

October 6, 2018

## Dave & Buster's entertainment: (PLAY)

Louise LAPRAS

Sector: Dining and entertainment

Industry: Restaurants

Current Price: 63.79

Target Price: 69.46

**Company Description:** Dave and Buster's Entertainment owns and operate small and large stores across the United States, Puerto Rico and Canada, combining dining and entertainment. As their tag line states: "Eat, Drink, Play and Watch – All under one roof". Their target is families and young men in their 20s. They opened their first store in Dallas, Texas, in 1982, and as of February 2018, they owned and operated 106 stores. They focus on a quality customer experience that is not found at any of Dave and Buster's competitors.

### HOLD

Current Price:	\$63.79
Target Price:	\$69.46
Market Cap:	2,477.8M
Beta:	1.16
ROE:	28.7%
P/E:	22.7



### Thesis:

Dave and Buster's offers one of a kind experience compared to its restaurant and entertainment competitors. Their segment mix is evolving toward more entertainment than food and beverage, which should lead to an increasing EBITDA margin. They will be investing in new locations and innovation these following years. They seem to be slightly undervalued, but strong Q2 earnings report lessen the price gap.

### Catalysts:

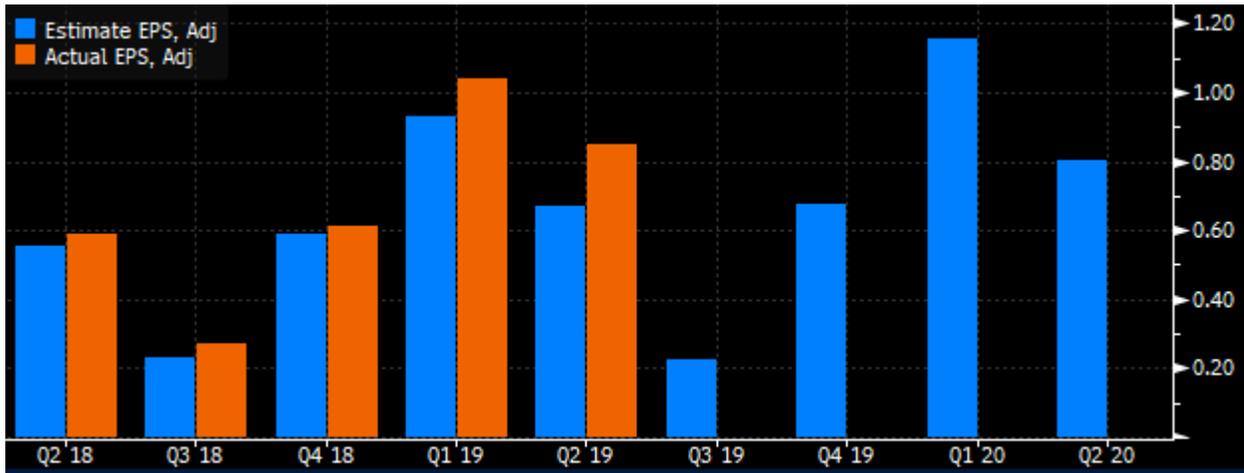
- Short Term(within the year): **13% unit growth, opening of 15 new stores location**
- Mid Term(1-2 years): **Product differentiation in the entertainment section: new games, increasing VR titles**
- Long Term(3+): **new capital allocation, increase in share repurchase authorization, quarterly dividend**

### Earnings Performance:

Dave and Buster's Entertainment Inc. (D&B), missed on revenue by 4.36% for fiscal year ended February 2018, but beat on EBITDA margin, as they have for the past years. Over the past 5 years, they have shown a positive

EBITDA surprise compared to estimates of 7.39%, but of 0.85% on revenues. For the first half of fiscal year 2018, D&B reported \$651.38M of revenues, with an EBITDA margin of \$161.1M, so 25% of revenues. For the Fiscal year ending in February 2018, they reported an increase in revenues of 13%, reaching \$1.14B, with a slight negative leverage: EBITDA margin decreased by 18bps. They also report a more efficient employee management, making in 2017 \$300 per \$1 spent on employee salary. CEO Brian Jenkins announced this year a new focus on customer service, hiring new employees to welcome and direct customers for a more personalized experience.

