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How to get away with insider trading and how to stop it?

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How to Get Away with Insider Trading

AND HOW TO STOP IT

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Abstract:

The realm of investing, while promising, is often clouded by complexity and opacity, exacerbated by the prevalence of insider trading. This unethical practice allows select individuals to amass vast fortunes by exploiting confidential information unavailable to the public. Particularly alarming is the possibility of insider trading within Congress, where lawmakers wield privileged access to non-public information and could possibly engage in lucrative stock transactions. This paper delves into specific coincidences of Congressional stock trading to underscore the systemic nature of this phenomenon among influential figures.

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Introduction

The world of investing can be quite complex and overwhelming at times. What makes it even more challenging is the fact that some individuals rake in millions of dollars each year by trading on insider information. This essentially means they're making money off knowledge that the public doesn't have access to, which is unfair to everyone else.

It's alarming to note that members of Congress and other government officials could sometimes use confidential information about upcoming bills or decisions to trade stocks, profiting substantially from these trades. This allegedly happens quite frequently within Congress because lawmakers often get a sneak peek at legislation that could significantly impact certain companies before the public does. Insider trading, in simple terms, occurs when someone buys or sells stocks based on information that hasn't been made public yet. I'll delve into specific allegations of insider trading within Congress and other well-known cases to highlight a pattern of this behavior among influential individuals. By examining these cases, I aim to illustrate the stark contrast between the returns generated from insider trading and those from investing in a stock based on information that becomes available to the public later on. This comparison will shed light on the unfair advantage enjoyed by insiders and the detrimental impact it has on ordinary investors. Congressional insider trading is one of the worst types of insider trading because members of Congress are there to speak for constituents of a certain region and not make millions of dollars illegally because they get a tip from a company. The problem with insider trading is that lay people that do not have this advantage are not just going to fall behind; they are going to lose returns because those returns have already been priced in by their own governmental representatives. The amount of money being stolen from the United States's people is alarming because by the time the information has reached the people, the stock price has already risen. This is because insider trading has let the wealthy invest a lot of money to make more money, driving the stock price up. Through research and financial analysis, I will be able to point out how detrimental insider trading is to the rest of the people and how unfair it really is.

Many individuals hesitate to delve into this topic because it directly challenges the wealth and power of those who represent them in government. These figures wield significant influence due to their financial status, instilling fear, and skepticism among those who contemplate investigating Congressional insider trading. While there's widespread opposition to Congressional insider trading among non-members of Congress, the ability to enact change is hindered by the very individuals who engage in these practices. It's a troubling dynamic where those with the power to change the laws are also the ones benefiting from insider trading. Proposing stronger laws to penalize non-disclosure or late disclosure of trades could be a significant step forward. While there's a proposed bill advocating for a complete ban on Congressional stock ownership, I personally believe that if stringent regulations against insider trading were enforced, there might not be a need to prohibit Congress members from trading stocks altogether.

Surprisingly, there's limited research on the precise differences in returns between trading based on insider information and trading based on publicly available information. Highlighting the substantial profits amassed by Congress members through insider trading could shine a spotlight on this issue and potentially lead to reforms. By quantifying the financial gains made by Congress members through insider trading, we may uncover the extent of the problem and prompt action to address it. This could ultimately mitigate the disparity between their substantial earnings from trading stocks and their official salaries, which are comparatively modest at around $174,000.

Methodology

In the initial phase of my thesis, I will scrutinize instances where members of Congress or other political figures have engaged in insider trading. While some may not have faced legal repercussions for insider trading, allegations suggest their involvement. These individuals have profited significantly by leveraging inside information, such as pending legislation that could boost company profits and earnings per share. I will show how trading stocks based on non-public information, such as forthcoming bills or impending public disclosures, constitutes insider trading. This privileged information grants politicians an unfair advantage in stock trading, shielding them from potential losses. Additionally, I'll examine how politicians exploit a loophole by involving their spouses, effectively evading prosecution for political insider trading. By imparting confidential stock information to their partners, politicians sidestep legal accountability while still reaping financial gains. This section of the thesis will draw upon resources such as The New York Times article titled "These 97 Members of Congress Reported Trades in Companies Influenced by Their Committees," which highlights instances where lawmakers made convenient stock trades aligned with their committee interests. Additionally, data from Barchart, showcasing politicians' insider trading activity over the past 60 days, will be analyzed. Furthermore, I'll reference an article from Business Insider titled "78 Members of Congress Have Violated a Law Designed to Prevent Insider Trading and Stop Conflicts-of-Interest," shedding light on Congress members who have breached laws pertaining to insider trading, albeit not directly engaging in insider trading themselves.

In the next part of my thesis, I'll dive into how much of a time advantage politicians have over regular folks when it comes to making money from insider information. I'll crunch some numbers to show just how much more money politicians can make by knowing critical info before everyone else. I'll pick a specific stock and breakdown how entering the market at the same time as a politician with insider info gives you a leg up over other investors. Finally, I'll discuss ways we can stop insider trading with new laws. The tricky part is that the very people who should be making these laws are often involved in insider trading themselves. I'll examine the loopholes in current laws that let politicians trade on inside information and explore a proposed bill that aims to ban Congress members from trading stocks altogether. Using all this research, I'll propose ethical investment practices that both regular investors and politicians should follow, regardless of whether they have inside information or not.

Market Background

Before delving into solutions for insider trading, it's crucial to understand how the stock market operates. In today's financial landscape, companies can raise capital by selling ownership shares, known as stocks. Those who own these shares stand to profit alongside the company's success. When someone buys a share of a company, they're essentially betting on its growth and profitability.

According to Investopedia, “stocks represent ownership equity in a company, granting shareholders voting rights and a claim on corporate earnings in the form of capital gains and dividends”. Investors, both individual and institutional, gather on stock exchanges to buy and sell shares in a public setting. Share prices are determined by supply and demand dynamics as buyers and sellers place orders. However, insider trading undermines the trust in these markets and makes it challenging for individuals to realize capital gains from their investments. Insider trading, as defined by the Oxford Dictionary, refers to “the illegal practice of trading stocks to one's own advantage by accessing confidential information”. Understanding these fundamentals of the stock market and the detrimental effects of insider trading is essential before exploring potential solutions to address this issue.

To understand why insider trading works we must look at the different types of efficient markets. In the world’s markets there are different levels of strength for each country’s specific market. Here below in table 1 are all forms of the Efficient Market Hypothesis:

Different Views of the Efficient Market Hypothesis	Usefulness of Different Sources of Market Information and Analysis		
	Past Information and Technical Analysis	Public Information and Fundamental Analysis	Private Information and Insider Trading
Not Efficient	Yes	Yes	Yes
Weak Form	No	Yes	Yes
Semi-Efficient	No	Sometimes	Yes
Semi-Strong	No	No	Yes
Strong	No	No	No

Table 1

The United States stock market operates under either a Semi-Efficient Market or a Semi-Strong Market framework. While many industry professionals argue that public information, such as fundamental analysis, doesn't offer any advantage because all relevant information is already reflected in stock prices, I question why investment firms employ hundreds of equity research analysts if this were true.

Instead, I advocate for the Semi-Efficient Market Hypothesis. This theory suggests that while markets incorporate much available information into stock prices, there are still opportunities for skilled investors to uncover undervalued or overvalued stocks through diligent fundamental analysis. Equity research plays a crucial role in this process by assessing company financials, industry trends, and other factors to inform investment decisions. In essence, while the market may not be perfectly efficient, it is not completely inefficient either. There exists a middle ground where investors can leverage their skills and insights to potentially outperform the market through careful analysis and research.

Why was that important? Well, whether you believe me, or the Professionals, insider trading is still extremely within the realm of possibilities and affects the market in the same way. Our stock market operates on the principle of open trading, allowing individuals to buy and sell stocks freely. However, when some individuals possess exclusive knowledge that isn't available to everyone else, it creates an unfair advantage. This selective access to information can lead to a situation where only a privileged few can profit, making it difficult for others to succeed.

The problem arises when certain individuals have information that could significantly impact a company's stock price, but this information isn't shared with the public. For instance, if Apple were to be exposed for fraudulent practices, those in the know would likely sell their Apple stock to avoid losses. This type of decision-making, based on undisclosed information, is considered illegal insider trading.

Despite laws against insider trading, it continues to be a prevalent issue, with some individuals exploiting their access to privileged information for personal gain. This unfair practice undermines the fairness and integrity of the market, disadvantaging ordinary investors and eroding trust in the system. Unfortunately, insider trading persists and may even be on the rise, posing a significant challenge to market integrity.

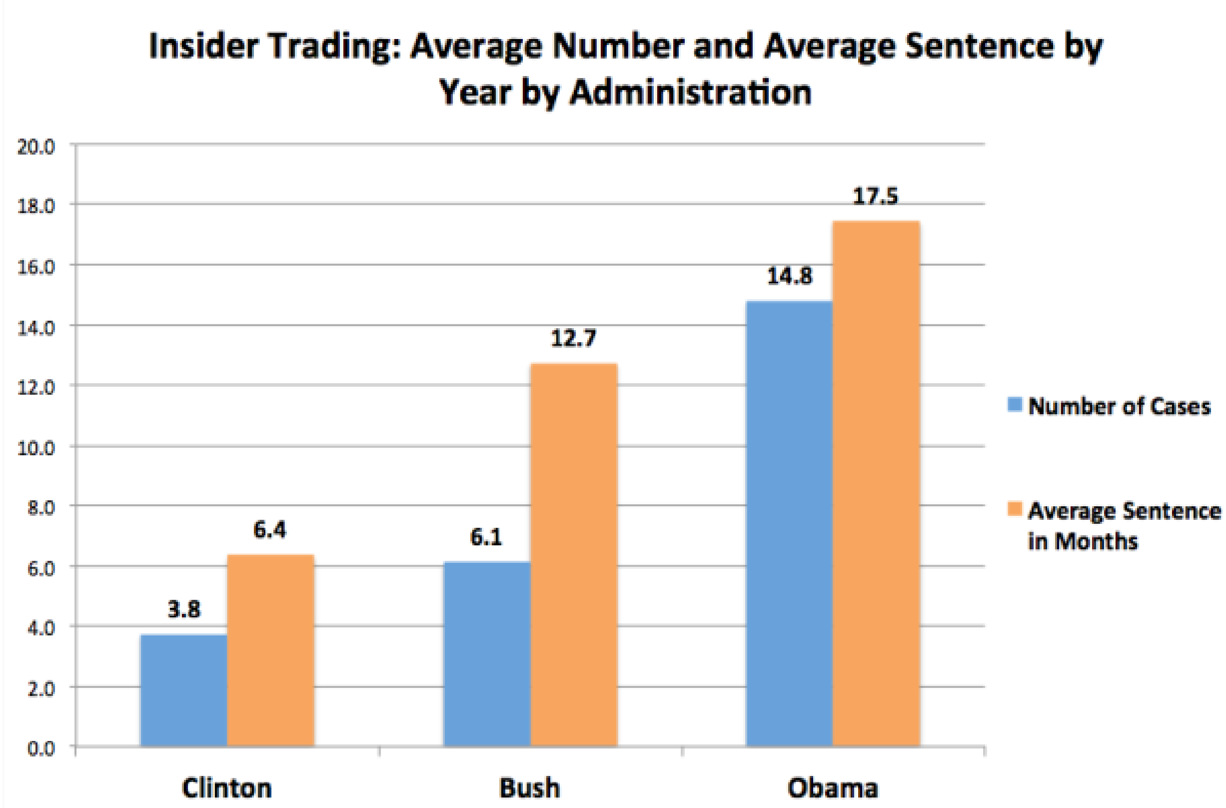

Figure 1

The graph above (figure 1) illustrates the number of insider trading cases per year under each presidential administration. While it may appear that authorities are effectively cracking down on insider trading, the reality is more nuanced. Despite an apparent increase in the number of cases being pursued, the overall prevalence of insider trading is actually on the rise.

This uptick in insider trading can be attributed to various factors, including increased political discussions and favors within the United States Government. As corruption becomes more pervasive within government circles, individuals may feel emboldened to engage in illegal activities such as insider trading. Therefore, while the data may suggest a positive trend in terms of enforcement efforts, it also serves as a sobering reminder of the growing challenges posed by corruption and unethical behavior within the corridors of power. Addressing these systemic issues is essential to safeguarding the integrity and fairness of our financial markets.

This graph (Figure 2) shows the United States's Corruption perception index (lower score is worse):

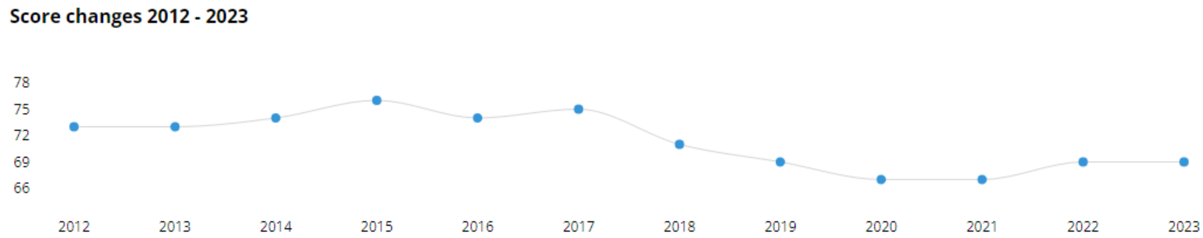

Figure 2

This shows that we have had a declining score in our index score which means that corruption in the United States is worsening. This is mainly due to the lack of trust and transparency that the US government is experiencing in relation to its people. The main risk is in transparency.

Who Can Get Away with Insider Trading?

Who can commit insider trading? In theory, anyone with access to critical non-public information about a stock could engage in insider trading by acting on that information before it becomes public knowledge.

Who can get away with insider trading? It's not as straightforward. While most civilians who engage in insider trading are likely to be caught, there's a notable exception: members of Congress. This is because congressional committees often hear confidential information about individual companies that could significantly impact their stock prices. Being among the first to receive such information, members of Congress have the opportunity to act on it before it becomes public, potentially profiting from insider knowledge.

In 2012, President Obama signed into law the STOCK Act, which aimed to prohibit trading on non-public congressional information. However, in 2013, just over a year later, significant provisions of the STOCK Act were essentially reversed by a new bill. Surprisingly, this reversal didn't receive much media attention, unlike the initial passage of the STOCK Act.

The lack of coverage can be attributed to the timing of the reversal, which occurred towards the end of the day on a Friday. This strategic timing likely minimized public awareness and scrutiny of the legislative changes. Specifically, “In the House, Majority Leader Eric Cantor, R-Va., shepherded the bill through. It was Friday afternoon at 12:52. Many members had already left for the weekend or were on their way out. The whole process took only 30 seconds. There was no debate.” (Keith) This reversal of the law was done without many people knowing, even many members of Congress didn't know it was happening.

Indeed, one of the key aspects of the reversal was the removal of the requirement to publicly disclose all trade activity by members of Congress. Initially, the STOCK Act mandated the online posting of every trade made by Congress members, aiming to increase transparency and accountability. However, with the reversal of the STOCK Act, this crucial provision was eliminated. Consequently, the public lost access to valuable information about the trading activities of Congress members, reducing transparency and raising concerns about potential conflicts of interest and insider trading. For reference, their system before had many steps, “You have to enter your name and address into a computer, and then you can search. But you have to know the name of the person you are searching for. If he or she has filed a financial disclosure form, it will come up as a PDF, which you can print at a cost of 10 cents a page. … the only option for those who want to get a comprehensive look at what some 2,900 staffers have filed is to review the cases one by one. "And that's just too big a job for anybody to do."” (Keith) With the reversal of the STOCK Act, the transparency and accessibility of congressional stock trade records have significantly diminished. Previously, individuals could easily access these records online, facilitating oversight by both the SEC and the public. However, with the reversal of the STOCK Act, this convenient online access has been eliminated, reverting to more cumbersome and less transparent methods of record-keeping. While some websites may attempt to compile and digitize these records, the sheer volume of trades makes it impractical to have comprehensive online coverage.

As a result, tracking congressional stock trades has become increasingly challenging for both regulatory agencies like the SEC and ordinary citizens. The lack of easily accessible information raises concerns about accountability and the potential for undisclosed conflicts of interest among elected officials.

How To Get Away with Insider Trading?

When answering this question, it is important to note that for a regular citizen, who is not a part of the government, it is extremely hard to get away with such a thing. The reason this is so, is that the SEC tracks a lot of insider trading cases and will act on them the moment they have even the slightest sliver of evidence. The only safe way to get away with insider trading is by following my 17-step list.

How To Get Away with Insider Trading a Comprehensive List:

1. Be at least 25-year-old (House of Representatives) or 30-years-old (Senate).
2. Be a citizen of the United States for at least 9 years.
3. Live in the state you wish to "represent" for a number of years specified by each state.
4. After meeting all these requirements, run for office in the congress.
5. Get elected to either the Senate or the House of Representatives.
6. Do research on what type of stocks can offer the greatest returns.

7. Find someone to appoint you to a committee that deals with the sector of stocks you previously found research on.
8. Get appointed to that committee.
9. Be affirmed by the rest of the House or Senate by a vote. Don't worry if you do not get appointed to the specific committee you wanted to do your stock research on, just pick your second choice for stocks with the greatest returns and start over from step 7.
10. Listen to all the information you will hear from companies wanting to do certain things or explain what is about to happen to them and take notes especially on which companies are on the stock market.
11. Deciding what to do on the company who has just told you some information:
    A. If the news was good and would lead to the stock increasing in price, buy shares of the stock and wait for the information to go public and watch your gains as people rush to buy that company's stock.
    B. If the news was bad and would lead to the stock decreasing in price, either sell shares that you already had to avoid losses or go even further and short the stock and wait for the information to go public and watch your gains as people rush to sell that company's stock.
12. Repeat the process from step 10 until elections come back up.
13. Just before the elections, after your term is up promise to do something that would make people vote for you. (This is where deciding whether to be in the House or Senate could make you have to do less work. Re-elections are every 2 years for the House and every 6 years for the Senate (this might mean that you can do less work if you are in the Senate.))
14. Get re-elected.

15. Get back on the committee you were previously on and start this whole process over from step 10.
16. You can keep repeating steps 10-15 until your death. The reason for this is the fact that there are no term limits on either the Senate or House of Representatives (good news for you.)
17. Retire early after you have all the money you need totaling millions of dollars even though your maximum salary was capped at $174,000.

Members of Congress possess a distinct advantage in insider trading, leveraging non-public information inaccessible to the public. This advantage enables them to execute trades based on privileged insights, potentially yielding significant profits while ordinary investors remain unaware of crucial developments. The discrepancy in information access underscores the complexities faced by regulators and the public in detecting and addressing insider trading within Congress. The lack of transparency and accountability in this domain presents significant challenges to ensuring the integrity and fairness of our financial markets. Although legislative efforts such as the STOCK Act aimed to mitigate these issues, subsequent reversals and loopholes have hindered effective enforcement. Consequently, the ability of Congress members to engage in insider trading with minimal repercussions remains a pressing concern, necessitating ongoing scrutiny and reform efforts to safeguard market integrity and investor confidence.

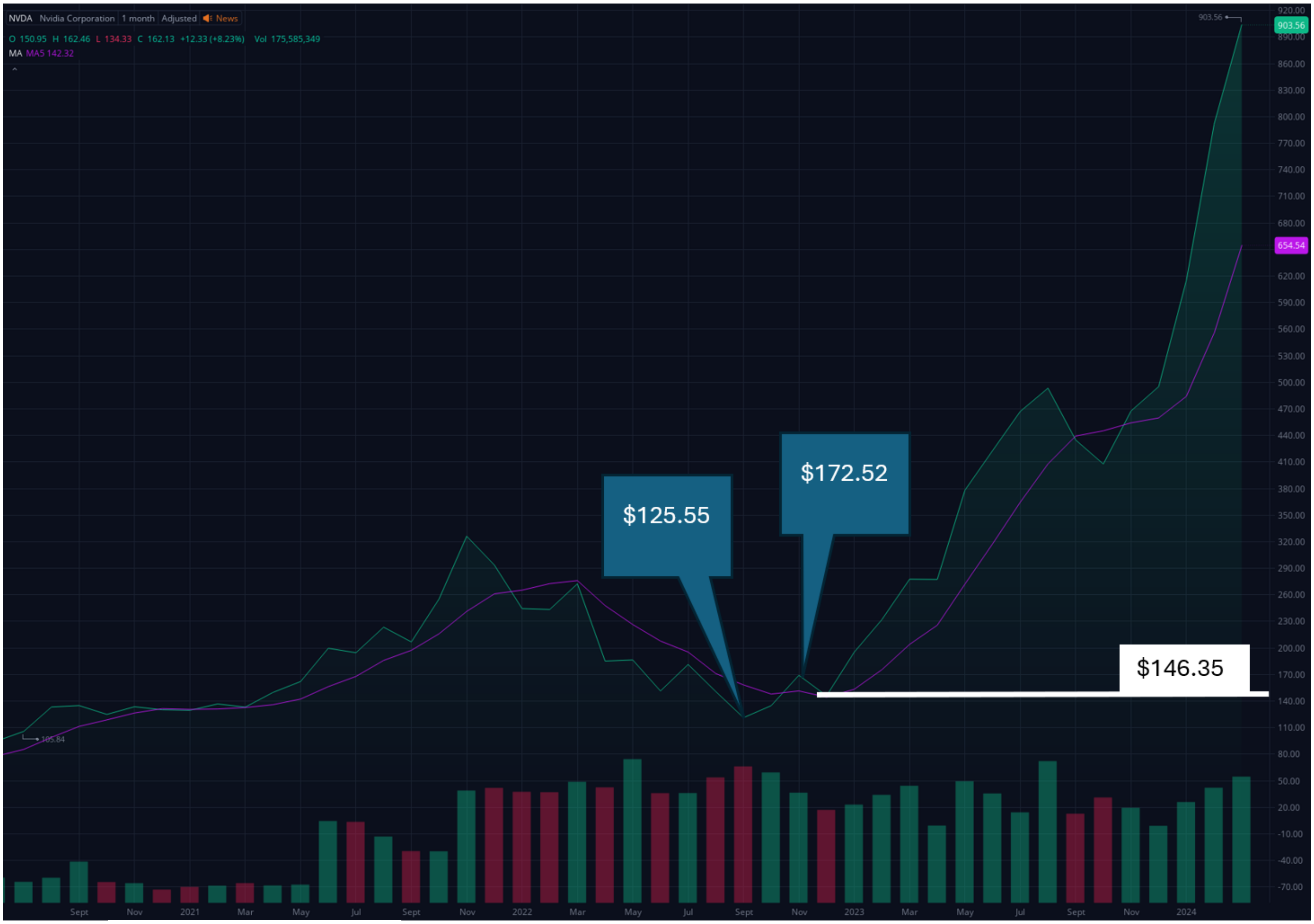

Figure 3

The graph above (figure 3) shows a real trade of Nvidia Corporation (NVDA). This company stands as a prominent entity in the technology sector, poised to leverage the advantages presented by the introduction of the CHIPS Act. This legislation promises significant benefits to Nvidia, as it earmarks a portion of a substantial $260 billion allocation for the company. Notably, prior to the public disclosure of the CHIPS Act, several members of Congress engaged in trading activities involving NVDA stocks. Below is a list (figures 4-7) of these individuals who executed trades on NVDA securities upon becoming privy to information regarding the impending legislative development preceding its official announcement.

