

FAMOUS DAVES OF AMERICA INC DAVE

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by	andreas947			
			2018	2019
Price:	6.70	EPS	0	0
Shares Out. (in M):	9	P/E	0	0
Market Cap (in \$M):	60	P/FCF	10	9
Net Debt (in \$M):	0	EBIT	0	0
TEV (\$):	55	TEV/EBIT	0	0

Description

Famous Dave's of America, Inc. (DAVE)

Summary

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We focus on smaller companies with Ft. Knox balance sheets and large & sustainable free cash flow yields and we are typically seeking a double-digit FCF yield or higher on an unleveraged basis. The objective is for the sustainable FCF to eventually drive up the share price to a more reasonable valuation, through share buybacks, debt reductions, dividends, or accretive acquisitions. Obviously, it is important we have a management team that cares about shareholder value. We focus on small-cap stocks because there is a much better chance to find an attractive investment opportunity which is under-followed or undiscovered.

Famous Dave's of America, Inc. (DAVE) develops, owns, operates, and franchises barbeque restaurants under the Famous Dave's name. It offers smoked, barbequed, and grilled meats, as well as entrée items and side dishes that are prepared using proprietary seasonings, sauces, and mixes. The Company operates full-service and counter-service restaurants. As of May 15, 2018, it owned 15 locations and franchised 136 restaurants in 33 states, Puerto Rico, Canada, and the United Arab Emirates.

Over the last several years, DAVE has recorded weak comp store sales and significant operating losses due to over-expansion and gone through five CEO's as it attempted to stabilize and turn around its business model. From a market cap of over \$200m in 2014, the Company's market cap has shrunk to about \$60m at present due to weak comp store sales and losses. In 2016, DAVE brought back its founder, Dave Anderson, to aid in marketing promotions and to reinject some BBQ credibility to the business. In May 2017, the Company announced that it was refranchising its remaining 33 company-owned restaurants during the next two years, as this strategy would allow it to shift its resources to the growth / viability of the franchise system. Since then, the Company has refranchised its six Chicago units in 2016 and its eight Mid-Atlantic units in December 2017 and closed 13 underperforming company stores.

The Company's LTM adjusted EBITDA is about \$7m and has increased for the last three quarters due to reduced expenses and improved comp store sales. During the Q3 2017 conference call, the Company estimated it could reduce G&A expense to about \$8m which compares to almost \$15m for 2017 as it aggressively shifted to a franchisor strategy with less corporate infrastructure.

Otto695 wrote up DAVE in November 2017 and since then the stock has done well. There is further evidence that DAVE may be able to sharply reduce total G&A expense as G&A expense was reduced from \$4.6m in Q1 2017 to \$1.8m in Q1 2018 and adjusted EBITDA for Q1 2018 increased from \$0.4m in Q1 2017 to \$1.8m. Furthermore, comp store sales results for both corporate and franchised restaurants improved over prior years. Adjusted EBITDA has grown for the last four quarters year over year. It appears management has at least stabilized the business model at this point.

The Company has also strengthened its balance sheet and liquidity. In November 2017, the Company completed a private placement of about 420,000 shares at \$3.50 per share with PW Partners, for gross proceeds of about \$1.5m. PW Partners is an investment fund led by Patrick Walsh that owns about 10% of DAVE and that has successfully taken an activist role with several restaurant chains (BJRI, DENN, RRGB, TACO) and other small cap companies, most recently CLUB. In connection with the private placement, Jeff Crivello, the CFO of PW Partners and a member of the Board since August 2017, was appointed CEO of the Company effective November 14, 2017. This was followed by a Rights Offering completed in April 2018 for 1.5m shares at \$3.50 per share.

After the Rights Offering, DAVE has about 9m shares outstanding currently trading at about \$6.70 per share for a market cap of about \$60m. We estimate that DAVE has net cash of about \$5m for an Enterprise Value (EV) of about \$55m. We believe DAVE could generate adjusted EBITDA of \$10m+ per annum in 2018 and 2019, so DAVE would be trading at below 6x our adjusted EBITDA estimates. We also believe a substantial portion of adjusted EBITDA could convert into free cash flow given the limited capital expenditures, limited working capital needs, the NOL and fewer cash restructuring charges in 2018 and 2019. We believe DAVE could generate \$5m-\$6m of FCF per year in 2018 and 2019 for about a 10% FCF yield unleveraged.

