Kenan–Flagler Business School

ALPHA CHALLENGE

The University of North Carolina

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Team Number: 8

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Investment Thesis

Stock: Texas Roadhouse (NASDAQ: TXRH)
Recommendation: BUY
Timeline: 1 YR

52 Week Range: \$148.73 - \$206.04
Current Price (11/21/25): \$173.43
Target Price: \$199 (Upside:15%)

Business Overview: Texas Roadhouse (TXRH) is a U.S.-based full-service casual dining chain specialising in hand-cut steaks and ribs

- 800+ locations across 49 US states and 10 countries
- Market Cap: \$11.5B, Revenue (TTM): \$5.83B

Rationale:

- TXRH combines rapid footprint expansion with stable AUV, providing growth without cannibalization. Units grew 6% YoY while Average Unit Volume crossed \$8M.
- Comp sales are consistently led by traffic (4–5%), not pricing; unlike peers who rely on promotions. Growth is demand-driven and sustainable.
- Revenue expanded at ~11% CAGR since 2018, doubling over 6 years, while margins improved from ~14% → ~17%, signalling superior operating leverage.

Why Now?

- TXRH currently trades at ~25× forward P/E vs historical >30× multiple valuations, despite enhanced fundamentals. This provides numerous re-rating opportunities.

Scaling Without Saturation: TXRH Expands While Each Store Earns More

- Restaurant count grew from ~700 to 850+ between 2022 and 2025E [Chart 1, Bar Graph]
- Average Unit Volume (AUV) increased simultaneously from ~$7.3M to $8.3M, showing growth without cannibalization [Chart 1, Line Graph]
- TXRH is aiming to open 25-30 new restaurants per year in the near term as part of its normal growth cadence, which, if maintained, would support 3-4% unit growth
- TXRH demonstrates rare scalability in casual dining, where expansion typically dilutes per-store performance
- Double revenue growth levers: new stores + increasing same store sales

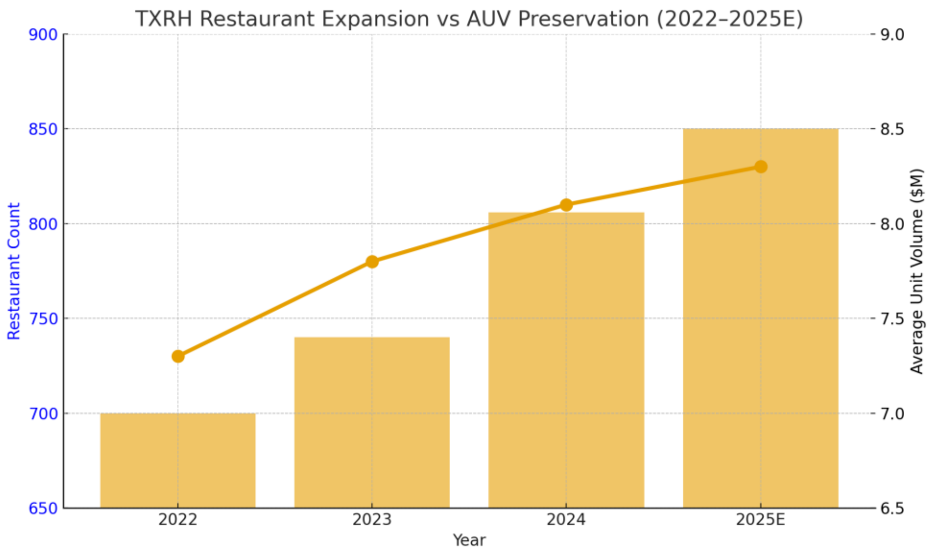


Chart 1: TXRH is scaling responsibly; each new store strengthens, not weakens, unit economics!

Source: Texas Roadhouse Investor Relations and 10-K filings; store count 2022–2025E, AUV performance; restaurant growth cadence data.