<table>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>9 Sept
2022</td><td>9 Aug
2022</td><td>30
days</td><td>Child</td><td>BUY</td><td>1K–15K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>9 Sept
2022</td><td>1 Aug
2022</td><td>38
days</td><td>Child</td><td>SELL</td><td>1K–15K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 Aug
2022</td><td>19 Jul
2022</td><td>21
days</td><td>Spouse</td><td>BUY</td><td>15K–50K</td></tr>
<tr><td>Kathy Manning
Democrat|House|NC</td><td>NVIDIA Corporation
NVDA:US</td><td>11 Aug
2022</td><td>27 Jul
2022</td><td>14
days</td><td>Undisclosed</td><td>BUY*</td><td>15K–50K</td></tr>
<tr><td>Kathy Manning
Democrat|House|NC</td><td>NVIDIA Corporation
NVDA:US</td><td>11 Aug
2022</td><td>27 Jul
2022</td><td>14
days</td><td>Spouse</td><td>BUY*</td><td>1K–15K</td></tr>
<tr><td>Kathy Manning
Democrat|House|NC</td><td>NVIDIA Corporation
NVDA:US</td><td>11 Aug
2022</td><td>27 Jul
2022</td><td>14
days</td><td>Spouse</td><td>BUY*</td><td>1K–15K</td></tr>
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Democrat|House|NC</td><td>NVIDIA Corporation
NVDA:US</td><td>11 Aug
2022</td><td>15 Jul
2022</td><td>26
days</td><td>Spouse</td><td>BUY*</td><td>1K–15K</td></tr>
<tr><td>Nancy Pelosi
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>27 Jul
2022</td><td>26 Jul
2022</td><td>0
days</td><td>Spouse</td><td>SELL*</td><td>1M–5M</td></tr>
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NVDA:US</td><td>14 Jul
2022</td><td>17 Jun
2022</td><td>27
days</td><td>Spouse</td><td>BUY*</td><td>1M–5M</td></tr>
<tr><td>Tommy Tuberville
Republican|Senate|AL</td><td>NVIDIA Corporation
NVDA:US</td><td>13 Jul
2022</td><td>15 Jun
2022</td><td>28
days</td><td>Joint</td><td>SELL*</td><td>15K–50K</td></tr>
<tr><td>Tommy Tuberville
Republican|Senate|AL</td><td>NVIDIA Corporation
NVDA:US</td><td>13 Jul
2022</td><td>15 Jun
2022</td><td>28
days</td><td>Joint</td><td>BUY*</td><td>15K–50K</td></tr>
<tr><td>Tommy Tuberville
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2022</td><td>8 Jun
2022</td><td>35
days</td><td>Joint</td><td>BUY*</td><td>1K–15K</td></tr>
<tr><td>Pete Sessions
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2022</td><td>8 Jul
2022</td><td>1
days</td><td>Spouse</td><td>BUY*</td><td>1K–15K</td></tr>
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2022</td><td>10 Jun
2022</td><td>27
days</td><td>Joint</td><td>SELL*</td><td>1K–15K</td></tr>
<tr><td>Josh Gottheimer
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NVDA:US</td><td>17 Jun
2022</td><td>27 May
2022</td><td>20
days</td><td>Joint</td><td>BUY*</td><td>1K–15K</td></tr>
<tr><td>Ro Khanna
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2022</td><td>4 May
2022</td><td>37
days</td><td>Child</td><td>SELL</td><td>1K–15K</td></tr>
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2022</td><td>10 May
2022</td><td>31
days</td><td>Child</td><td>BUY</td><td>1K–15K</td></tr>
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Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>15 Jun
2022</td><td>23 May
2022</td><td>18
days</td><td>Spouse</td><td>SELL</td><td>15K–50K</td></tr>
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NVDA:US</td><td>15 Jun
2022</td><td>5 May
2022</td><td>36
days</td><td>Child</td><td>SELL</td><td>1K–15K</td></tr>
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Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>15 Jun
2022</td><td>5 May
2022</td><td>36
days</td><td>Child</td><td>SELL</td><td>50K–100K</td></tr>
<tr><td>Michael McCaul
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2022</td><td>4 Apr
2022</td><td>51
days</td><td>Spouse</td><td>SELL</td><td>50K–100K</td></tr>
<tr><td>Michael McCaul
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NVDA:US</td><td>27 May
2022</td><td>4 Apr
2022</td><td>51
days</td><td>Child</td><td>SELL</td><td>15K–50K</td></tr>
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Democrat|House|NY</td><td>NVIDIA Corporation
NVDA:US</td><td>23 May
2022</td><td>4 Mar
2022</td><td>77
days</td><td>Undisclosed</td><td>BUY*</td><td>15K–50K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 May
2022</td><td>1 Apr
2022</td><td>35
days</td><td>Child</td><td>BUY</td><td>1K–15K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 May
2022</td><td>12 Apr
2022</td><td>24
days</td><td>Child</td><td>SELL</td><td>15K–50K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 May
2022</td><td>7 Apr
2022</td><td>29
days</td><td>Child</td><td>SELL</td><td>1K–15K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 May
2022</td><td>21 Apr
2022</td><td>15
days</td><td>Child</td><td>BUY</td><td>1K–15K</td></tr>
<tr><td>Ro Khanna
Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 May
2022</td><td>21 Apr
2022</td><td>15
days</td><td>Child</td><td>BUY</td><td>1K–15K</td></tr>
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Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>12 May
2022</td><td>11 Apr
2022</td><td>25
days</td><td>Spouse</td><td>SELL</td><td>15K–50K</td></tr>
<tr><td>Pete Sessions
Republican|House|TX</td><td>NVIDIA Corporation
NVDA:US</td><td>15 Apr
2022</td><td>22 Mar
2022</td><td>23
days</td><td>Spouse</td><td>BUY*</td><td>1K–15K</td></tr>
<tr><td>Alan Lowenthal
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NVDA:US</td><td>13 Apr
2022</td><td>6 Apr
2022</td><td>6
days</td><td>Spouse</td><td>SELL*</td><td>1K–15K</td></tr>
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Democrat|House|CA</td><td>NVIDIA Corporation
NVDA:US</td><td>11 Mar
2022</td><td>18 Feb
2022</td><td>18
days</td><td>Spouse</td><td>BUY</td><td>1K–15K</td></tr>
</table>

Figure 4

Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	11 Mar 2022	11 Feb 2022	25 days	Child	SELL	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	11 Mar 2022	14 Feb 2022	22 days	Child	SELL	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	11 Mar 2022	17 Feb 2022	19 days	Spouse	BUY	15K–50K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	7 Mar 2022	18 Feb 2022	14 days	Joint	BUY*	1K–15K
Kurt Schrader Democrat|House|OR	NVIDIA Corporation NVDA:US	4 Mar 2022	22 Feb 2022	8 days	Undisclosed	BUY	1K–15K
Don Beyer Democrat|House|VA	NVIDIA Corporation NVDA:US	4 Mar 2022	28 Feb 2022	3 days	Joint	SELL*	15K–50K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	24 Feb 2022	28 Jan 2022	26 days	Spouse	SELL	1K–15K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	24 Feb 2022	20 Jan 2022	34 days	Spouse	SELL	15K–50K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	24 Feb 2022	26 Jan 2022	28 days	Spouse	SELL	50K–100K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	24 Feb 2022	28 Jan 2022	26 days	Child	SELL	15K–50K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	24 Feb 2022	20 Jan 2022	34 days	Child	SELL	15K–50K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	24 Feb 2022	26 Jan 2022	28 days	Child	SELL	50K–100K
Josh Gottheimer Democrat|House|NJ	NVIDIA Corporation NVDA:US	21 Feb 2022	26 Jan 2022	23 days	Joint	SELL*	1K–15K
Josh Gottheimer Democrat|House|NJ	NVIDIA Corporation NVDA:US	21 Feb 2022	31 Jan 2022	18 days	Joint	SELL*	1K–15K
Dan Meuser Republican|House|PA	NVIDIA Corporation NVDA:US	17 Feb 2022	21 Jan 2022	26 days	Spouse	SELL*	100K–250K
Dan Meuser Republican|House|PA	NVIDIA Corporation NVDA:US	17 Feb 2022	21 Jan 2022	26 days	Child	SELL*	1K–15K
Dan Meuser Republican|House|PA	NVIDIA Corporation NVDA:US	17 Feb 2022	21 Jan 2022	26 days	Child	SELL*	1K–15K
Susan Collins Republican|Senate|ME	NVIDIA Corporation NVDA:US	17 Feb 2022	6 Jan 2022	42 days	Spouse	BUY	15K–50K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	22 Jun 2021	234 days	Joint	SELL*	1K–15K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	18 Jun 2021	238 days	Joint	SELL*	1K–15K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	19 Oct 2021	115 days	Joint	SELL*	1K–15K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	1 Sept 2021	163 days	Joint	SELL*	1K–15K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	5 Nov 2021	98 days	Joint	SELL*	1K–15K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	12 Nov 2021	91 days	Joint	SELL*	15K–50K
Kathy Manning Democrat|House|NC	NVIDIA Corporation NVDA:US	14 Feb 2022	18 Nov 2021	85 days	Joint	SELL*	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	9 Feb 2022	7 Jan 2022	32 days	Child	SELL	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	9 Feb 2022	20 Jan 2022	19 days	Child	BUY	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	9 Feb 2022	21 Jan 2022	18 days	Spouse	BUY	1K–15K
Tom Carper Democrat|Senate|DE	NVIDIA Corporation NVDA:US	3 Feb 2022	31 Jan 2022	3 days	Spouse	BUY	1K–15K
Tom Carper Democrat|Senate|DE	NVIDIA Corporation NVDA:US	3 Feb 2022	18 Jan 2022	16 days	Spouse	SELL	1K–15K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	28 Jan 2022	14 Dec 2021	44 days	Spouse	SELL	15K–50K
Michael McCaul Republican|House|TX	NVIDIA Corporation NVDA:US	28 Jan 2022	17 Dec 2021	41 days	Spouse	SELL	50K–100K

Figure 5

Michael McCaul	Republican	House	TX	NVIDIA Corporation	NVDA:US	28 Jan 2022	21 Dec 2021	37 days	Spouse	SELL	50K–100K
Michael McCaul	Republican	House	TX	NVIDIA Corporation	NVDA:US	28 Jan 2022	14 Dec 2021	44 days	Child	SELL	15K–50K
Michael McCaul	Republican	House	TX	NVIDIA Corporation	NVDA:US	28 Jan 2022	17 Dec 2021	41 days	Child	SELL	50K–100K
Michael McCaul	Republican	House	TX	NVIDIA Corporation	NVDA:US	28 Jan 2022	21 Dec 2021	37 days	Child	SELL	100K–250K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	10 Jan 2022	3 Dec 2021	35 days	Child	BUY	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	10 Jan 2022	2 Dec 2021	36 days	Child	BUY	1K–15K
Kurt Schrader	Democrat	House	OR	NVIDIA Corporation	NVDA:US	7 Jan 2022	14 Dec 2021	23 days	Undisclosed	BUY	1K–15K
John Hickenlooper	Democrat	Senate	CO	NVIDIA Corporation	NVDA:US	11 Dec 2021	1 Nov 2021	39 days	Self	SELL	500K–1M
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	8 Dec 2021	5 Nov 2021	32 days	Spouse	SELL	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	8 Dec 2021	12 Nov 2021	25 days	Spouse	SELL	15K–50K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	8 Dec 2021	18 Nov 2021	19 days	Spouse	SELL	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	8 Dec 2021	2 Nov 2021	35 days	Child	BUY	1K–15K
Don Beyer	Democrat	House	VA	NVIDIA Corporation	NVDA:US	3 Dec 2021	26 Nov 2021	6 days	Joint	SELL*	1K–15K
Josh Gottheimer	Democrat	House	NJ	NVIDIA Corporation	NVDA:US	16 Nov 2021	29 Oct 2021	17 days	Joint	BUY*	1K–15K
Josh Gottheimer	Democrat	House	NJ	NVIDIA Corporation	NVDA:US	16 Nov 2021	5 Oct 2021	41 days	Joint	BUY*	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	10 Nov 2021	19 Oct 2021	21 days	Spouse	SELL	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	10 Nov 2021	27 Oct 2021	13 days	Child	SELL	1K–15K
Michael McCaul	Republican	House	TX	NVIDIA Corporation	NVDA:US	21 Oct 2021	30 Sept 2021	20 days	Spouse	SELL	15K–50K
Michael McCaul	Republican	House	TX	NVIDIA Corporation	NVDA:US	21 Oct 2021	30 Sept 2021	20 days	Child	SELL	15K–50K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	15 Oct 2021	1 Sept 2021	43 days	Spouse	SELL	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	15 Oct 2021	3 Sept 2021	41 days	Child	BUY	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	15 Oct 2021	22 Sept 2021	22 days	Child	SELL	1K–15K
Diana Harshbarger	Republican	House	TN	NVIDIA Corporation	NVDA:US	23 Sept 2021	1 Sept 2021	21 days	Joint	SELL	1K–15K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	16 Sept 2021	16 Aug 2021	30 days	Child	BUY	15K–50K
Ro Khanna	Democrat	House	CA	NVIDIA Corporation	NVDA:US	16 Sept 2021	3 Aug 2021	43 days	Child	BUY	1K–15K

Figure 6

Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	16 Sept 2021	16 Aug 2021	30 days	Child	BUY	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	16 Sept 2021	6 Aug 2021	40 days	Child	SELL	1K–15K
Ro Khanna Democrat|House|CA	NVIDIA Corporation NVDA:US	16 Sept 2021	17 Aug 2021	29 days	Spouse	BUY	15K–50K
Nancy Pelosi Democrat|House|CA	NVIDIA Corporation NVDA:US	21 Aug 2021	23 Jul 2021	28 days	Spouse	BUY*	500K–1M
Nancy Pelosi Democrat|House|CA	NVIDIA Corporation NVDA:US	21 Aug 2021	23 Jul 2021	28 days	Spouse	BUY*	250K–500K
Pete Sessions Republican|House|TX	NVIDIA Corporation NVDA:US	16 Aug 2021	2 Aug 2021	13 days	Spouse	BUY*	1K–15K
Tommy Tuberville Republican|Senate|AL	NVIDIA Corporation NVDA:US	14 Aug 2021	28 Jul 2021	16 days	Joint	SELL*	15K–50K
Blake Moore Republican|House|UT	NVIDIA Corporation NVDA:US	14 Aug 2021	16 Jul 2021	28 days	Undisclosed	SELL*	1K–15K
Blake Moore Republican|House|UT	NVIDIA Corporation NVDA:US	14 Aug 2021	16 Jul 2021	28 days	Undisclosed	BUY*	1K–15K
David Rouzer Republican|House|NC	NVIDIA Corporation NVDA:US	13 Aug 2021	20 Jul 2021	23 days	Undisclosed	BUY*	1K–15K
Josh Gottheimer Democrat|House|NJ	NVIDIA Corporation NVDA:US	10 Aug 2021	28 Jul 2021	12 days	Joint	SELL*	1K–15K
Marjorie Taylor Greene Republican|House|GA	NVIDIA Corporation NVDA:US	5 Aug 2021	19 Jul 2021	16 days	Joint	BUY	1K–15K

Figure 7

Each of the aforementioned members of Congress executed these trades subsequent to being apprised of the CHIPS Act, well in advance of its public disclosure. Despite the apparent surplus of sales transactions, a closer examination reveals that the aggregate value of purchases surpasses that of sales. However, it's crucial to scrutinize not only the elected officials themselves but also their familial connections, as the possibility of Congress members directing relatives to conduct trades based on privileged information can obscure the origin of the trades, thereby mitigating suspicion. Regrettably, prosecuting congressional members for insider trading presents a formidable challenge, as regulatory bodies such as the Securities and Exchange Commission (SEC) tend to focus less on scrutinizing political figures and their associates for potential infractions. This instance underscores a systemic issue within the financial landscape, wherein over 7,000 publicly traded companies offer ample opportunities for members of Congress to exploit non-public information for personal gain through investment activities.

Now there are many committees that congress could be a part of; however, these committees especially are the ones where suspicions arise the most and the companies associated with them (figure 8-22):

Appropriations Subcommittee on Energy and Water Development
Baker Hughes

Education and Labor Committee
Catalent | Encompass Health | Bausch Health Companies | HCA Healthcare

Veterans' Affairs Committee
Change Healthcare*
* VA contractor

Figure 8

Armed Services Committee
Amazon | Boeing | Microsoft

Oversight Committee
Twitter*
* Briefed committee after a cyberattack

Oversight Subcommittee on Environment
Chevron

Figure 9

Science, Space and Technology Committee
Intel | Micron Technology

Science, Space and Technology Subcommittee on Research
Microsoft

Figure 10

Education and Labor Committee
Oversight Committee
Rite Aid

Figure 11

Ways and Means Subcommittee on Health
Quest Diagnostics | Alexion Pharmaceuticals | Centene | HCA Healthcare | WellCare Health Plans | AbbVie | Amgen | Baxter International | Biogen | Bristol Myers Squibb | Eli Lilly | Pfizer | UnitedHealth Group

Figure 12

Oversight Subcommittee on Government Operations
VMware

Figure 13

Agriculture Committee
Deere & Co. | Mondelez International | Archer Daniels Midland | IBM | Corteva | Kellogg | Kraft Heinz | Conagra Brands | General Mills | FMC Corp. | Hormel Foods | Sysco | McCormick & Co. | Pilgrim's Pride | Smucker | Tyson Foods | Campbell Soup | Hershey Co. | Mosaic Co. | US Foods | CF Industries | Lamb Weston | Post Holdings | Scotts Miracle-Gro

Figure 14

Agriculture Subcommittee on Livestock and Foreign Agriculture
Idexx Laboratories | McDonald's

Figure 15

Figure 16

Figure 17

Figure 18

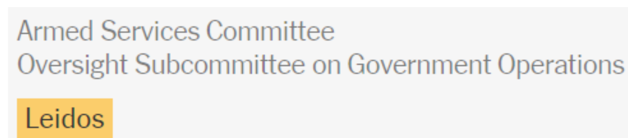

Figure 19

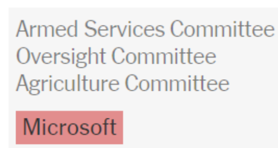

Figure 20

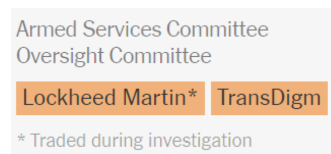

Figure 21

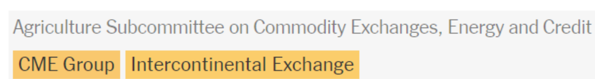

Figure 22

The intersection of congressional committee membership and individual stock trading activities among lawmakers is a subject of significant interest and concern among the public and ethics watchdogs. While the overall number of Congress members engaged in such trading activities may be relatively small, the potential implications for conflicts of interest and perceptions of impropriety can be substantial. In this specific context, the revelation that only six members of Congress were involved in trades related to companies associated with these committees underscores the importance of transparency and accountability in congressional operations.

The picture gets even worse when looking at the total return for members of congress. Here is a graph (figure 23) showing returns for some of the members of congress in 2022, a year where the market was down 18.01%.

