned restaurants, the largest portion of the expenditure is to be allocated to new restaurants in both segments of the company. The firm expects to open 25-35 Jack in the Box and 10-15 Del Taco restaurants in the following year, with positive net unit growth for both brands.

The expansion, however, is to be accompanied by rising costs, particularly in wages. Company-owned Wage Rates are expected to rise by 10-12% in 2024, wages in California making up most of this increase, as without them the expected wage increase is only 3-5% for the year. Jack in the Box expects a further increase in Commodity Costs by 1-3%, while the Selling, General, and Administrative expenses are estimated to remain at generally the

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1 https://restaurant.org/research-and-media/research/research-reports/state-of-the-industry/

2 [1] https://investors.jackinthebox.com/news/news-details/2023/Jack-in-the-Box-Inc.-Reports-Fourth-Quarter-and-Full-Year-2023-Earnings/

3 https://d18rn0p25nwr6d.cloudfront.net/CIK-0000807882/5f9b691b-8121-4d13-b84f-dc938b10ea02.pdf

same level between $165-175 million, compared to 2023's $173 million. After accounting for a steady depreciation and amortization expense, the expected tax rate of 27% is slightly below the current effective rate of 30.9%. These cost changes are estimated to produce earnings per share within the range of $6.25-6.50 compared to the $6.35 of 2023.

JACK IN THE BOX SEGMENT

Concerning Jack in the Box's **own brand and restaurants**, the company expects to continue raising same store sales with a growth rate lying in the low-to-mid single digits. They expect to capitalize on the increasing market demand by raising not only the number of sales, but also the price of menus, with price increases expected to be between 6-8%, where prices in Californian restaurants are expected to rise the most. These changes are forecasted to produce Company-Owned Restaurant Level Margins of 21-23%.

The company is expected to **continue its franchising program**, where newly franchised restaurants are expected to provide an initial fee of $50 000, with continuous royalty and marketing payments set at 5% of gross sales. While rates are generally set at this level, Jack in the Box also provides an incentive program for new franchisees with lower rates to develop and establish new restaurants. This incentive program is expected to boost the growth of Jack in the Box's stock of franchised restaurants and thus further increase the company's profits. The Franchise Level Margins for 2024 are expected to be around 40-42%.

DEL TACO SEGMENT

Jack in the Box expects a similar level of growth in its other brand, Del Taco. The company estimates the same store sales growth in the low-to-mid single digits, with a price increase also in the 6-8% range, and Californian prices growing the most. The Company-Owned Restaurant Level Margins, however, are forecasted to be under the Jack in the Box branded ones, with margins of only 14-16%.

The company pays great attention to the franchising of Del Taco restaurants, where it aims to create a **more efficient capital structure, develop restaurants, and achieve an asset-light model** to be able to respond to market pressures better. In 2024, the number of franchised restaurants are expected to continue its growth, with Franchise Level Margins expected to be around 29-31%. The newly opened Del Taco franchisee restaurants are expected to provide less revenue per unit, than Jack in the Box ones, as generally these agreements provide the company with an initial franchise fee of only $35 000, and royalty and marketing fees of 5% and 4% of gross sales.

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COMPANY VALUATION

REVENUES

To determine the appropriate **growth rate** for the DCF model, historical, fundamental, and analysts' estimated growth rates were analyzed.

The table below displays **Jack's historical and expected revenue**. It is evident that Jack in the Box experienced a significant **revenue increase during the Covid pandemic**. However, this growth has begun to taper off, and it is anticipated to return to normalized levels over the coming years. Revenue growth is expected to increase from relatively low levels during the initial two years of the forecast period before stabilizing at a rate of 2% for the subsequent years. After the five-year horizon, a **perpetual growth rate of 2%** is assumed, aligning with the long-term inflation target of the FED.

