

Dave & Busters (PLAY)

\$11.00 (As of 05/07/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of Dave & Buster's have underperformed the industry in the past six months. This can primarily be attributed to the coronavirus pandemic. Recently, the company reported fourth-quarter 2019 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. Owing to the pandemic, the company has not provided fiscal 2020 financial guidance at this time. The company is witnessing significant decline in traffic on account of the coronavirus-induced lockdown. Due to the pandemic, the company has taken certain measures to reduce costs. Further, the company's soft comps owing to a decline in walk-in sales, has been a major concern. Of late, estimates for 2020 have witnessed downward revisions. Notably, the company's initiatives to build sales and improve margins are likely to drive growth once the outbreak eases.

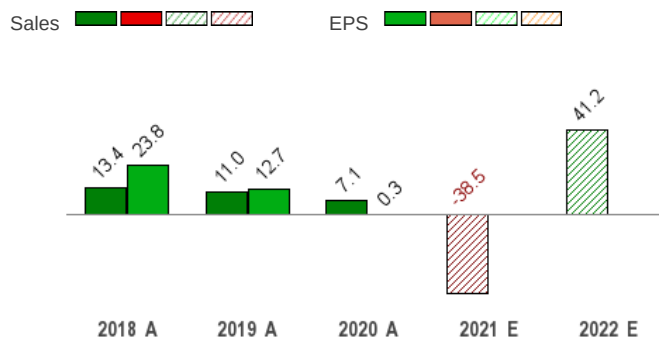
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.21 - \$4.61
20 Day Average Volume (sh)	5,452,610
Market Cap	\$336.6 M
YTD Price Change	-72.6%
Beta	1.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.3%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-99.0%
Expected Report Date	06/09/2020
Earnings ESP	-2.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	314 E	291 E	261 E	333 E	1,178 E
2021	228 E	184 E	188 E	287 E	834 E
2020	364 A	345 A	299 A	347 A	1,355 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.14 E	-\$0.11 E	-\$0.41 E	\$0.27 E	\$0.25 E
2021	-\$0.78 E	-\$1.99 E	-\$1.53 E	\$0.02 E	-\$4.31 E
2020	\$1.13 A	\$0.90 A	\$0.10 A	\$0.80 A	\$2.94 A

*Quarterly figures may not add up to annual.

P/E TTM	3.8
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/07/2020. The reports text is as of 05/08/2020.

Overview

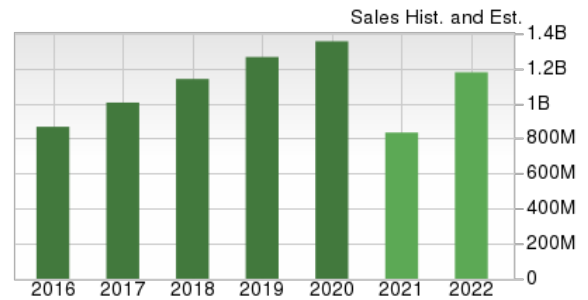
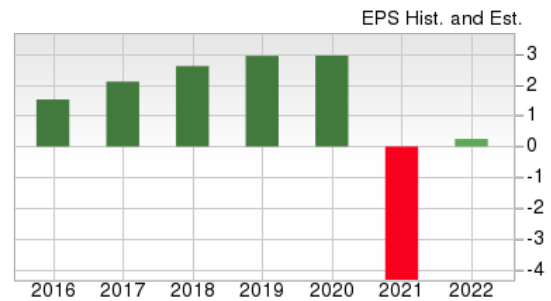
Founded in 1982 and headquartered in Dallas, TX, Dave & Buster's Entertainment, is a leading owner and operator of high-volume venues in North America that combine dining and entertainment for both adults and families. As of Feb 2, 2020, the company owned and operated 136 stores located in 39 states, Puerto Rico and one Canadian province. During the fiscal third quarter, it opened two new stores in Canton, OH and Shenandoah, TX. In fiscal 2019, the company opened 16 stores in new locations that represent unit growth of 12.4%. The core concept of this restaurant chain is "Eat Drink Play and Watch", all in one location. Under the Eat concept, the company offers a wide variety of starters, burgers, choice-grade steaks and health-conscious food.

