SIENAcollege

Siena Market Line
2nd week of April 2016

Dave & Buster's Entertainment Inc.

NASDAQ:PLAY

Analyst: Andrew Varone
Sector: Consumer Discretionary

BUY

Price Target: $51.78

Key Statistics as of 4/8/2016

Market Price:	$38.83
Industry:	Hotels, Restaurants and Leisure
Market Cap:	$1.63B
52-Week Range:	$29.54-$43.35
Beta:	N/A

Thesis Points:

- D&B has successfully rebranded themselves to compete with competitors
- Organic growth through promotions ran.
- Growth potential due to untapped markets in many states and overseas.
- Fastest growing segment, gaming, has best margins and is creating value.

Company Description:

Dave & Buster's Entertainment Inc. owns and operates high-volume venues that combine dining and entertainment in North America for both adults and families. The Company operates entertainment centers that offer a full menu of food and beverage items combined with a wide assortment of entertainment attractions, including skill and sports oriented redemption games.

Thesis

Dave & Buster's Entertainment Inc. (NASDAQ:PLAY) has a unique business model with the ability to eat and play under the same roof. They is backed by their slogan of Eat, Drink, Play, and Watch Sports! Despite having such unique characteristics, D&B only has 81 stores in 30 states. There is great growth potential for them to add new stores and continue to grow revenues. They are the best in class due to the unique model that they possess resulting in increasing margins and a competitive advantage over their competitors. At a price of $38.83, Dave & Buster's is considered a BUY. With a one-year target of $51.78, an upside potential of 33.3% can be seen

Porter's 5 Forces

Threat of New Entrants: Low
There is a high capital requirement that is needed to open stores and fund operations. Also, there is the capital needs to operate at the beginning when times are slow. Customers will start going to a new restaurant if it has a recognizable brand name or by advertisement. A reputation has to be built up that the company has good service.

Bargaining Power of Suppliers: Low
There is a multitude of suppliers with regards to food, TVs and other electronic entertainment. This has them competing against each other to be the supplier for the company. There is substitutes readily available if an individual supplier is no longer used.

Threat of Substitute Products: High
There is no cost to the buyer by switching where they want to eat. Also, substitutes such as fast food is cheaper than the prices that would be paid at Dave & Buster's.

Bargaining Power of Buyers: Medium
When choosing a place to go out to eat, buyers have a multitude of places that they can choose from. The reason that this is medium is because the product differentiation that D&B has. They are one of the only companies to offer both food and gaming in the same establishment.

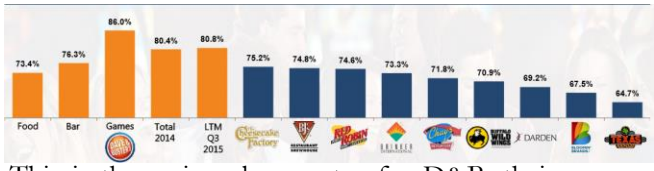
Competitive Rivalry: High
Any restaurant, whether it is a chain or family owned, is competing for the same customers as D&B. Though having entertainment through gaming adds product differentiation, D&B is now competing with other forms of leisure. This could be movie theaters or other arcades.

Re-Branding

The original motto of Dave & Buster's was Eat, Drink and Play! This slogan left individual's view of D&B that it was just an arcade for adults. Though D&B has a unique business model of combining food and leisure, it still has the aspects of a sports bar. In the bar/restaurant section of the establishment, there is a wall of TVs. This can be expected from any sports bar. The problem is that individuals would not know that the big fight is on at D&B unless they have been there before. Even then they might not know depending on whether they even went into the bar section. To help themselves better compete with sports bars, D&B has a now slogan. Eat, Drink, Play, and Watch Sports! This has helped D&B better compete with sports bars as their revenues have increased since introducing this slogan.

Value Creation

D&B has better margins than their competitors due to the addition of gaming. With the arcade sales now surpassing that of food & beverage, D&B has seen improving margins. For the past year, arcade sales consisted of 53% of all revenues. This is up from 2011 when the arcade only consisted of 49% of all revenues. The profit margins that comes from games is 86% while the margins from food is 73%. This equates to total profit margins of around 81%. This is much higher than any other of their competitors.



This is the main value creator for D&B, their segment with the greatest margins, games, is growing faster than any other segment. Despite D&B making a push to be seen as a sports bar, this trend of game revenues growing faster than food revenue is most likely to continue. The

reason is people go to D&B for the product differentiation that they possess. They are able to eat, drink, play games and watch sports all in the same establishment. People will continue to go to D&B because of the arcade that is possess with the newest and the customer's favorite games that D&B has. They will go even if they do not eat. Contrary, no one goes to eat at D&B without playing any of their games.

Growth Potential

Despite D&B having a competitive niche in the market, they are far from their total potential. They currently have 81 stores in 30 different states and Canada. None of these stores are franchised and all are company owned.