We believe as DAVE right-sizes its G&A expenses and implements programs to improve franchise store profitability and comp store sales, adjusted EBITDA could grow and trade at a higher multiple. We believe DAVE could achieve adjusted EBITDA of \$10m+ per annum in 2018 and 2019 and trade for 10x adjusted EBITDA with a net cash position of nearly \$15m by year-end 2019. This would result in a market cap of about \$115m or, based on 9m diluted shares outstanding, a share price of about \$13 per share or almost 100% more than \$6.70 per share today.

Strategic Initiatives

The Company has several initiatives to reduce costs and reinvigorate sales. Management believes customers want increased speed and convenience in purchasing meals and that the Company's BBQ offering can play well into this trend. Key initiatives include expanding off-premise sales (take-out, third-party delivery, and catering), expanding online sales orders, a new, smaller store prototype, a menu overhaul, and developing a new BBQ brand in collaboration with world champion BBQ pit-master Travis Clark. Further, there is a strong focus on technology and better IT systems and capabilities which will help to increase digital relationships with customers. This includes increasing delivery through shared kitchen spaces and smaller restaurants. It might include smaller stand-alone spaces of 500 to 800 square feet versus 5,000 square feet in traditional locations. A major program is delivery through third party operators which has been driving improved comp sales at company locations. Management believes delivery services can better connect its brand with "millennials" who tend to use delivery more frequently. Currently, about 30% of total sales come from off-premise sales, which includes take-out, catering and third-party delivery and management expects this share to increase over time. Another growth opportunity would be the Company acquiring existing restaurant sites if they are available at attractive prices – management is focused on attractive payback periods of two to three years.

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Background

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The Company has sought to consolidate its franchisee operations into stronger hands. In December 2017, the Company sold eight Company restaurants in Maryland and Virginia to one of its largest and most successful franchisees. In early 2016, the Company refranchised seven Company-owned restaurants in the Chicago area and exited that market completely. In December 2017, as part of a settlement of a legal dispute, the Company approved the transfer of seven franchise restaurants in Utah and Washington to an entity controlled by Charles Davidson, who is a Founder of Wexford Capital, owner of 19% of the Company's stock and its largest shareholder. The Company also made certain concessions related to these acquired restaurants to facilitate needed investment by the purchaser.

In 2017, the Company rolled out several initiatives to drive traffic and improve sales to Company stores and these are in various stages of implementation throughout the franchise system. The Company revitalized the beverage menu and rolled out delivery programs via third-party delivery services. The Company also addressed costs in its restaurants by programs aimed to reducing food waste and optimizing labor through technology and training. It is also working to simplify back of the house operations to drive efficiencies in its restaurants. The Company continues to focus its resources on innovations to provide new avenues for our franchisees to improve their sales and operating performance. The Company also implemented strategic, temporary royalty abatements on certain stores transferred to new owners in 2017 to allow these owners to invest in necessary repairs and maintenance work that it believes will help improve those stores performance in the future. Finally, the Company took steps in 2017 to realign its general and administrative expense structure to reflect a franchised focused business model. In 2018, the Company seeks to execute further on programs from 2017 and to revitalize and streamline the core Famous Dave's concept, and develop and test new BBQ concepts with attractive unit economics for franchisees.

In 2017, per person average tickets for lunch averaged \$13 and for dinner averaged \$17. Restaurants currently average about 5,000 square feet and are designed specifically to accommodate significant levels of To Go sales, including a separate entrance with distinct signage and a separately staffed To Go counter. In 2017, the Company highlighted value and affordability in its menu along with promoting additional value offerings through limited time offers and day of the week "Smoking-Deals".

Geographical concentration at year end 2017 was 43% Midwest, 5% Middle Atlantic, 9% South, 30% West, 8% Northeast, and 5% International. The Company prepares a development strategy for each market and targets trade areas that align with the target guest profiles. At year-end 2017, the Company had 32 ownership groups with franchise operations located in over 30 states, with largest states being California (14 locations); Wisconsin (10 locations), Illinois (8 locations), and Michigan (7 locations).

Seasonality

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The Company's seasonality is shown in the chart below, which shows quarterly revenues, operating income, and adjusted EBITDA and indicates that Q2 and Q3 are generally the strongest quarters for DAVE. While we are reluctant to extrapolate one quarter of results, Q1 2018 results for the Company would seem to imply a strong adjusted EBITDA for 2018.

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Strong Cash Generative Business Model and Attractive FCF yield

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DAVE is increasingly shifting to a cash-generative, franchisor business model. Based on reductions in G&A expense from \$15m in 2017 to an estimated \$8m in 2018, we believe DAVE could generate \$10m+ in adjusted EBITDA in 2018 and 2019. We believe a significant portion of this adjusted EBITDA could drop into FCF due to NOL's, minimal capex, limited working capital needs, and reduced cash restructuring charges in 2018. We believe DAVE could generate \$5m-\$6m of FCF per year in 2018 and 2019. Based on a current enterprise value (EV) of about \$55m, this would imply DAVE is trading at close to a 10% unleveraged FCF yield. We believe this would be an attractive valuation for a franchisor restaurant business model with improving comp store sales and improving business model economics for franchisees.