The company operates under two segments, Food and Beverage (44% of total revenues in fiscal fourth quarter) and Amusement and Other revenues (56%).

Coming to the Drink concept, the company's locations offer full bar service, including a variety of beers, hand-crafted cocktails and premium spirits. Dave & Buster's has re-crafted recipes, switched to more fresh juices and purees, and house-made mixers.

Under the Play concept, the company has a distinguished entertainment experience, some of which are exclusive to Dave & Buster's on a permanent or temporary basis. Each of the stores typically has 150 redemption and simulation games as well as proprietary virtual reality platform introduced in fiscal 2018. These games constituted 23% of amusement and other revenues in fiscal 2018.

Dave & Buster's also provides Sports-viewing in its watch concept. The stores have multiple large-screen televisions and high-quality audio systems, providing customers with a venue for watching live sports and other televised events.



Reasons To Buy:

▲ **Solid Revenue Growth:** Dave & Buster's continues to impress investors with solid top-line growth. The company's various sales-building initiatives and increased focus on distinguished offerings set it apart from other restaurants. During the fiscal first, second, third and fourth quarters of 2019, the company's revenues rose 8%, 9.6%, 6.1% and 4.6%, respectively. Revenues in fourth-quarter 2019 were primarily driven by consistent unit growth, and robust Amusements and Other revenues and Food and Beverage revenues.

A unique business model, various sales boosting initiatives along with the continual expansion plans are expected to drive growth

▲ **A Distinct Business Style:** Dave & Buster's continues to perform well on the back of the unique customizable experience that it offers across its four platforms, "Eat, Drink, Play and Watch." The company's distinctive model also generates favorable store economics and strong return.

Apart from great food or beverages, the company's entertainment business has been driving growth. Notably, amusement and other revenues accounted for 56% of total revenues in fourth-quarter fiscal 2019. In fact, it is a major reason behind the company's success. In 2019, the segment's revenues grew 8.5%. This is because increased dependence on gaming has cushioned the company from the headwinds of consumer discretionary spending that characterizes the restaurant industry and is, in turn, driving market share and comps. Also, the shift toward increased focus on amusement is driving Dave & Buster's earnings, given its higher-margin business. It is, in fact, this unique model that sets it apart and we expect the company's entertainment business to carry the growth story forward.

▲ **Continued Expansion & Growth Via Store Openings:** Dave & Buster's continues to pursue a disciplined new store growth strategy in both new and existing markets, given the broad appeal of its brand. Management believes that it can grow the concept to more than 200 units in North America over time. Dave & Buster's launched four stores during the fiscal third quarter in Concord, CA; Huntsville, AL; McDonough, GA; and Wichita, KS. Notably, it has already opened a store in Canton, OH and has one more store to open in Shenandoah, TX, during the fiscal fourth quarter. In fiscal 2019, management expects to open 16 stores in new locations, with 12% unit growth. Meanwhile, in addition to the growth potential that exists in North America, management is positive on the brand's significant appeal in certain international markets.

▲ **Sales Boosting Initiatives:** Menu innovation is a key attribute of the brand and guests have responded favorably to the menu additions by the company. In the fourth quarter of fiscal 2017, Dave & Buster's appointed new Vice President of Food and Beverage development in order to improve the speed of service through menu redesign and positive simplification in the kitchen area. In February 2018, the company streamlined its menu, and reduced the number of food orders by about 20% and beverage offerings by 12% to achieve increased efficiency. In 2019, the menu size was reduced by another 15%. Notably, earlier the company also launched Hawaiian-themed limited time offer that included craveable entrees like smoky barbecue bacon, Hawaiian ribs, aloha ginger salmon and crispy Hawaiian chicken sliders. Its grilled chicken avocado ranch sandwich and Drunken New York strip were in huge demand and have moved to the top of the category.

Meanwhile, the company continues to evolve its amusement strategy on the back of new and riveting content, including games based on some of the world's finest movie properties. In this regard, Dave & Buster's continues to collaborate with various game manufacturing partners and remains steadfast on its strategy of including proprietary content exclusive to the company forever. Also, to increase national awareness of its brand, the company continues to invest a significant portion of its marketing funds on advertising. As amusements are the company's strongest sales channel, it continues to be its focus from a promotional standpoint.