In Q2, they announced encouraging growth figures in all segments, but not to forget that it is a cyclical business, therefore the summer quarter is always impressive, compared to the other quarters. Revenue grew by 14% year to year, with a growth of 17% in the amusement section, which accounts for over 60% of their revenues. Food sales grew by 14%, and beverage by 10%. However, their EBITDA margin, adjusted, grew by 17%. Indeed, with the proportion of revenues attributed to entertainment, original costs are high but low maintenance and operating costs are clearing appreciable margins. With these factors, I think that an average growth in revenues of 9.8% for the next 15 years is reachable, with an EBITDA margin flourishing around 21%.



## Business description:

Dave and Buster's Entertainment offers a wide variety of activities in its owned stores. Indeed, they offer all at the same location to watch sports, drink cocktails, eat traditional American food, and play various attractions. They have small and large stores depending on the location, and launched their 17K stores earlier this year. These new type of store are smaller, with an emphasis on the D&B sports area. They will enable Dave and Buster's in the near future to enter new markets, such as areas with lower population density, and target families even more. Up until now, D&B stores were mainly located in high population areas, such as New-York, California, and Texas.

D&B went public on October 1, 2014 at a price of \$17 a share. Since 2014, the stock reached a peak at \$73.48 in June 2017 after strong earnings growth announcement. For the year ended October 1, 2018, the trading average has been around \$50.74 crossing this average in August after earnings call, and announcement of further geographical expansion, quarterly dividend to be declared, increase in share repurchase authorization, as well as new product differentiation.

## Industry and competition:

Dave & Buster's has been doing significantly great comparing to the industry's growth. The company is expected to keep doing well and sustain a momentum going forward due to their exclusive business style and various sales-building initiatives (Eat, Drink, Play and watch). The company is both performing well on the Food-Beverage food chain and on their amusement and entertainment chain that is accounted for 56.6% of the company's revenue. Both sectors are moving hand-on-hand through forward growth.

With its combination of activities, Dave and Buster's has a true competitive advantage over the rest of the industry. There are a lot of dining chains, fast food chains, some offers to watch sports games at the same time but none has the same variety. Therefore, it is not fair to compare D&B to its restaurant competitors, considering that only 40% of its revenues are from food and beverages.

There is only one real competitors in terms of activity: Champps, a chain of nightspots popular for karaoke and game, but Champps is a privately owned company.

1) By Measure		12) By Geography		13) By Segment		2015 Y		2016 Y		2017 Y		2018 Y	
In Millions of USD except Per Share						02/01/2015		01/31/2016		01/29/2017		02/04/2018	
12 Months Ending													
	Revenue	\$				746.8	100.0%	867.0	100.0%	1,005.2	100.0%	1,139.8	100.0%
	Amusement & Other	\$				387.6	51.9%	461.1	53.2%	553.0	55.0%	645.0	56.6%
	Food & Beverage	\$				359.1	48.1%	405.8	46.8%	452.1	45.0%	494.8	43.4%
	Percentage of Revenue					—		—		—		—	
	Amusement & Other					—		53.20		55.00		56.60	
	Food & Beverage					—		46.80		45.00		43.40	
	Cost of Revenue	\$				146.5	100.0%	162.8	100.0%	180.3	100.0%	196.7	100.0%
	Food & Beverage	\$				92.1	62.9%	104.8	64.3%	114.9	63.8%	127.6	64.9%
	Amusement & Other	\$				54.4	37.1%	58.1	35.7%	65.4	36.2%	69.1	35.1%
	Same Store Sales %					—		—		—		—	
	Food & Beverage					7.30		8.90		3.30		-0.90	
	Number of Locations	\$				73	100.0%	81	100.0%	92	100.0%	106	100.0%
	Food & Beverage	\$				73	100.0%	81	100.0%	92	100.0%	106	100.0%

## Expansion and transformation:

In Q2 earnings call was announced further geographical expansion with their new store model. In Q2 only, they have opened 5 new locations, and plan on opening 14 to 15 during the year, which would represent a 13% increase in unit growth.