TXRH Breaks the Trade-Off: Revenue Expansion Without Margin Erosion

- TXRH Revenue nearly doubled from ~$2.5B (2018) to ~$5.4B (2024), an ~11% CAGR [Chart 2, Bar Graph]
- Margins expanded from 14% to 17% during the same period, despite inflation, wage pressure, and accelerated restaurant openings [Chart 2, Line Graph]
- Latest TTM revenue is $5.83B (+12.3% YoY) while operating profit grew even faster, signalling operational leverage
- Growth is traffic-led, not pricing-led, protecting visit frequency and minimizing elasticity risk
- TXRH expanded units at ~6% annually and still improved restaurant-level profitability, showing scalability without economic dilution

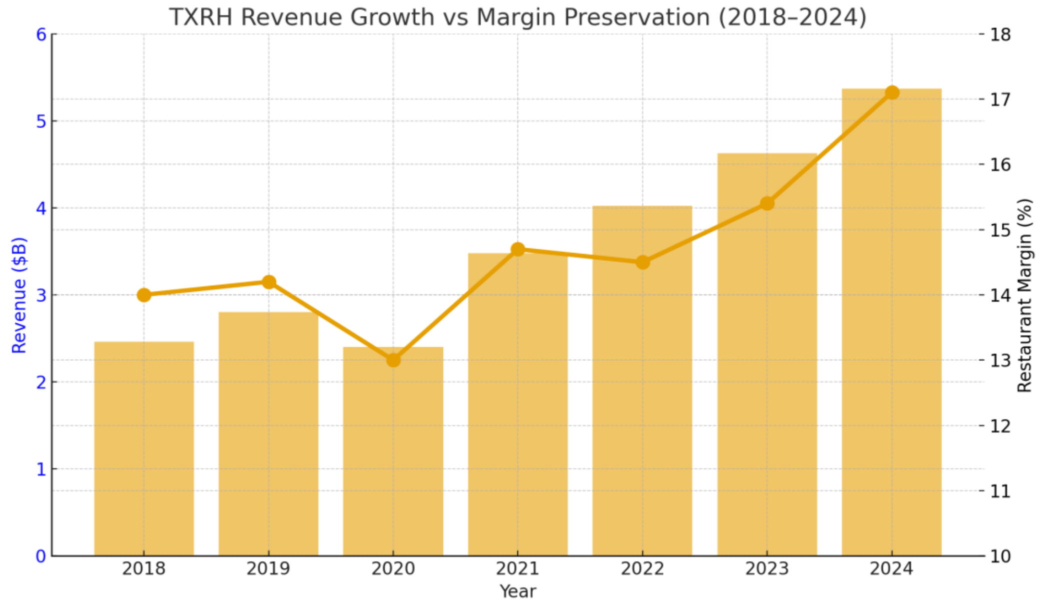


Chart 2: TXRH is the only major casual dining player showing *both* revenue acceleration and margin improvement

Table 1: Latest Quarterly Results

Latest Quarter (Q3 2025)	TXRH
Revenue Growth YoY	**+12.8%**
Comp Sales Growth	**+6.1%**
Store/Unit Growth	**+6.3%**
Margin Trend	**Increasing YoY**

Source: Texas Roadhouse earnings releases (2018–2025).

Leading Customer Satisfaction - Driving Traffic Growth

- TXRH's ACSI Leadership: Texas Roadhouse scored 84 in 2025 - **ranking #1 among all major U.S. full-service restaurant chains for the second consecutive year**, ahead of Long Horn Steakhouse (83), Outback Steakhouse (80), and other peers

- **Why TXRH Outperforms:** Texas Roadhouse delivers superior value for money, maintains consistently high food and service quality, creates an energetic and welcoming atmosphere, and empowers local management to optimize guest experiences - driving strong repeat visits and word-of-mouth loyalty

Chart 3: The American Customer Satisfaction Index is a leading national benchmark measuring consumer satisfaction with U.S. companies on a 0–100 scale, based on surveys evaluating food quality, staff courtesy, value, speed of service, accuracy, and overall experience