▲ **Digitalization to Drive Growth:** Dave & Buster's digital initiatives are likely to drive growth. The company launched a mobile app during October for promoting customers to download the app. During the first three months after the app launched the app generated \$14 million of revenues and helped the company in growing its customer database. Moreover, as part of its fiscal fourth quarter marketing campaign, Dave & Buster's launched Unlimited Wings and \$10 Power Card promotions on Sundays, Mondays and Thursdays as a place to watch Pro-football.

Additionally, the company believes that it can drive traffic by enhancing in-store and out-of-store customer experience via digital and mobile strategic initiatives as well as through employing better technology. The company thus intends to leverage its growing loyalty database as well as continue to invest in other mobile applications to build customer connections and drive frequent customer visitation.

Reasons To Sell:

▼ **Coronavirus Hurts Performance:** Owing to the unprecedented and evolving nature of the coronavirus outbreak, the company has not provided fiscal 2020 financial guidance at this time. The company is witnessing significant decline in traffic due to the coronavirus-induced lockdown. Due to the pandemic, the company has taken certain measures to reduce costs. The company reduced plan 2020 capital spending by 70% to nearly \$65 million. The company has also stopped construction on the remaining 14 stores, which were planned to open during 2020.

The company has also furloughed more than 14,000 store fellow team members due to the temporary closure of the stores. It has also suspended dividend payment and share repurchase program.

The coronavirus pandemic, high costs, a tricky consumer spending environment in the U.S. restaurant space and its limited international presence remain concerns.

▼ **Dismal Comps Performance A Major Concern:** Dave & Buster's soft comps trend over the past few quarters have been a major concern. In the fourth quarter, overall comps decreased 4.7% following a decline of 4.1%, 1.8% and 0.3% in third, second and first-quarter fiscal 2019, respectively. The downtrend in fourth-quarter 2019 was caused by a 5.5% decline in walk-in sales and flat special events sales. Moreover, comps at Amusements & Other dropped 4.1%, while the same at Food & Beverage declined 5.5%.

▼ **High Costs Ail:** Higher labor costs due to increased wages are expected to continue to keep profits under pressure. Further, the non-franchised model makes the company susceptible to increased expenses. Since all the restaurants are owned and operated by Dave & Buster's, instead of signing franchise agreements and putting the burden of costs into the franchise, the company is solely responsible for expenses of operating the business. In fiscal 2018, total operating costs increased 13.4% year over year. In the fourth quarter, operating margin contracted roughly 160 basis points (bps) year over year to 10.8%. Further, total operating costs increased 6.1% in the reported quarter.

▼ **Limited International Presence:** Dave & Buster's restaurants are located in the United States and Canada, and the company has no exposure in international markets. While several other fast-casual restaurateurs are capitalizing on the emerging market potential, Dave & Buster's seems to be slow on this front. We believe that the company needs to expand presence beyond the United States in order to offset the impact of cut-throat competition in the saturated domestic market.

▼ **Cut-Throat Competition:** The restaurant space is highly competitive as numerous restaurant operators are ongoing advanced and prudent strategies to increase their sales. In fact, going by the current retail scenario, adapting to shifting demand has become a major precedent for retailers. Companies with continual digital innovation, focus on product customization, and launch and delivery of seamless consumer experience can only thrive in the competitive space. These initiatives involve high costs. This puts a lot of pressure on Dave & Buster's to continuously change its strategies in correspondence to the fickle consumer demand

Last Earnings Report

Dave & Buster's Q4 Earnings Beat Estimates, Up Y/Y

Dave & Buster's reported fourth-quarter preliminary unaudited fiscal 2019 results. The company's earnings and revenues surpassed the Zacks Consensus Estimate. Notably, this marked the company's third straight quarter of earnings beat. Both earnings and revenues have improved year over year. In the quarter under review, adjusted earnings came in at 80 cents per share, which outpaced the Zacks Consensus Estimate of 70 cents. The metric also improved 6.7% on a year-over-year basis.