According to Dave and Buster's CEO, The Company is looking for a laser-focused on four strategic priorities. First, they are willing to evolve offering to drive a better differentiation by introducing new games and enhancing the food and beverage. During the last quarter, the company has had their biggest game launching in their history, launching their first VR title and Jurassic World VR expedition. The company is also looking forward to release other high-tech games into their platform in the very near future. Secondly, Dave and Buster's has also rolled out their new menu where they upgraded in the food and beverages. The menu includes more and better choices and options. The menu size yet will be reduced by 20% of the offering, however the company believes that they are offering a better quality and taste of the food. Third, the firm is also working on improving their services and reducing friction once guests are inside their stores, since

they were dealing with this obstacle for the past years. Finally, PLAY is also focusing on ensuring to reach their audience more effectively and to communicate the new news and values, which will help them to understand their costumers and consumers better.

## Debt:



Dave & Buster’s has \$366M of debt outstanding. This represents their total debt combining short-term and longterm debt. This debt is divided between two borrowings, a short term portion of \$15M and a long term borrowing of \$351M. The total debt represents 46.48% of the total revenue of the company.

Name (BI Peers)	S&P Rating	Moody's	Fitch Rating	Total Debt/EBITDA	Total Debt/Book Cap	EBITDA minus CAPEX/	EBITDA/Interest
Median				1.30	40.74%	4.48	17.43
100) DAVE & BUSTER'S ENTER...	NR	--	--	1.30	46.48%	5.03	27.95
101) CRACKER BARREL OLD C...	NR	--	--	1.01	40.74%	15.49	26.00
102) BLOOMIN' BRANDS INC	BB	Ba2	--	2.87	95.76%	--	--
103) BRINKER INTERNATIONAL...	BB+	Ba1	WD	3.73	191.11%	4.68	6.78
104) BJ'S RESTAURANTS INC	--	--	--	0.89	38.72%	--	--
105) FIESTA RESTAURANT GR...	NR	--	--	1.35	24.84%	-21.56	22.07
106) CHUY'S HOLDINGS INC	--	--	--	0.00	0.00%	-124.68	611.06
107) TEXAS ROADHOUSE INC	--	--	--	0.01	5.76%	--	--
108) DARDEN RESTAURANTS INC	BBB	Baa2	BBB	0.83	33.39%	4.18	6.73
109) CHEESECAKE FACTORY IN...	--	--	--	0.09	1.60%	19.50	39.99