Source: ACSI industry report, Clark.com list, LIVE NOW FOX, NRN satisfaction article

Revenue Growth Quality: Traffic-Led vs Price-Led

Table 2: Price vs Traffic Sensitivity (2024) Peer Comparison

Brand	Menu Price % Change (YoY)	Traffic % Change (YoY)
TXRH	**+1.7%**	**+4.3–5.0%**
LongHorn	+2%	+2–3%
Chili's	+2–3%	+2.1–2.2%
Outback	+2.5%	flat/-1%
Applebee's	+1.5%	flat/-0.5%
BJ's	+2%	~0%

- TXRH drives comp growth through rising traffic (4–5%), not heavy price increases, signalling true brand strength and demand pull.
  - Menu pricing is used surgically, with *only ~1.4–1.7% increases recently*, preserving affordability and guest frequency.
- In contrast, peers rely more on price-led comp (2–3% price / <2% traffic), indicating price sensitivity and limited consumer demand resilience.
  - Chains with higher pricing (Outback, Applebee's) saw flat or negative traffic, proving elasticity and weaker value positioning.
- "TXRH model": focus on everyday value → higher customer retention → scalable comp growth without margin sacrifice

Source: Peer comp & traffic trends based on industry reports (NRN, Restaurant Dive, Darden & Brinker filings). Menu pricing based on earnings call commentary

Scenario Analysis and Price Targets

At current levels, TXRH offers asymmetric upside with limited downside.

Table 3: Price Target Projections

Scenario	Scenario Narrative	Price Target Range	Implied Return
Bear Case	Lower Margins, Discounted Multiples	\$136 – \$155	–17% to –10%
Base Case	Base Case EPS Growth and P/E Multiple	\$186 – \$199	+5% to +22%
Bull Case	Strong Comp Growth, Valuation Premium for Traffic-led Model	\$220 – \$239	+27% to +41%

Assumptions and Calculations ^:

- FY2024 revenue: ~\$5.4B (actual)
- Revenue CAGR 2025–2028: 8–9%, supported by:
  - 4–5% comp growth per year (split evenly between traffic & pricing)
  - 3–4% new unit growth annually (~25–30 new restaurants)
- 2024 EBITDA margin: ~10.5%
- Margin expansion to 11.5–12.0% by 2028
- Net profit CAGR 2025–2028: ~14–15%, faster than revenue due to operating leverage
- Forward EPS 2025E: \$7.90–\$8.20
- Implied multiple: 23–25× P/E (below historical average of 25–27×)
- Price Target: \$186–\$199

Assumptions based on consensus forward EPS estimates, TXRH margin commentary (FY2024 and Q3 2025), and historical valuation ranges