In the past, D&B has not grown as fast as they liked with the introduction of new stores. They are fairly optimistic on their future of further growth due to the past success the company has seen. In 2014, 18 new stores were opened. This was over 22% of their total stores in one year. For this upcoming year, they have 19 leases signed and already 5 new stores under construction. Going into the future, D&B has identified 200 spots for new stores in North America alone. This has been done without the untapped potential that is international stores. With D&B's aggressive growth, they will continue to improve margins not only through the arcade growing segment but economies of scale.

Promotions

As started earlier, consumers hold a lot of power when choosing where to eat. D&B runs a multitude of promotions to try and get a wide range of customers into their stores. This promotions include: half-priced games on Wednesday, Eat and Play combos, unlimited wings first three Sundays of NFL action, as well as a variety of events that the stores themselves host. This is a ploy in getting the customer to return to the store. Another promotion that they run is that if the customer spends $23 on games, they can come spin the wheel. The wheel includes different prizes as well as coupons for games. These are ways that D&B has been successful in getting their customers to return to their store.

Competitors

As discussed prior, D&B has better margins than any of their competitors. Their margins have continued to grow due to their gaming segment being the fastest growing segment. Despite D&B's aggressive expansion, they have continued to improve on same-store sales. With the passing of every year, a new high in same-store sales is achieved. 2015 was no different for D&B as they posted an 8.9% for same-store sales. This is much higher than their competitors such as Buffalo Wild Wings, who had a 4.2% same-store sales. The competitor with the next closest margins to D&B, Cheesecake Factory, only had a 2.6% same-store sales. Not only has D&B have the highest margins but, are having success in stores once they are open. This shows organic growth for them.

Conclusion

At a price of $38.83, Dave & Buster's is considered a BUY. Their ability to rebrand has left them able to compete with other foods services, more specifically sports bars. They have growth potential due to a number of potential store and due to a possible international presence. Lastly, D&B has continued to beat out competitors in margins and same-store sales and are creating value due to their fastest growing gaming segment.

SIENAcollege

Siena Market Line
2nd week of April 2016

CENTER FOR GLOBAL FINANCIAL STUDIES

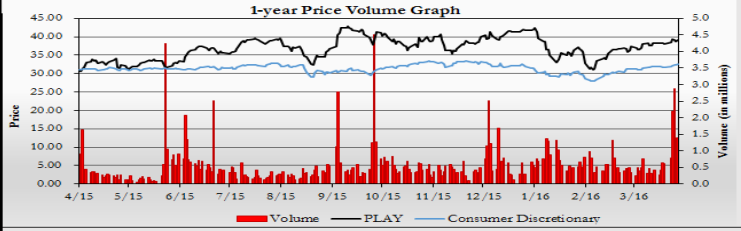
Dave & Buster's Entertainment, Inc. (PLAY)

BULLISH

Analysis by Andrew Varone
4/8/2016

Current Price:	$38.83	Intrinsic Value	$45.80
Divident Yield:	0.0%	Target Price	$51.78

Target 1 year Return: 33.34%
Probability of Price Increase: 99%



Description

Dave & Buster's Entertainment, Inc. owns and operates entertainment and dining venues for adults and families in North America.

General Information

Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	7.29%
Effective Tax rate	40%
Effective Operating Tax rate	35%

Market Data

Market Capitalization	$1,625.42
Daily volume (mil)	1.42
Shares outstanding (mil)	41.67
Diluted shares outstanding (mil)	42.78
% shares held by institutions	55%
% shares held by investments Managers	72%
% shares held by hedge funds	12%
% shares held by insiders	1.34%
Short interest	9.21%
Days to cover short interest	5.70
52 week high	$43.35
52-week low	$29.54
Levered Beta	
Volatility	0.00%

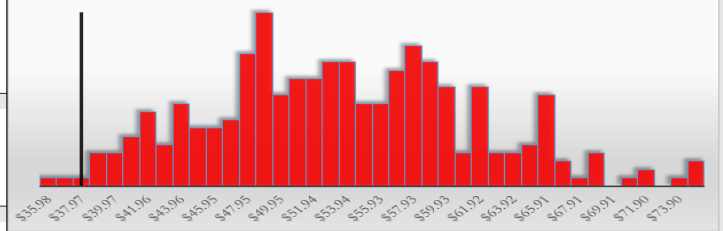
Past Earning Surprises

Quarter ending	Revenue	EBITDA
2/1/2015	1.38%	1.70%
5/3/2015	2.74%	7.05%
8/2/2015	6.38%	11.95%
11/1/2015	3.97%	5.89%
1/31/2016	2.12%	6.90%
Mean	3.32%	6.70%
Standard error	0.9%	1.6%

Peers

BJ's Restaurants, Inc.
Dunkin' Brands Group, Inc.
Texas Roadhouse, Inc.
Buffalo Wild Wings Inc.
Six Flags Entertainment Corporation
SeaWorld Entertainment, Inc.
Bravo Brio Restaurant Group, Inc.
DineEquity, Inc.

