

Dave & Busters (PLAY)

\$13.27 (As of 03/13/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/12/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: B

Summary

Shares of Dave & Buster's have underperformed the industry in the past six months. The dismal performance is primarily attributed to high labor costs, intense competition and tricky consumer spending environment in the U.S. restaurant space. Moreover, the company's limited international presence along with coronavirus related woes are adding to the downside. Also, the company's soft comps owing to a decline in walk-in sales, has been a major concern. Notably, earnings estimate for 2021 have witnessed downward revision over the past 30 days, depicting analysts' concern regarding the stock's future growth potential. Although, consistent unit growth, combined with the company's initiative to build sales and improve margins are likely to drive growth, we await for better visibility.

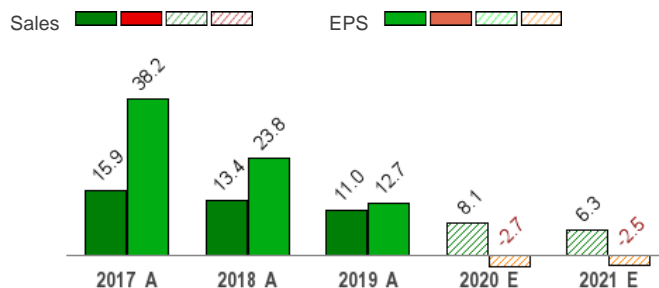
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.60 - \$10.93
20 Day Average Volume (sh)	1,197,721
Market Cap	\$405.7 M
YTD Price Change	-67.0%
Beta	1.05
Dividend / Div Yld	\$0.64 / 4.8%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 32% (81 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.7%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	-8.3%
Expected Report Date	04/07/2020
Earnings ESP	-6.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	385 E	371 E	326 E	373 E	1,454 E
2020	364 A	345 A	299 A	349 E	1,368 E
2019	332 A	319 A	282 A	332 A	1,265 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.14 E	\$0.93 E	-\$0.02 E	\$0.71 E	\$2.78 E
2020	\$1.13 A	\$0.90 A	\$0.10 A	\$0.70 E	\$2.85 E
2019	\$1.04 A	\$0.84 A	\$0.30 A	\$0.75 A	\$2.93 A

*Quarterly figures may not add up to annual.

P/E TTM	4.6
P/E F1	4.8
PEG F1	0.3
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

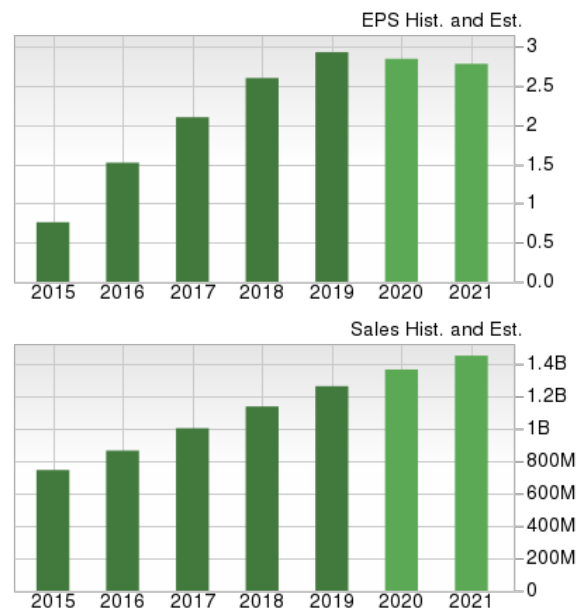
Overview

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 Dec 10, 2019, the company owned and operated 135 stores located in 39 states, Puerto Rico and one Canadian province. During the fiscal third quarter, it opened four new stores namely Concord, California; Huntsville, Alabama; McDonough, Georgia; and Wichita, Kansas. Dave & Buster's has already opened a store in Canton, Ohio during the fiscal fourth quarter. and has one more store to open in Shenandoah, TX,. 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. During the fiscal 2018, its food revenues, which include non-alcoholic beverages, accounted for approximately 68% of food and beverage revenues, and roughly 29% of total revenues.

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. The company's alcoholic beverage revenues accounted for 32% of total food and beverage revenues and roughly 13% of total revenues in fiscal 2018.

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 Sell:

- ▼ **Trimmed Fiscal 2019 Guidance:** Dave & Buster's trimmed its fiscal 2019 guidance. The company expects total revenues of \$1.347-\$1.354 billion compared with \$1.338-\$1.359 billion projected earlier. Comps are anticipated to be in the range of -3% to -2.5% compared with prior guided range of down 3.5% to 2%. Adjusted EBITDA is expected to be \$275-\$280 million, down from \$272-\$282 million anticipated earlier.
- ▼ **Dismal Comps Performance A Major Concern:** Dave & Buster's soft comps trend over the past few quarters have been a major concern. In the second quarter overall comps decreased 1.8% following a decline of 0.3% in first-quarter fiscal 2019. In the fiscal third quarter, it decreased 4.1% compared with a 1.8% decline in the year-ago quarter. This downside can be attributed to a 4.6% decline in walk-in sales, which overshadowed a 0.7% increase in special events sales. Moreover, comps at Amusements & Other decreased 3.9%, the same declined 4.4% at Food & Beverage.
- ▼ **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 third quarter, operating margin contracted roughly 330 basis points (bps) year over year to 2.2%. Also, total operating costs increased 89% 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. Moreover, it plans to expand its footprint across 230 to 250 locations in the US and Canada segment alone.
- ▼ **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.