Risks

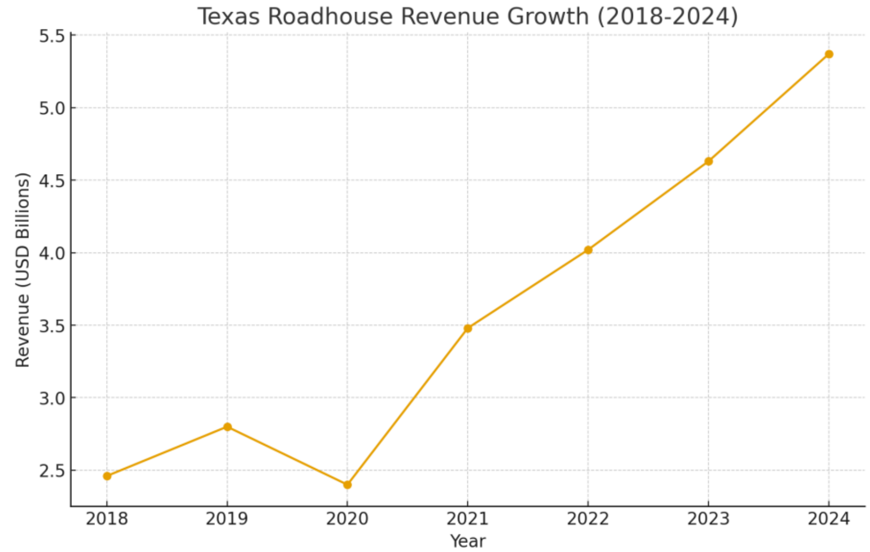
- **Commodity Inflation**
  - Beef prices are up year-over-year and forecasted to continue rising
  - **Mitigant:** Texas Roadhouse successfully raised menu prices in Q3 2025 and previously, offsetting higher commodity costs
- **Labor cost pressures**
  - Labor costs rose 3.9% year-over-year in 2025, driven by wage inflation, increased hours to manage higher volumes, and payroll taxes
  - **Mitigant:** Texas Roadhouse is investing in digital kitchen and guest management systems deployed in 95% of locations, enhancing efficiency and reducing labor waste
- **Dining-out consumer sentiment**
  - Weakening consumer confidence or reduced discretionary spending amid inflation could negatively affect same-store sales growth
  - **Mitigant:** Despite inflationary pressures, Texas Roadhouse has maintained strong traffic driven by brand loyalty and value perception

Commodity inflation & labor discussions per management commentary (Q2–Q3 2025), digital kitchen deployment statistics from company updates

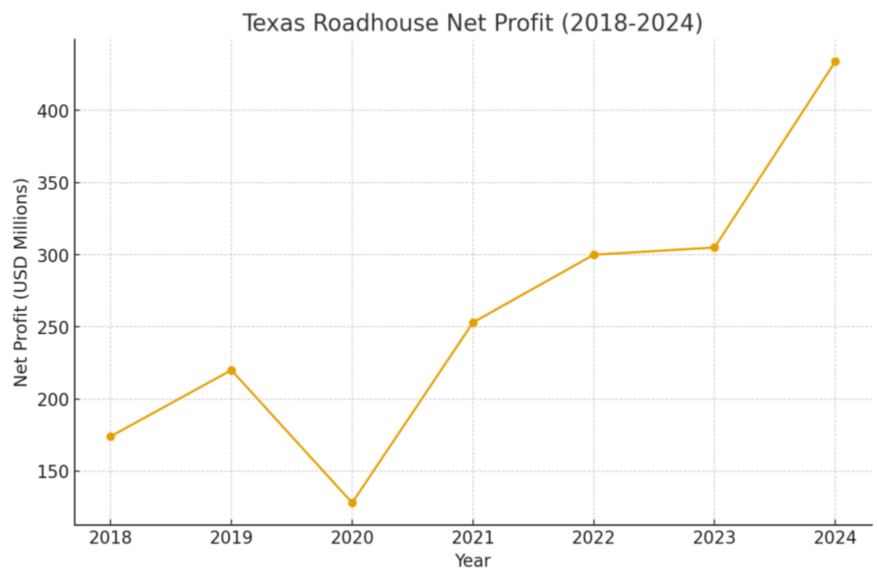
Appendix

TXRH Financial Performance Trends

- Revenue grew from $2.5B in 2018 to ~$5.4B in 2024: a ~14% CAGR, demonstrating sustained brand strength.
- Revenue rebounded 45% from 2020 to 2021, showcasing resilience and customer loyalty in the post-COVID recovery phase.
- 2024 revenue increased ~16% YoY, despite inflationary pressures; highlighting pricing power and operational efficiency



- Net profit increased from ~$175M in 2018 to ~$434M in 2024 (15% CAGR)
- Major dip in 2020 due to COVID impact, followed by full recovery and >2x growth between 2020–2024
- 2024 profit up ~42% YoY, a sharper increase than revenue growth (~16%), indicating improving margin leverage
- Earnings growth now outpacing unit growth, reflecting maturing restaurants and higher average unit volumes



Source: Texas Roadhouse earnings releases (2018–2025).