Improved Q1 2018 Results Indicate Strategic Plan is Working So Far

Results for Q1 2018 were solid and indicate the strategic plan is making progress. Adjusted EBITDA was \$1.8m versus \$0.4m in prior year. Comp store sales for company stores were +5.2% and comp store sales for 136 franchised stores were (1.6) % which represent strong improvements as compared to prior year results when comp store sales for 35 company stores were (3.3) % and comp store sales for 138 franchised stores were (4.8) %. System-wide restaurant sales were \$87m in Q1 2018 versus \$100m in prior year as company stores were closed or refranchised. G&A expenses decreased to \$1.9m versus \$4.5m in prior year due to the realignment of the G&A expense structure to be commensurate with that of a more dedicated franchisor, as Company-owned restaurant count declined from 35 restaurants to 16 restaurants as quarter end for both periods.

The Company noted that the continued adoption of third party delivery would likely help drive top line performance of franchisees throughout the year as only half of the serviceable units were currently live. Q2 and Q3 have typically been the seasonally strongest quarters for DAVE. We believe the adjusted EBITDA of \$1.8m in Q1 2018 augurs well for a strong full year adjusted EBITDA for 2018.

Improved Comp Store Sales at Corporate Stores

The Company's 15 corporate owned stores are where management is testing and validating programs to drive improved comp store sales for franchised stores and improved ROIC for franchisees. These corporate stores have generated strong comp store sales results over the past few quarters with comp store sales for corporate stores positive over the last three quarters and with the last two quarters +8% and +5%, respectively. This likely indicates corporate programs to drive improved comp store sales are working and should provide validation to franchisees to implement and make investments in these programs.

Potential Opportunities for Franchisee Growth

We believe the Company's strong reputation in BBQ and menu focus could translate well into stronger take-out and off-premise sales. DAVE is consistently ranked as one of the top 10 BBQ chains in the U.S. in several surveys. DAVE is seeking to improve franchisee growth through increased off-premise business by improved online ordering, third party delivery partnerships, smaller restaurant formats, and new menu items. Franchisee comp store sales have been gradually improving as some of these programs appear to take hold. Third party delivery has been driving comp store sales at company restaurants but was still only deployed in about half of franchised restaurants for Q1 2018. Third party delivery deployment could be a source of improved franchisee comp store sales in 2018. We also believe DAVE is focused on improving the unit economics for franchisees to encourage more investment in existing and new units for from franchisees for the chain. We believe there are some deep-pocketed members of DAVE's franchisee group that could deploy capital if the expected returns are attractive. Depending on whether new units are new builds or purchases of existing restaurant units, management is looking for attractive payback periods of two to three years.

Activist Shareholder Base Driven to Create Shareholder Value

The Company's shares are significantly owned by activist shareholder groups that we think will aggressively seek to drive shareholder value. Wexford Capital controls almost 20% of total shares outstanding. PW Partners has invested successfully as an activist in several restaurant companies (BJRI, DENN, TACO, RRGB) and other companies such as Town Sports (CLUB). The Company's new CEO took over in November 2017 and is the CFO of PW Partners. PW Partners invested in a private placement of about \$1.5m at \$3.50 per share in November 2017. We believe the strategic plan to move to more franchised business model, improve franchisee comp store sales, financial results, and ROIC, and programs to drive online and off-premise sales make sense and can be successful over time.

In addition to PW Partners and Wexford Capital, there are several other activist players in DAVE stock, including Kanen Wealth, Bandera Partners, and Farnam Street Partners. Admittedly, activists have been trying to drive shareholder value at DAVE for several years now, but we believe they will collectively continue to aggressively seek to drive shareholder value, although it could take longer than we expect.

Attractive Upside Potential

We believe DAVE could achieve adjusted EBITDA of \$10m+ in 2018 and 2019 and increase its net position to \$15m+ by year-end 2019. As its cash-generative franchisor business model becomes more evident to investors and comp store sales continue to improve, we believe DAVE could trade for 10x adjusted EBITDA and have a market value of about \$115m. Based on 9m total common shares outstanding, the Company would have a share price of about \$13 per share (or almost 100% higher than current prices).