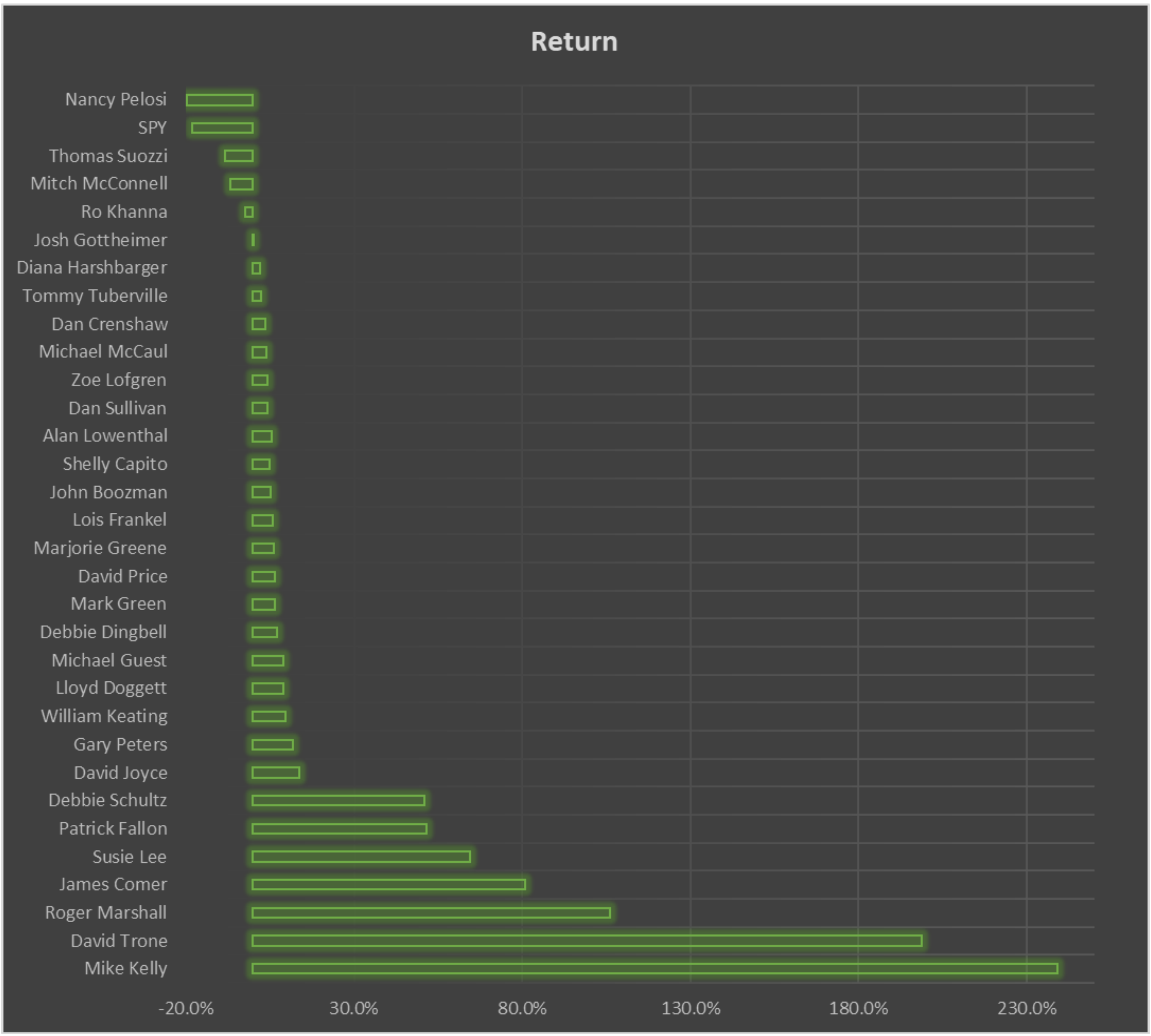

Figure 23

This shows that each of these members of congress beat the market by either having losses less than the SPY or having significant gains in their own portfolio. However, the exception to this graph is Nancy Pelosi. She did not beat the market but since we cannot fully know what return her husband got on the market, we cannot fully clear her of insider trading. While she may not be committing insider trading personally, back where I showed each member of congress and their trades on NVDA it shows that her spouse allegedly was the one making trades on her behalf. Insider trading is a big problem in our government, one in which many members of congress could participate in.

Laws Assisting People with Insider Trading

Before understanding what can be done about insider trading, we must understand the current laws that make it easier for politicians to commit this crime. First let's look at the penalties for late disclosures. Looking back up at the NVDA trades in congress you will see the number of days it took them to report their trades. Under the STOCK Act it is "required" that a member of congress report their trades within 45 days.

The issue of late or non-disclosure of stock trades by members of Congress under the STOCK Act is compounded by the relatively lenient penalties imposed for violations. While the Act requires lawmakers to report their trades within 45 days, a significant number of them fail to adhere to this timeline. When violations occur, the prescribed penalty—a mere $200 fine—is widely criticized for its ineffectiveness in deterring unethical behavior. Moreover, the discretionary nature of fine waivers by the House or Senate ethics board further undermines the Act's enforcement mechanism.

Given the substantial volume of stock trading activity (shown below) (figure 24) among certain members of Congress, the inadequacy of these penalties becomes even more apparent. The potential for conflicts of interest and insider trading looms large, casting doubt on the integrity of legislative decision-making.

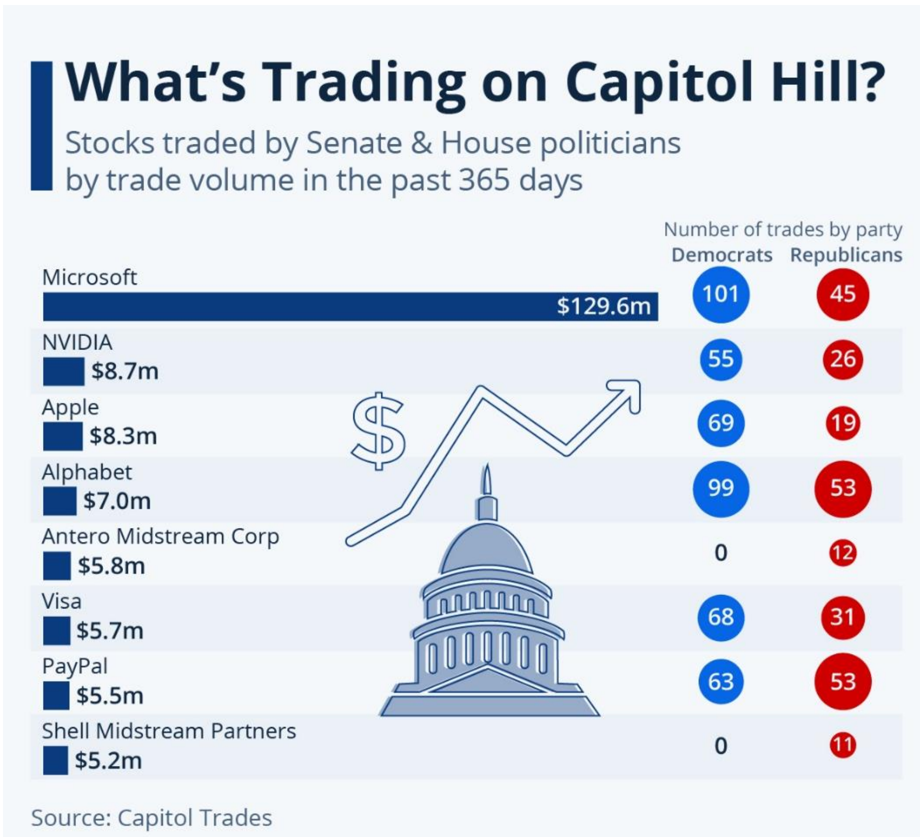

Figure 24

To address these concerns and uphold the principles of transparency and accountability, I argue for reforming the enforcement provisions of the STOCK Act. By bolstering enforcement and accountability mechanisms, Congress can demonstrate its commitment to ethical conduct and restore public trust in the legislative process.

The ambiguity and perceived loopholes within the current framework of the STOCK Act contribute to ongoing concerns about its effectiveness in curbing insider trading among members of Congress. While the Act prohibits trading on insider information, it lacks clear and specific penalties for violations, leaving room for interpretation and potentially lenient enforcement. The magnitude of stock trading activity within Congress, estimated at a staggering $1 billion in 2023, raises eyebrows given the relatively modest salaries of lawmakers, with the maximum salary capped at $174,000. To quote Yahoo finance, “At times, elected officials traded in sectors that directly related to their work in Congress. Members of the House Oversight and accountability committee and house Armed Services Committee purchased health care and financial services stocks in more than 1000 transactions that directly related to their committees’ work.” (Yahoo Finance) This is an alarming fact that basically boils down to the fact that Congress members are not held accountable to the same insider trading policies that the ordinary citizens are. So, what have our courts done about this? “The possible violation of insider trading laws based on a senator or congressman's access to official information is something the courts have never clearly defined, and it would be difficult for a prosecutor to build such a case.” (Williams) To answer the question basically nothing, they have not specified whether the information that congress hears is insider information.

Finally, under the current framework, the SEC faces substantial hurdles in pursuing investigations against lawmakers who may have traded on information obtained from committee briefings. To effectively prosecute such cases, the SEC would need precise knowledge of the information discussed in these closed-door sessions. However, Congress benefits from the "speech and debate" clause, which shields legislators from legal repercussions for information disclosed during committee proceedings. This legal provision poses a significant barrier to holding members of Congress accountable for insider trading. Even if the SEC could demonstrate that a lawmaker traded on privileged information obtained from committee meetings, the information itself is protected under the speech and debate clause and cannot be used as evidence in court.

As a result, the combination of the lack of transparency, the complexity of committee operations, and the legal protections afforded to lawmakers creates a loophole that effectively shields them from prosecution for insider trading. This loophole undermines efforts to promote accountability and integrity within Congress and erodes public trust in the fairness and transparency of the legislative process. Thus, being why politicians are able to get away with insider trading.

How to stop political insider trading?

So, nothing can be done about insider trading, well not so fast. Returning to the original, more robust form of the STOCK Act could be a step in the right direction. While not perfect, reinstating the Act in its original form could serve as a deterrent to insider trading and enhance transparency in congressional operations. However, it's essential to address any remaining loopholes to ensure effectiveness.

A complete ban on congressional stock trading is another proposal, but it raises concerns about restricting individuals' ability to participate in the open market. While this approach may seem drastic, it could prevent conflicts of interest and perceptions of impropriety.

The challenge lies in enacting meaningful reform given the inherent conflict of interest among lawmakers who benefit from the status quo. Nonetheless, there is growing support among some members of Congress for measures such as a full ban on congressional stock trading, albeit with implications for their relatives' trading activities.

Requiring members of Congress to work with professional financial advisors could mitigate concerns about conflicts of interest. However, relinquishing control of their investments to others may not be ideal for lawmakers or their constituents.

Another approach could be to restrict stock trading in sectors relevant to a lawmaker's committee assignments and their family members. While this may address some concerns about insider trading, implementing such a measure would require careful consideration and could be challenging to enforce effectively.

In essence, there is no one-size-fits-all solution to combat insider trading in Congress. Any approach must balance the need for transparency and accountability with individual rights and practical considerations. Ultimately, meaningful reform will require bipartisan cooperation and a commitment to upholding ethical standards in government.

So, what is the best solution? Revisiting the original STOCK Act indeed presents a prudent solution, with a nuanced amendment to address its shortcomings. The original STOCK Act, enacted to enhance transparency and accountability among members of Congress regarding their trading activities, instituted crucial reporting standards. These standards mandated that Congress members disclose their trades, ensuring transparency and mitigating potential conflicts of interest. Additionally, the Act facilitated accessibility to reported trades, a significant improvement from the prior opaque practices where such information was buried in a basement.

One pivotal modification to enhance the efficacy of this legislation would be the introduction of concrete penalties for late reporting. Presently, the STOCK Act lacks specific sanctions for delayed reporting, leading to instances where the nominal penalty of $200 is frequently waived by the ethics board. Introducing a penalty structure based on a percentage of the trade, ranging from 20% to 50%, would impart meaningful consequences for tardy reporting, compelling members of Congress to prioritize timely disclosure. Furthermore, reducing the reporting window for Congress members would amplify the Act's effectiveness. Currently, legislators exploit the extended reporting deadlines to engage in potentially unethical behavior, leveraging insider information without immediate accountability. By curtailing the reporting timeframe, legislators would be deterred from exploiting temporal loopholes to obfuscate the correlation between received information and subsequent trades. In essence, refining the STOCK Act to incorporate penalties proportional to trade value and expediting reporting requirements are crucial steps towards fostering accountability and integrity within Congress, thereby bolstering public trust in the legislative process.

Here are a few examples of people who have gone past the reporting deadlines because they were not worried about the fines imposed.

Sen. Roger Marshall, a Republican from Kansas

Marshall was up to 17 months late disclosing stock trades for one of his dependent children.

Sen. Tommy Tuberville, a Republican from Alabama

Tuberville was weeks or months late in disclosing nearly 130 separate stock trades from January to May.

Sen. Tom Carper, a Democrat from Delaware

Carper was about four months late disclosing his wife's sale of stock in a gold mining company.

Rep. Tom Malinowski, a Democrat from New Jersey

Malinowski failed to disclose dozens of stock trades made during 2020 and early 2021, doing so only after questions from Insider. The independent Office of Congressional Ethics, in part citing Insider's reporting, found "substantial reason to believe" that Malinowski violated federal rules or laws designed to promote transparency and defend against conflicts. It voted 5-1 to refer its findings to the Democrat-led House Committee on Ethics, which confirmed on October 21 that it will continue reviewing the matter. (Nothing was ever done)

Rep. Susie Lee, a Democrat of Nevada

Lee failed to properly disclose more than 200 stock trades between early-2020 and mid-2021. Together, the trades are worth as much as $3.3 million. Separately, Lee and her husband traded eight stocks during 2021 that Lee did not report until August 13, 2022.

These are only 5 instances out of the 78 members of congress who have been found to violate reporting standards with only a handful of them being penalized.

What Should Congress Members Actually be Doing?

Instead of relying on information given to them in committee hearings they should either do the research on their own or hire a professional investor to do the research for them. While also not leading onto to one stock because they heard information that would be relevant. In the appendix pages 33-53 are actual research done by myself, Ava Kelton, Ryan Rinker, and Trent Lowe and will illustrate just how research should be done instead of relying on insider information.

This is an extreme example of stock analysis and most of the time there will be hundreds of analysts that look at hundreds of stocks. However, this analysis was done with no insider knowledge. While this looks hard to do Investors with their CFA and who have a large team of investors are doing this type of research. While it may not be perfect compared to insider information, at least it is ethical and not against the law.

Conclusion

Reflecting on the procedural intricacies involved in executing insider trading alongside my own analysis, it may appear tempting to opt for this illicit route. However, the ramifications of engaging in such unethical practices are profoundly detrimental to the integrity of America's financial markets. The pervasive nature of insider trading, particularly among politicians who exploit privileged information for stock trading, exacerbates this issue. In no way in this thesis am I accusing any individual Congress member of committing insider trading. I am simply illustrating the facts that present themselves on how there are coincidences between Congress and the stock market. I am also not going after any politician for being an unethical or bad person I am saying that the action of insider trading is bad behavior that should not continue if it is going on.

By leveraging non-public information acquired through their positions, legislators effectively manipulate stock prices, depriving ordinary investors of equitable opportunities for financial gains. Despite the principle of market efficiency dictating that stock prices reflect all publicly available information, the prevalence of insider trading within the political sphere distorts this equilibrium. Consequently, when legislators capitalize on confidential insights obtained from committees, their substantial investments drive stock prices upward preemptively.

This preemptive inflation of stock prices effectively denies the broader public the opportunity to benefit from the same information once it becomes accessible to all market participants. Consequently, legislators effectively impede the potential for equitable gains among non-professional investors, perpetuating a systemic imbalance in the market. Notably, while the majority of professional investors struggle to outperform the market, members of Congress consistently surpass market benchmarks, albeit by significant margins.

In essence, the prevalence of insider trading within the political domain not only undermines the fairness and transparency of financial markets but also perpetuates disparities in investment opportunities, ultimately disadvantaging the broader investing public.

The existing legislative framework falls woefully short in effectively penalizing members of Congress for their transgressions. The nominal fine of $200 for tardy disclosures, a penalty frequently subject to appeals before their own ethics board, hardly serves as a deterrent. Compounding this inadequacy is the formidable barrier posed by the speech and debate clause, shielding committee deliberations from judicial scrutiny, and rendering external oversight initiatives virtually powerless.

In this impasse, the onus falls squarely on our elected officials to enact meaningful reforms to curtail political insider trading. Yet, the paradox emerges: why would politicians willingly relinquish a practice that inherently benefits them? This question underscores the entrenched nature of the issue, revealing a complex interplay of self-interest and systemic inertia.

Regrettably, without concerted action from within the corridors of power, the prospect of meaningful change remains elusive. As such, the cycle of political insider trading persists unabated, perpetuating a culture of impunity that erodes public trust in the integrity of our democratic institutions.

We need to spread the word about political insider trading. It's a big problem when members of Congress could get rich from trading stocks using information, they have that the rest of us don't. It's not fair because they're supposed to be working for us, not making themselves wealthy.

Think about it: Congress members are only supposed to earn $174,000 a year, but many end up millionaires. That doesn't add up!

While I'm not saying they shouldn't be allowed to trade stocks at all, we need better rules to stop them from abusing their positions. The current laws just aren't cutting it.

We should bring back tougher rules like the STOCK Act or find new ways to make sure politicians can't use their insider knowledge for personal gain. It's up to all of us to speak up and demand that our leaders play fair and transparently.

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Signed By

Trent Lowe
Blade Kisler
Ava Kelton
Ryan Rinker

Ticker | CBRL
Sector | Consumer Discretionary
Industry | Restaurant

Current Price | $77.35
Stock Exchange | NASDAQ
Headquarters | Lebanon, TN

Target Price | $90.38
Recommendation | BUY
Valuation Date | 1/31/2024

Investment Summary: A Story of Renewed Growth

We initiate coverage on Cracker Barrel Old Country Store (CBRL) with a **BUY** recommendation based on a one-year target price of $90.38 (1/31/2024), representing a 16.84% upside from its closing price of $77.35 (1/31/2024). Our recommendation reflects favorable valuation and management strategies intended to leverage their legacy brand, continue their post-pandemic recovery, and invest in new long-term growth initiatives.

Competitive Moat

CBRL's wide competitive moat is based on its legacy brand, dual-segmented business model, and dominance in key demographics. One of the strongest tailwinds for CBRL is its well-established brand which has a loyal customer base. CBRL's brand is known for its consistent country-style themed restaurants and southern homestyle cooking. In addition, the business model for Cracker Barrel (CB) locations includes both restaurant (80%) and retail (20%) segments. CBRL holds a notably larger retail segment compared to its closest publicly-traded peers, which offers CBRL three competitive advantages. First, the retail option creates an extra revenue source from customers that enjoy shopping, especially while waiting to be seated. Second, the dual-segmented business model diversifies CBRL's overall revenue stream. Third, the CB retail segment provides higher sales per square foot ($558.88) than the CB restaurant segment ($459.62) if you exclude off-premise sales. As for key demographics, CBRL dominates the niche country store market with a loyal customer base of both locals (60%) and domestic auto travelers (40%)[(F1)]. CBRL's largest customer demographic is guests over the age of 65 (26%) **(Figure 1.2)**. CBRL owns these two demographics because older guests are more price-conscious and value the affordability of the brand, and travelers enjoy the convenience of its strategic highway positioning. In addition, with a predominantly southern geographic footprint, CBRL benefits from higher population growth rates in the south relative to other U.S. regions. Finally, CBRL has proven customer retention through its higher-than-expected enrollment rates in its loyalty program[(F2)].

Pandemic Costs and Recovery Tactics

The Covid pandemic weakened CBRL's financial strength through decreased foot traffic, increased food and traveling costs, and a loss of financial flexibility due to sale lease backs (SLBs). Pre-pandemic, revenue growth was primarily powered by volume instead of price. However, during the pandemic, CBRL's foot traffic was restricted to off-premise sales only. Post-pandemic, CBRL raised prices to combat commodity inflation, which is the primary reason revenue has returned to pre-Covid levels. In order to raise cash during this period of extreme economic uncertainty, CBRL raised $287.7M of capital through SLBs of 124 properties in FY20 and FY21. Additionally, during the acute, early phase of the pandemic, CBRL made efforts to conserve cash from FY20-2Q4 through FY21-Q3 by temporarily suspending dividends and reducing share repurchases. Post-pandemic, management utilized available borrowings under CBRL's Revolving Credit Facility (RCF) to reinstate dividends and resume share repurchases. These cash management strategies aided CBRL during its pandemic recovery process, but the strategies also reduced overall financial flexibility going forward.

Long-Term Growth Strategy

Although volume has not returned to pre-pandemic levels, CBRL is executing a renewed growth strategy focusing on improving CB locations, expanding through acquisition, and increasing off-premise sales. Management's first stated strategy is to increase foot traffic by increasing the relevance of CB stores[(F3)]. CBRL plans to improve relevance by upgrading seasonal menus[(F4)], beautifying CB locations through capital expenditures, and expanding upon the success of its loyalty program. Cash generated from legacy CB stores will aid in CBRL's second growth strategy, which is further expansion of its newly acquired growth-engine, Maple Street Biscuit Company (MSBC). MSBC stores are located in more urban and suburban areas with a different target audience than CB stores. Thus, an advantage of the MSBC growth strategy is that CBRL can grow its footprint

Market Data (as of 1/31/2024) Cracker Barrel (CBRL)	
Market Cap	$1.6B
Current Price	$77.35
52wk Range	$62.69-$121.17
Shares Outstanding	22.2M
EPS	$4.82
P/E	14.78
Beta vs S&P 400	1.24

Figure 1.1 | Source: Bloomberg

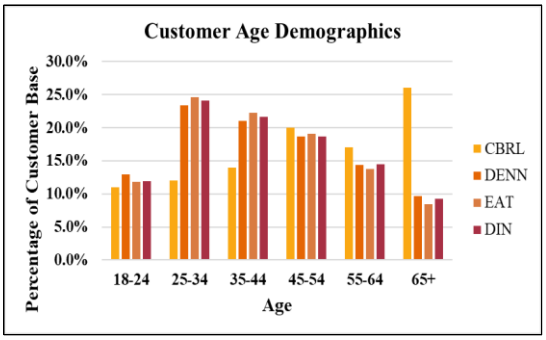


Figure 1.2 | Source: Company Filings

CBRL

Figure 1.3 | Source: Team Survey Data

MSBC

Figure 1.4 | Source: Team Survey Data

without alienating its core CB customer base. In addition, MSBC sells classic southern food similar to CB locations allowing CBRL to achieve economies of scale without cannibalizing revenue from existing CB locations. To further attract a more diverse demographic, CBRL is also shifting from heavily-regulated billboard advertising to more TV and media advertising. New marketing tactics are necessary to inform customers of CBRL's third growth strategy, expanding upon the success of its off-premise sales. In short, these refreshments of old stores, combined with the growth of new acquisitions and off-premise sales, will diversify CBRL's customer base and revenue sources.

