

Dave & Buster's Entertainment, Inc.
NASDAQ:PLAY

Analyst: Brandon Casey
Sector: Consumer Disc.

HOLD

Price Target: \$54.06

Key Statistics as of 10/13/2016

Market Price: \$41.11
Industry: Hotels, Restaurants and Leisure
Market Cap: \$1.73B
52-Week Range: \$29.54-49.90
Beta: N/A

Catalysts:

- Ability to continue growing throughout North America and overseas
- Ongoing promotions increase total revenue
- Outstanding margins prove how D&B has a competitive advantage against competitors

Company Description:

Dave & Buster's Entertainment Inc. (D&B) combines dining, gaming and entertainment to create a unique and different experience for adults and families. They have a total of 81 stores located in the United States and Canada. Each store offers full menus for food and beverages, and a wide variety of entertaining video game attractions that are frequently updated to approve customer appeal. The CEO is Stephen M. King, who has been in charge since September of 2006.



Thesis

Dave & Buster's Entertainment Inc. (NASDAQ:PLAY) has established itself as a popular business for all ages giving the customer the ability to "Eat, Drink, Play and Watch!" D&B has impressive margins and a great competitive advantage over competitors mostly because of its growing gaming segment. In addition, there is plenty of room for growth because they only own 81 stores in 30 states and Canada. If D&B achieve their target store growth rate of 10% while keeping high margins, we expect to see immense growth in revenues in the long run. D&B is currently trading at \$41.11, and I would consider it a HOLD. A target price of \$54.06 and an upside potential of 31.5% can be seen.

Porters Five Forces

Bargaining Power of Suppliers: Low

For all their products, such as food, drinks, and games, D&B have many suppliers to choose from. Because of this, suppliers will compete with each other in order to supply for the company. It is easy to switch suppliers if their current supplier is not available, giving suppliers less bargaining power.

Threat of New Competition: Medium

Customers tend to be loyal to existing name brands. For a new competitor to gain customer loyalty similar to an existing company, much capital is needed. In addition, extra capital is needed to begin operations, buy stores, or advertise.

Bargaining Power of Customers: Low

D&B is known throughout North America for its unique experience. There are a large number of customers that walk through the doors, and the more customers D&B have, the less bargaining power each individual customer has. However, if customers are only looking for a place to eat, they could easily choose another restaurant.

Intensity of Existing Rivalry: Medium

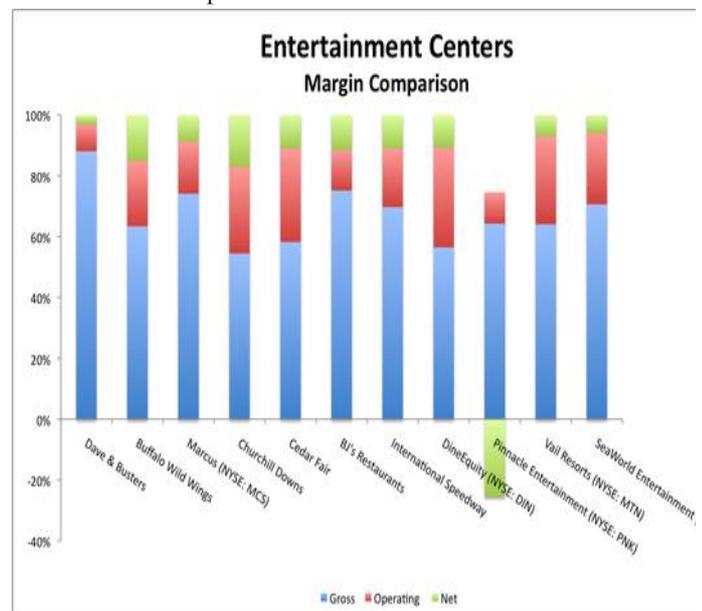
D&B competes with all restaurants, movie theaters, and arcades because of their product differentiation. However, D&B has an edge on competitors since it offers what most restaurants cannot.