"Ft. Knox" Balance Sheet Provides Downside Protection

DAVE has a strong balance sheet, with a net cash position of close to \$5m. We believe given the capital-light business model, that DAVE could generate \$5m-\$6m of FCF per year in 2018-9. We believe DAVE could end 2019 with net cash of \$15m or more, excluding organic capital investments and dividends or share repurchases. We believe this strong cash position will enable management to make carefully selected strategic investments to drive improved sales for franchisees and eventually the opening of new units by franchisees. We also believe the Company may acquire existing restaurant locations at attractive prices, as they are available.

Conclusion and Target Price

Based on 10x our estimate of adjusted EBITDA of \$10m+ for 2019 with about \$15m net cash and about 9m diluted shares outstanding, we believe DAVE could have a market cap close to \$115m or \$13per share or more versus \$6.70 per share today (+100%). If DAVE continues to execute and reduce G&A expense and successfully grow its franchised restaurant business we expect, we think our target price can be achieved.

Major shareholders		
Wexford Capital	1,686	18.6%
Bandera Partners	1,444	15.9%
Kanen Wealth Mgmt.	935	10.3%
Raging Capital Mgmt.	455	5.0%
Farnam Street Partners	418	4.6%
PW Partners	418	4.6%
Renaissance Technologies	366	4.0%
Blue Clay Capital	357	3.9%

Avg Daily Volume		
Price per share	\$6.7	45,000
Shares outstanding	9.0m	
Market value	\$60	
52-week range	\$3.40	\$9.65

Income statements								3mos	3mos
FYE 12/31	2011	2012	2013	2014	2015	2016	2017	2017	2018
Sales	\$155	\$155	\$155	\$149	\$114	\$77	\$65	\$17	\$13
Adjusted EBITDA	\$15	\$13	\$15	\$16	\$6	\$5	\$6	\$0	\$2
Adjusted EBIT	\$10	\$7	\$9	\$9	\$2	(\$1)	\$0	(\$1)	\$2
Net income	\$6	\$4	\$5	\$2.9	(\$4)	(\$2)	(\$8)	(\$1)	\$1
EPS - continuing ops	\$0.68	\$0.57	\$0.62	\$0.40	(\$0.63)	(\$0.35)	(\$0.95)	(\$0.18)	\$0.13
Cash flow statements								3mos	3mos
FYE 12/31	2011	2012	2013	2014	2015	2016	2017	2017	2018
Net income	\$6	\$4	\$5	\$3	\$1	(\$4)	(\$7)	(\$1)	\$1
Dep & Amort.	\$6	\$6	\$6	\$6	\$5	\$3	\$3	\$1	\$0
Non-cash adjust	\$3	\$1	\$3	\$3	(\$4)	\$3	\$4	\$1	(\$1)
Working capital changes	(\$3)	(\$2)	\$2	\$1	(\$4)	(\$4)	\$2	\$0	\$0
Cash from operations	\$12	\$10	\$16	\$13	(\$2)	(\$2)	\$2	\$0	\$1
Capital expenditures	(\$6)	(\$7)	(\$7)	(\$3)	(\$3)	(\$1)	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Share repurchases	(\$6)	(\$6)	(\$7)	(\$3)	(\$6)	\$0	\$0	\$0	\$0
Acquis, net	\$0	\$1	\$0	\$0	\$8	\$1	\$0	\$0	\$0

Est. free cash flow	\$6	\$3	\$9	\$10	(\$5)	(\$3)	\$2	\$0	\$1
Balance sheets									
FYE 12/31	2011	2012	2013	2014	2015	2016	2017	4/1/18	PF (1)
Cash	\$1	\$2	\$1	\$2	\$5	\$5	\$9	\$9	\$15
Total assets	\$74	\$76	\$75	\$67	\$58	\$51	\$37	\$37	
Total debt	\$21	\$22	\$20	\$12	\$15	\$12	\$9	\$10	\$10
Shareholder equity	\$34	\$34	\$33	\$32	\$22	\$20	\$14	\$13	
Net debt	\$20	\$20	\$19	\$10	\$10	\$7	\$0	\$1	(\$5)
Adjusted EBITDA %	%	%	%	%	%	%	%	%	%
Comp Store Sales – Franchised	0.0%	(2.0%)	(2.9%)	(2.5%)	(2.5%)	(4.5%)	(2.3%)	(4.8%)	(1.6%)
Comp Store Sales – Company	1.5%	(1.8%)	0.2%	(5.3%)	(9.3%)	(5.0%)	2.4%	(3.3%)	5.2%
Year End Rest. - Franchised	133	135	140	139	135	139	134	138	136
Year End Rest. - Company	54	53	54	50	44	37	16	35	16
Shares outstanding		7.7	7.7	7.2	7.0	7.0	7.0	7.0	7.5