Business Overview

CBRL began in 1969 as a roadside restaurant next to a gas station in Lebanon, Tennessee. The majority of CBRL's traditional CB locations are along major roads in rural and suburban areas. In 2019, CBRL acquired MSBC for $36M to diversify its customer base and geographic footprint. Presently, CBRL operates 661 traditional CB stores and 59 MSBC stores **(Figure 1.3 & 1.4)**. In 2021, CBRL diversified its revenue mix further by introducing two new online-only ghost kitchens—Chicken n' Biscuits (CnB) and Pancake Kitchen (PK) which, in FY22, operate in 400 and 200 CB locations respectively.

Business Description

CBRL's business model consists of two segments, restaurant **(1)** and retail **(2)**. Unlike most of its competitors, CBRL is fully corporately owned, providing them with operational control and flexibility. CBRL has a proven competitive moat based on brand consistency with each location not only "distinctly different than most of their surroundings," but also existing "virtually unchanged place to place[(F5)]." **(1)** CBRL's restaurant segment includes three different revenue sources: CB on-premise sales **(1a)**, CB off-premise sales **(1b)**, and MSBC **(1c)**. **(1a)** With 83% of CB stores strategically located near highway exits, CB stands out as a preferred choice for travelers seeking a full-service dining experience. CB stores further distinguish themself by having a low average menu price relative to their peers. **(Figure 2.3)**. **(1b)** CB additionally offers off-premise items which includes to-go sales, third party deliveries (ghost kitchens), and catering. **(1c)** CBRLs other restaurant brand, MSBC, has lower labor costs due by eliminating the need for servers. MSBC is predominately located in suburban and urban areas, and diversifies CBRL's customer base appealing to younger demographics and negating the reliance on travelers. **(2)** CB provides a unique experience to customers and further diversifies its revenue streams by offering a selection of retail goods alongside the restaurant experience. About 79% of total square footage is used by the restaurant, and the remaining 21% is used by its retail store.

Industry Overview and Competitive Analysis

Demographics

CBRL's CB locations are sensitive to aging demographics. The demographic breakdown of CBRL is heavily skewed toward people 65 and older when compared to competitors in the industry **(Figures 3.1)**. Older customers tend to frequent CBRL more often than other age brackets, partly due to the nostalgia of its rustic atmosphere and classic southern food. CBRL appeals to its older demographics by creating a sense of, "coming home to the charm of a simpler time and place[(F6)]." One success story for CBRL is its loyalty program, which focuses on customer retention by offering rewards to returning customers[(F1)]. Another strategy to broaden customer demographics is based on new media advertising. According to the FY21-Q1 earnings call, CBRL stated that management, "increased their media spend by approximately 20% and refined their messaging to focus more on their core guests." CBRL's focus on new advertising has led to meaningful guest traffic increases and solid returns on investment as outlined by the Q1 earnings call[(F2)]. CBRL's age demographics are significantly older on average when compared to the U.S. census **(Figure 3.2)**. However, CBRL is diversifying through acquisition. By expanding MSBC locations, CBRL is entering a younger urban and suburban market[(F8)] without alienating its core customer base.

Pricing in the Full-Service Industry

CBRL is adamant about maintaining competitive menu value[(F9)]. CBRL is particularly focused on its $8.99 price point for breakfast and its 20 under $12 promotion for dinner

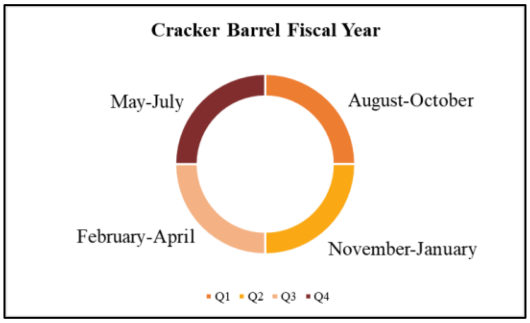


Figure 2.1 | Source: Company Filings

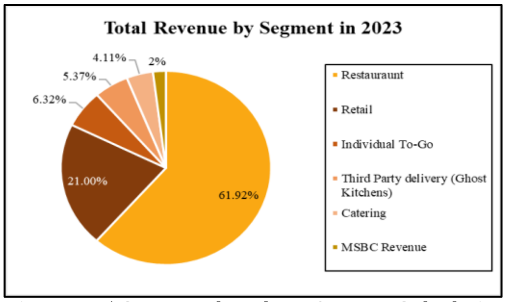


Figure 2.2 | Source: Bloomberg & Team Calculations

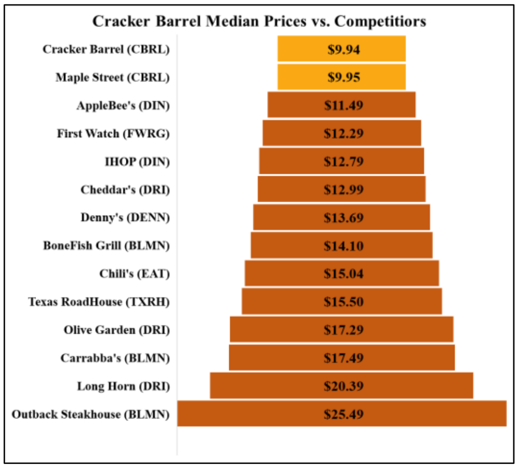


Figure 2.3 | Source: Official Company Websites

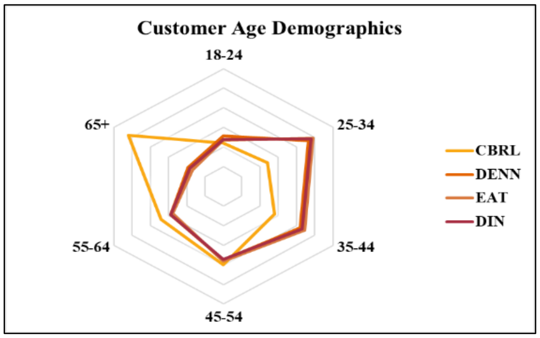


Figure 3.1 | Source: Company Filings

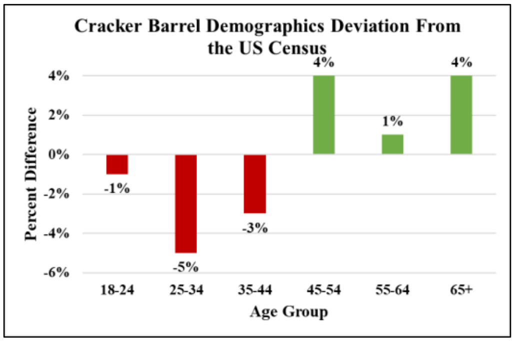


Figure 3.2 | Source: Company Filings and U.S. Census Data

options. Although CBRL had menu pricing increases of 8.6% in 2023, they still have lowest menu prices relative to their main competitors **(Figure 2.3).** Furthermore, CBRL's prices have less flexibility because its customer base values affordability **(Appendix 3)**. Management states that menu value is a competitive advantage for CBRL[(F9)], but limits its ability to pass rising costs off to consumers through menu price increases. CBRL has maintained a conservative approach to price increases, but it has recently adjusted its menu prices to align with industry trends **(Figure 3.3)**. However, increasing prices is not a sustainable long-term growth strategy for most restaurants, especially restaurants with price-conscious customer bases like CBRL.

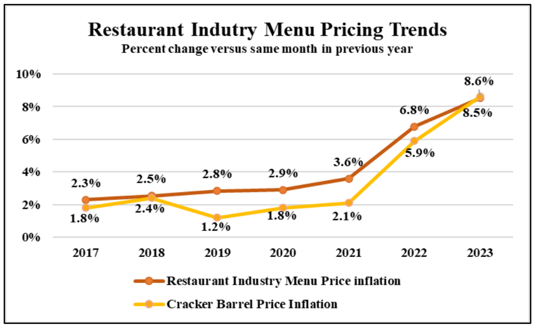


Figure 3.3 | Source: Company Filings & National Restaurant Association & Bureau of Labor Statistics

Strategic Positioning

The proximity of CBRL to its competitors in metropolitan regions introduces customer retention challenges for CBRL. A wider range of dining options in these more competitive areas may reduce the likelihood of travelers dining at a CBRL. However, CBRL faces less competition along highways in rural areas that are between metropolitan regions. In many of these less-populated areas, CBRL is strategically positioned as one of the only options to traveling customers seeking a full-service dining experience. Additionally, CBRL's concentration in the south provides them a further competitive advantage. The south has experienced more significant population growth rates when compared to other regions of the U.S **(Figure 3.4).** Thus, CBRL's strategic focus on southern markets provides it with better geographic positioning for future growth than its competitors that allocate higher concentrations to other regions **(Figure 3.5)**.

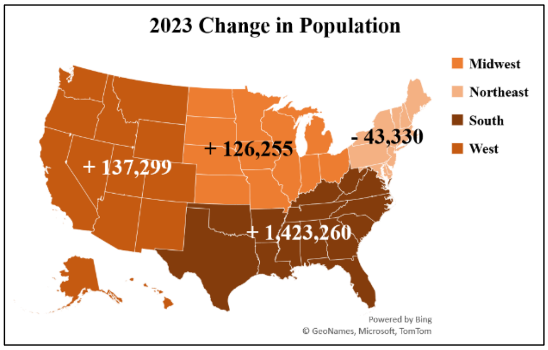


Figure 3.4 | Source: U.S. Census Data

Travel and Guest Traffic

A significant portion (40%) of CBRL's guest traffic is generated by travelers. Thus, during periods of lower domestic travel, CBRL experienced significant decreases in guest traffic (**Figure 3.6**). Factors such as gas price inflation and Covid lockdowns have decreased travel in the past. However, CBRL does have brand loyalty from its traveling customer base due to the consistency throughout various locations. One reason for this consistency is that CBRL is fully corporate-owned giving management more control over the themed restaurant experience that travelers have come to expect at each CB location[(F5)].

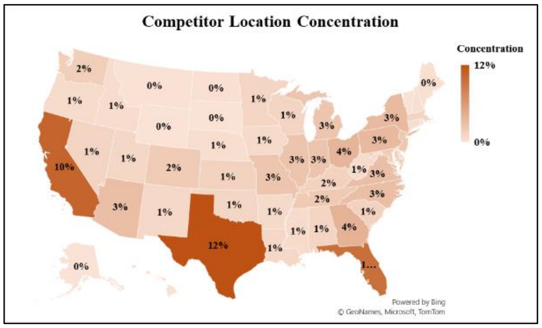


Figure 3.5 | Source: Official Company Websites

Growth Strategy Comparisons

One of CBRL's long-term growth strategies is to improve relevancy of the brand through investments in legacy stores. By investing in the quality of CB's equipment, technology, and labor, they aim to elevate the overall guest experience and increase customer retention. Another one of CBRL's growth strategies is to open additional MSBC locations. MSBC aims to attract a new customer base in suburban and urban areas **(Figure 1.4).** MSBC specifically targets denizens of these areas, particularly younger demographics that are less sensitive to gas price fluctuations when compared to CB's core customer base[(F10)]. When gas prices rise, discretionary spending typically decreases and travelers may choose to dine out less[(F11)]. MSBC serves as a way for CBRL to diversify its revenue mix and customer demographics without alienating CB's core customer base. By way of comparison, First Watch Restaurant Group (FWRG) has a similar growth strategy to MSBC. FWRG plans to expand its chain of restaurants into additional suburban and urban markets. Other CBRL competitors have pivoted their growth strategy towards international expansion, online brands, and off-premise sales growth[(F12)]. As for the latter, CBRL is also expanding its off-premise sales. Since the onset of the 2020 pandemic, ghost kitchens and meal delivery services have increased substantially **(Figure 3.7).** Ghost kitchens operate within existing restaurants and serve as a way for brick-and-mortar locations to grow their revenue streams by introducing menu items only available for delivery. Ghost kitchens reduce costs by minimizing labor and real estate costs, leading to higher operating margins compared to their traditional dine-in counterparts[(F13)]. Starting in 2021, CBRL has introduced two online brands PK and CnB, both of which have experienced substantial growth in the number of their operating locations **(Figure 3.8).** Other competitors in the full-service industry have also introduced online oriented brands such as Denny's (DENN) Burger Den and Melt Down, Brinker's (EAT) It's Just Wings, and Dine Brand's (DIN) six online restaurants. While the introduction of ghost

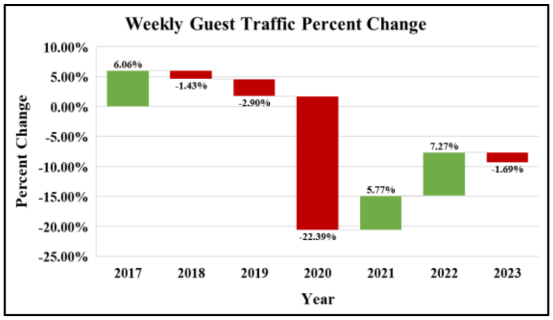


Figure 3.6 | Source: Company Filings

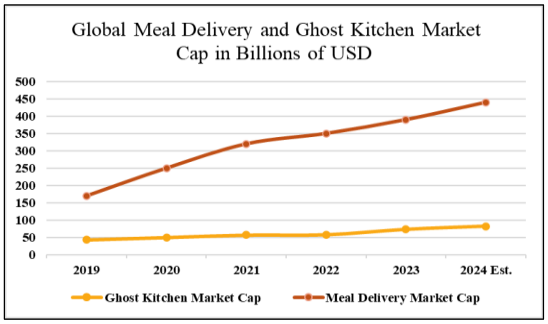


Figure 3.7 | Source: Coherent Market Insights

kitchens is not a brand differentiator for CBRL, it serves as a way to further diversify its revenue streams and improve profit margins.

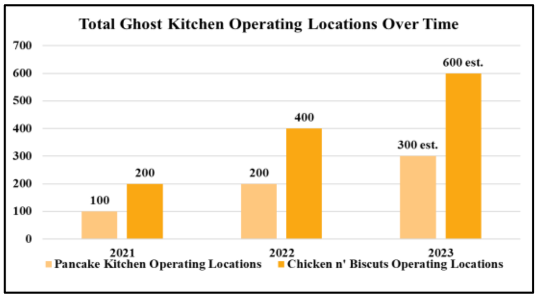


Figure 3.8 | Source: Official Company Website

Financial Analysis

Rising Costs and Decreasing Volume

The Covid pandemic and subsequent inflationary pressures increased CBRL's overall costs. While CBRL saw increased costs through its business, they did a better job controlling labor costs than food costs **(Appendix 7)**. As evidence, labor costs as a percentage of revenue remained consistent (around 35%) from 2017-2023 **(Figure 4.1).** Rather, labor costs increased at roughly the same rate as revenue. Labor cost increases are partially due to CBRL expanding its workforce to 77,000 employees nationwide in 2023 (an increase from 73,000 in 2022). In addition, labor costs per employee increased at a CAGR of 1.72% from FY17–FY23 (**Appendix 10**). The increase in labor costs per employee is mainly attributed to raises in hourly pay for part-time labor, which represents 89.0% of CBRL's total workforce. These pay increases, including a new retention program, are discussed in more detail later in the ESG section of this report.

Parts of Operating Margin			
Expenses as a % of Revenue	2021	2022	2023
Food/Beverage	30.7%	32.1%	32.8%
Labor	34.8%	35.2%	35.1%
Other	24.0%	23.2%	23.2%
Menu Price Inc. YoY	2.1%	5.9%	8.6%
Operating Margin	13.0%	4.7%	3.5%

Figure 4.1 | Source: Company Filings & Team Calculations

Contrary to labor costs, CBRL did see an increase in food and beverage expenses as a percentage of revenues from FY21–FY23 **(Figure 4.1)**. To combat these rising food and beverage costs, CBRL raised its menu prices, especially in 2022 (5.9%) and 2023 (8.5%). However, CBRL's menu price inflation remained lower than the industry average during the pandemic **(Figure 3.3).** This finding suggests that CBRL's customer base may be more sensitive to changes in menu prices relative to average restaurant customers.

If CBRL customers are more price-conscious than other restaurant customers, volume growth will be even more imperative for CBRL compared to the average restaurant since CBRL would lack the same flexibility to increase menu prices without alienating its core customer base. To measure volume, CBRL tracks guest foot traffic by recording the number of entrees sold on and off-premise over time. (**Figure 4.2)** shows the overall foot traffic at CBRL has decreased as CBRL has raised prices. Thus, higher menu costs are likely a major reason why CBRL's volume has not yet fully returned to its pre-Covid levels **(Figure 3.6**).

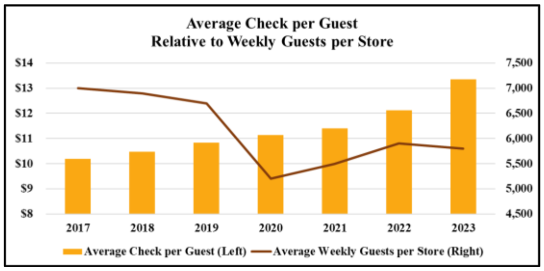


Figure 4.2 | Source: Company Filings

Sales Growth Drivers

Looking at the geometric means of comparable store sales growth (**Appendix 8)** shows CBRL's revenue growth has been in line with competitors. Moreover, both restaurant and retail revenues are crucial to CBRL's business model, but retail revenue is increasing more rapidly. As evidence, (**Figure 4.3)** displays CBRL's total revenue by segment. Sales in FY20 and FY21 are clearly outliers relative to historical trends due to constraints placed on the business during the Covid pandemic. Excluding FY20-FY21, restaurant and retail same store sales from FY17-FY23 grew at CAGRs of 2.04% and 3.34%, respectively **(Appendix 9)**. Thus, CBRL's faster growing revenue stream is its retail segment, which is a revenue source that CBRL's main competitors lack.

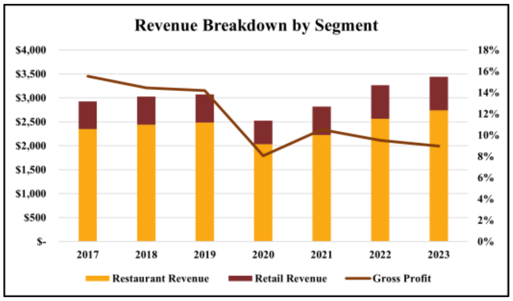


Figure 4.3 | Source: Company Filings

Looking at sales per sqft., CB locations allocate an average 7,000 sqft. (78.7%) to their restaurant segment and 1,900 sqft. (21.3%) to their retail segment. Excluding off-premise sales, on a sales per sqft. basis, CB's retail segment earns $36.81 per operating hour, compared to $30.64 for the restaurant segment **(Figure 4.4 & 4.5)**. This comparison further highlights the advantage of CB's retail segment. In contrast to CB locations, MSBC locations allocate 3,000 sqft. entirely to their restaurant segment. On a sales per square foot basis, MSBC earns $56.01 per operating hour, which is over 150% higher than CB's restaurant segment **(Figure 4.6)**. One reason for this discrepancy is that MSBC is only open for roughly half (7.5 hours) of the daily operating hours of CB locations (15 hours). Although management does not break out specific cost data for MSBC, using the assumption that costs will increase as operating hours increase, MSBC likely provides higher gross margins than CB locations. This data supports management's growth strategy to expand the number of MSBC locations.

CB Retail Revenue	
REV per CB	$1.1M
Sq. ft.	1900
Operating Hours	15
CB Rest. Rev	$36.81

CB Rest. Revenue	
REV per CB	$3.2M
Sq. ft.	7000
Operating Hours	15
CB Rest. Rev	$30.64

MSBC Revenue	
REV per MSBC	$1.3M
Sq. ft.	3000
Operating Hours	7.5
CB Rest. Rev	$56.01

Figure 4.4, 4.5 & 4.6 | Source: Company Filings & Team Calculations

Inventory

CBRL's inventory management was further complicated by the Covid pandemic. Compared to the retail segment, the restaurant segment appears to be recovering faster. Since FY20, inventory turns for CBRL's restaurant segment have consistently improved and have almost reached pre-pandemic metrics **(Figure 4.7)**. This trend implies increased efficiency for inventory management, which could reduce storage and other holding costs.

In addition, restaurant costs over FY22–FY23 increased faster than corresponding inventories, which suggests that rising commodity costs also contributed to higher inventory turns. Commodity inflation in the aftermath of the Covid pandemic hit the restaurant industry as a whole. Compared to its peers, CBRL's restaurant segment is in line with competitors **(Figure 4.9)**. Additionally, turns for CBRL's restaurant segment increased by 9.9x from FY20 to FY23, signaling that recent menu changes have at the very least not had a negative impact on sales.

Meanwhile, turns in the retail segment have decreased to below pre-pandemic levels **(Figure 4.8)**. Although retail inventory turns are in line with industry averages, these turns pale in comparison to that of CBRL's restaurant segment **(Appendix 13)**. In recent years, decreasing turns may have resulted from a decrease in discretionary spending and price-conscious customers. CEO Julie Masino noted in the FY24-Q1 earnings call, "We also believe some price-conscious guests may have reduced their retail purchases as a way to manage their overall spend with us". Management's focus on growing their restaurant-only model (MSBC) may signal their concern with the retail segment and a desire to diversify away some of this risk. In addition, CBRL increased retail inventory significantly in FY22, which is likely an outlier, but it did have a negative effect on turnover calculations. Sales from retail inventory in FY23 did boost operating cash flow by $23M. Moreover, CEO Julie Masino noted (FY24-Q1 earnings call), "We are pleased with how the team has effectively managed inventory levels", signaling CBRL is on the path to recovery.

