Position Close Update: Cracker Barrel Old Country Store (CBRL)

Cracker Barrel Old Country Store (CBRL) – Closing Long Position – down 33% vs. S&P up 43%

We made Cracker Barrel (CBRL: $111/share) a Long Idea on June 12, 2019 and reiterated our opinion on April 29, 2020 and on February 24, 2021. CBRL earned an Attractive rating at the time of our first report. We believed the business' rising return on invested capital (ROIC), growing same-store sales, and potential to expand its physical footprint meant that the expectations baked into the valuation of its stock at the time were overly pessimistic.

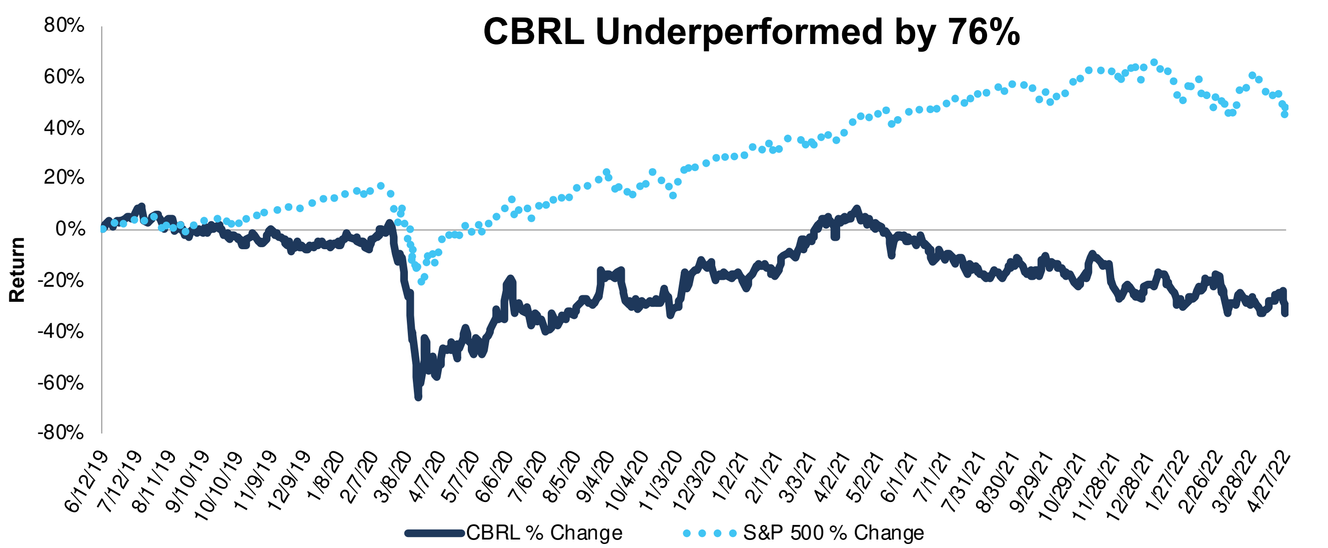
All of our research[1] leverages our more reliable fundamental data[2], as proven in The Journal of Financial Economics and shown to provide a new source of alpha, to get the truth about earnings.

During the nearly three-year holding period, CBRL underperformed as a long position, falling 33% compared to a 43% gain for the S&P 500.

While we expected the company's superior profitability and strong liquidity would help the business grow during a recovery from pandemic-related disruptions, the company's Core Earnings over the trailing twelve months (TTM) are 38% below fiscal 2019 levels. As we look ahead, rising labor and supply costs will pressure the company's margins. More importantly, Cracker Barrel's struggle to drive guest traffic to pre-pandemic levels, and shrinking off-premise revenue, mean opportunities for long-term profit growth are dimming, too.

Given the formidable challenges facing Cracker Barrel's business, this stock holds limited upside potential with increased risk of permanent profit decline. We believe there are better opportunities in this market that present much more favorable risk/reward and are closing this long position.

Figure 1: CBRL vs. S&P 500 – Price Return – Unsuccessful Long Idea



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

[1] Harvard Business School features our Robo-Analyst research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

[2] Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more here.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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