High costs, a tricky consumer spending environment in the U.S. restaurant space along with the company's limited international presence raise concerns.

Risks

- **Solid Revenue Growth:** Dave & Buster's continue 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 and second quarters of 2019, the company's revenues rose 8% and 9.6%, respectively. In the third quarter of fiscal 2019, the same metric improved 6.1% from the prior-year quarter number. Revenues in third-quarter 2019 was primarily driven by consistent unit growth and robust Amusements and Other revenues as well as Food and Beverage revenues. Food and Beverage revenues (41.6% of total revenues in the fiscal third quarter) increased 4.9% year over year to \$124.6 million, and Amusement and Other revenues (58.4%) rose 7% to \$174.7 million. Also, shares of the company have outperformed the industry in the past six months.
- **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 58.4% of total revenues in the third quarter of fiscal 2019. In fact, it is a major reason for the company's success. In the first three quarters of 2019, the segment's revenues grew 6.1%. 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. This year, the menu size was reduced by another 15%. Currently, the company's menu comprises approximately 40 food items and over 20 different handcrafted cocktails.

Notably, this summer 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. In the fiscal second quarter, the company strengthened its VR library with the launch of the fourth proprietary title Men in Black: Galactic Getaway. Games including [Centipede], 100 tickets, Ring Talk and Basketball Pro were also introduced in the summer of 2019 to add fresh "wow" experiences for guests. 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.

Last Earnings Report

Dave & Buster's Q3 Earnings & Revenues Top Estimates

Dave & Buster's Entertainment, Inc. reported third-quarter fiscal 2019 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. While the company's bottom line marked second consecutive beat, the top line reverted to positive after two straight quarters of miss.

In the quarter under review, adjusted earnings came in at 10 cents per share, which outpaced the Zacks Consensus Estimate of break-even earnings. In the year-ago quarter, the company had reported earnings of 30 cents per share.

Quarter Ending **10/2019**

Report Date	Dec 10, 2019
Sales Surprise	1.27%
EPS Surprise	4.65%
Quarterly EPS	0.10
Annual EPS (TTM)	2.88

Detailed Revenue Discussion

Quarterly revenues of \$299.4 million surpassed the consensus mark of \$296 million. The top line also rose 6.1% from the prior-year quarter 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 (41.6% of total revenues in the fiscal third quarter) increased 4.9% year over year to \$124.6 million, and Amusement and Other revenues (58.4%) rose 7% to \$174.7 million.

Meanwhile, overall comps decreased 4.1% in the fiscal third quarter compared with a 1.8% decline in the year-ago quarter. This decrease can be attributed to a 4.6% decline in walk-in sales, which overshadowed a 0.7% increase in special events sales. Moreover, comps at Amusements & Other decreased 3.9%, the same declined 4.4% at Food & Beverage.

Non-comparable store revenues in the reported quarter increased 53.3% from the year-ago quarter to \$75.4 million.

Operating Highlights

In the third quarter, operating margin contracted roughly 330 basis points (bps) year over year to 2.2%.

Adjusted EBITDA increased 12.1% to \$86 million compared with \$46.3 million in the same period last year. Meanwhile, the EBITDA margin contracted 320 bps year over year to 15.5%.

Balance Sheet

As of Nov 3, 2019, cash and cash equivalents totaled \$20.9 million compared with \$21.6 million as of Feb 3, 2019.

Long-term debt summed \$640.4 million at the end of the reported quarter, up from \$378.5 million at the end of Feb 3, 2019.

During the fiscal third quarter, the company repurchased roughly 2.4 million shares for \$97 million.

Store Development

Dave & Buster's launched four stores during the fiscal third quarter in Concord, CA; Huntsville, AL; McDonough, GA; and Wichita, KS. In fiscal 2019, management expects to open 16 stores in new locations, with 12% unit growth.

Fiscal 2019 Outlook

Dave & Buster's updated its fiscal 2019 guidance. The company expects total revenues of \$1.347-\$1.354 billion compared with \$1.338-\$1.359 billion projected earlier. Comps are anticipated to be in the range of -3% to -2.5% compared with prior guided range of down 3.5% to 2%. Adjusted EBITDA is expected to be \$275-\$280 million, down from \$272-\$282 million anticipated earlier.

In an effort to drive near and long-term value, the company is focusing on five priorities —revival of existing stores, building guest engagement, cost management, investment in highest-return new locations, and share repurchases and dividend payments.