- (1) Pro forma for April 2018 rights offering of \$5.5m for 1.6m shares (at \$3.50 per share)

Valuation & Valuation Ratios	
Market value	\$60
Net debt	(\$5) **
Enterprise value	\$55
Price per share	\$6.7
Shares outstanding	9.0m
Market value	\$60
52-week range	\$3.40 \$9.65

EV / Adjusted EBITDA	8x
Enterprise Value / Cash from Ops	15x
Enterprise Value / Revenues	1.0x

Average Daily Volume	
45,000	

** Estimated pro forma B/S for April 2018 \$5.5m right offering.

Seasonality

	Q1	Q2	Q3	Q4
2018 – Total revenues	\$12.8			
2018 – Income from operations	\$1.5			
2018 – Adjusted EBITDA	\$1.8			
2017 – Total revenues	\$17.0	\$25.3	\$21.9	\$12.5
2017 – Income from operations	(\$2.1)	(\$1.7)	(\$2.6)	\$0.6
2017 – Adjusted EBITDA	\$0.4	\$2.6	\$1.4	\$1.3
2016- Total revenues	\$23.5	\$27.7	\$25.4	\$17.4
2016 – Income from operations	\$0.4	\$0.3	(\$3.7)	(\$1.1)
2016 – Adjusted EBITDA	\$1.1	\$2.5	\$1.4	\$0.5
2015 – Total revenues	\$28.3	\$32.7	\$27.9	\$25.4
2015-Income from operations	\$0.3	\$1.0	\$1.3	(\$0.4)
2015 – Adjusted EBITDA	\$1.5	\$3.0	\$1.2	(\$0.1)

) Results for 1Q18, 4Q17 & 1Q17 are restated numbers for discontinued operations

**Key Operating Metrics:**

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	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18
Restaurant Count							
Franchised-operated	139	139	138	135	129	134	136
Company-owned	37	37	35	32	25	16	16
Total	176	176	173	167	154	150	152
Comp restaurant sales %							
Franchise-operated	(3.8) %	(5.5) %	(4.8) %	(3.2) %	(2.1) %	+1.1%	(1.6) %
Company-owned	(1.0) %	(5.0) %	(3.3) %	(2.2) %	+0.9 %	+8.0%	+5.2 %
Total	(3.1) %	(5.4) %	(4.5) %	(3.0) %	(1.5) %	+1.8%	(0.9) %
System-wide restaurant sales	\$109.0	\$97.7	\$100.4	\$111.0	\$99.7	\$89.3	\$87.1

Quarterly Balance Sheets

	Oct 15	Jan 16	Apr 16	Jul 16	Oct 16	Jan 17	Apr 17	Jul 17	Oct 17	Jan 18	Apr 18	
Current Assets:												
Cash and equivalents	\$2.0	\$5.3	\$7.6	\$6.3	\$6.8	\$4.5	\$4.9	\$5.4	\$7.4	\$8.8	\$8.9	\$27
Accounts Receivable	\$4.4	\$4.7	\$5.0	\$5.0	\$4.4	\$5.3	\$5.5	\$5.6	\$5.2	\$3.8	\$4.4	\$13
Inventories	\$2.4	\$2.1	\$1.9	\$1.9	\$1.9	\$1.5	\$1.4	\$1.5	\$1.1	\$0.6	\$0.6	\$9
Other current assets	\$5.6	\$5.0	\$3.2	\$4.8	\$5.5	\$5.2	\$7.3	\$7.2	\$6.3	\$3.5	\$3.6	\$23
Total current assets	\$14.4	\$17.0	\$17.6	\$18.1	\$18.5	\$16.4	\$19.0	\$19.6	\$20.0	\$16.8	\$17.6	\$72
Property and equipment, net	\$42.4	\$32.5	\$31.9	\$30.1	\$25.9	\$25.9	\$25.4	\$20.8	\$18.5	\$11.4	\$10.3	\$572
Intangible assets	\$2.9	\$2.9	\$2.9	\$2.9	\$2.9	\$2.6	\$2.6	\$2.5	\$2.6	\$1.8	\$1.4	\$5
Other assets	\$1.5	\$5.2	\$5.3	\$5.7	\$6.0	\$6.0	\$5.6	\$5.4	\$5.3	\$6.8	\$7.7	\$23
Total Assets	\$61.2	\$57.6	\$57.7	\$56.8	\$53.3	\$50.9	\$52.5	\$48.3	\$46.4	\$36.9	\$37.0	\$672
Current Liability												
Accounts payable	\$6.0	\$5.7	\$6.1	\$6.2	\$5.6	\$5.3	\$6.3	\$5.9	\$5.7	\$4.4	\$4.4	\$34
Accrued expenses	\$15.3	\$8.7	\$17.9	\$7.7	\$15.8	\$5.8	\$8.2	\$6.6	\$7.8	\$6.0	\$6.2	\$86
Total current liabilities	\$21.3	\$14.4	\$24.0	\$14.0	\$21.4	\$11.1	\$14.5	\$12.5	\$13.5	\$10.3	\$10.6	\$120
LTD	\$0.0	\$10.1	\$0.0	\$7.0	\$0.0	\$8.8	\$8.6	\$8.4	\$8.2	\$7.9	\$7.7	\$96
Finance leases	\$2.9	\$2.7	\$2.7	\$2.5	\$2.4	\$2.3	\$1.5	\$1.4	\$1.3	\$1.2	\$0.0	\$49
Other liabilities	\$9.1	\$8.3	\$8.2	\$10.2	\$8.7	\$8.7	\$9.1	\$8.5	\$7.7	\$4.0	\$5.5	\$20
Total Stockholder's equity	\$27.9	\$22.1	\$22.8	\$23.1	\$20.8	\$20.0	\$18.8	\$17.5	\$15.8	\$13.5	\$13.2	\$306