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

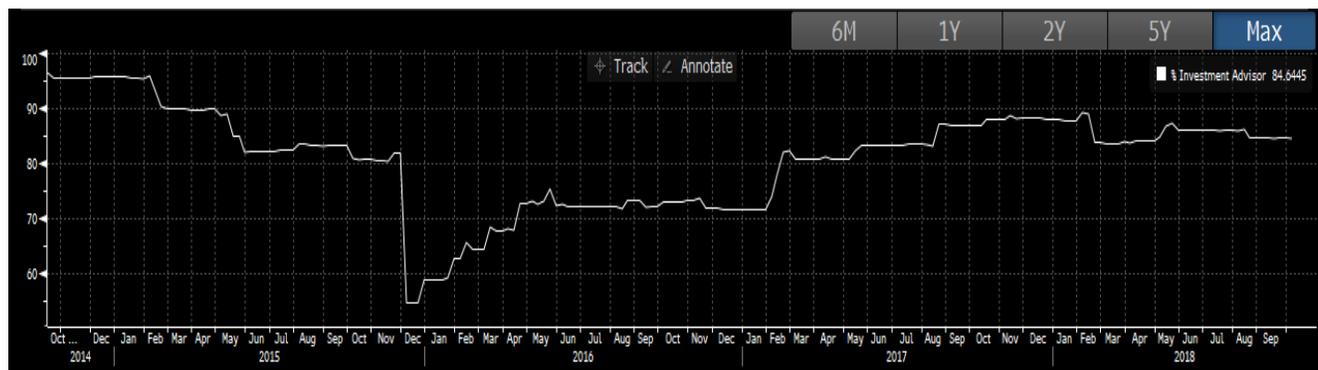
10 Analyze List

## Ownership:

54) Ownership Type	09/30/18	Curr	Change	
41) Investment Advisor	84.79	84.64	-0.15	↔
42) Hedge Fund Manager	9.04	9.13	+0.09	↔
43) Pension Fund	1.41	1.43	+0.02	↔
44) Insurance Company	1.23	1.24	+0.01	↔
45) Individual	0.92	0.93	+0.01	↔
46) Bank	0.61	0.62	+0.01	↔
47) Holding Company	0.52	0.53	+0.01	↔
48) Sovereign Wealth Fund	0.51	0.52	+0.01	↔
49) Government	0.41	0.41	0.00	↔

Institutions own 143.37% of the float of Dave & buster's. Investment advisors own 84.79% of the total float with BlackRock Inc. having the largest holding of 18.91%. This indeed represents a large amount of holding. Followed by Vanguard group that also has a significant amount of holding of 9.95%. Hedge funds own 9.04% of the total float with Hill Path Capital LP coming on the top of the list owning 3.36% of total shares outstanding. Hedge funds have

been adding to their position, trusting that the company's stock will keep rising. Most holders see a potential of growth in the company.



## Conclusion:

Dave and Buster's Entertainment is a promising long position on the long term. The financials of the company, along with recent announcements of the CEO Brian Jenkins suggest that over the next ten years, the company's profit margin should increase, due to the increasing proportion of entertainment in the revenue mix. The combination of unit growth, customer focus, and product differentiation using movies VR games, D&B is completely changing its future, for the better.

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

**CENTER FOR GLOBAL FINANCIAL STUDIES**

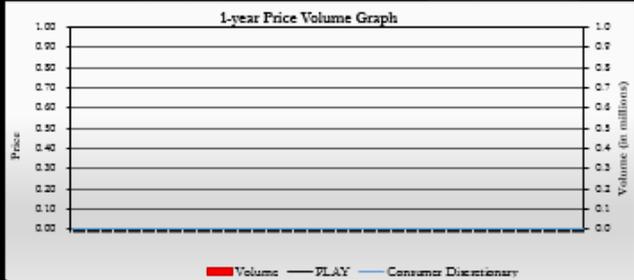
**NEUTRAL**

Analysis by Louise Lapras  
10/16/2018

Current Price: **\$63.79**  
Dividend Yield: **0.9%**

Intrinsic Value: **\$64.89**  
Target Price: **\$69.46**

Target 1 year Return: **9.84%**  
Probability of Price Increase: **75%**



Description	
Dave & Buster's Entertainment, Inc. owns and operates entertainment and dining venues for adults and families.	
General Information	
Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	September 14, 2018
Next earnings date	December 14, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.08%
Effective Tax rate	21%

Market Data	
Market Capitalization	\$2,477.02
Daily volume (mil)	0.82
Shares outstanding (mil)	38.83
Diluted shares outstanding (mil)	41.21
% shares held by institutions	11%
% shares held by investments Managers	83%
% shares held by hedge funds	11%
% shares held by insiders	1.31%
Short interest	11.87%
Days to cover short interest	5.22
52 week high	\$67.05
52-week low	\$37.85
Volatility	0.00%

Quarter ending	Past Earning Surprises
7/30/2017	Revenue: -0.01%
10/23/2017	Revenue: -1.39%
2/4/2018	Revenue: -0.03%
5/6/2018	Revenue: 3.45%
8/5/2018	Revenue: 2.24%
Mean	Revenue: <b>0.85%</b>
Standard error	1.0%