Year	Revenues (in M $)	Growth rate
2020	$ 1,021	-
2021	$ 1,143	11.96%
2022	$ 1,468	28.37%
2023	$ 1,692	15.27%
2024E	$ 1,580	(6.63%)
2025E	$ 1,546	(2.15%)
2026E	$ 1,550	0.26%
2027E	$ 1,581	2.00%
2028E	$ 1,612	2.00%

WACC

COST OF EQUITY

The cost of equity is calculated using the **Capital Asset Pricing Model (CAPM)**. A **risk-free rate of 4.28%** was selected, based on the Yield of the US Treasury Securities at 10-Year constant maturity. A 3-year equity **beta of 2.09** was used in the model, multiplied by a market risk premium of 4.60%. The latter value calculated by NYU Professor Aswath Damodaran. Using the values computed above, we arrived at a conclusive **cost of equity of 13.91%.**

Cost of equity	
Risk free rate	4.28%
MRP	4.60%
Beta	2.09
K_e	13.91%

COST OF DEBT

We initiate the computation of the cost of debt using the **same risk-free rate** assumed for the cost of equity (4.28%).

We added to this value the **credit spread**, calculated with an Interest Coverage Ratio of 3.38. With this method we came up with a credit spread of 1.21%. Consequently, a pre-tax **cost of debt of 5.49.%** is established. We considered an average of German and US tax shield equal to 25% and therefore we computed an after-tax cost of debt of 4.12%.

Cost of debt	
Risk free rate	4.28%
EBIT/interests	3.38
Credit spread	1.21%
K_d	5.49%

WACC

WACC	
MV of equity	$ 963mn
MV of net debt	$ 3,146mn
Tax rate	25%
E/(D+E)	23.44%
D/(D+E)	76.56%
WACC	6.41%

The Weighted Average Cost of Capital (WACC) is computed by weighing the cost of debt and the cost of equity according to their respective proportions in the capital structure.

As of December 2nd, 2024, Jack has a **market cap** of around $963 million (23.44%) and $3,146 million of **net debt** (76.56%). This computation yields a **WACC of 6.41%.**

The following tables display a comprehensive list of all the data points that were used in the computation of the Weighted Average Cost of Capital (WACC).

DISCOUNTED CASH FLOW MODEL

In the discounted cash flow (DCF) model, we developed two scenarios, a base scenario and a positive scenario. The **base scenario** is based on the assumption that revenues will grow as predicted by the analysts, and costs will also increase accordingly. In contrast, the **positive scenario** assumes that revenues will grow at the same rate as the forecasted growth of the sector, adjusted for correlation (2.65%). Additionally, we categorized costs into fixed and variable. The variable costs will grow in line with revenues, while the fixed costs are expected to increase at the inflation rate. Consequently, the DCF model provides two results based on these scenarios and their respective assumptions (see below the result of the assumptions made). Discounting Jack's projected cash flows with above described WACC yields an

Jack In The Box
Scenarios

Scenario Switch		2024	2025	2026	2027	2028
Positive case:	2					
SALES SCENARIO		2,65%	2,65%	2,65%	2,65%	2,65%
	Base case	-6,63%	-2,15%	0,26%	2,00%	2,00%
	Positive case	2,65%	2,65%	2,65%	2,65%	2,65%
COST OF SALES SCENARIO						
COGS		2,65%	2,65%	2,65%	2,65%	2,65%
	Base case	-19,85%	-8,96%	-3,28%	-2,00%	-2,00%
	Positive case	2,65%	2,65%	2,65%	2,65%	2,65%
SG&A		2,00%	2,00%	2,00%	2,00%	2,00%
	Base case	-3,67%	-0,94%	0,38%	0,94%	2,00%
	Positive case	2,00%	2,00%	2,00%	2,00%	2,00%

enterprise value of $3,953 million and an equity value of $807 million for the base scenario and an **enterprise value of $4,664 million and an equity value of $1,517 million** for the positive scenario**.** This corresponds to an intrinsic share price of **$42.19**, representing a 15.15% decrease for the base scenario relying on analyst forecasts. However, using the assumption of the positive scenario we obtain a price of **$79.35**, representing a 59.5% increase over the current **share price** (as of 02/12/2024**) of $49.72**. A more detailed overview of the DCF can be found in the appendix.

