

Dave & Busters (PLAY)

\$13.27 (As of 07/17/20)

Price Target (6-12 Months): **\$14.00**

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:F

Value: C

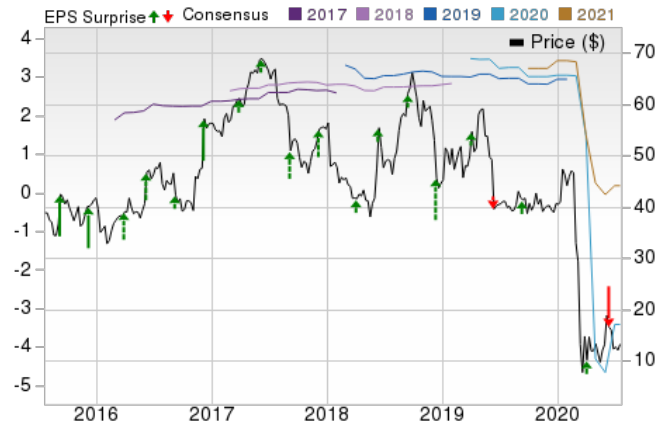
Growth: F

Momentum: D

Summary

Shares of Dave & Buster's have underperformed the industry so far this year. The dismal performance can be primarily attributed to the coronavirus pandemic. Notably, the company reported first-quarter fiscal 2020 results, wherein earnings and revenues not only missed the Zacks Consensus Estimate but also declined on a year-over-year basis. Further, the company's comps were affected by a decline in walk-in sales. Owing to the pandemic, the company has not provided fiscal 2020 financial guidance. However, the company's sales-boosting initiatives along with the continual expansion plans are likely to drive growth once the outbreak eases. Also, increased focus on promotional activities is likely to aid sales in the upcoming periods. Notably, earnings estimates for 2021 have risen over the past 30 days.

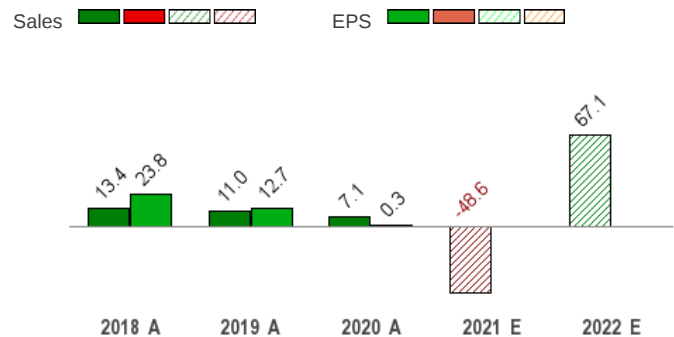
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.80 - \$4.61
20 Day Average Volume (sh)	8,503,096
Market Cap	\$629.7 M
YTD Price Change	-67.0%
Beta	1.61
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 26% (65 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-73.4%
Last Sales Surprise	-14.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	09/08/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	281 E	275 E	292 E	303 E	1,163 E
2021	160 A	84 E	187 E	265 E	696 E
2020	364 A	345 A	299 A	347 A	1,355 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.24 E	\$0.18 E	-\$0.22 E	\$0.13 E	\$0.17 E
2021	-\$1.37 A	-\$1.49 E	-\$0.70 E	-\$0.09 E	-\$3.42 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	30.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/17/2020. The reports text is as of 07/20/2020.

Overview

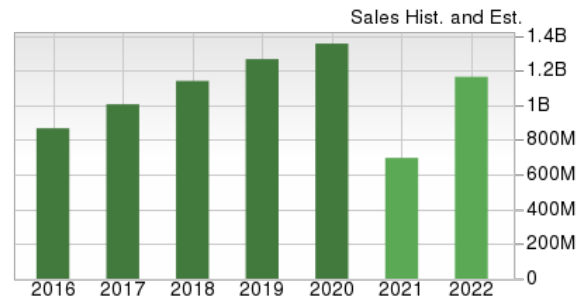
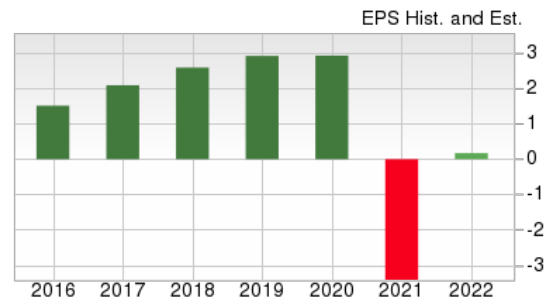
Founded in 1982 and headquartered in Dallas, TX, Dave & Buster's Entertainment, is a leading owner and operator of high-volume venues in North America that combine dining and entertainment for both adults and families. As of May 3, 2020, the company owned and operated 137 stores located in 39 states, 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 (40% of total revenues in fiscal first quarter) and Amusement and Other revenues (60%).

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:

- ▲ **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.

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

Apart from great food or beverages, the company's entertainment business has been driving growth. Notably, amusement and other revenues accounted for 60% of total revenues in first-quarter fiscal 2020. 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.