Quarter Ending **01/2020**

Report Date	Apr 02, 2020
Sales Surprise	0.91%
EPS Surprise	14.29%
Quarterly EPS	0.80
Annual EPS (TTM)	2.93

Detailed Revenue Discussion

Quarterly revenues of \$347.2 million surpassed the consensus mark of \$344 million. The top line also rose 4.6% from the prior-year quarter's number. The upside was primarily driven by consistent unit growth, and robust Amusements and Other revenues as well as Food and Beverage revenues.

Food and Beverage revenues (44% of total revenues in fiscal fourth quarter) increased 3.5% year over year to \$152.8 million, and Amusement and Other revenues (56%) rose 5.6% to \$194.4 million.

Meanwhile, overall comps declined 4.7% in fiscal fourth quarter compared with 2.9% increase in the year-ago quarter's figure. The downtick was caused by a 5.5% decline in walk-in sales and flat special events sales. Moreover, comps at Amusements & Other dropped 4.1%, while the same at Food & Beverage declined 5.5%.

Non-comparable store revenues in the reported quarter increased 46.5% from the year-ago quarter to \$62.6 million.

Operating Highlights

In fiscal fourth quarter, operating margin contracted roughly 160 basis points (bps) year over year to 10.8%.

Adjusted EBITDA was reported at \$77.8 million compared with \$80.1 million in the same period last year. Meanwhile, the EBITDA margin contracted 180 bps year over year to 22.4%.

Balance Sheet

As of Feb 2, cash and cash equivalents totaled \$24.7 million compared with \$21.6 million as of Feb 3.

Long-term debt summed \$632.7 million at the end of the reported quarter, up from \$378.5 million at the end of Feb 3.

The company has not repurchased any shares since September 2019 and has no plans to do so in the foreseeable future. Moreover, the company's quarterly dividend and share repurchase program have been indefinitely suspended due to the coronavirus outbreak.

Store Development

Dave & Buster's launched two stores during the fiscal fourth quarter in Canton, OH and Shenandoah, TX. In fiscal 2019, the company opened 16 stores in new locations that represents unit growth of 12.4%.

2019 Highlights

Total revenues in 2019 increased 7.1% to \$1,354.7 million from \$1,265.3 million in 2018. The increase was driven by an 8.5% increase in Amusements and Other revenues and a 5.1% increase in Food and Beverage revenues.

Operating income in 2019 totaled \$148.1 million (10.9% of revenues) compared with \$161.0 million (12.7% of revenues) in 2018.

Diluted earnings per share for 2019 was reported at \$2.94 compared with the year-ago quarter's figure of \$2.93.

Adjusted EBITDA in 2019 totaled \$308.2 million (22.8% of revenues) compared with \$311.1 million (24.6% of revenues) in 2018.

2020 Guidance

Owing to the unprecedented and evolving nature of the coronavirus outbreak, the company has not provided its fiscal 2020 financial guidance at this time.

Valuation

Dave & Buster's shares are down 72.6% in the year-to-date period, and 81.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down by 11.6%, but Zacks Retail-Wholesale sector are up by 0.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 8.9%, but the sector is up 7.5%.

The S&P 500 index is down by 11.5% in the year-to-date period and 1% in the past year.

The stock is currently trading at 3.75x trailing 12-month earnings, which compares with 22.51x for the Zacks sub-industry, 27.99x for the Zacks sector and 18.2x for the S&P 500 index.

Over the past five years, the stock has traded as high as 45.98x and as low as 1.66x, with a 5-year median of 21.26x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 4.09x trailing 12-month earnings.

The table below shows summary valuation data for PLAY.