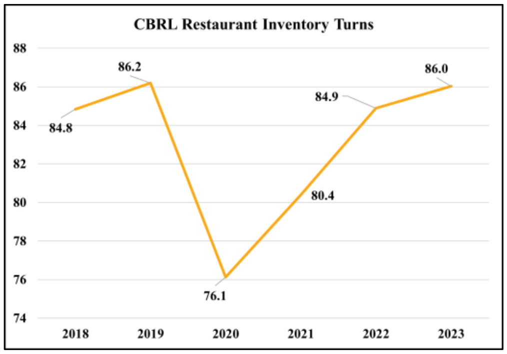
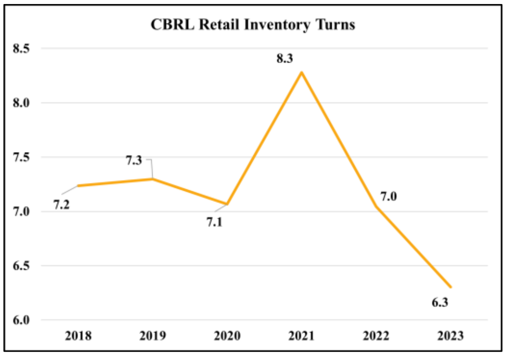


Figure 4.7 | Source: Company Filings & Team Calculations



4.8 | Source: Company Filings & Team Calculations

Capital Allocation Pre- and Post-Covid

Pre-pandemic, CBRL showed priority in shareholder benefits over investments in capital expenditures **(Figure 4.10)**. Both cash generation and outflows were stable during this time period, which helps explain why dividend payments increased through March of 2020. However, CBRL suspended its dividend payments during the pandemic (FY20-Q4 through FY21-Q3) as it looked to conserve cash during the period of extreme economic uncertainty. Post-pandemic, CBRL has shifted to take a more balanced approach to capital allocation. As of FY24-Q1, CBRL has invested 46% back into Capex and new PPE costs, and 54% into shareholders through higher dividends and share repurchases. This increase in CapEx shows management's renewed focus to invest in future growth.

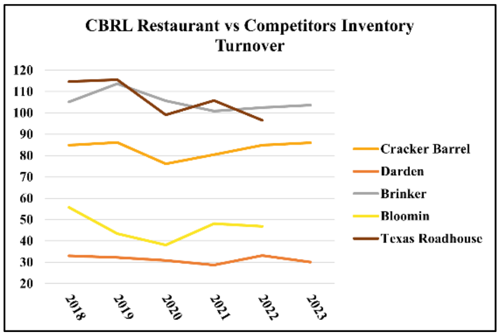


Figure 4. 9 | Source: Company Filings & Team Calculations

Sale-Leaseback Transactions

For over 10 years, CBRL has leased a portion of store locations. Following the Accounting Standards Codification (ASC) 842 change in 2019, CBRL now includes corresponding assets and liabilities from previous sale-leaseback (SLB) transactions in its FY20 financials. CBRL accepted renewal terms on its 2000 SLB and realized a $69.9M gain in a subsequent SLB transaction of 64 CB properties in 2020. In addition, CBRL capitalized on low interest rates in FY21 through a SLB transaction involving 62 CB stores, generating $217.7M of cash. As of FY23, CBRL's percentage of leased properties is 50.3% compared to 34.5% in FY15.

The two SLBs (combined with issuing $300M of Senior Convertible Notes in FY21) gave CBRL the cash it needed to navigate the period of extreme economic uncertainty surrounding the pandemic. **(Appendix 15)**. CBRL's SLBs had three clear benefits. First, the net impact on the balance sheet of these transactions was close to neutral because CBRL effectively used SLBs to raise cash to retire their debt obligations in their RCF. More specifically, cash generated from the two SLB's totaled $344.4M and was used to reduce CBRL's borrowings under long-term debt from FY20. In other words, SLBs were CBRL's way of refinancing during the pandemic. Second, CBRL's effective tax rate from FY21–FY23 decreased from 18.0% to 4.4%. Third, dividends resumed following debt retirement and management increased shareholder value through share repurchases. However, the SLBs also created one major disadvantage, a loss of financial flexibility. First, CBRL's financial flexibility is lower due to its now higher leveraged debt structure. Second, CBRL now also holds a smaller real estate portfolio, which means CBRL has less control associated with leased properties if its performance or profitability became sub-satisfactory.

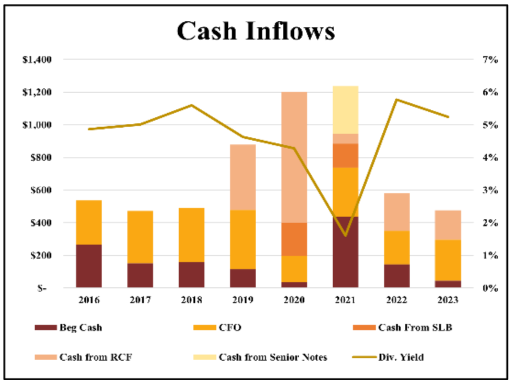


Figure 4.10 | Source: Company Filings

Punch Bowl Social Foreclosure

In FY18, CBRL purchased non-controlling interest in Punch Bowl Social (PBS), a food, beverage, and social entertainment concept for $132M. Due to the impact of the Covid pandemic, PBS's wholly-owned operating subsidiary, BrandCo, suspended all operations. In March 2020, BrandCo's lenders declared the company in default on its loan and that they intended to foreclose on the chain's assets. CBRL decided to stop investing in the brand, saying "we are focused on managing cash and dedicating all of our attention and financial resources to our core Cracker Barrel and Maple Street Biscuit company businesses so that we can emerge in the best shape possible," In total, CBRL incurred a $142.4M loss from its investment in PBS in FY20. Adding this impairment loss to the other negative impacts of the pandemic on CBRL's financials helps explain why CBRL's earnings for FY20 were so much lower than other years.

CapEx and Debt

CBRL's debt structure includes convertible notes, credit facilities, and long-term leasing, as shown in **(Figure 4.11)**. Debt management and CapEx trends become unclear in FY20 and FY21 due to unforeseen challenges from the Covid lockdown. As of FY24-Q1, they have $180M in outstanding borrowings under its 2022 RCF at an interest rate of 6.79%. CBRL's RCF imposes restrictions on the amount of dividends and share repurchases allowed **(Appendix 14)**. When debt is adjusted to only include borrowings as defined under CBRL's RCF, its consolidated total leverage ratio falls within its covenants to declare share repurchases and dividends in an unlimited amount **(Figure 4.12)**. Prior to Covid, dividends were declared in line with earnings growth. Last year its annual dividend totaled $5.30 per share, which is the highest dividend per share declared to date. Dividends were funded through cash up until FY23 **(Appendix 11)**. Management likely used their RCF to maintain constant dividends in FY23. This funding strategy makes sense on a temporary basis, but it would be concerning should management continue it going forward **(Figure 4.13)**. Management also notes that share repurchases for 2023 were funded with cash. Since its SLBs, CBRL has also increased its investment into CapEx from $97M in FY22 to $125.4M in FY23. This investment shows management's commitment to increase relevance of legacy CB stores.

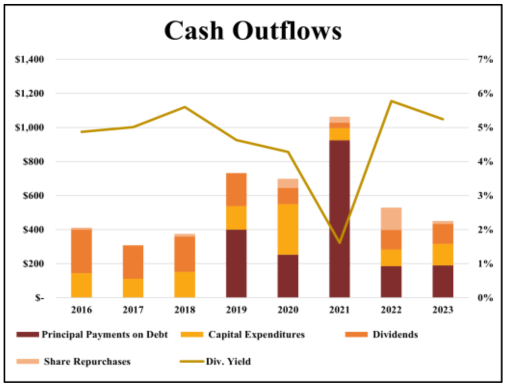


Figure 4.11 | Source: Company Filings

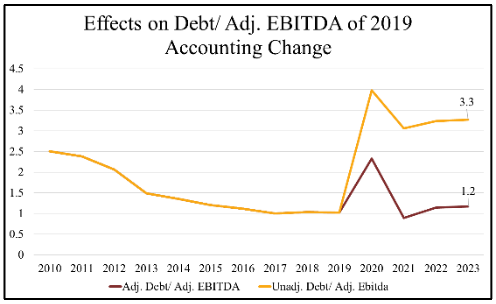


Figure 4.12 | Source: Company Filings & Team Calculations

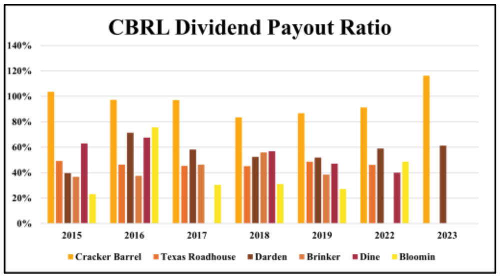


Figure 4.13 | Source: Company Filings

DuPont Analysis

Figure 4.14 and 4.15 includes a standard three-part DuPont model of CBRL over time and CBRL vs. competitors. CBRL's profit margin has not returned to pre-pandemic levels due to a combination of inflationary costs in commodities, lack of pricing power, and recently declining foot traffic. If management can get food and beverage costs more under control, margins should improve since revenues are increasing. Reducing menu costs would likely increase foot traffic too. In addition to rising menu prices, elevated gas prices are also impacting CBRL's foot traffic. Considering the higher percentage (40%) of travelers in CBRL's customer base compared to its main peers, CBRL's foot traffic is more impacted by elevated gas prices. Moreover, the escalation of gas prices following the Covid pandemic left CBRL's price-conscious customers to allocate more of their discretionary income towards necessities[F10]. Although rising costs have decreased earnings, management did effectively reduce tax rates from 18.0% to 4.4% from 2021-2023 by deducting rent expenses through the new SLBs. Management has also amended their 6% forecasted effective tax rate to between 2% - 5% in 2024, which will increase net income projections. Historically (**Appendix 16)**, CBRL outperformed competitors pre-pandemic through profit margin. Thus, although its post-pandemic recovery and growth have been slower than its competitors, CBRL has a proven brand and solid growth strategy for improving margins in future years.

Although total asset turnover (TAT) has also not returned to pre-pandemic levels, this metric's recovery was likely disrupted relative to competitors due to its large amount of retail inventory. Despite CBRL's business model having larger inventory levels than its competitors due to its retail segment, CBRL still has the second highest TAT. Given total inventories are comprised of 76.7% retail inventory, it is probable that CBRL's TAT would be even higher relative to competitors if retail inventory was not considered. In the FY24-Q1 earnings call, CEO Julie Masino remarked "we were pleased with how the team has effectively managed inventory levels". If management meets their goal of reducing retail inventory, TAT will increase in the future.

Finally, CBRL's leverage ratio has increased over time compared to pre-Covid levels predominantly due to the ASC 842 lease accounting change in 2019 and rising COGS affecting net income. CBRL's total equity also dropped from $604.7M (FY19) to $418.4M (FY20). In fact, total equity has decreased for three straight years due to rent expenses following its SLBs, commodity inflation, increased capital expenditures, and share repurchases. Although CBRL's SLB transactions greatly affected its leverage structure, the previously stated advantages in the SLB section offset the concerns it has had on CBRL's ROE.

		Category			
	Latest FY	PM	TAT	EM	ROE
Companies	Cracker Barrel	2.88%	1.55	4.58	20.48%
	Texas Roadhous	6.72%	1.59	2.46	26.25%
	Darden	9.36%	1.02	4.65	44.60%
	Denny's	16.37%	0.92	-13.43	-201.35%
	Brinker	2.48%	1.66	-17.23	-71.10%
	Dine	8.92%	0.48	-6.25	-26.93%
	Bloomin	2.31%	1.33	12.12	37.20%
	First Watch	0.94%	0.66	2.11	1.32%

Figure 4.14 | Source: Company Filings

		Category			
	FY 2018-2024	PM	TAT	EM	ROE
Fiscal year	2018	8.17%	1.98	2.63	42.56%
	2019	7.27%	1.94	2.61	36.94%
	2020	-1.29%	0.99	6.08	-7.76%
	2021	9.02%	1.18	3.6	38.35%
	2022	4.04%	1.42	4.49	25.78%
	2023	2.88%	1.55	4.58	20.48%

Figure 4.15 | Source: Team Calculations

ESG

Over the past five years CBRL has more than doubled its overall ESG score from 33 (2018) to 74 (2022)**[F14]**. In fact, CBRL now claims the highest ESG score amongst its peer group **(Figure 5.1).** The drastic improvement in the ESG score is primarily the result of implementing a wide array of green initiatives, improving overall employee work conditions, and maintaining strong board diversity.

Environmental: 62/B[F14]

The sharp improvement in CBRL's "E" score since 2018 **(Figure 5.2)** is a direct result of CBRL's numerous diverse green initiatives to improve its environmental footprint. The first major objective of its overall environmental plan is to replace existing PPE with new energy-efficient coolers, freezers, toasters, and coffee carafes. In the past year CBRL has increased investment in PPE by 28.9%. When fully implemented, the new energy-efficient PPE will save the company 15 million kWh annually, which equates to approximately $2.5M per year. CBRL's second objective aims to install solar panels on the roofs of all legacy CB stores. CBRL's third objective is to install new dishwashing systems and low-flow faucet aerators, which will conserve at least 2 million gallons of water per year. A fourth objective for CBRL is to cut its electricity consumption in half by installing LED lighting throughout its stores. As a fifth objective, CBRL is decreasing waste through new, cost-efficient, single-stream recycling, which they implemented in 19 CB stores in FY23. Finally, in addition to CBRL's new PPE investments in green initiatives, they have added EV charging stations to 24 CB locations in Tennessee **(Figure 5.3)**. CBRL's EV charging stations are strategic in that 83% of its locations are off major highways. Another added bonus of the EV charging stations is that the average EV driver is 43 years old[F15], which is younger than the 65+ age group that makes up CB's largest customer base. Thus, these stations may attract a new and wider demographic of customers to CB stores without alienating CB's well-established and loyal customer base.

Social: 78/A-[F14]

CBRL's social score has increased significantly **(Figure 5.2**) due to its commitment to investing in employees, giving back to local communities, and improving animal welfare. Within the restaurant industry, one of the most important aspects of the guest experience is customer service. CBRL's plan to maintain excellent customer service is to incentivize employee loyalty. One of CBRL's incentives is to provide employees with great standard benefit packages including health care plans, 401(k)'s with employer match, and profit sharing within stores. A second incentive is CBRL's tuition reimbursement plan, which has awarded over $1M in total to 500 employees. A third incentive is its Cracker Barrel Cares program, which has given over $540,000 to 390 different employees in financial need. A fourth incentive is CBRL's commitment to increasing wages. In fact, over the past two years, wages for non-tipped hourly employees have increased three times as much as the national hourly wage **(Figure 5.4).** Finally, to further combat turnover rate and retain its best employees, CBRL implemented a Personal Achievement Responsibility (PAR) Program. As each employee increases their respective PAR level, that employee receives higher pay, opportunities, and responsibilities. The PAR program has been very successful as evidenced by the 84% decrease in turnover rates from employees at the PAR 2 level (121%) compared to employees at the PAR 4 level (37%) **(Figure 5.5)**. As for peer comparisons, according to management, the "PAR program is a competitive advantage for Cracker Barrel, resulting in turnover rates for our most seasoned employees well below industry averages." CBRL has also been able to increase the percentage of employees who have achieved PAR 4 **(Figure 5.6**). Moreover, this program has helped CBRL retain employees at a higher rate than the industry average. According to Toast, a leading point of sale (POS) software systems, the average turnover rate for the restaurant industry over the past three years is 83%. This average rate is higher than CBRL's PAR 3 rate and more than double its PAR 4 rate over the same period **(Figure 5.7**). In addition to CBRL's investments in its employees, CBRL also gives back to local communities through its various partnerships. Partnering with Feeding America, CBRL has supplied over 150,000 meals for families facing food insecurity. Furthermore, in FY23, CBRL partnered with several different food banks by donating thousands of dollars and supplying over 130,000 lbs. of food to rural communities. Finally, CBRL highly values humane treatment of all animals within its supply chain network. As evidence, CBRL has committed to only using crate-free pork and cage-free eggs by 2026. In sum, CBRL's social incentives have bolstered the company's long-standing brand image and reputation with all stakeholders.

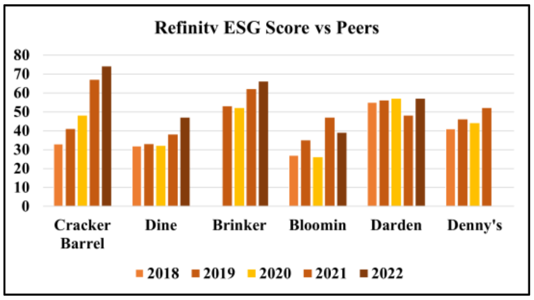


Figure 5.1 | Source: Refinitiv

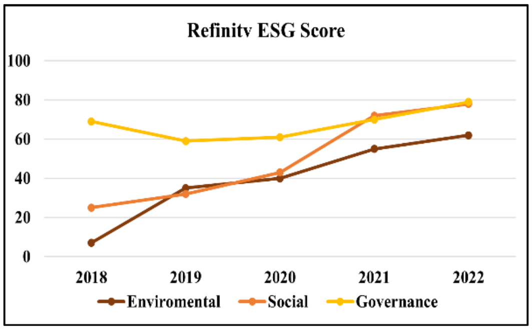


Figure 5.2 | Source: Refinitiv

Figure 5.3 | Source: World Map Website

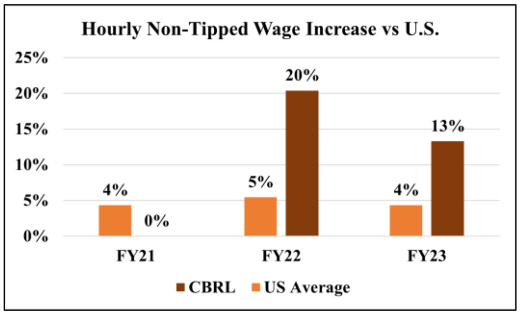


Figure 5.4 | Source: CBRL ESG Report

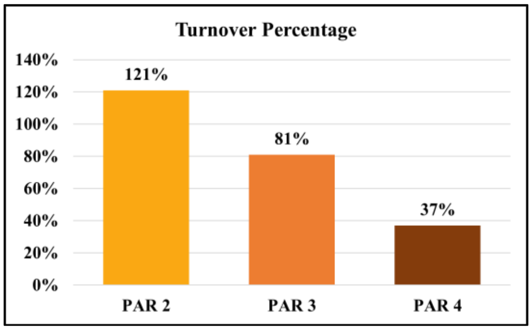


Figure 5.5 | Source: CBRL ESG Report

Governance: 79/A-[(F14)]

Governance has been a strongpoint for CBRL for several years **(Figure 5.2)** with a tradition of excellent management and board policies. CBRL recently made a change at the top of its leadership structure. Former CEO and President of the company, Sandra Cochran, has stepped down but will remain Executive Chair until September of 2024. Julie Masino former President of Taco Bell International for five and a half years is taking over the position of CEO and President. During Masino's time at the helm of Taco Bell, she helped expand the fast-food chain into 32 countries with over 1,000 new stores. Taco Bell's parent company, YUM Brands, excels in its ESG with an overall rating of 80 on Refinitiv. Thus, Masino will likely maintain CBRL's current emphasis on improving ESG policies. As for governance, CBRL's board includes 10 members and all of them are independent. In addition, half of CBRL's board are female members and a third are minority members. In comparison to its peers, CBRL has the most diversity and women on its board **(Figure 5.8)**. The board members' ages range from 52 to 72. With regards to compensation structure, all board members are compensated and required to hold stock. This policy incentives board members to make decisions that are in the best interest of shareholders. CBRL only offers common stock with one class of shares. The only major governance concern for CBRL is the lack of transparency in specific data for different revenue sources between CB and MSBC.

Investment Risks

CBRL's three key risks are outlined in the section below. However, several additional risks for CBRL are discussed in detail in the appendix including both a SWOT analysis and Porters 5 Forces analysis **(Appendices 28-31)**.

1. Higher Sensitivity to Commodity Market Fluctuations

As previously discussed, CBRL has a higher sensitivity to commodity market fluctuations than its main competitors. This higher sensitivity is concerning because CBRL has a value-based brand, meaning that revenue is driven more through volume than price. Thus, CBRL may have more difficulty passing off cost increases to its customers. For example, from 2022 to 2023, CBRL saw a 7.4% increase in food and beverage costs, which directly contributed to the company's lower profit margin. Contrary to competitors, CB's retail segment is highly dependent on consumer discretionary income, which is sensitive to inflation or recessionary factors. Other factors such as fluctuating gas prices could also have impacted CB's business due to its customer base being comprised of travelers. Additionally, commodity market fluctuations can be impacted by lower consumer confidence, which may partially explain why retail sales missed expectations in FY24-Q1. Costs can also be more volatile when firms rely on fewer suppliers. CBRL heavily relies on a single supplier, Performance Foods, for 49.2% of its food purchases. This overreliance puts CBRL at risk of supply chain shocks, reducing its ability to control food and beverage costs. **(Appendix 30).**

2. Financial Inflexibility

CBRL's SLB transactions in FY20 and FY21 granted them much needed cash to navigate the economic uncertainty surrounding the pandemic, but also reduced its control of real-estate assets. Today, CBRL leases 49% of its total locations, indicating a significant shift in its property management strategy. One major risk of CBRL's SLBs is less flexibility in managing underperforming stores. For example, during FY23 CBRL incurred $14M in impairment and store closing costs due to sub-satisfactory operating performance in 4 MSBC and 6 CB locations. If any underperforming stores are not owned by CBRL, the company will still need to pay these lease obligations even if management chooses to close store locations. Thus, any future closure of leased locations will entail ongoing obligations for rent, taxes, utilities, and insurance until lease obligations expire. Moreover, given CBRL's more leveraged capital structure, increasing borrowings against its RCF would likely incur higher interest rates.