Recognizing the heavy reliance of the DCF model on underlying assumptions, we have decided to include a sensitivity analysis reflecting potential changes in the WACC and the perpetual growth rate, which are the two variables with the greatest impact on the DCF model.

SENSITIVITY ANALYSIS

In the table here on the left we calculated **the different price Jack can assume changing the WACC and the perpetual growth rate** we estimated for every scenario. For the base scenario assuming a **pessimistic case**, reflecting both a 0.5% decrease in the perpetual growth rate and a 0.5% increase in WACC compared to the base scenario, the resulting share price is $13.35. Conversely, in the most **optimistic scenario**, featuring a 0.5% higher perpetual growth rate and a 0.5% lower WACC, the calculated share price is $82.79. For the positive scenario, instead, of assuming a **pessimistic case**, reflecting both a 0.5% decrease in the perpetual growth rate and a 0.5% increase in WACC compared to the base scenario, the resulting share price is $45.3 (higher than the one in the base scenario!). Conversely, in the most **optimistic scenario**, featuring a 0.5% higher perpetual growth rate and a 0.5% lower WACC, the calculated share price is $127.3.

g / WACC	5.4%	5.9%	6.4%	6.9%	7.4%
1.50%	73.2	45.9	24.2	6.5	-8.2
1.75%	87.3	56.7	32.7	13.4	-2.6
2.00%	103.5	68.9	**42.2**	20.9	3.6
2.25%	122.3	82.8	52.8	29.3	10.3
2.50%	144.3	98.7	64.8	38.6	17.7

g / WACC	5.4%	5.9%	6.4%	6.9%	7.4%
1.50%	115,9	83,7	58,1	37,2	19,9
1.75%	132,6	96,5	68,2	45,3	26,5
2.00%	151,7	110,9	**79,4**	54,2	33,8
2.25%	173,9	127,3	91,9	64,1	41,7
2.50%	199,8	146,0	106,0	75,1	50,4

COMPORABLE COMPANIES ANALYSIS

To determine the correct valuation of Jack, we also looked at **comparable listed companies** respectively their valuation multiples. We managed to find four quick service restaurant companies in the same market cap category. To be precise, the comparable company multiple is based on the following four businesses: BJ's Restaurants (BJRI), Cracker Barrel Old Country Store (CBRL), First Watch Restaurant Group (FWRG), Portillo's (PTLO), El Pollo Loco Holdings (LOCO).

In order to gain a valid understanding of the proper share price of Jack, the revenue multiple, EBITDA multiple, and EBIT multiple were calculated using the median of the four companies – due to some outliers with higher multiples, the median was the more reliable choice. Doing so we estimated the average between the result of **P/Sales multiple (USD 58.4), EV/EBITDA (USD 82.4)** that clearly were the only two multiples indicating a price near the current market price and in line with the findings of our DCF analysis. Doing so with the multiples ratio analysis we estimated a final price of **$70.41** that reflects our positive scenario result.

COMPANY	EV/EBITDA	P/Sales
BJ's	13.85	0.63
Cracker Barrel	11.97	0.27
First Watch	19.66	1.38
Portillo's	18.09	1.34
El Pollo Loco	10.3	0.66
Peer Median	13.85	0.66

RECOMMENDATION

Based on previous analysis we recommend that also if the analysts provide estimates for an overpriced value, using multiple analyses with peers and a DCF model based more on a sector analysis the company is in reality **undervalued**, with great potential upside. All this leads to an intrinsic **share price from $70.41 up to $79.40**, making quite a good case for investments with about **41.6 – 59.5% upside**. The sensitivity analysis shows that in most such cases, this would prove to be a **solid and strong stock**.