Market and Credit Scores	
Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--NR	
Quality Ranking Description--Not Ranked	
Short Score--3	
Market Signal Probability of Default % (Non-Ratings)--0.457%	
CreditModel Score (Non-Ratings)--bb+	

Industry and Segment Information	
<b>LTM Revenues by Geographic Segment</b>	
United States--98%	Restaurants--100%
Canada--2%	--
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Peers	
BJ's Restaurants, Inc.	Chipotle Mexican Grill, Inc.
Red Robin Gourmet Burgers, Inc.	The Cheesecake Factory Incorporated
Texas Roadhouse, Inc.	Darden Restaurants, Inc.
Dunkin' Brands Group, Inc.	Brinker International, Inc.
The Wendy's Company	Dine Brands Global, Inc.

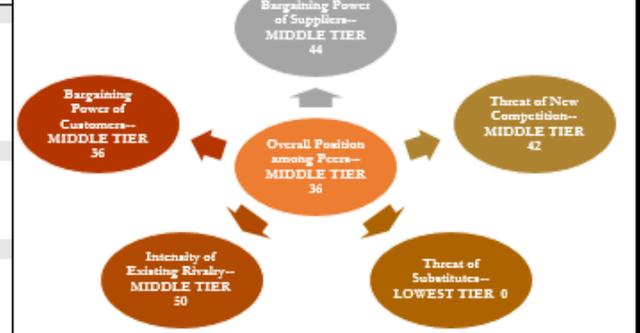
Management	Position
Jenkins, Brian	CEO & Director
Gleason, John	Chief Marketing Officer & Senior VP
Mulleady, John	Senior Vice President of Development
DeProspero, Joseph	VP of Finance & Interim Chief Financial Officer
Manning, Margo	COO & Senior VP
Metzinger, Michael	Vice President of Accounting & Controller

Total Compensation Growth	Stock Price Growth During Tenure
-100% per annum over 3y	13.11% per annum over 3y
-100% per annum over 2y	14.68% per annum over 2y
-100% per annum over 3y	13.11% per annum over 3y

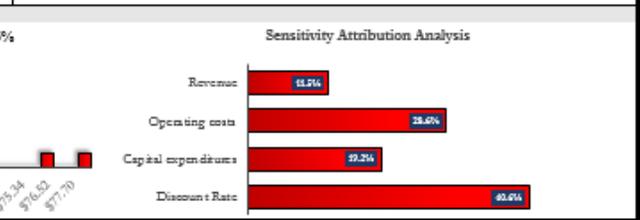


Profitability	PLAY (LTM)	PLAY Historical	Peers' Median (LTM)
Return on Capital (GAAP)	10.7%	6.47%	3.72%
Operating Margin	12%	8.10%	10.46%
Revenue/Capital (GAAP)	0.86	0.80	0.93
ROE (GAAP)	28.3%	18.0%	13.1%
Net margin	10.1%	6.2%	5.2%
Revenue/Book Value (GAAP)	2.80	2.93	3.65

Invested Funds	PLAY (LTM)	PLAY Historical	Peers' Median (LTM)
Cash/Capital	1.8%	3.4%	5.4%
NWC/Capital	-12.0%	-0.1%	-12.3%
Operating Assets/Capital	87.5%	67.7%	92.8%
Goodwill/Capital	22.7%	27.5%	11.7%



Capital Structure	PLAY (LTM)	PLAY Historical	Peers' Median (LTM)
Total Debt/Market Capitalization	0.65	0.67	0.57
Cost of Debt	3.3%	5.5%	4.3%
CGFS Rating (F-score, Z-score, and default Probability)	BBB		
WACC	6.2%	7.2%	8.1%



Forecast Assumptions	Explicit Period (12 years)	Continuing Period
Revenue Growth CAGR	10%	5%
Average Operating Margin	22%	23%
Average Net Margin	10%	10%
Growth in Capital CAGR	12%	5%
Growth in Claims CAGR	8%	5%
Average Return on Capital	11%	9%
Average Return on Equity	13%	13%
Average Cost of Capital	6%	7%
Average Cost of Equity	9%	9%