3. Customer Base Alienation

CB's core customer base has certain expectations. For example, if CBRL were to considerably change its menu offerings to attract new customers, the company would risk alienating previously established customers. These customers might frequent the store less often if their favorite food and beverage choices are discontinued. Likewise, it is also imperative for CBRL to maintain a consistent service and restaurant atmosphere to meet

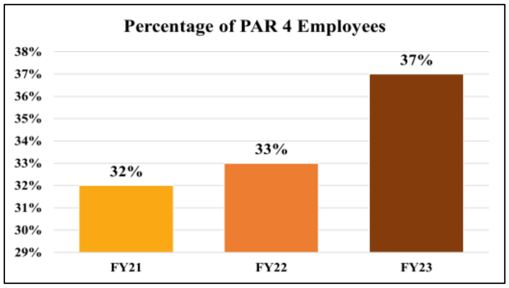


Figure 5.6 | Source: CBRL ESG Report

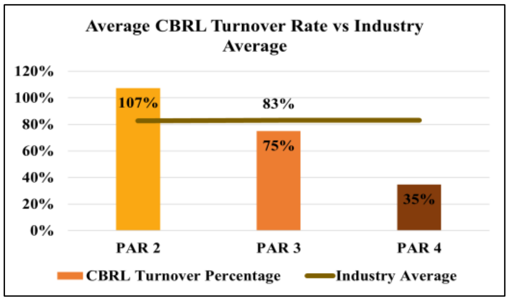


Figure 5.7 | Source: CBRL ESG Report

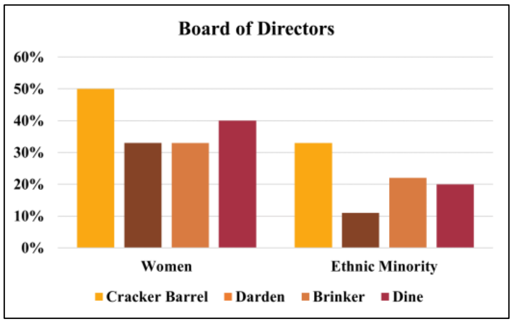


Figure 5.8 | Source: CBRL ESG Report

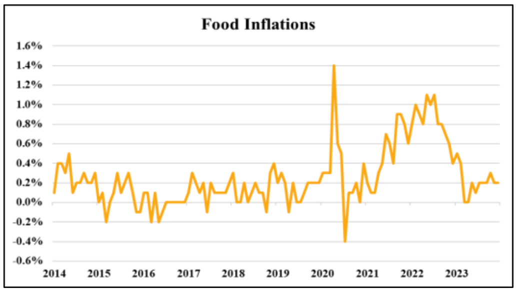


Figure 6.1 | Source: Bloomberg

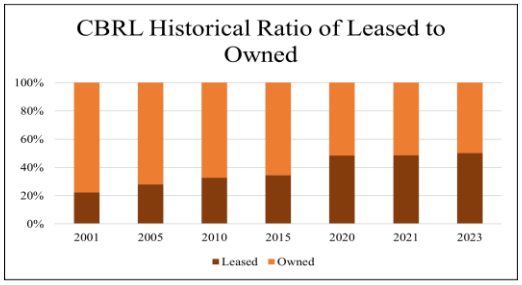


Figure 6.2 | Source: Company Filings

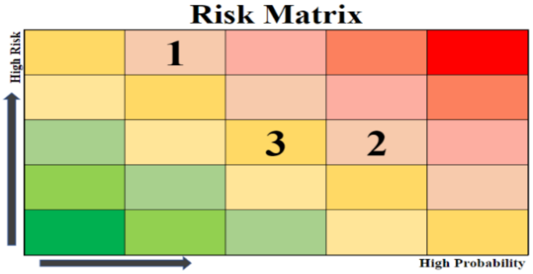


Figure 6.3 | Source: Team Evaluation

the expectations of its core customers, who seek a sense of nostalgia and comfort. If CBRL's core customers became alienated it could potentially lead to decreased loyalty and poorer business performance. However, a conflicting concern is that CBRL also needs to broaden its customer demographics to mitigate the potential risks associated with an aging customer base. One potential solution is management's plan to expand MSBC, which tailors its locations and menu offerings to younger urban demographics while not alienating CB's aging customer base.

Valuation

To estimate the intrinsic value of CBRL, a blended valuation was calculated using discounted cash flow (DCF) and relative valuation (RV) models. To estimate free cash flows in the DCF model, revenue was projected for three different scenarios by forecasting sales per store, increases in new stores each year, and operating margin growth. The weighted DCF valuation was then calculated as the weighted sum of these three scenarios multiplied by their respective probabilities. Next, the RV model finds a multiples valuation based on the median EV/EBITDA for CBRL and its competitors. Finally, a blended target price was derived for CBRL of $90.38 (1/31/2024) by applying 70% and 30% weights to the DCF and multiples valuations, respectively.

Revenue Projections (Appendix 32)

Revenue projections for the DCF model include three different scenarios: bear, base, and bull. These scenarios each differ in the number of stores that are added each year for both CB and MSBC, the growth of revenue for each location, and operating margins. Projecting revenues was the first step in projecting free cash flow. To calculate CB revenue growth, foot traffic was projected along with the time it will take CBRL to recover volume to pre-Covid numbers. The exception is the bear case, which projects foot traffic to decline. Next, the number of store openings for CB and MSBC were calculated based on a combination of management and team projections. Low, median, and high values for these projections were then applied to each of the bear, base, and bull cases, respectively. Finally, MSBC revenue growth estimates were based on similar price increases as MSBC's closest peer, FWRG.

In terms of assumptions, the base case assumes: (1a) that CBRL is towards the end of its recovery phase; (1b) that CB will recover foot traffic in a timely manner and grow the number of CB locations by the median projection; and (1c) that MSBC will continue to be successful and increase revenue and number of stores each year. The bear case assumes: (2a) that CBRL is just beginning its recovery phase; (2b) that CB will decrease in volume; and (2c) that MSBC will not grow sales per store and will remain at its current volume per store, only growing the number of stores they have. The bull case assumes: (3a) that CBRL is already out of its recovery phase and will grow more in line with pre-Covid growth rates; (3b) a quicker return back to pre-Covid volume for CB and an increased number of stores added each year; and (3c) that MSBC will grow its pricing faster and increase its number of stores at a greater rate.

As for specific numbers, both the base and bull revenue growth rates were calculated using current (FY23) average weekly guests per store. These volume calculations were based on how long it would take for CBRL to return to its pre-Covid foot traffic. The base case includes: (1a) a CB revenue growth rate (1.45%) projecting a total time of 10 years until CBRL fully recovers the volume of average weekly guests per store; (1b) a MSBC growth rate of 5.53% calculated by taking MSBC's average menu price and growing it over 4 years to match FWRG's average menu price; and (1c) an increase of CB and MSBC by 3 and 10 stores, respectively **(Figure 7.1)**. Next the bear case includes: (2a) a decrease in CB sales calculated by taking the decrease in volume that occurred from FY22–FY23 (-1.69%); (2b) projections for MSBC based on no growth in comparable store sales, an increase in locations due to foot traffic only, and pricing remaining the same; and (2c) an increase of CB and MSBC by 2 and 9 stores, respectively **(Figure 7.2)**. The bull case includes: (3a) CB revenue projected to increase at 2.43% based on the assumption that volume will return to pre-pandemic levels in 6 years; (3b) MSBC revenue growing at 11.36% due to menu prices increasing over 2 years to match FWRG; and (3c) an increase of CB and MSBC by four and eleven stores, respectively **(Figure 7.3)**.

Base Case Assumptions	
YoY Growth	
CB Stores Added	3
MSBC Stores Added	10
CB Revenue	1.45%
MSBC Revenue	5.53%
Operating Margin	4.00%

Figure 7.1 | Source: Team Calculations

Bear Case Assumptions	
YoY Growth	
CB Stores Added	2
MSBC Stores Added	9
CB Revenue	-1.69%
MSBC Revenue	0.00%
Operating Margin	3.00%

Figure 7.2 | Source: *Team Calculations & Projections*

Bull Case Assumptions	
YoY Growth	
CB Stores Added	4
MSBC Stores Added	11
CB Revenue	2.43%
MSBC Revenue	11.36%
Operating Margin	5.00%

Figure 7.3 | Source: *Team Calculations & Projections*

Assumptions	
WACC	7.91%
Interim Growth Rate	5.51%
Terminal Growth Rate	2.50%

Figure 7.4 | Source: Team Calculations & Projections

Expected 10-Year Return on the S&P 400		
2013		$1,342.53
2023		$2,781.54
CAGR	7.5%	Market Return

Figure 7.5 | Source: Bloomberg & Team Calculations

CAPM	
5Y Monthly adj. Beta	1.24
Risk Free Rate	4.15%
10Y Average MID Return	7.50%
Cost of Equity	8.30%

Figure 7.6 | Source: Bloomberg & Team Calculations

WACC		
	Cost	Weight
Equity	8.30%	55.27%
After-Tax Debt	7.43%	44.73%
WACC	7.91%	

Figure 7.7 | Source: Bloomberg & Team Calculations

Discounted Cash Flow Valuation (DCF)

Each different revenue growth rate is incorporated into the DCF model to derive a valuation for each of the three cases. Each case is then blended into an overall weighted valuation based on the probability for each scenario. The DCF model applies free cash flow to the firm (FCFF). The DCF model calculates the cost of equity using the capital asset pricing model (CAPM) and the weighted average cost of capital (WACC) **(Figure 7.4)**. Specific details for the DCF are as follows:

- To calculate CBRL's cost of equity, a 2Y adjusted beta was calculated using monthly data relative to the S&P 400 Mid Cap (1.24)[F16]. Then using a standard CAPM equation, the cost of equity was calculated by adding the nominal risk-free rate (4.15%) to the beta multiplied by the market risk premium (which is the expected market return on the S&P 400 Mid Cap (7.5%) **(Figure 7.5)** minus the risk-free rate) to derive a cost of equity of 8.30% **(Figure 7.6)**.
- CBRL's before-tax cost of debt was based on Barclays Index for High Yield, 10-year corporate debt, which is +374 basis points over Treasuries, or 7.9%. The after-tax cost of debt was then calculated as ((1 – 6%) x 7.9%) = 7.43%.
- The WACC was calculated by adding its weighted cost of equity (8.30% X 55.27% = 4.59%) to its weighted after-tax cost of debt (7.43% X 44.73% = 3.32%) to derive a WACC of 7.91% **(Figure 7.7)**.
- Each of the DCF cases includes a terminal growth rate (2.5%), which is found by taking 50% of the long-term U.S. GDP growth rate.
- Included in each DCF scenario is an interim growth rate (5.51%) calculated by taking a CAGR of CBRL's operating cash flow from 2010-2019. This time period was selected to project growth at pre-Covid levels, which show growth in FCF for CBRL under more normal (and likely more future) conditions than outlier years such as the more recent years during and post-Covid.
- Finally, each scenario was assigned a probability based on the likelihood of CBRL's projected path to recovery: bear (10%), base (65%), and bull (25%), to arrive at a weighted DCF target value of $90.64 (1/31/2024) **(Figure 7.8) (Appendix 34)**.

Discounted Cash Flows (DCF)			
Current Price:		$77.35	(1/31/2024)
Case	Weight	Target	Potential
Bear	10%	$ 52.00	-32.77%
Base	65%	$ 86.25	11.51%
Bull	25%	$ 117.50	51.90%
Target Price (1/31/2024)		$90.64	17.18%

Figure 7.8 | Source: *Team Calculations & Projections*

Sensitivity Analysis

The sensitivity analysis presented in **(Figure 7.9)** measures the impacts on the intrinsic value from 50 basis point modifications to WACC and TGR, respectively. At the base case of a 7.91% WACC and a 2.5% TGR, a 50-bps increase/decrease in WACC results in a -13.66% / 16.53% change in the intrinsic value estimate. At the base case WACC and TGR, a 50-bps increase/decrease in TGR results in a 13.44% / -11.17% change in the intrinsic value estimate. When WACC is kept constant, target prices range from $68.50 to $112.06; when TGR is kept constant, target prices range from $64.50 to $117.97.

Sensitivity Analysis		Changes in WACC				
		6.9%	7.4%	7.9%	8.4%	8.9%
Changes in TGR	1.5%	$91.17	$78.89	$68.50	$59.66	$52.00
	2.0%	$103.21	$88.70	$76.62	$66.49	$57.79
	2.5%	$117.97	$100.51	$86.25	$74.47	$64.50
	3.0%	$136.51	$115.01	$97.84	$83.93	$72.33
	3.5%	$160.49	$133.21	$112.06	$95.31	$81.62

Figure 7.9 | Source: *Team Calculations & Projections*

Relative Valuation (RV)

To calculate the RV model, CBRL was compared to seven other publicly traded companies in the fast-casual restaurant sector with similar characteristics: TXRH, DRI, DENN, EAT, DIN, BLMN, and FWRG. Using these competitors **(Figure 7.10)**, a multiples valuation was calculated by on EV/EBITDA. An implied enterprise value of $3,129.4M was derived by multiplying CBRL's EBITDA[F17] ($355.61M) to the competitors discounted (6%) median EV/EBITDA (8.8). Using this implied enterprise value ($3,129.4M) and subtracting CBRL's net debt ($1,140.0M) results in an implied market value of $1,989.4M. Taking this implied market value ($1,989.4M) and dividing it by the shares outstanding (22.2M) provides a relative valuation target price of $89.77 (1/31/2024) **(Figure 7.11)**.

Competitors	
Company	EV/EBITDA
Cracker Barrel	8.48
Texas Roadhouse	14.10
Darden	11.91
Denny's	9.14
Brinker	6.36
Dine	7.42
Bloomin	6.09
First Watch	13.35
Discounted Median (-6%)	8.80

Figure 7.10 | Source: Bloomberg & Team Calculations

Relative Valuation	
Median EV/EBITDA	8.80x
Implied Enterprise Value	$3,129.4M
Net Debt	$1,140.0M
Implied Market Value	$1,989.4M
Shares Outstanding	22.2M
Share Price (1/31/2024)	$77.35
Target Price (1/31/2024)	$89.77
Upside Potential	16.06%

Figure 7.11 | Source: *Team Calculations & Projections*

Blended Valuation

Finally, using both the DCF weighted valuation and the multiples valuation, a blended valuation was calculated to derive the final target price for CBRL. Calculating the weighted sum of the DCF weighted target price ($90.64) multiplied by the DCF weight (70%) and the RV target price ($89.77) multiplied by the RV weight (30%) results in a final blended valuation one-year target price of $90.38, which is an upside potential of 16.84% (1/31/2024) **(Figure 7.12)**. It should be noted that this valuation is conservative due to the lack of history on off-premise sales for CBRL, which will like grow faster than on-premise sales based on current industry averages.

Blended Valuation	
Discounted Cash Flow (DCF)	
Target Price	$90.64
Upside Potential	17.18%
Weight	70%
Relative Valuation	
Target Price	$89.77
Upside Potential	16.06%
Weight	30%
Blended Valuation	
Target Price (1/31/2024)	$90.38
Upside Potential	16.84%

Figure 7.12 | Source: *Team Calculations*

Appendix

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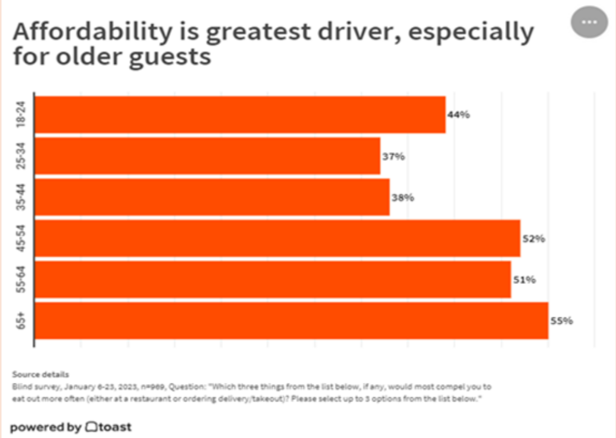
Appendix 1: Footnotes

F1: "Travelers make up 40% of our business" (CBRL Fast Facts)
F2: "We're very pleased with the guest response and the number of enrollments, which have exceeded our expectations thus far."
F3: "We need to improve our relevance. While we need to be our authentic selves and lean into our competitive advantages of hospitality, value and comfort, we must actively work to evolve both the brand and our business model in a brand appropriate manner to meet an ever-changing consumer need."
F4: "We are leaning into seasonal guest favorites, such as our Country Fried Turkey and Cinnamon Roll Pie, which continue to resonate with guests."
F5: "Cracker Barrels, while distinctly different than most of their surroundings, especially when moving farther from the original Cracker Barrel in Lebanon, TN, exist virtually unchanged place to place. Cracker Barrels change relatively little to reflect where they are located geographically."
F6: "Our brand is about being a home-away-from-home for everyone we welcome to our table. In some ways, it's about coming home to the charm of a simpler time and place" ("FAQs").
F7: "We increased our media spend by approximately 20% and refined our messaging to focus more on our core guests. This included increased advertising in linear TV, including premium sporting events like College Football."
F8: "First Watch is making all the right moves. They're following millennial and Generation X dining."
F9: "All of this is being supported by a marketing campaign that is emphasizing our strong all-day value, which we believe is a competitive advantage for us."
F10: "Higher costs related to cars and gas can contribute to an urban-rural inflation gap, severely eating into any discretionary income for families outside urban areas, a 2022 report found."
F11: "Higher Gas Prices Boost Retail Sales and Prices, but Underlying Trend Points to Softening Consumer Spending and Inflation."
F12: "We believe our off-premise business will remain a key strength." "We plan to strategically pursue expansion of Chili's internationally in areas where we see the most growth opportunities."
F13: "With ghost kitchens, you can lower costs and still maintain quality. This drives cost reductions in several notable ways, including: Fewer input costs, Lower rent."
F14: The ESG data is sourced from Refinitiv
F15: "The sample is predominantly male and highly educated, with an average age of 43"
F16: Due to the small to mid-cap nature of CBRL the market return needs to be based on a small or mid cap index. Either using the Russel 2000 or the S&P Mid Cap 400 an expected return is (7.5%).
F17: Due to the sale lease back accounting change CBRL EBITDA includes Operating income, D&A, and cost of capitalized operating leases

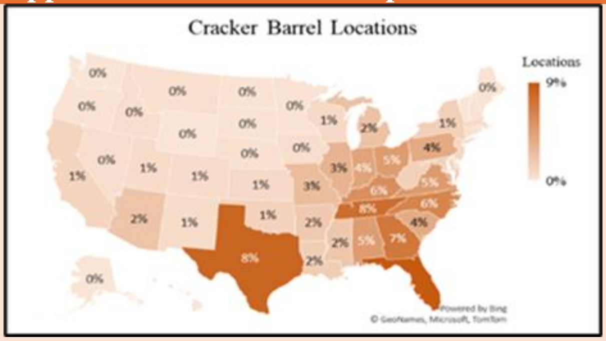
Appendix 2: CBRL/MSBC Photos

Appendix 3: Demographic Affordability



This graph illustrates that 55% of people aged 65+ prefer affordability over other factors that contribute to a good dining experience.
Source: Toast

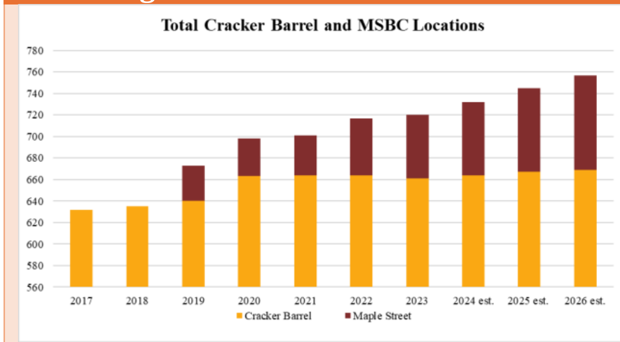
Appendix 4: CBRL Heatmap



This graph illustrates CBRL's competitors' concentration by percentage spread out among the different states in the U.S.

Source: Company Official Website

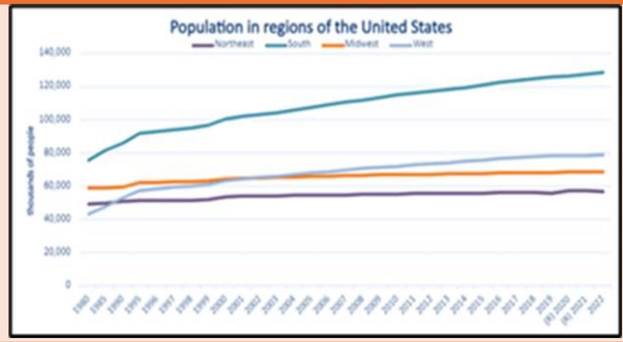
Appendix 5: MSBC v First Watch State Percentage



This graph provides a comprehensive breakdown of total CBRL locations by CB stores and MSBC locations.

Source: Company Filings

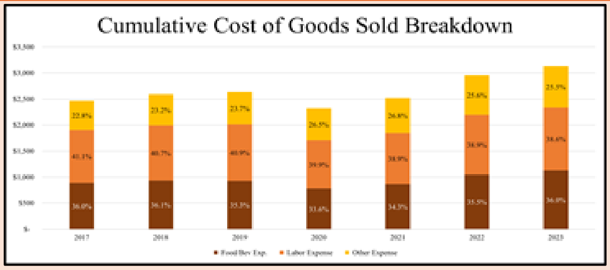
Appendix 6: Region Population



This graph illustrates the population growth of different regions in the U.S.

Source: U.S. Travel Association

Appendix 7: Cost of Goods Sold



Source: Company Filings and Team Calculations

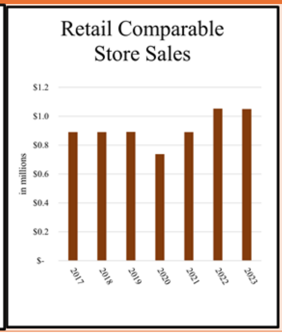
Appendix 8: Comparable Store Sales

CBRL Comparable Store Sales Versus Competitors	Geometrical Mean of % Increase (2017-2023)
Cracker Barrel	1.59%
Brinker	1.86%
Darden	2.89%
Dine Brands Applebees	0.80%
Dine Brands IHOP	0.03%
Bloomin	1.53%
Texas Roadhouse	7.12%

This graph displays CBRL's geometric mean compared to competitors.