BUY

DCF APPENDIX

BASE SCENARIO

Currently Running Base case Scenario

EBIT ESTIMATION

	Historicals				Explicit forecast				
(Data in USD thousands)	2020	2021	2022	2023	2024	2025	2026	2027	2028
Income statement									
Sales	**1.021.506**	**1.143.670**	**1.468.083**	**1.692.306**	**1.580.106**	**1.546.134**	**1.550.154**	**1.581.157**	**1.612.780**
Growth	*7,51%*	*11,96%*	*28,37%*	*15,27%*	*(6,63%)*	*(2,15%)*	*0,26%*	*2,00%*	*2,00%*
Cost of goods sold (COGS)	**(102.449)**	(113.006)	(216.345)	(250.836)	(201.045)	(183.031)	(177.028)	(173.487)	(170.018)
% of sales	*(10,03%)*	*(9,88%)*	*(14,74%)*	*(14,82%)*	*(12,72%)*	*(11,84%)*	*(11,42%)*	*(10,97%)*	*(10,54%)*
Gross profit	**919.057**	**1.030.664**	**1.251.738**	**1.441.470**	**1.379.061**	**1.363.102**	**1.373.126**	**1.407.669**	**1.442.762**
Other SG&A expenses	(635.675)	(694.218)	(947.368)	(1.100.430)	(1.060.044)	(1.050.080)	(1.054.070)	(1.063.978)	(1.085.258)
EBITDA	**283.382**	**336.446**	**304.370**	**341.040**	**319.017**	**313.023**	**319.056**	**343.691**	**357.504**
Margin	*27,74%*	*29,42%*	*20,73%*	*20,15%*	*20,19%*	*20,25%*	*20,58%*	*21,74%*	*22,17%*
D&A	(52.798)	(46.500)	(56.100)	(62.287)	(63.940)	(65.636)	(67.377)	(69.165)	(71.000)
EBIT	**230.584**	**289.946**	**248.270**	**278.753**	**255.077**	**247.387**	**251.678**	**274.526**	**286.505**
Margin	*22,57%*	*25,35%*	*16,91%*	*16,47%*	*16,14%*	*16,00%*	*16,24%*	*17,36%*	*17,76%*

DCF

(Data in USD thousands)	2020	2021	2022	2023	2024	2025	2026	2027	2028	TV
EBIT	230.584	289.946	248.270	278.753	255.077	247.387	251.678	274.526	286.505	
Operational taxes	(57.646)	(72.487)	(62.068)	(69.688)	(63.769)	(61.847)	(62.920)	(68.632)	(71.626)	
NOPAT	**172.938**	**217.460**	**186.203**	**209.065**	**191.308**	**185.540**	**188.759**	**205.895**	**214.879**	
D&A	52.798	46.500	56.100	62.287	63.940	65.636	67.377	69.165	71.000	
Gross cash flows	**225.736**	**263.960**	**242.303**	**271.352**	**255.248**	**251.176**	**256.136**	**275.059**	**285.878**	
Change noncash WC	19.707	(20.271)	(91.104)	(73.811)	(41.124)	(40.240)	(40.344)	(41.151)	(41.974)	
% of sales	*1,93%*	*(1,77%)*	*(6,21%)*	*(4,36%)*	*(2,60%)*	*(2,60%)*	*(2,60%)*	*(2,60%)*	*(2,60%)*	
CAPEX	(19.528)	(41.008)	(46.475)	(74.954)	(51.717)	(50.605)	(50.737)	(51.752)	(52.787)	
	(1,91%)	*(3,59%)*	*(3,17%)*	*(4,43%)*	*(3,27%)*	*(3,27%)*	*(3,27%)*	*(3,27%)*	*(3,27%)*	
FCFF	**225.915**	**202.681**	**104.724**	**122.587**	**162.406**	**160.331**	**165.055**	**182.156**	**191.117**	**4.420.393**
TV cash flow										
Year					1	2	3	4	5	5
Discount factor					0,94	0,88	0,83	0,78	0,73	0,73
PV FCFF					152.623	141.596	136.987	142.074	140.084	3.240.027
Terminal Value										
PV terminal value										

Enterprise Value	**3.953.391**
(Net Debt)	(3.146.374)
Equity Value	**807.017**
NOSH	19.130
Share Price	**42,19**
Current Share Price	49,20
Reccomendation	SELL

