



## Denny's Diner Doubt

5/24/2019

**Bearish Alert for \$DENN**

---

### Takeaways/Key Points

1. Purchase Intent (PI) Mentions for Denny's have shown a convincing correlation to the company's top-line revenue over the past few years.
  2. Last Summer, Denny's PI Mentions advanced to a 5-year high point; consequently, shares of \$DENN rose to a new ATH just four months later.
  3. Denny's Purchase Intent Mentions have since begun to atrophy at an alarming rate, with the average volume of mentions falling below the previous year in the past two quarters.
  4. Denny's recently reported a YoY revenue decrease for the first quarter of 2019, and with PI volume continuing to drop lower year-over-year, we expect to see that weakness affect the company's share price in the future.
-

## Potential Trade Ideas

**Simple Option:** Short the stock

**Option Spread:** Sell the Nov. 19 17.5/20 Call Spread @ \$1.55 Credit. Max Gain: \$155 per contract. Max Loss: \$95 per contract.

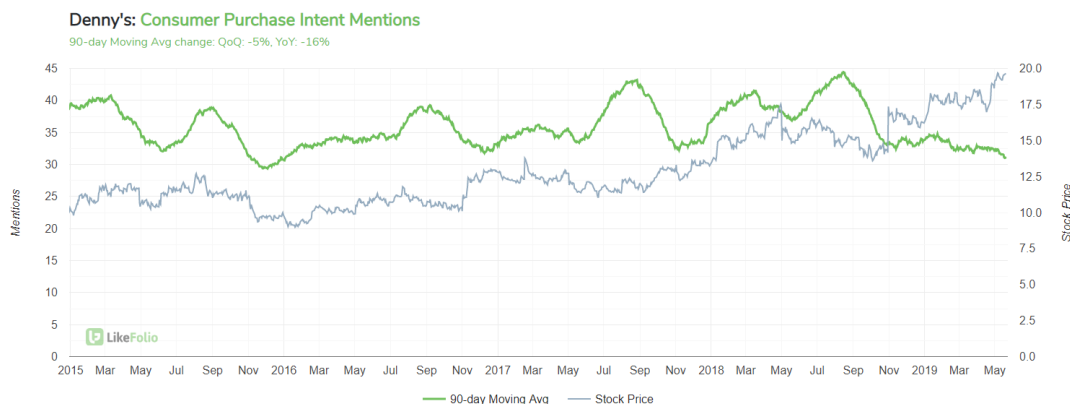
**Aggressive:** Sell ATM Call options with an expiration in November.

---

## DENN analysis:

\$DENN shares have risen by 20% since the start of 2019, yet Purchase Intent Mentions for the diner chain have displayed a marked weakness within the same timeframe. In the past, changes in YoY PI have translated to Denny's balance sheet with a delay of roughly three to six months, so the Bearish divergence forming between the company's Purchase Intent Mentions and stock price should have an impact on the latter within the next two quarters.

Consider the chart below, which plots the quarterly average of Denny's Purchase Intent Mentions against the stock price, beginning in 2015.



[Open this view in Dashboard](#)

Between 2016 and late 2018, The PI trendline increased ahead of the price of \$DENN shares, culminating in the high level attained in August of last year and the current ATH stock price respectively. The volume of Denny's Purchase Intent Mentions has only decreased since August 2018, and the ongoing streak of YoY weakness mirrors a similar decline in the company's sales.

\$DENN shares have greatly benefited from the company's plan to [repurchase \\$200 million worth of common stock](#). In their latest earnings release, Denny's EPS beat expectations, which overshadowed the concurrent YoY decrement in top-line revenue and operating income. The company has brushed off these concerns by proclaiming a strategic shift to a greater number of franchised locations, but the prevailing loss of consumer interest hints at a more concerning cause behind the recent sales downturn.

Analysts have already projected another year-over-year decrease in Denny's revenues for the second quarter of 2019, but LikeFolio Purchase Intent Mentions suggest that the company could still manage to disappoint expectations going forward.

Andy Swan  
founder, LikeFolio