



CAIRN
INVESTMENT
GROUP

COMPANY SPOTLIGHT:

Sonic Corp.

COMPANY DESCRIPTION

Headquartered in Oklahoma City, OK, Sonic Corp. operates and franchises the largest chain of drive-in restaurants across the US.

James Hudson is the CEO and has been with Sonic Corp. since 1984.

COMPANY HIGHLIGHTS AND FINANCIALS

Founded in 1953, Sonic Corp. now serves over 3 million customers daily across 45 states. Sonic has made its name serving fresh hamburgers, hotdogs, onion rings, and shakes via a drive-in, carhop service restaurant theme, averaging between 16 to 24 parking spaces that use an intercom ordering system. The restaurant boasts the ability to have over 1 million drink combinations. Combined with low prices, all fresh ingredients, and intelligent advertising, Sonic has been able to grow profits at attractive rates and maintain a loyal customer base.

Sonic Corp. has a strong operating history. The company has over a decade of profitability, while producing operating margins of over 20%. Disciplined capital allocation has allowed them to produce returns on capital of over 21% in 2016.

KEY POINTS

- :: Operates over 3,000 drive-in restaurants consisting of 345 company owned and 3200 franchised locations.
- :: Good financial health with low fixed rate debt and strong cash flow generation.
- :: Offers daily happy hour of menu items from 2-4 pm.
- :: In 2014 initiated a quarterly dividend, increasing it every year.

VALUATION AND RISKS

As of the date of this report, Sonic Corp. is trading at a discount to its historical operating metrics and to its peers (McDonalds, Jack in the Box). We forecast Sonic Corp. will be able to grow cash flows in the low double digits going forward, which is more conservative than its historical growth rate of over 20%. With our conservative assumptions, we feel Sonic trades at a 30% discount to its fair value. If our conservative assumptions turn out to be too optimistic, we feel there is a margin of safety built into its share price.

Sonic Corp's primary risks are changing consumer tastes and health habits and increasing wage costs as more states implement higher minimum wages. Even when considering these negative potential impacts we feel Sonic Corp. is a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



ABOUT CAIRN INVESTMENT GROUP Cairn Investment Group is an independent fee only Registered Investment Advisor based in Portland, Oregon. Cairn staff has the experience and capabilities to serve our investors with a level of personal attention that only a smaller, independent company can provide. We pride ourselves on working in close contact with our investors.

503.241.4901 :: 877.241.4901 :: cairninvestment.com

121 SW Morrison, Suite 1060 :: Portland, Oregon 97204

© 2017 Cairn Investment Group

Cairn Investment Group and its affiliates ("Cairn") produces Company Spotlight reports ("Reports") for its clients and the general public. The Reports are impersonal and do not provide individualized advice or recommendations for any specific investor or portfolio. Investing involves substantial risk. Cairn makes no guarantee or other promise as to any results that may be obtained from using the Reports. Past performance should not be considered indicative of future performance. No reader should make any investment decision without first conducting his or her own research and due diligence. At various times Cairn may own, buy or sell the securities discussed for purposes of investment or trading. Cairn disclaims any and all liability in the event any information, commentary, analysis, opinions, advice and/or recommendations in the Reports prove to be inaccurate, incomplete or unreliable or result in any investment or other losses.

The Reports commentary, analysis, opinions, advice and recommendations represent the then current views of Cairn, and are subject to change at any time. The information provided in the Reports is obtained from sources the author believes to be reliable. However, the author has not independently verified or otherwise investigated all such information.

This is not a solicitation or offer to buy or sell any securities. Cairn does not receive any compensation from any of the companies featured in the Reports. Any redistribution of the Reports or the information contained therein, without the written consent of Cairn is strictly prohibited.