Threat of Substitutes: High

Customers can choose different places to eat at free will and no cost to them. Because of the product differentiation D&B has, their prices are significantly higher compared to fast food chains or other family owned restaurants.

Price Drivers

D&B thrives off of their arcade and gaming segment. In fiscal 2015 gaming accounted for 53.2% of total revenues. This is an increase compared to 2014, in which gaming accounted for 51.9% of total revenues. The gross margins on 2015 gaming revenues was 87.4%, which has also increase from 86% in the prior fiscal year. D&B margins give them huge advantages over almost every restaurant it competes with.



Comparing D&B to popular entertainment centers, such as Buffalo Wild Wings, Churchill Downs, and even SeaWorld Entertainment, we see that that D&B gross margins on entertainment are greater than other successful entertainment centers. In addition to being the leaders in gross margins among competitors, D&B are quick to implement new entertainment options to appeal to customers. For example, they have recently implemented use of virtual reality games. The video game industry is growing rapidly due to more advanced technology. D&B is doing well to keep up with the rapidly growing technology of video games. If D&B continues to use new technology in their entertainment industry, there is no doubt that their most profitable business segment will continue to grow.

Growth Potential

Aside from D&B's impressive margins and upside potential, they have not been able to grow how they desired. Management is hopeful that they can continue opening stores at an annual growth rate of 10% of the existing store base.



D&B currently owns 81 store locations in only 30 different states and in Canada. In fiscal 2015, 10 new stores were opened. In 2014, they opened 8 new stores. D&B also has conducted a study that suggests a total store potential in the United States and Canada of about 200 stores. There is plenty of room for expansion, both domestically and overseas. They have a complex store expansion strategy that aims for achieving high store revenues and store-level EBITDA margins, with a target year one cash-on-cash returns in excess of 35% and EBITDA margins of 29% in all stores. In October 2015, they signed a seven store franchising agreement for new stores in six countries in the Middle East. With their goal of 10% store growth and their efficient strategy, once D&B expands they will continue to increase margins.

Promotions

The ability to attract and retain customers is vital for D&B. Customers could easily choose another restaurant to dine at, so D&B host special events and run promotions as well. In fiscal 2015, special events accounted for 10.8% of total revenues. In addition to this, stores run promotions to retain customers. The "Everyone's a Winner" promotion offers free prizes to purchases of \$10 or more. On Sunday's and Monday's they offer \$5 appetizers. On Wednesdays games are 50% off. They offer multiple combos for eating and playing in order to give the customer a full experience. Also, free game play promotions to introduce new games. Through

these special offers and events, it is safe to say D&B is successfully attracting and retaining customers.

Competitors

D&B has a competitive advantage because of their gaming segment. In fiscal 2015, amusement and other revenues accounted for 53.2% of total revenues. So D&B are growing heavily due to a segment of business that most of their competitors do not have. In addition,

D&B continues to have higher margins than competitors and the margins are continually growing. From fiscal 2010 to fiscal 2015, EBITDA margins grew 830 basis points. They have entertainment margins of approximately 87.4% in fiscal 2015. Since 53.2% of total revenues came from entertainment, they have less exposure to food and drink costs compared to their competitors.

Conclusion

At a price of \$41.11, I would consider HOLDING D&B in our portfolio. There may be an existing threat of substitutes to D&B, however the upside of this company outweighs the downside significantly. D&B has plenty of room to continue developing stores in the North America and around the world. Additionally, D&B is able to retain and attract customers with ongoing promotions and special events. Finally, they have a huge competitive advantage because of their rapidly growing gaming segment. If D&B keeps updating their gaming segment as much as technology allows them to, they will continue to beat out competitors and continue growing their currently high margins.