Valuation

Dave & Buster's shares are down 67% in the year-to-date period, and 72.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down by 18.4% and 11.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down by 10.3% and 3.1%, respectively.

The S&P 500 index is down by 15.9% in the year-to-date period and 5.3% in the past year.

The stock is currently trading at 4.33x forward 12-month earnings, which compares with 19.97x for the Zacks sub-industry, 22.06x for the Zacks sector and 15.72x for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.93x and as low as 4.33x, with a 5-year median of 19.86x. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$11 price target reflects 3.59x forward 12-month earnings.

The table below shows summary valuation data for PLAY.

Valuation Multiples - PLAY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	4.33	19.97	22.06	15.72
	5-Year High	37.93	26.6	26.2	19.34
	5-Year Low	4.33	19.97	19.07	15.18
	5-Year Median	19.86	23.12	23.01	17.42
P/S F12M	Current	0.27	2.87	0.91	2.9
	5-Year High	2.53	3.9	1.11	3.43
	5-Year Low	0.27	2.87	0.8	2.54
	5-Year Median	1.59	3.27	0.92	3
P/CF	Current	1.31	14.19	12.57	14.07
	5-Year High	20.13	20.5	15.19	22.67
	5-Year Low	1.31	8.56	10.75	11.78
	5-Year Median	8.26	16.7	12.88	16.38

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 253)



Top Peers

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	PLAY Underperform	X Industry	S&P 500	DNKN Neutral	RRGB Neutral	TAST Underperform
VGM Score	B	-	-	D	C	C
Market Cap	405.68 M	300.46 M	19.05 B	5.12 B	118.43 M	106.29 M
# of Analysts	5	6	13	12	6	4
Dividend Yield	4.82%	0.00%	2.31%	2.60%	0.00%	0.00%
Value Score	A	-	-	D	A	A
Cash/Price	0.02	0.04	0.05	0.13	0.13	0.02
EV/EBITDA	7.88	10.94	11.57	15.74	9.54	14.92
PEG Ratio	0.32	1.71	1.68	1.88	2.38	NA
Price/Book (P/B)	2.76	1.99	2.56	NA	0.33	0.29
Price/Cash Flow (P/CF)	2.18	7.54	10.18	16.42	1.19	1.06
P/E (F1)	4.77	13.18	14.94	19.15	23.02	NA
Price/Sales (P/S)	0.30	0.58	2.02	3.73	0.09	0.07
Earnings Yield	20.95%	6.51%	6.67%	5.23%	4.36%	-8.78%
Debt/Equity	12.25	0.96	0.70	-5.76	1.86	3.92
Cash Flow (\$/share)	6.09	1.81	7.01	3.77	7.72	1.94
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	30.41%	7.16%	10.85%	13.23%	-21.29%	-26.49%
Proj. EPS Growth (F1/F0)	-2.26%	6.71%	5.99%	2.08%	-35.75%	49.31%
Curr. Cash Flow Growth	10.22%	6.53%	6.15%	5.44%	-15.30%	13.86%
Hist. Cash Flow Growth (3-5 yrs)	18.57%	6.24%	8.52%	5.81%	-0.74%	26.29%
Current Ratio	0.25	0.62	1.24	1.56	0.54	0.29
Debt/Capital	92.46%	61.41%	42.57%	NA	65.09%	79.68%
Net Margin	7.82%	3.62%	11.64%	17.66%	-0.60%	-2.19%
Return on Equity	37.48%	7.56%	16.74%	-41.48%	2.21%	-5.85%
Sales/Assets	0.67	1.10	0.54	0.36	1.05	0.97
Proj. Sales Growth (F1/F0)	6.27%	3.06%	3.54%	3.02%	-2.91%	13.86%
Momentum Score	B	-	-	C	B	D
Daily Price Chg	-11.53%	2.70%	8.21%	13.75%	15.93%	6.22%
1 Week Price Chg	-11.15%	-6.53%	-0.67%	1.32%	-32.73%	-29.21%
4 Week Price Chg	-71.45%	-32.07%	-22.67%	-18.65%	-74.15%	-59.88%
12 Week Price Chg	-66.08%	-30.71%	-20.46%	-15.76%	-69.52%	-70.20%
52 Week Price Chg	-72.47%	-34.30%	-10.79%	-13.48%	-68.04%	-79.66%
20 Day Average Volume	1,197,721	352,858	3,061,271	1,056,157	477,788	793,245
(F1) EPS Est 1 week change	-7.79%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.30%	-0.13%	-0.32%	0.00%	-38.91%	-87.18%
(F1) EPS Est 12 week change	-8.30%	-0.86%	-0.65%	-2.57%	-47.86%	-262.22%
(Q1) EPS Est Mthly Chg	-12.99%	0.00%	-0.62%	0.00%	-44.26%	-30.16%

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	A
Growth Score	C
Momentum Score	B
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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