Operational Metrics vs Peers

Metric	TXRH	Peers (Typical)
Same-store sales growth	5–7%	1–4% (some negative)
Traffic growth	+4% to +5%	Flat / negative
Weekly sales/restaurant	$163k	$80–115k
Restaurant-level margin	18–19%	15–17%
Unit growth (annual)	4–5%	1–2% or less
ROIC (5-yr avg)	20–22%	8–16%

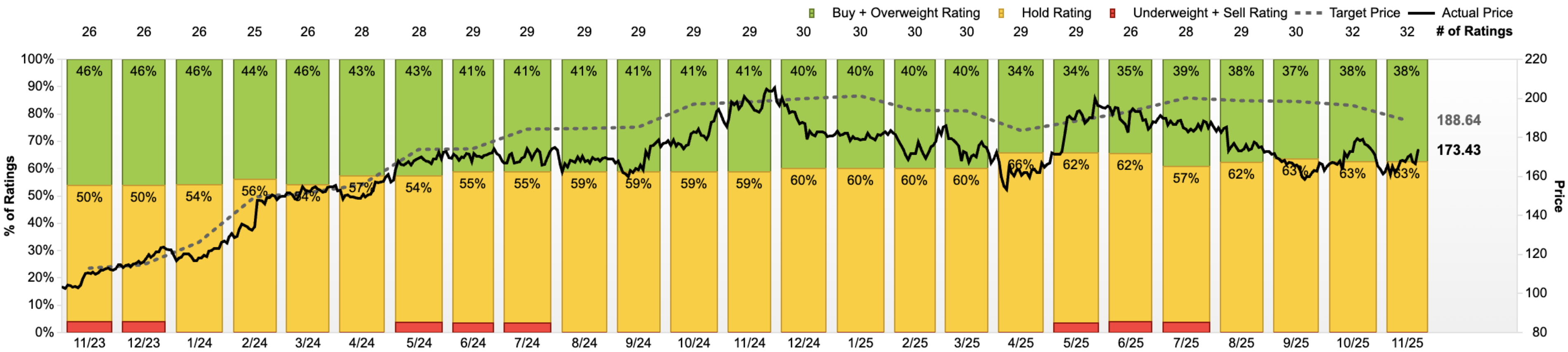
Customer Satisfaction Metrics vs Peers

Metric	TXRH	LongHorn	Outback	Chili's	Applebee's	BJ's
NPS (2024)	+43 (2nd)	+46 (1st)	~+30–35	~+30	~+10	~+20
ACSI Score (2025)	85	85	82–84	~81	~80	~79
Guest Satisfaction	Top 5	Top 5	Top 10	Top 10	Below avg	Below avg
Staff Friendliness	Top tier	Top tier	Above avg	Above avg	Mixed	Mixed
Avg Weekly Sales/Unit	$163k	$110k	$90–105k	~$85k	~$80k	~$95k

- Everyday value proposition: Large portions, competitive pricing, smallest price increases vs. peers
- Superior guest experience: Energetic atmosphere, consistent service, community engagement
- Operational consistency: Best-in-class execution, empowered local management
- Minimal discounting: Maintains value without heavy promotions, builds sustainable traffic

Source: ACSI industry report, Clark.com list, LIVE NOW FOX, NRN satisfaction article

Historical Stock Coverage: TXRH



Source: FactSet, as of Nov 2025.

Additional Sources

- (https://theacsi.org/industries/restaurant/full-service-restaurants/)
- (https://clark.com/shopping-retail/food-restaurants/best-restaurants-america/)
- (https://www.livenowfox.com/news/best-sit-down-restaurant-texas-roadhouse-steak-acsi)
- (https://www.nrn.com/quick-service/chick-fil-a-and-texas-roadhouse-once-again-have-the-most-satisfied-customers)

Thank you!