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

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Brandon Casey

Current Price:

\$41.11

Intrinsic Value

\$47.12

Target 1 year Return: 31.5%

Probability of Price Increase: 98.2%

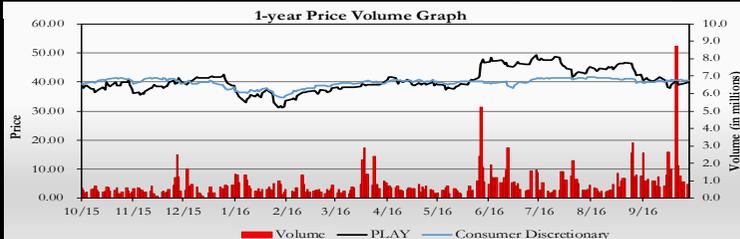
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Divident Yield:

0.0%

Target Price

\$54.06



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: December 7, 2016
Estimated Country Risk Premium: 6.25%
Effective Tax rate: 40%
Effective Operating Tax rate: 54%

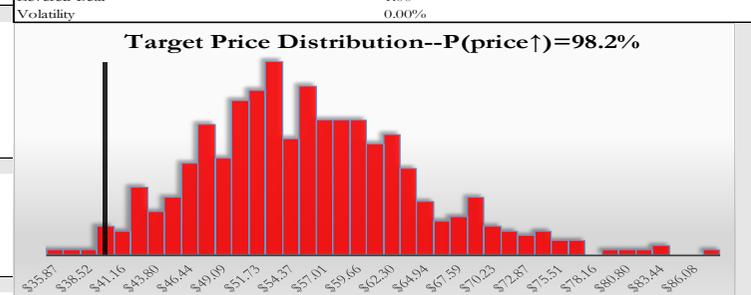
Market Data	
Market Capitalization	\$1,698.65
Daily volume (mil)	0.71
Shares outstanding (mil)	42.07
Diluted shares outstanding (mil)	43.13
% shares held by institutions	74%
% shares held by investments Managers	80%
% shares held by hedge funds	16%
% shares held by insiders	1.35%
Short interest	11.38%
Days to cover short interest	4.38
52 week high	\$49.90
52-week low	\$29.54
Levered Beta	1.00
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
8/2/2015	4.59%	2.89%
11/1/2015	0.24%	-4.87%
1/31/2016	1.88%	-3.51%
5/1/2016	3.14%	5.39%
7/31/2016	-1.04%	0.76%
Mean	1.76%	0.13%
Standard error	1.0%	1.9%

Peers

BJ's Restaurants, Inc.	
Dunkin' Brands Group, Inc.	
Texas Roadhouse, Inc.	
Six Flags Entertainment Corporation	
SeaWorld Entertainment, Inc.	
Buffalo Wild Wings Inc.	
Cedar Fair, L.P.	
Fiesta Restaurant Group, Inc.	

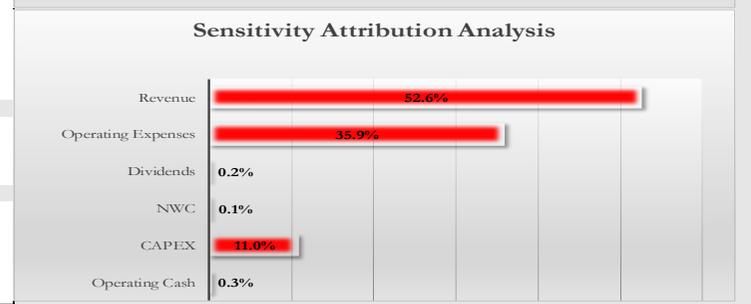


Management

Management	Position
King, Stephen	Chief Executive Officer and President and Chief Operatin
Berle, Dolf	Chief Financial Officer and Senior Vice President, Gener
Jenkins, Brian	Senior Vice President of Rea
Tobin, Jay	Vice President of Accounting
Mulleady, John	
Metzinger, Michael	

Total compensations growth

-100% per annum over 4y	N/M
-100% per annum over 4y	N/M
-100% per annum over 4y	N/M
-100% per annum over 3y	N/M
-100% per annum over 3y	N/M
N/M	N/M