Quarterly Income Statements

	Oct 15	Jan 16	Apr 16	Jul 16	Oct 16	Jan 17	Apr 17	Jul 17	Oct 17	Jan 18	Apr 18
Revenue	\$27.9	\$25.4	\$23.5	\$27.7	\$25.4	\$22.6	\$22.0	\$25.3	\$21.9	\$12.5	\$12.8
Food and beverage costs	\$7.2	\$6.4	\$6.0	\$7.1	\$6.5	\$5.6	\$5.4	\$6.2	\$5.4	\$2.8	\$2.7
Labor and benefits costs	\$8.3	\$7.6	\$6.9	\$7.4	\$7.1	\$6.9	\$6.5	\$7.1	\$6.4	\$3.2	\$3.2
Operating expenses	\$7.0	\$6.4	\$5.7	\$6.4	\$6.6	\$6.1	\$5.5	\$5.9	\$5.1	\$2.8	\$2.8
Depreciation and amortization	\$1.1	\$1.1	\$1.0	\$1.0	\$0.9	\$0.8	\$0.8	\$0.7	\$1.4	\$0.5	\$0.4
G&A expenses	\$4.1	\$5.1	\$3.7	\$4.5	\$4.4	\$4.1	\$4.6	\$3.5	\$3.8	\$2.8	\$1.9
Other	(\$1.1)	(\$0.7)	(\$0.2)	\$1.1	\$3.6	\$0.1	\$1.1	\$3.5	\$2.5	(\$0.2)	\$0.4
Income from operations	\$1.3	(\$0.4)	\$0.4	\$0.3	(\$3.7)	(\$1.1)	(\$2.0)	(\$1.7)	(\$2.6)	\$0.6	\$1.5

Net financial expenses	\$0.2	\$0.4	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.1
Profit before taxes	\$1.1	(\$0.8)	\$0.2	\$0.1	(\$4.0)	(\$1.3)	(\$2.2)	(\$1.9)	(\$2.7)	\$0.4	\$1.3
Income taxes	(\$0.1)	\$0.5	(\$0.1)	\$0.0	\$1.6	\$0.5	\$0.9	\$0.6	\$0.9	(\$1.9)	(\$0.3)
Net income	\$1.0	(\$0.3)	\$0.1	\$0.1	(\$2.4)	(\$0.8)	(\$1.2)	(\$1.3)	(\$1.8)	(\$1.5)	\$1.0
Adjusted EBITDA	\$1.2	(\$0.1)	\$1.1	\$2.5	\$1.4	\$0.0	\$0.4	\$2.6	\$1.4	\$1.3	\$1.8

1) Jan'18 & Apr'18 results exclude results for Refranchised eight Company-owned restaurants and closed one underperforming Company-owned restaurant.

