



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



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