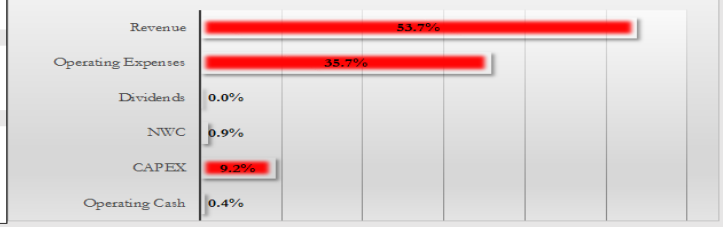
Target Price Distribution--P(price↑)=99%



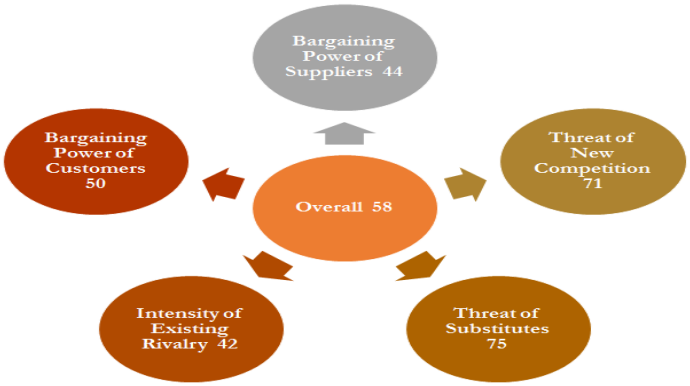
Management	Position	Total compensations growth	Total return to shareholders
King, Stephen	Chief Executive Officer and	-100% per annum over 4y	N/M
Berle, Dolf	President and Chief Operatin	-100% per annum over 3y	N/M
Jenkins, Brian	Chief Financial Officer and	-100% per annum over 4y	N/M
Metzinger, Michael	Vice President of Accounting	N/M	N/M
Tobin, Jay	Senior Vice President, Gener	-100% per annum over 1y	N/M
Gleason, John	Chief Marketing Officer and	-100% per annum over 1y	N/M

Profitability	PLAY (LTM)	PLAY (5 years historical average)	Industry (LTM)
ROIC	11.5%	5.86%	27.55%
NOPAT Margin	14%	8.51%	12.7%
Revenue/Invested Capital	0.83	0.69	2.17
ROE	15.7%	15.70%	34.60%
Adjusted net margin	12%	2.73%	10.9%
Revenue/Adjusted Book Value	1.28	5.75	3.17
Invested Funds	**PLAY (LTM)**	**PLAY (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	2.1%	4.1%	17%
Estimated Operating Cash/Total Capital	2.1%	3.6%	N/A
Non-cash working Capital/Total Capital	-5.3%	-4.7%	-42%
Invested Capital/Total Capital	100.1%	99.6%	86%
Capital Structure	**PLAY (LTM)**	**PLAY (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.52	0.64	0.28
Cost of Existing Debt	3.16%	9.68%	4.94%
Estimated Cost of new Borrowing	3.82%	4.16%	4.14%
CGFS Risk Rating	3.16%	B	BB
Unlevered Beta (LTM)	3.22%		0.91
WACC	3.16%	8.17%	8.94%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	16.1%	13.8%	1.41
1/31/2017	13.2%	11.5%	1.16
1/31/2018	12.2%	11.6%	1.19
1/31/2019	11.1%	11.5%	1.19
1/31/2020	10.1%	11.6%	1.20
1/31/2021	9.1%	11.6%	1.18
1/31/2022	8.1%	11.5%	1.19
1/31/2023	7.1%	11.4%	1.14
1/31/2024	6.1%	11.4%	1.15
1/31/2025	5.0%	11.3%	1.16
1/31/2026	4.0%	11.2%	1.21
Continuing Period	3.0%	11.2%	1.39

Period	Invested Capital	Net Claims	Price per share
Base Year	$864.44	$790.33	$45.80
1/31/2017	$878.92	$830.23	$50.80
1/31/2018	$903.22	$894.98	$56.13
1/31/2019	$940.81	$962.60	$61.84
1/31/2020	$1,040.17	$1,031.52	$67.97
1/31/2021	$1,215.09	$1,058.17	$74.47
1/31/2022	$1,361.18	$1,174.35	$81.28
1/31/2023	$1,546.08	$1,174.48	$88.55
1/31/2024	$1,746.23	$1,153.15	$96.08
1/31/2025	$1,963.22	$1,107.77	$103.84
1/31/2026	$2,148.87	$1,036.19	$111.47
Continuing Period			