Annual Income

Statements

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	\$140.4	\$136.0	\$148.3	\$154.8	\$155.0	\$155.4	\$131.9	\$114.2	\$76.6	\$64.6
Food and beverage costs	\$37.6	\$35.5	\$38.8	\$40.8	\$42.4	\$41.4	\$33.5	\$29.1	\$18.3	\$14.8
Labor and benefits costs	\$38.2	\$37.0	\$41.4	\$43.2	\$44.3	\$44.3	\$36.9	\$32.6	\$21.0	\$17.7
Operating expenses	\$32.5	\$31.5	\$36.1	\$38.4	\$36.5	\$35.0	\$31.5	\$27.8	\$18.7	\$14.7
Depreciation and amortization	\$5.5	\$5.2	\$5.5	\$5.6	\$6.0	\$6.2	\$5.2	\$4.5	\$2.9	\$2.8
G&A expenses	\$16.5	\$16.0	\$16.2	\$16.5	\$18.7	\$18.9	\$15.9	\$19.0	\$16.6	\$14.6
Other	\$8.0	\$0.3	(\$1.6)	\$0.9	\$0.9	\$1.9	\$5.0	(\$0.8)	\$4.8	\$6.9
Income from operations	\$2.0	\$10.5	\$12.0	\$9.4	\$6.2	\$7.7	\$3.9	\$2.1	(\$5.6)	(\$6.8)
Net financial expenses	\$2.0	\$1.4	\$1.1	\$1.1	\$1.1	\$1.0	\$0.9	\$1.0	\$0.9	\$0.7
Profit before taxes	\$0.3	\$8.7	\$11.0	\$8.3	\$5.2	\$6.8	\$3.0	\$1.1	(\$6.4)	(\$7.5)
Income taxes	\$0.1	(\$3.0)	(\$3.8)	(\$2.8)	(\$0.8)	(\$2.0)	(\$0.7)	(\$0.0)	\$2.3	\$0.9
Net income	\$0.4	\$5.7	\$7.2	\$5.6	\$4.4	\$4.8	\$2.3	\$1.1	(\$4.1)	(\$6.7)
Adjusted EBITDA	\$15.6	\$16.0	\$15.9	\$15.5	\$12.6	\$15.2	\$13.5	\$5.7	\$5.0	\$5.7

1) 2016&2017 results exclude results for Refranchised eight Company-owned restaurants and closed one underperforming Company-owned restaurant.

Famous Dave's Inc (DAVE) (1)	Denny's Corporation (DENN)	Dine Brands Global, Inc. (DIN)	Sonic Corp. (SONC)
Famous Dave's of America, Inc. develops, owns, operates, and franchises barbeque restaurants under the Famous Dave's name. At May 2018, the Company had 15 company locations and 136 franchised locations.	Denny's Corporation, through its subsidiary, Denny's, Inc., owns and operates full-service restaurant chains under the Denny's brand internationally. At Dec. 2017, the Company had 1,735 franchised and company restaurants worldwide.	Dine Brands Global, Inc., together with its subsidiaries, owns, franchises, operates, and rents full-service restaurants in the United States and internationally. At Dec. 2017, the Company had 1,936 Applebee's franchised restaurants and 1,786 IHOP franchised restaurants.	Sonic Corp. operates and franchises a chain of quick-service drive-in restaurants in the United States. At Aug. 2017, the Company had 228 owned restaurants and 3,365 franchised restaurants.

(1) Pro forma for \$5.5m rights offering in April 2018.

Cash	\$18M	\$34m	\$90M	\$723m
LTM				
Price	\$6.7	\$16	\$75	\$36
Shares	9m	64m	18m	36m
Market Cap	\$60m	\$1.0b	\$1.3b	\$1.3b
Enter. Value (EV)	\$55m	\$1.3b	\$2.6b	\$2.0b
Rev - LTM	\$61m	\$557m	\$602m	\$435m
Adj. EBITDA – LTM	\$7m	\$104m	\$126m	\$146m
Adj. EBITDA margin	11.7%	18.6%	20.9%	33.4%
EV to Adj. EBITDA	8.1x	13.0x	20.8x	13.6x
EV to LTM Revenues	0.9x	2.4x	4.4x	4.5x
LTM Capital Expenditures	\$0.3m	\$20m	\$14m	\$34m
Cap Ex to Revenues	0.5%	3.6%	2.3%	7.8%
LTM Cash from Operations	\$4m	\$74m	\$63m	\$90m
EV to LTM Cash from Ops	13x	18.3x	41.9x	22.1x
LTM Free Cash Flow	\$2.6m	\$54m	\$49m	\$56m
FCF to EV	4.1%	4.0%	1.9%	2.8%
Comparable restaurant sales	(0.9%)	+1.5%	+3.3%	(0.2%)

Catalysts

1. Large reductions in G&A expense with shift to franchisor-dominated business model drives improved profitability and FCF.
2. Modest valuation with close to 10% unleveraged FCF yield on 2018-2019 estimated results.
3. Projected annual adjusted EBITDA of \$10m+ in 2018-9.
4. Potential FCF of \$5m-\$6m per year in 2018-9 due to capital light franchisor business model, NOL, and reduced cash restructuring costs.
5. Stabilization and growth of comp store sales trends for franchised restaurants.
6. Strong balance sheet, after the rights offering, with net cash of about \$5m.
7. Activist shareholder base highly motivated to create shareholder value.
8. Increased recognition of franchise business model which justifies a higher multiple.
9. Off-premises / take-out and other programs help drive improved franchisee sales trends.
10. Potential sale of DAVE to financial or strategic purchaser.