Valuation Multiples - PLAY					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	3.75	22.51	27.99	18.2
	5-Year High	45.98	29.76	31.59	22.17
	5-Year Low	1.66	22.51	23.46	15.91
	5-Year Median	21.26	26.17	26.5	18.95
P/S F12M	Current	0.37	3.43	1.01	3.21
	5-Year High	2.53	3.93	1.11	3.44
	5-Year Low	0.1	2.82	0.8	2.54
	5-Year Median	1.59	3.3	0.93	3.01
P/CF	Current	1.19	14.82	14.14	14.79
	5-Year High	20.13	20.59	15.21	22.67
	5-Year Low	0.53	8.61	10.76	11.67
	5-Year Median	7.99	16.81	12.86	16.42

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BJs Restaurants Inc (BJRI)	Neutral	3
Dunkin Brands Group Inc (DNKN)	Neutral	3
Jack In The Box Inc (JACK)	Neutral	4
McDonalds Corporation (MCD)	Neutral	4
Papa Johns International Inc (PZZA)	Neutral	3
Red Robin Gourmet Burgers Inc (RRGB)	Neutral	3
Carrols Restaurant Group Inc (TAST)	Neutral	3
The Wendys Company (WEN)	Neutral	3

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	PLAY	X Industry	S&P 500	DNKN	RRGB	TAST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	F	D	C
Market Cap	336.64 M	256.62 M	19.51 B	5.39 B	171.00 M	178.32 M
# of Analysts	6	6	14	11	4	3
Dividend Yield	0.00%	0.00%	2.15%	2.45%	0.00%	0.00%
Value Score	B	-	-	D	B	B
Cash/Price	0.06	0.07	0.06	0.13	0.17	0.02
EV/EBITDA	7.72	10.65	11.77	16.36	10.20	23.97
PEG Ratio	NA	4.47	2.54	2.63	NA	NA
Price/Book (P/B)	1.98	1.61	2.67	NA	0.48	0.57
Price/Cash Flow (P/CF)	1.43	6.32	10.44	17.42	1.72	2.92
P/E (F1)	NA	33.27	19.30	25.96	NA	NA
Price/Sales (P/S)	0.25	0.57	1.99	3.92	0.13	0.12
Earnings Yield	-39.18%	0.68%	4.91%	3.85%	-45.92%	-33.04%
Debt/Equity	10.93	1.05	0.75	-5.31	1.86	4.09
Cash Flow (\$/share)	7.69	1.81	7.01	3.77	7.72	1.17
Growth Score	B	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	25.07%	7.72%	10.87%	13.06%	-21.29%	-26.49%
Proj. EPS Growth (F1/F0)	-246.54%	-87.62%	-9.87%	-20.19%	-1,080.65%	-214.81%
Curr. Cash Flow Growth	-0.07%	4.82%	5.88%	5.44%	-15.30%	-14.11%
Hist. Cash Flow Growth (3-5 yrs)	16.47%	6.59%	8.55%	5.81%	-0.74%	18.25%
Current Ratio	0.27	0.64	1.24	1.48	0.54	0.27
Debt/Capital	91.62%	65.09%	44.23%	NA	65.09%	80.35%
Net Margin	7.40%	3.60%	10.68%	17.59%	-0.60%	-2.81%
Return on Equity	44.38%	7.09%	16.36%	-42.33%	2.21%	-7.88%
Sales/Assets	0.60	1.05	0.55	0.36	1.05	0.88
Proj. Sales Growth (F1/F0)	-38.42%	-10.12%	-2.26%	-9.92%	-35.64%	4.33%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	1.76%	1.76%	1.52%	3.43%	4.17%	13.62%
1 Week Price Chg	11.08%	5.07%	0.53%	7.99%	17.38%	16.22%
4 Week Price Chg	-25.07%	6.95%	0.73%	13.41%	12.11%	39.59%
12 Week Price Chg	-76.33%	-36.22%	-21.09%	-13.74%	-62.68%	-33.07%
52 Week Price Chg	-81.16%	-47.37%	-10.17%	-10.87%	-61.92%	-61.27%
20 Day Average Volume	5,452,610	281,263	2,398,409	1,433,435	739,192	1,020,347
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.49%	0.00%	-49.12%
(F1) EPS Est 4 week change	-99.00%	-46.02%	-6.95%	-1.70%	-127.08%	-49.12%
(F1) EPS Est 12 week change	-242.03%	-92.84%	-15.68%	-21.77%	-1,032.52%	-1,062.39%
(Q1) EPS Est Mthly Chg	-99.67%	-63.60%	-13.12%	-20.66%	-115.60%	-83.05%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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