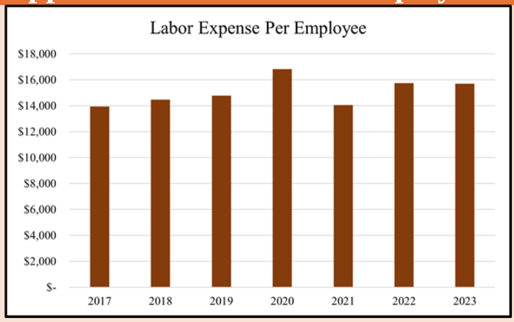
Source: Company Filings and Team Calculations

Appendix 9: Comparable Store Sales



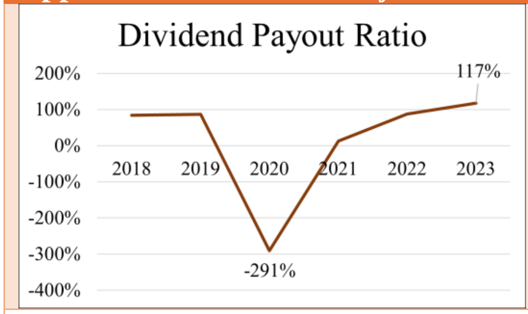
Source: Company Filings

Appendix 10: Labor Per Employee



Source: Company Filings and Team Calculations

Appendix 11: Dividend Payout Ratio



Source: Company Filings and Team Calculations

Appendix 12: Inventory Turnover Ratio

Computations for Inventory Turnovers

YEAR	2017	2018	2019	2020	2021	2022	2023
Rest Food/Bev	$ 595.2	$ 626.0	$ 628.8	$ 515.7	$ 567.8	$ 706.0	$ 769.3
Retail Food/Bev	$ 296.1	$ 309.4	$ 302.3	$ 264.3	$ 297.4	$ 343.8	$ 358.3
Total Food/Bev Expense	$ 891.3	$ 935.4	$ 931.1	$ 779.9	$ 865.3	$ 1,049.8	$ 1,127.6
Rest Ratio (3/1)	0.67	0.67	0.68	0.66	0.66	0.67	0.68
Retail Ratio (2/1)	0.33	0.33	0.32	0.34	0.34	0.33	0.32
Total Labor Expenses	$ 1,017.1	$ 1,055.8	$ 1,078.8	$ 925.0	$ 983.1	$ 1,149.1	$ 1,208.7
Rest. Labor (6*4)	$ 679.2	$ 706.6	$ 728.5	$ 611.6	$ 645.2	$ 772.8	$ 824.6
Retail Labor (6*5)	$ 337.9	$ 349.2	$ 350.3	$ 313.4	$ 338.0	$ 376.3	$ 384.1
Total Other Expenses	$ 563.3	$ 601.9	$ 626.5	$ 614.7	$ 676.3	$ 758.4	$ 797.8
Rest. Other (9*4)	$ 376.2	$ 402.8	$ 423.0	$ 406.4	$ 443.8	$ 510.0	$ 544.3
Retail Other (9*5)	$ 187.1	$ 199.1	$ 203.4	$ 208.3	$ 232.5	$ 248.3	$ 253.5
COGS combined on financials	$ 2,472	$ 2,593	$ 2,636	$ 2,320	$ 2,525	$ 2,957	$ 3,134
Rest. COGS (1+7+10)	$ 1,651	$ 1,735	$ 1,780	$ 1,534	$ 1,657	$ 1,989	$ 2,138
Retail COGS (2+8+11)	$ 821	$ 858	$ 856	$ 786	$ 868	$ 968	$ 996
Sum to Check Work (12+13)	$ 2,472	$ 2,593	$ 2,636	$ 2,320	$ 2,525	$ 2,957	$ 3,134

This table displays work for Figures 4.7 and 4.8 including computations for segmented inventory turnover.

Source: Company Filings and Team Calculations

Appendix 13: Sector Inventory Turnover Ratio

Inventory Turnover Ratio by Economic Sector

Ranking	Industry Sector	Inventory Turnover Ratio (avg.)
1	Financial	48.76
2	Services	28.47
3	Transportation	14.15
4	Technology	11.21
5	Retail	10.86
6	Utilities	10.44
7	Energy	8.20
8	Consumer Discretionary	6.86
9	Basic Materials	6.77
10	Consumer Non Cyclical	6.70

Source: CSI Markets

This table is supplementary data of the US average industry retail inventory turnover ratio.

Source: Investopedia

Appendix 14: Revolving Credit Facility Restrictions

Dividends, Share Repurchases and Share-Based Compensation Awards

Our 2022 Revolving Credit Facility imposes restrictions on the amount of dividends we are permitted to pay and the amount of shares we are permitted to repurchase. Under the 2022 Revolving Credit Facility, provided there is no default existing and the total of our availability under the 2022 Revolving Credit Facility plus our cash and cash equivalents on hand is at least $100,000 (the "Cash Availability"), we may declare and pay cash dividends on shares of our common stock and repurchase shares of our common stock (1) in an unlimited amount if at the time the dividend or the repurchase is made our consolidated total senior secured leverage ratio is 2.75 to 1.00 or less and (2) in an aggregate amount not to exceed $100,000 in any fiscal year if our consolidated total leverage ratio is greater than 2.75 to 1.00 at the time the dividend or repurchase is made; notwithstanding (1) and (2), so long as immediately after giving effect to the payment of any such dividends, Cash Availability is at least $100,000, we may declare and pay cash dividends on shares of our common stock in an aggregate amount not to exceed in any fiscal year the product of the aggregate amount of dividends declared in the fourth quarter of the immediately preceding fiscal year multiplied by four.

This document defines "consolidated total leverage ratio" and the covenants defined by CBRL's lender with regards to dividend declaration and share repurchases.

Source: Company Filings

Appendix 15: SLB Breakdown

Sale-Leaseback Transactions Breakdown (in millions)

	2020	2021
Cash	$ 201.3	$ 146.4
Right of Use Asset	$ 261.7	$ 309.6
Book Value of Property (force)	$ (210.4)	$ (104.6)
Operating Lease Liabilities	$ (182.6)	$ (133.7)
Gain on SLB Trxn	$ (70.0)	$ (217.7)
Net	$ -	$ -
Gain (Loss) on FV vs BV of Sale	$ (9.1)	$ 41.8
Gain (Loss) on ROU Asset vs Op Lease Liab.	$ 79.0	$ 176.0
Total Gain (Loss)	$ 70.0	$ 217.7

This table displays a breakdown of CBRL's two SLBs.

Source: Company Filings & Team Calculations

Appendix 16: 2019 DuPont Analysis

	Category				
Companies	FY 2019	PM	TAT	EM	ROE
	Cracker Barrel	7.27%	1.94	2.61	36.94%
	Texas Roadhouse	6.33%	1.39	2.13	18.74%
	Darden	8.38%	1.44	2.46	29.82%
	Denny's	21.68%	1.18	-3.33	-85.01%
	Brinker	4.81%	2.56	-1.62	-19.90%
	Dine	11.46%	0.44	-8.48	-43.13%
	Bloomin	3.16%	1.15	30.58	111.15%
	First Watch	-10.40%	0.44	2.98	-13.77%

Source: Company Filings & Team Calculations

Appendix 17: Revenue per Sqft. Per Op Hour

Calculations for revenue per SqFt. per Op Hours	
Comparable restaurant revenue Per CB	$4.05
Percentage of revenue To-Go	8.20%
Total To-Go Revenue	$219.36
To-Go Revenue Per CB	$0.33
Percentage of Revenue Third Party Deliver and Ghost Kitchens	7.00%
Total Third Party Delivery and Ghost Kitchen Revenue	$187.25
Third Party Delivery and Ghost Kitchens Revenue Per CB	$0.28
Percentage of Revenue Cattering	5.30%
Total Cattering Revenue	$141.78
Cattering Revenue Per CB	$0.21
Calculated Restaurant Revenue Per CB With Out Off Premise Sales	$3,217,365.00
Average CB SqFt.	7000
Restaurant Revenue CB Per SqFt.	$459.62
CB Restaurant Operating Hours	15
CB Restaurant Revenue Per SqFt. Per Operating Hour With Out Off Premise Sales	$30.64

Source: Company Filings & Team Calculations

Appendix 18 & 19: Revenue per sqft. Per Op Hour

Calculations for revenue per SqFt. per Op Hours	
Restaurant Revenue Per MSBC	$1,260,237.29
Average MSBC SqFt.	3000
Restaurant Revenue MSBC Per SqFt.	$420.08
MSBC Operating Hours	7.5
MSBC Restaurant Revenue Per SqFt. Per Operating Hours	$56.01

Calculations for revenue per SqFt. per Op Hours	
Restaurant Revenue Per MSBC	$1,260,237.29
Average MSBC SqFt.	3000
Restaurant Revenue MSBC Per SqFt.	$420.08
MSBC Operating Hours	7.5
MSBC Restaurant Revenue Per SqFt. Per Operating Hours	$56.01

Source: Company Filings & Team Calculations

Appendix 20: Income Statements

	2017	2018	2019	2020	2021	2022	2023
Consolidated Statements of Income							
in millions, except per-share data							
Total Revenue	$ 2,926.3	$ 3,030.4	$ 3,072.0	$ 2,522.8	$ 2,821.4	$ 3,267.8	$ 3,442.8
Food/Beverage Expense	$ 891.3	$ 935.4	$ 931.1	$ 779.9	$ 865.3	$ 1,049.9	$ 1,127.6
Labor and Other Related Expenses	$ 1,017.1	$ 1,055.1	$ 1,078.8	$ 925.0	$ 983.1	$ 1,149.1	$ 1,208.7
Other Store Operating Expenses	$ 563.3	$ 601.9	$ 626.5	$ 614.7	$ 676.3	$ 758.4	$ 797.8
General and Administrative Expenses	$ 141.4	$ 134.8	$ 152.8	$ 147.0	$ 147.8	$ 157.4	$ 174.1
Gain on Sale and Leaseback Transactions	$ -	$ -	$ -	$ (70.0)	$ (217.7)	$ -	$ -
Impairment and Store Closing Costs	$ -	$ -	$ -	$ 22.5	$ -	$ -	$ 14.0
Operating Income	$ 313.2	$ 293.6	$ 282.8	$ 103.6	$ 366.7	$ 153.0	$ 120.6
Interest Expense	$ 14.3	$ 15.2	$ 16.5	$ 22.3	$ 56.1	$ 9.6	$ 17.0
Income Before Income Taxes	$ 298.9	$ 278.4	$ 266.4	$ 81.3	$ 310.6	$ 143.4	$ 103.6
Provisions for Income Taxes	$ 97.0	$ 30.8	$ 43.0	$ (28.7)	$ 56.0	$ 11.5	$ 4.6
Loss for unconsolidated subsidiary	$ -	$ -	$ -	$ (142.4)	$ -	$ -	$ -
Net Income	$ 201.9	$ 247.6	$ 223.4	$ (32.5)	$ 254.5	$ 131.9	$ 99.1

Source: Company Filings

Appendix 21: Cash Flow Statements

Consolidated Statements of Cash Flows in millions, except per-share data	2017	2018	2019	2020	2021	2022	2023
Cash flows from operating activities:							
Net income	$ 201.90	$ 247.62	$ 223.40	$ (32.48)	$ 254.51	$ 131.88	$ 99.05
Net loss from unconsolidated subsidiary		$ -	$ -	$ 142.44	$ -	$ -	$ -
Adjustments to reconcile net income to net cash provided by operating activities:							
Depreciation and amortization	$ 86.32	$ 93.69	$ 107.54	$ 118.18	$ 108.60	$ 103.57	$ 104.49
Amortization of debt discount and issuance costs	$ -	$ -	$ -	$ -	$ 0.86	$ 1.76	$ 1.73
Loss on disposition of property and equipment	$ 8.49	$ 7.12	$ 10.27	$ 6.47	$ 4.06	$ 5.64	$ 6.60
Gain on sale and leaseback transactions	$ -	$ -	$ -	$ (69.95)	$ (217.72)	$ -	$ -
Impairment	$ -	$ -	$ -	$ 23.16	$ -	$ -	$ 11.69
Share-based compensation	$ 8.46	$ 6.98	$ 8.18	$ 6.39	$ 7.73	$ 8.20	$ 9.05
Escess tax benefit from share-based compensation	$ (2.64)	$ -	$ -	$ -	$ -	$ -	$ -
Noncash lease expense	$ -	$ -	$ -	$ 63.44	$ 55.82	$ 58.50	$ 59.77
Amortization of asset recognized from gain on sale and leaseback transacti	$ -	$ -	$ -	$ -	$ 12.74	$ 12.74	$ 12.74
Changes in assets and liabilities:							
Accounts receivable	$ 1.27	$ (1.38)	$ (3.26)	$ 3.12	$ (7.02)	$ (2.04)	$ 3.40
Income taxes receivable	$ 14.56	$ 4.27	$ (9.45)	$ (19.40)	$ 7.73	$ 18.67	$ 0.39
Inventories	$ (4.06)	$ 0.11	$ 1.30	$ 16.09	$ 0.77	$ (74.93)	$ 23.89
Prepaid expenses and other current assets	$ (1.27)	$ (0.50)	$ (1.99)	$ 0.40	$ (3.54)	$ (2.77)	$ (11.04)
Other assets	$ (4.34)	$ (1.40)	$ 2.85	$ (5.64)	$ (4.00)	$ 8.46	$ (0.85)
Accounts payable	$ (14.10)	$ 3.94	$ 9.89	$ (30.59)	$ 31.67	$ 34.70	$ (4.39)
Current operating lease liabilities	$ -	$ -	$ -	$ (11.30)	$ 8.15	$ 4.12	$ (8.24)
Taxes withheld and accrued	$ (0.84)	$ 0.34	$ 1.13	$ (7.02)	$ 16.85	$ 12.18	$ (21.38)
Accrued employee compensation	$ 9.75	$ (10.39)	$ 7.31	$ (11.57)	$ 8.47	$ (13.13)	$ 13.15
Accrued employee benefits	$ (1.17)	$ (1.34)	$ (0.49)	$ (550.00)	$ (0.65)	$ 1.28	$ (0.59)
Deferred revenues	$ 8.35	$ 3.92	$ 5.45	$ 13.03	$ (1.61)	$ 458.00	$ 1.40
Other current liabilities	$ 4.47	$ (8.12)	$ 3.49	$ 3.87	$ 2.79	$ (6.59)	$ 7.19
Long-term operating lease liabilities	$ -	$ -	$ -	$ (48.85)	$ (59.39)	$ (59.23)	$ (49.63)
Other long-term obligations	$ 3.46	$ 0.16	$ 1.36	$ 10.67	$ 6.92	$ (32.05)	$ (2.02)
Deferred income taxes	$ 5.06	$ (14.39)	$ (4.17)	$ (11.94)	$ 67.14	$ (6.15)	$ (5.94)
Net cash provided by operating activities	$ 320.77	$ 330.62	$ 362.80	$ 161.00	$ 301.90	$ 205.25	$ 250.46
Cash flows from investing activities:							
Purchase of property and equipment	$ (110.59)	$ (152.25)	$ (138.29)	$ (297.33)	$ (71.41)	$ (98.34)	$ (126.99)
Proceeds from insurance recoveries of property and equipment	$ 0.48	$ 0.62	$ 0.75	$ 1.32	$ 1.28	$ 1.24	$ 1.60
Proceeds from sale of property and equipment	$ 0.50	$ 0.41	$ 0.15	$ 207.25	$ 149.96	$ 105.00	$ 1.07
Purchase of investment in unconsolidated subsidiary	$ -	$ -	$ (89.10)	$ -	$ -	$ -	$ -
Notes recivable from unconsolidated subsidiary	$ -	$ -	$ (15.09)	$ (35.50)			
Acquisition of business, net of cash acquired	$ -	$ -	$ -	$ (32.97)	$ (1.50)	$ (1.50)	$ -
Net cash provided by (used in) investing activities	$ (109.61)	$ (151.22)	$ (241.57)	$ (157.23)	$ 78.33	$ (98.50)	$ (124.32)
Cash flows from financing activities:							
Proceeds from issuance of long-term debt	$ -	$ -	$ 400.00	$ 801.40	$ 60.00	$ 230.00	$ 180.00
Proceeds from issuance of convertible senior notes	$ -	$ -	$ -	$ -	$ 291.61	$ -	$ -
Taxes withheld from issuance of share-based compensation awards	$ (6.90)	$ (3.82)	$ (2.50)	$ (2.16)	$ (2.28)	$ 2.60	$ (2.45)
Principal payments under long-term debt	$ -	$ -	$ (400.00)	$ (252.00)	$ (924.57)	$ (185.12)	$ (190.12)
Proceeds from issuance of warrants	$ -	$ -	$ -	$ -	$ 31.71	$ -	$ -
Purchase of convertible note hedge	$ -	$ -	$ -	$ -	$ (62.01)	$ -	$ -
Purchases and retirement of common stock	$ -	$ (14.77)	$ -	$ (55.01)	$ (35.00)	$ (131.54)	$ (17.45)
Deferred financing costs	$ -	$ -	$ (3.02)	$ (1.35)	$ (0.42)	$ (2.15)	$ -
Dividends on common stock	$ (196.87)	$ (207.16)	$ (193.48)	$ (94.54)	$ (31.67)	$ (114.83)	$ (116.08)
Excess tax benefit from share-based compensation	$ 2.64	$ -	$ -	$ -	$ -	$ -	$ -
Net cash used in financing activities	$ (201.13)	$ (225.74)	$ (198.99)	$ 396.34	$ (672.64)	$ (206.24)	$ (146.10)
Net decrease in cash and cash equivalents	$ 10.04	$ (46.35)	$ (77.77)	$ 400.11	$ (292.40)	$ (99.49)	$ (19.96)
Cash and cash equivalents, beginning of year	$ 150.97	$ 161.00	$ 114.66	$ 36.88	$ 437.00	$ 144.59	$ 49.11
Cash and cash equivalents, end of year	$ 161.00	$ 114.66	$ 36.88	$ 437.00	$ 144.59	$ 45.11	$ 25.15

Supplemental disclosure of cash flow information:							
Cash paid during the year for:							
Interest, net of amounts capitalized	$ 12.85	$ 17.27	$ 12.10	$ 20.27	$ 40.80	$ 7.70	$ 13.60
Income taxes	$ 78.09	$ 43.47	$ 56.45	$ 5.67	$ 2.91	$ 25.95	$ 6.49
Supplemental schedule of non-cash investing and financing activities:							
Capital expenditures accrued in accounts payable	$ 6.74	$ 8.18	$ 9.51	$ 1.69	$ 5.81	$ 7.42	$ 9.63
Change in fair value of interest rate swaps	$ 15.40	$ 13.10	$ (15.47)	$ (17.74)	$ 27.11	$ -	$ -
Change in deferred tax asset for interest rate swaps	$ (5.89)	$ (4.19)	$ 3.87	$ 4.31	$ (6.76)	$ -	$ -
Dividends declared but not yet paid	$ 31.30	$ 31.78	$ 32.86	$ 32.06	$ 24.16	$ 30.46	$ 30.23

Source: Company Filings

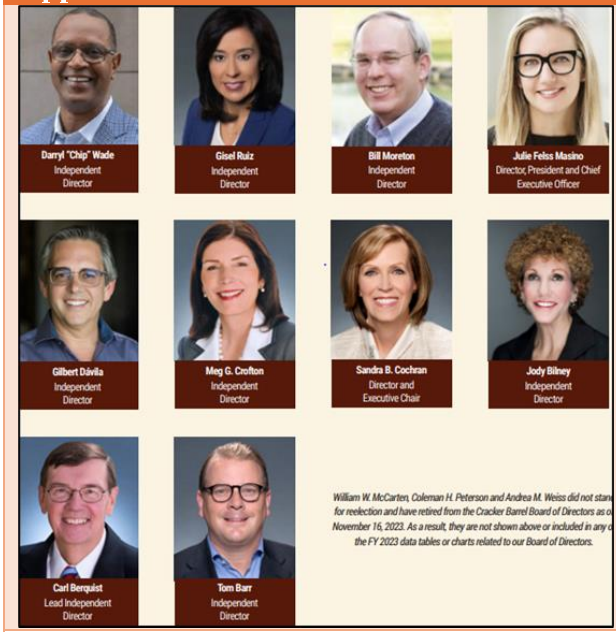
Appendix 22: Balance Sheets

Consolidated Balance Sheets in millions, except per-share data Assets:	2017	2018	2019	2020	2021	2022	2023
Current Assets:							
Cash and cash equivalents	$ 161.00	$ 114.66	$ 36.88	$ 437.00	$ 144.59	$ 45.11	$ 25.15
Accounts receivable	$ 18.12	$ 19.50	$ 22.76	$ 20.16	$ 27.37	$ 32.25	$ 30.45
Income taxes receivable	$ 4.27	$ -	$ 9.45	$ 28.85	$ 21.12	$ 2.45	$ 2.06
Inventories	$ 156.37	$ 156.25	$ 154.96	$ 139.09	$ 138.32	$ 213.25	$ 189.36
Prepaid expenses and other current assets	$ 16.05	$ 16.35	$ 18.33	$ 17.92	$ 22.19	$ 24.23	$ 35.63
Deferred income taxes	$ 3.06	$ -	$ -	$ -	$ -	$ -	$ -
Total Current Assets	$ 358.86	$ 306.75	$ 242.38	$ 643.01	$ 353.60	$ 317.28	$ 282.29
Property and Equipment:							
Land	$ 306.11	$ 307.21	$ 307.24	$ 306.20	$ 255.24	$ 255.24	$ 254.81
Buildings and improvements	$ 837.80	$ 861.95	$ 881.71	$ 879.12	$ 776.44	$ 792.21	$ 807.59
Buildings under capital leases	$ 3.29	$ 3.29	$ 3.29	$ -	$ -	$ -	$ -
Restaurant and other equipment	$ 604.41	$ 658.98	$ 723.85	$ 748.61	$ 783.26	$ 817.24	$ 852.44
Leasehold Improvements	$ 326.75	$ 353.33	$ 385.00	$ 394.46	$ 405.79	$ 422.49	$ 438.50
Construction in progress	$ 15.09	$ 27.85	$ 11.39	$ 17.13	$ 13.76	$ 22.40	$ 26.98
Total	$ 2,093.45	$ 2,212.60	$ 2,312.82	$ 2,363.52	$ 2,234.49	$ 2,309.58	$ 2,380.31
Less: Accumulated depreciation and amortizat	$ 995.35	$ 1,063.47	$ 1,143.85	$ 1,233.46	$ 1,254.64	$ 1,139.97	$ 1,408.37
Property and Equipment; net	$ 1,098.10	$ 1,149.14	$ 1,168.97	$ 1,130.06	$ 979.85	$ 969.61	$ 971.95
Investment in unconsolidated subsidiary	$ -	$ -	$ 89.10	$ -	$ -	$ -	$ -
Operating lease right-of use assets, net	$ -	$ -	$ -	$ 691.95	$ 974.48	$ 933.52	$ 889.31
Goodwill	$ -	$ -	$ -	$ 4.69	$ 4.69	$ 4.69	$ 4.69
Intangible Assets	$ -	$ -	$ -	$ 20.96	$ 21.29	$ 21.21	$ 23.43
Other assets	$ 64.99	$ 71.47	$ 80.78	$ 53.59	$ 57.80	$ 48.60	$ 46.44
Total	$ 1,521.94	$ 1,527.36	$ 1,581.23	$ 2,544.26	$ 2,391.69	$ 2,294.91	$ 2,218.09