Profitability

	PLAY (LTM)	PLAY (5 years historical average)	Industry (LTM)
ROIC	7.1%	9.83%	20.95%
NOPAT Margin	6%	10.15%	12.1%
Revenue/Invested Capital	1.10	0.97	1.73
ROE	55.6%	-83.20%	27.50%
Adjusted net margin	5%	5.57%	10.2%
Revenue/Adjusted Book Value	11.67	-14.93	2.69

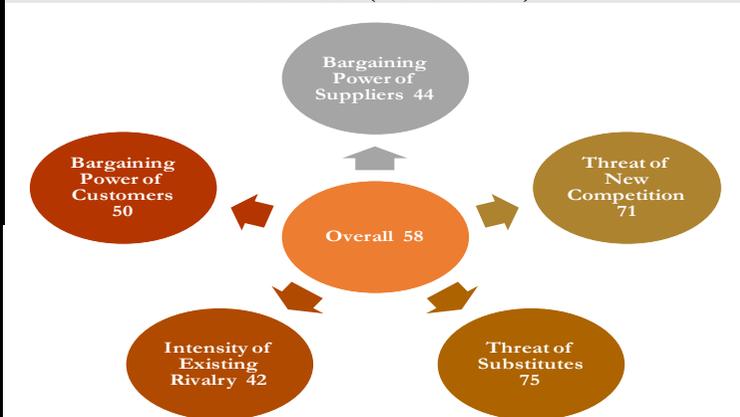
Invested Funds

	PLAY (LTM)	PLAY (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	1.9%	3.4%	21%
Estimated Operating Cash/Total Capital	1.9%	3.0%	N/A
Non-cash working Capital/Total Capital	-9.0%	-5.5%	-30%
Invested Capital/Total Capital	71.8%	68.1%	87%

Capital Structure

	PLAY (LTM)	PLAY (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.41	0.31	0.35
Cost of Existing Debt	3.44%	6.26%	3.98%
Estimated Cost of new Borrowing	4.16%	4.07%	3.98%
CGFS Risk Rating	B	B	CCC
Unlevered Beta (LTM)	0.76	0.92	0.80
WACC	7.52%	9.63%	8.17%

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



Revenue growth

Period	Revenue growth
Base Year	15.1%
7/31/2017	13.1%
7/31/2018	12.4%
7/31/2019	11.5%
7/31/2020	10.5%
7/31/2021	9.6%
7/31/2022	8.7%
7/31/2023	7.8%
7/31/2024	6.8%
7/31/2025	5.9%
7/31/2026	5.0%
Continuing Period	4.1%

Invested Capital

Period	Invested Capital
Base Year	\$616.19
7/31/2017	\$630.37
7/31/2018	\$680.04
7/31/2019	\$782.03
7/31/2020	\$850.83
7/31/2021	\$893.14
7/31/2022	\$1,015.73
7/31/2023	\$1,204.94
7/31/2024	\$1,346.56
7/31/2025	\$1,507.47
7/31/2026	\$1,673.70

Valuation

	NOPAT margin	ROIC/WACC
Base Year	6.5%	0.94
7/31/2017	12.2%	1.87
7/31/2018	12.6%	1.92
7/31/2019	12.6%	1.80
7/31/2020	12.7%	1.80
7/31/2021	12.8%	1.77
7/31/2022	12.9%	1.74
7/31/2023	13.0%	1.71
7/31/2024	13.1%	1.67
7/31/2025	13.2%	1.61
7/31/2026	13.3%	1.57
Continuing Period	13.3%	1.50

Net Claims

	Net Claims	Price per share
Base Year	\$767.85	\$46.02
7/31/2017	\$770.12	\$50.74
7/31/2018	\$813.06	\$55.94
7/31/2019	\$798.42	\$61.45
7/31/2020	\$802.12	\$66.94
7/31/2021	\$808.45	\$72.47
7/31/2022	\$820.98	\$78.13
7/31/2023	\$833.99	\$84.08
7/31/2024	\$845.93	\$90.52
7/31/2025	\$813.85	\$97.59
7/31/2026	\$744.98	\$105.43