POSITIVE SCENARIO

EBIT ESTIMATION									
	Historicals				Explicit forecast				
(Data in USD thousands)	2020	2021	2022	2023	2024	2025	2026	2027	2028
Income statement									
Sales	**1,021,506**	**1,143,670**	**1,468,083**	**1,692,306**	**1,737,204**	**1,783,292**	**1,830,604**	**1,879,171**	**1,929,026**
Growth	*7.51%*	*11.96%*	*28.37%*	*15.27%*	*2.65%*	*2.65%*	*2.65%*	*2.65%*	*2.65%*
Cost of goods sold (COGS)	**(102,449)**	(113,006)	(216,345)	(250,836)	(257,491)	(264,322)	(271,335)	(278,533)	(285,923)
% of sales	*(10.03%)*	*(9.88%)*	*(14.74%)*	*(14.82%)*	*(14.82%)*	*(14.82%)*	*(14.82%)*	*(14.82%)*	*(14.82%)*
Gross profit	**919,057**	**1,030,664**	**1,251,738**	**1,441,470**	**1,479,713**	**1,518,970**	**1,559,269**	**1,600,637**	**1,643,103**
Other SG&A expenses	(635,675)	(694,218)	(947,368)	(1,100,430)	(1,122,439)	(1,144,887)	(1,167,785)	(1,191,141)	(1,214,964)
EBITDA	**283,382**	**336,446**	**304,370**	**341,040**	**357,274**	**374,083**	**391,484**	**409,496**	**428,139**
Margin	*27.74%*	*29.42%*	*20.73%*	*20.15%*	*20.57%*	*20.98%*	*21.39%*	*21.79%*	*22.19%*
D&A	(52,798)	(46,500)	(56,100)	(62,287)	(63,940)	(65,636)	(67,377)	(69,165)	(71,000)
EBIT	**230,584**	**289,946**	**248,270**	**278,753**	**293,335**	**308,447**	**324,107**	**340,332**	**357,139**
Margin	*22.57%*	*25.35%*	*16.91%*	*16.47%*	*16.89%*	*17.30%*	*17.70%*	*18.11%*	*18.51%*

DCF										
(Data in USD thousands)	2020	2021	2022	2023	2024	2025	2026	2027	2028	TV
EBIT	230,584	289,946	248,270	278,753	293,335	308,447	324,107	340,332	357,139	
Operational taxes	(57,646)	(72,487)	(62,068)	(69,688)	(73,334)	(77,112)	(81,027)	(85,083)	(89,285)	
NOPAT	**172,938**	**217,460**	**186,203**	**209,065**	**220,001**	**231,335**	**243,080**	**255,249**	**267,855**	
D&A	52,798	46,500	56,100	62,287	63,940	65,636	67,377	69,165	71,000	
Gross cash flows	**225,736**	**263,960**	**242,303**	**271,352**	**283,941**	**296,971**	**310,457**	**324,413**	**338,854**	
Change noncash WC	19,707	(20,271)	(91,104)	(73,811)	(45,213)	(46,412)	(47,644)	(48,908)	(50,205)	
% of sales	*1.93%*	*(1.77%)*	*(6.21%)*	*(4.36%)*	*(2.60%)*	*(2.60%)*	*(2.60%)*	*(2.60%)*	*(2.60%)*	
CAPEX	(19,528)	(41,008)	(46,475)	(74,954)	(56,859)	(58,368)	(59,916)	(61,506)	(63,138)	
	(1.91%)	*(3.59%)*	*(3.17%)*	*(4.43%)*	*(3.27%)*	*(3.27%)*	*(3.27%)*	*(3.27%)*	*(3.27%)*	
FCFF	**225,915**	**202,681**	**104,724**	**122,587**	**181,869**	**192,191**	**202,898**	**214,000**	**225,512**	**5,215,914**
TV cash flow										
Year					1	2	3	4	5	5
Discount factor					0.94	0.88	0.83	0.78	0.73	0.73
PV FCFF					170,913	169,734	168,395	166,911	165,294	3,823,123
Terminal Value										
PV terminal value										

Enterprise Value	**4,664,369**
(Net Debt)	(3,146,374)
Equity Value	**1,517,995**
NOSH	19,130
Share Price	**79.35**
Current Share Price	49.20
Reccomendation	**BUY**