Liabilities and Shareholders' Equity							
Current Liabilities:							
Accounts payable	$ 118.40	$ 122.33	$ 132.21	$ 103.50	$ 135.18	$ 169.87	$ 165.48
Current portion of long-term debt		$ -	$ -	$ 39.40	$ 0.12	$ 0.12	$ 0.75
Current operating lease liabilities		$ -	$ -	$ 42.30	$ 50.45	$ 54.57	$ 46.34
Taxes withheld and accrued	$ 36.73	$ 37.07	$ 38.20	$ 31.18	$ 48.03	$ 60.21	$ 28.84
Accrued employee compensation	$ 70.95	$ 60.65	$ 67.88	$ 56.32	$ 64.79	$ 51.67	$ 64.82
Accrued employee benefits	$ 26.76	$ 25.42	$ 24.93	$ 24.38	$ 23.72	$ 25.00	$ 24.42
Deferred revenues	$ 72.38	$ 76.29	$ 81.73	$ 94.76	$ 93.16	$ 93.62	$ 95.02
Dividend payable	$ 30.64	$ 31.12	$ 32.14	$ 31.60	$ 23.97	$ 29.96	$ 29.49
Other Current Liabilities	$ 19.99	$ 11.83	$ 15.37	$ 27.63	$ 25.84	$ 17.30	$ 24.49
Total Current Liabilities	$ 375.83	$ 364.62	$ 392.47	$ 451.06	$ 465.26	$ 502.32	$ 488.97
Long-term debt	$ 400.00	$ 400.00	$ 400.00	$ 910.00	$ 327.25	$ 423.25	$ 414.90
Long-term operating lease liabilities	$ -	$ -	$ -	$ 632.63	$ 748.31	$ 722.16	$ 702.41
Long-term interest rate swap liability	$ 6.83	0	$ 10.48	23.86	$ -	$ -	$ -
Other long-term obligations	$ 129.35	$ 128.97	$ 129.44	$ 80.61	$ 88.62	$ 55.51	$ 53.73
Deferred income taxes	$ 65.42	$ 52.16	$ 44.12	$ 27.72	$ 98.63	$ 80.19	$ 74.26
Shareholders' Equity							
Common Stock		$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.22	$ 0.22
Additional Paid-in-Capital		$ 44.05	$ 49.73	$ -	$ -	$ -	$ 4.00
Accumulated other comprehensive loss		$ 4.69	$ (6.91)	$ (20.35)	$ -	$ -	$ -
Retained earnings		$ 532.81	$ 561.65	$ 438.50	$ 663.40	$ 511.26	$ 479.72
Total shareholders' equity		$ 581.87	$ 604.71	$ 418.39	$ 663.63	$ 511.48	$ 483.83
Total		$ 1,527.36	$ 1,581.23	$ 2,544.26	$ 2,391.69	$ 2,294.91	$ 2,218.09

Source: Company Filings

Appendix 23: Board of Directors



Source: CBRL ESG Report

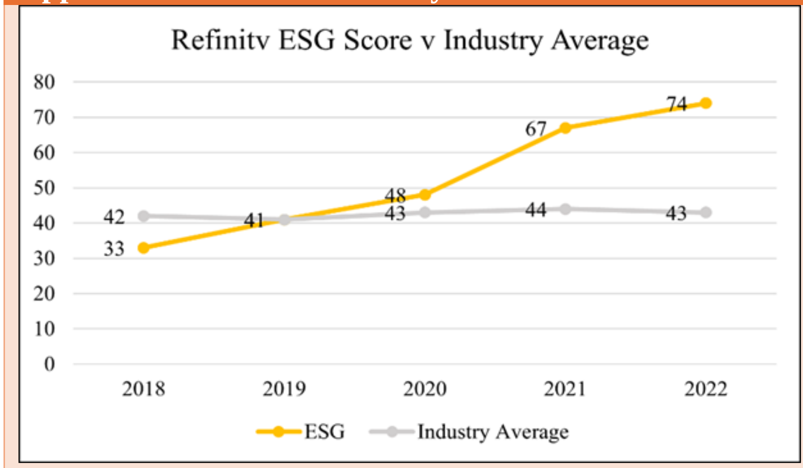
Appendix 24: Staff Diversity

DEMOGRAPHICS AND DIVERSITY PERFORMANCE

Indicator	Unit	FY 2021	FY 2022	FY 2023
Board of Directors	Number (#)	10	10	10
Women	Percent (%)	40	40	50
Racial/Ethnic Minority	Percent (%)	40	40	33
Executive Team	Number (#)	8	9	9
Women	Percent (%)	50	55	55
Racial/Ethnic Minority	Percent (%)	13	22	22
Professional Staff (includes Home Office and District Managers)	Number (#)	841	954	1,011
Women	Percent (%)	58	52	54
Racial/Ethnic Minority	Percent (%)	13	15	14
Store-Level Management	Number (#)	3,315	3,269	3,352
Women	Percent (%)	43	47	50
Racial/Ethnic Minority	Percent (%)	23	24	25
Hourly Staff	Number (#)	63,648	66,584	68,523
Women	Percent (%)	68	68	68
Racial/Ethnic Minority	Percent (%)	34	34	36

Source: CBRL ESG Report

Appendix 25: ESG vs. Industry



Source: Refinitiv

Appendix 26: Committees

OUR COMMITTEES

The Audit Committee oversees financial reporting and internal controls at Cracker Barrel, as well as the Company's internal audit function and our relationship with our independent auditors.

The Compensation Committee oversees our executive and director compensation plans and practices and manages the Company's compensation-related risks. The Compensation Committee is also responsible for overseeing our CEO succession planning process, which in FY 2023 culminated in the hiring of Julie Masino as the Company's next Chief Executive Officer.

The Nominating and Corporate Governance Committee oversees our corporate governance practices and procedures, manages our Board succession and recruitment efforts, and evaluates the effectiveness of the Board and each committee through annual evaluation processes.

The Public Responsibility Committee oversees the Company's practices and responses to environmental, social and diversity issues, including most ESG and sustainability efforts, and manages the Company's risk with respect to our brand and reputation.

| *Source: CBRL ESG Report*

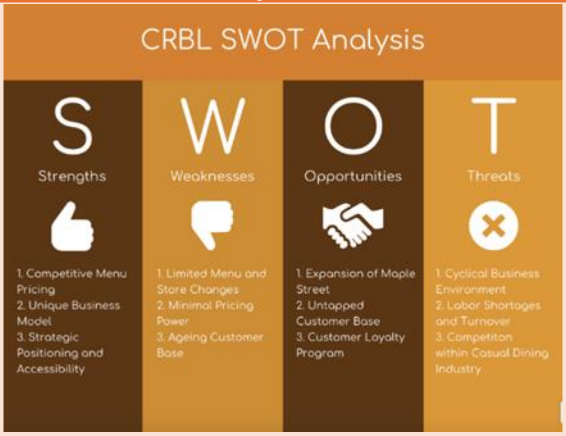
Appendix 27: Labor

FAIR LABOR PERFORMANCE

Indicator	Unit	FY 2021	FY 2022	FY 2023
Voluntary turnover rate for restaurant employees	Rate	82	80	78
Involuntary turnover rate for restaurant employees	Rate	19	20	22
Tipped Employees	Percent (%) of Restaurant Staff	46	38	50
Average Hiring Rate	Pay rate ($ USD) per Hour	3	3.49	3.66
Paid at Federal/State Minimum Wage	Percent (%) of Tipped Employees	31	52	63
Paid Above Minimum Wage	Percent (%) of Tipped Employees	69	48	27
Non-Tipped Employees	Percent (%) of Restaurant Staff	54	62	50
Average Hiring Rate	Pay rate ($ USD) per Hour	10	12.04	13.64
Paid at Federal/State Minimum Wage	Percent (%) of Non-Tipped Employees	2	4	5
Paid Above Minimum Wage	Percent (%) of Non-Tipped Employees	98	96	95

Source: CBRL ESG Report

Appendix 28: Swot Analysis



Source: SWOT Analysis, Team Evaluation

Appendix 29: Other Risks

1. Demographics

CBRL's demographics are skewed towards older generations when compared to its competitors. An aging poulation base puts a business at risk due to declining guest traffic resulting from health risks. However, CBRL is proactively implementing strategic initiatives to enhance the engagement of their core customer base—individuals who have a genuine affinity for the CBRL brand.

2. Foot Traffic

Because CBRL is highly reliant on travelers to influence their weekly guest traffic, the Covid pandemic affected CBRL more so than its competitors. In FY20 CBRL witnessed a 21.6% decline in guest traffic, and this figure has yet to be recovered in the subsequent years. However, we believe that CBRL will increase their guest traffic in the future as a result of strategic advertising initiatives.

3. Slow MSBC Growth

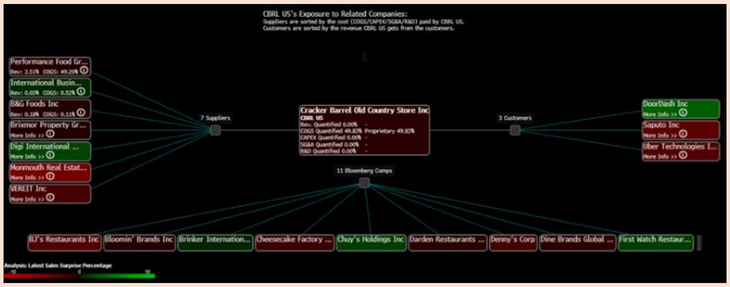
During FY 2024, management intends to perform a meaningful expansion of MSBC to reach younger demographics. The current performance of MSBC is not disclosed, and it is unclear whether this is an appropriate growth strategy. If CBRL fails to leverage MSBC effectively to connect with its target demographics, or position itself as a formidable contender in the fast-casual breakfast and brunch segment, it risks incurring losses and being left without a growth strategy to sustain its mature business.

4. **Competition**

The full-service dining industry has historically experienced intense levels of competition, driven in part by the inherent dynamics of the industry. However, we believe that CBRL has a strategic advantage due to the location of its restaurants on highway exits, lowering the number of choices potential customers have near less urban areas.

Source: Other Risks, Team Evaluation

Appendix 30: Bloomberg Supply Chain Breakdown



Source: Bloomberg

Appendix 31: Porters Five Forces

Threat of new entrants: The threat of new entrants is low in part to the difficulty associated with directly competing with established brands that often have strong customer loyalty. Furthermore, high initial capital investments required for the establishment and maintenance of a full-service restaurant act as a significant barrier of entry.

Bargaining power of customers: CBRL has little pricing power because of their value-oriented brand and high competition within the industry. Consequently, if CBRL were to raise their prices, they could lose the support of their value-conscious customers, thereby jeopardizing their competitive edge. Considering this, we believe that CBRL will shift towards emphasizing the volume of sales as a key driver for revenue growth, as opposed to relying solely on menu pricing adjustments.

Bargaining power of Suppliers: CBRL has a total of 7 different suppliers and Performance foods comprises 49.2% of CBRL's COGS. When there are only a few suppliers in the market it introduces dependency and pricing risks. When alternative options are limited, the potential for suppliers to pass on pricing increases to their customers becomes a tangible threat. Moreover, the restricted number of alternatives leaves CBRL with limited flexibility to explore alternative suppliers, reducing their ability to navigate unforeseen challenges in the supply chain.

Threat of Substitutes: Considering CBRL's proximity to quick-service restaurants on highway exits it may influence customers to choose to dine at one of the quick-service locations.

Industry rivalry: The highly competitive full-service restaurant industry hosts numerous brands, among which CBRL competes directly. Its strategic placement near highway exits, especially in less urban areas, positions CBRL as possibly one of the few full-service restaurants available in these regions. However, for most of CBRL's locations customers will have a variety of dining options and may limit the amount of sales CBRL generates.

Source: Porters Five Forces, Team Evaluation

Appendix 32: Base Revenue and FCF Projections

Base Case											
(in millions)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Number of CB	637	640	645	655	660	663	664	664	661	664	666
Holler and Dash	0	2	5	7	7	0	0	0	0	0	0
Number of MSBC	0	0	0	0	0	35	37	53	59	69	79
Number of Stores	637	642	650	662	667	698	701	717	720	732	745
Comparable Restaurant Sales per CB	$ 3.57	$ 3.67	$ 3.67	$ 3.76	$ 3.78	$ 3.07	$ 3.31	$ 3.80	$ 4.05	$ 4.11	$ 4.17
Growth YoY		3%	0%	3%	1%	-19%	8%	15%	6%	1.45%	1.45%
Total CB Restaurant	$2,273.45	$2,348.80	$2,366.51	$2,464.11	$2,497.44	$2,032.10	$2,199.17	$2,525.86	$2,675.07	$2,726.17	$2,774.03
Comparable Retail Sales per CB	$ 0.89	$ 0.93	$ 0.89	$ 0.90	$ 0.89	$ 0.74	$ 0.89	$ 1.05	$ 1.05	$ 1.06	$ 1.08
Growth YoY		3%	-4%	1%	-1%	-17%	21%	18%	0%	1.45%	1.45%
Total CB Retail Reve	$ 569.99	$ 592.00	$ 574.05	$ 591.47	$ 588.06	$ 488.63	$ 590.96	$ 698.53	$ 693.39	$ 706.64	$ 719.04
Total CB Revenue	$2,843.44	$2,940.80	$2,940.56	$3,055.58	$3,085.50	$2,520.73	$2,790.13	$3,224.38	$3,368.46	$3,432.81	$3,493.07
Comparable Sales per MSBC						$0.06	$0.85	$0.82	$1.26	$1.33	$1.40
Growth YoY							1335%	-3%	54%	5.53%	5.53%
Total MSBC Revenue EST						$ 2.06	$ 31.31	$ 43.41	$ 74.35	$ 91.77	$ 110.87
Total Actual Company Revenue	$2,842.28	$2,912.35	$2,926.29	$3,030.45	$3,071.95	$2,522.79	$2,821.44	$3,267.79	$3,442.81	$3,524.57	$3,603.95
COGS	$2,439.86	$2,488.90	$2,471.72	$2,593.10	$2,636.28	$2,319.66	$2,524.68	$2,957.35	$3,134.10		
Total Costs Est										$3,383.59	$3,459.79
Expenses	$ 147.54	$ 142.98	$ 141.41	$ 143.76	$ 152.83	$ 99.52	$ (69.90)	$ 157.43	$ 188.09		
Operating Margin	8.97%	9.63%	10.70%	9.69%	9.21%	4.11%	13.00%	4.68%	3.50%	4.00%	4.00%
Op Inc	$ 254.88	$ 280.47	$ 313.16	$ 293.59	$ 282.84	$ 103.61	$ 366.66	$ 153.01	$ 120.62	$ 140.98	$ 144.16
Non-op loss	$ 16.68	$ 14.05	$ 14.27	$ 15.17	$ 16.49	$ 22.33	$ 56.11	$ 9.62	$ 17.01	$ 19.74	$ 20.18
Pretax inc	$ 238.20	$ 266.42	$ 298.89	$ 278.42	$ 266.35	$ 81.28	$ 310.55	$ 143.39	$ 103.61	$ 121.25	$ 123.98
Abnormal loss	$ -	$ -	$ -	$ -	$ -	$ 142.44	$ -	$ -	$ -	$ -	$ -
Pretax income	$ 238.20	$ 266.42	$ 298.89	$ 278.42	$ 266.35	$ (61.16)	$ 310.55	$ 143.39	$ 103.61	$ 121.25	$ 123.98
Tax expense	$ 74.30	$ 77.12	$ 96.99	$ 30.80	$ 42.96	$ (28.68)	$ 56.04	$ 11.50	$ 4.56	$ 4.24	$ 4.34
Net Income	$ 163.90	$ 189.30	$ 201.90	$ 247.62	$ 223.39	$ (32.48)	$ 254.51	$ 131.89	$ 99.05	$ 117.00	$ 119.64
D&A	$ 72.96	$ 78.22	$ 86.32	$ 93.69	$ 107.54	$ 118.18	$ 108.60	$ 103.57	$ 104.49	$ 109.99	$ 115.78
Non Cash Items	$ 20.59	$ 25.23	$ 15.59	$ (1.54)	$ 18.49	$ 104.92	$ (116.69)	$ 1.98	$ 34.89	$ 37.62	$ 40.56
Change in NWC	$ 76.61	$ (21.37)	$ 16.96	$ (9.16)	$ 13.37	$ (29.62)	$ 55.48	$ (32.18)	$ 12.03	$ 13.97	$ 13.97
CFO	$ 334.06	$ 271.38	$ 320.77	$ 330.61	$ 362.79	$ 161.00	$ 301.90	$ 205.26	$ 250.46	$ 278.58	$ 289.95
CapEx	$ (90.90)	$ (114.00)	$ (110.60)	$ (152.20)	$ (138.30)	$ (297.30)	$ (71.40)	$ (98.30)	$ (127.00)	$ (133.33)	$ (139.88)
FCF	$ 243.16	$ 157.38	$ 210.17	$ 178.41	$ 224.49	$ (136.30)	$ 230.50	$ 106.96	$ 123.46	$ 145.25	$ 150.07

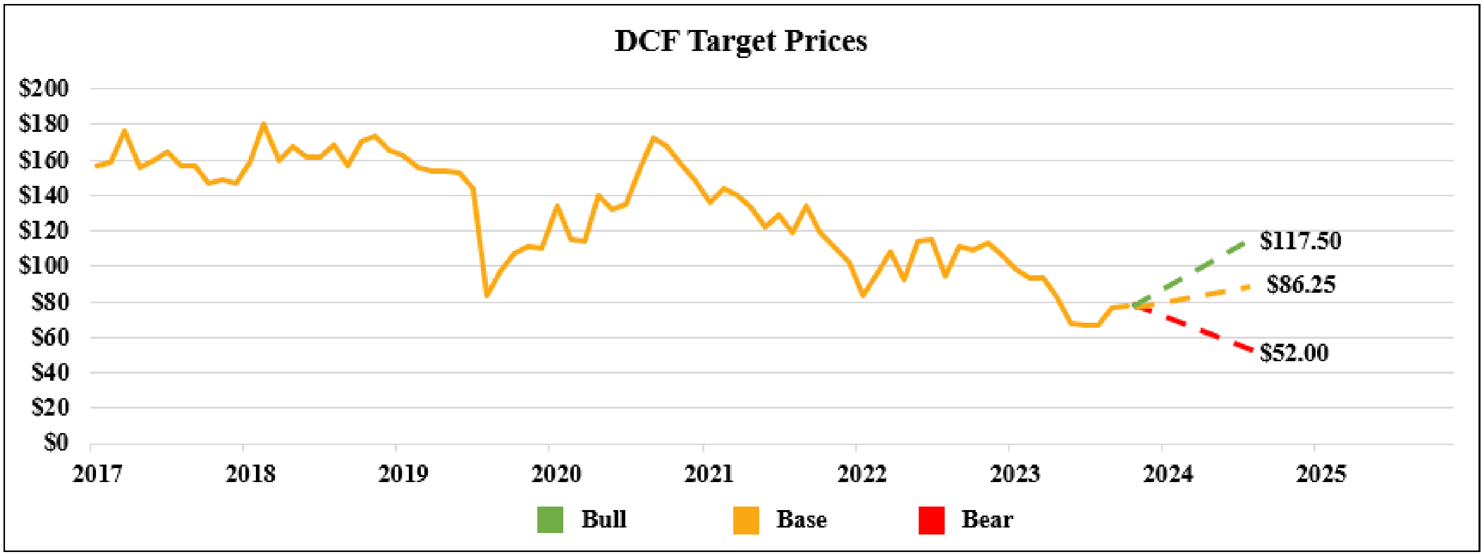
Source: Team Calculations and Company Filings

Appendix 33: Volume History

Foot Traffic	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	6760	6600	6700	6600	7000	6900	6700	5200	5500	5900	5800

Source: Company Filings

Appendix 34: DCF Target Price



Source: Team Calculations and Projections

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