Risks

- . The U.S. economy declines which impacts DAVE's restaurant franchise business model.
- . DAVE is unable to improve its adjusted EBITDA and FCF results and/or improve franchisee comp store sales as we expect.
- . Unexpected problems with franchisees, unprofitable franchisee restaurant results limit growth potential.
- . DAVE is a turnaround situation which has been pursued for several years and we are betting that eventually the turnaround programs will take effect, although it likely won't be in a straight line.
- . Misallocation of capital into a poor acquisition.
- . There are some related party transactions and a lawsuit that should be considered as part of an investment.
- . We are defining FCF as cash from operations less maintenance capital expenditures and including non-cash stock comp and some other add-backs which some investors would not want to include.

Disclaimer

Disclaimer: We own shares of DAVE. We may buy or sell these shares at any time without notice. The information in the write-up is believed to be correct as of the date written but investors should do their own verification of this information and analysis of this potential investment. We undertake no obligation to update this write-up if new information arises at a future date.

I do not hold a position with the issuer such as employment, directorship, or consultancy.
I and/or others I advise do not hold a material investment in the issuer's securities.

Catalyst

see above

Messages

Subject Franchisee Economics
Entry 07/18/2018 10:50 AM
Member LimitedDownside

Thanks for the idea andreas. How comfortable are you that the majority of the franchisees are generating enough cash flow to stay in business?

Taking a quick look at DAVE's FDD, it looks like in 2017 ~37% of the systemwide units did <\$2.0m in Average Unit Volume (with a median of \$1.7m), ~39% of units had AUVs of \$2.0-\$3.0m (with a median of \$2.4m), and ~24% of units had AUVs above \$3.0m (\$3.5m median).

It looks like they don't break out the full P&L for the franchisees, but for the company-owned units- and assuming a 5.0% Royalty Rate for illustrative franchise unit economics- it looks like the median Restaurant-Level Margins (before D&A and **before occupancy costs**) for the three groups looked like this:

* <\$2.0 million AUV Units: 6.2%

* \$2.0-\$3.0 million AUV Units: 6.9%

* >\$3.0 million AUV Units: 8.5%

Particularly for the worst-performing units, that...doesn't seem great? I'm not too far away from paying that much in occupancy costs for my Manhattan apartment.

If all of the lowest third franchisees up and closed their units tomorrow, that'd reduce your EBITDA estimate by ~\$4.4m or ~40% (37% of franchised units x 136 total franchised units as of Q1 x \$1.74m Median AUV x 5.0% Royalty Rate)

Have you spoken with any of the franchise groups? Thanks.

Subject Re: Franchisee Economics
Entry 07/18/2018 06:30 PM
Member andreas947

Hi LimitedDownside,

Thanks for the very fair question about franchisee economics.

I have not talked with any franchisees. I have mostly talked with the company (which i recommend to anyone really interested in this investment). I think the franchisees have clearly struggled historically and there has been limited funding available at corporate to support them or new concepts and ideas. I think the recent positive company store comps are reflective of strategies management is implementing at corporate stores to encourage franchisees to make investments. These include some menu shifts to create more frequency of purchases and, as discussed, a greater focus on take out business and also some deferred maintenance type spending.

I don't expect so many franchisees to close units and I believe the worst units likely have been closed. I believe there are some franchisees who have capital and appetite if the returns are there. I believe the CEO is highly focused on ROIC for these franchisees. You will need very strong and reliable payback periods for investments by franchisees. I think two to three years are being targeted. PW Capital has a pretty good track record with restaurant investments.

I think there is a lot more financial discipline here with a more liquid and flexible balance sheet at corporate than existed before. I think that is going to help a lot. And it may take more time than I am estimating but I believe they are headed in the right direction.

Your concerns are very fair and valid. But those are historical results and i am hoping profitability and execution and financial discipline here is going to improve. We have a balance sheet that does gives us some time. But the company will need to put up some good numbers with corporate stores in order to meaningfully drive new franchise store growth. They have a lot more liquidity to try now.

I think the odds are in our favor at these price levels, over the next couple years, but, again, your concerns are valid. Hope that helps a little bit at least.

Best, Andreas