- ▲ **Reopening of Stores to Drive Top Line:** In a bid to recover its business post the coronavirus-induced shutdowns, Dave & Buster's is focused on reopening stores in compliance with the state and local regulators. With reduced hours and limited menu in place, the company intends to operate with lesser number of staff compared to its pre-COVID-19 levels. However, given the size of its stores, the company is in a good position to generate meaningful revenues, even with limited capacity and social-distancing protocols. In order to support the reopenings, the company has increased focus on marketing message and media execution. Notably, it is initiating a local approach to marketing that utilizes traditional and digital media to drive awareness and accelerate recovery. Markedly, with successful execution of this approach and traditional outreach methods such as loyalty database, the company is optimistic about expanding in additional markets.

Notably, the company anticipates to reopen 90 to 95 stores by the end of July and all stores by September. However, delays due to COVID-19 resurgence or changes in state or local guidelines are likely to be incorporated.

- ▲ **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. 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.

During the first quarter fiscal 2020, the company temporarily narrowed its menu to 15 items compared to 40 items during pre-COVID-19. Nonetheless, the limited menu offers a good variety along with an efficient assortment to be executed with limited kitchen staff.

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.

- ▲ **Enough Liquidity to Tide Over Pandemic:** As of May 3, 2020, the company's cash and cash equivalents totaled nearly \$157 million, compared with \$24.7 million as on Feb 2. Although the company's net long-term debt at the end of first-quarter 2020 stood at \$735.3 million, up from \$632.7 billion as of Feb 2, 2020, its debt to capitalization has improved to 91.3% from 91.7% in the previous quarter. At the end of first-quarter 2020, Times Interest Earned ratio stands at 1.3, which indicates that its debt levels are manageable.

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 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.
- ▼ **Dismal Comps Performance A Major Concern:** Dave & Buster's soft comps trend over the past few quarters have been a major concern. Comparable store restaurant sales declined 58.6% in the fiscal first quarter 2020 compared to a fall of 0.3% in the year-ago quarter. The decline was primarily caused by temporary store closures, leading to lower customer volumes. In the fourth quarter 2019, 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.
- ▼ **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.

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

Last Earnings Report

Dave & Buster's Posts Wider-Than-Expected Loss in Q1

Dave & Buster's reported dismal first-quarter fiscal 2020 (ended May 3, 2020) results, wherein earnings and revenues not only missed the Zacks Consensus Estimate but also declined on a year-over-year basis.

Even though the coronavirus pandemic materially impacted the company's first-quarter results, the company has taken aggressive measures to enhance its liquidity position to tide over the crisis. It is also resorting to store re-openings with limited capacity to boost its top-line growth.

Adjusted loss during the quarter was \$1.37 per share, which was 73.4% wider than the Zacks Consensus Estimate of loss of 79 cents. The company reported earnings per share of \$1.13 in the year-ago quarter.

Let's delve into the quarterly numbers.

Detailed Revenue Discussion

Quarterly revenues of \$159.8 million missed the consensus mark of \$187 million by 14.6%. The top line also declined 56% from the prior-year quarter's number. The decline was primarily attributed to lower operating weeks due to temporary store closures from mid-March. Due to this, Amusements and Other revenues as well as Food and Beverage revenues fell considerably during the quarter.

Food and Beverage revenues (40% of total revenues in the fiscal first quarter) decreased 56.9% year over year to \$63.9 million, while Amusement and Other revenues (60% of total revenues) fell 55.5% to \$95.9 million.

Comps Details

Comparable store restaurant sales declined 58.6% in the fiscal first quarter compared to a fall of 0.3% in the year-ago quarter. The decline was primarily caused by temporary store closures, thus, leading to lower customer volumes.

Non-comparable store revenues in the reported quarter declined 17.2% to \$22.6 million compared to \$27.3 million in the year-ago quarter. The decrease was primarily driven by temporary store closures.

Operating Highlights

Operating loss in the fiscal first quarter totaled \$61.4 million against an operating profit of \$57.8 million in the prior-year quarter. Operating margin came in at negative 38.4%, down 5430 bps from the year-ago quarter. Notably, a decline in traffic due to temporary store closures has negatively impacted the operating results for the fiscal first quarter.

EBITDA was (\$10.8 million) against \$98.1 million in the prior-year quarter. Also, EBITDA margin contracted 3370 bps year over year to a decline of 6.7%.

Net cash provided by operating activities was \$16.8 million in the fiscal first quarter compared with \$85.7 million in the year-ago quarter.

Balance Sheet

As of May 3, cash and cash equivalents totaled \$156.8 million compared with \$20.4 million as of May 5, 2019.

Long-term debt summed \$735.3 million at the end of the reported quarter, up from \$632.7 million at the end of Feb 2, 2020.

Due to uncertainties tied to the COVID-19 pandemic, the company suspended its share-repurchase activity as well as the dividend payment program.

Stores Update

Although Dave & Buster's was operating only through delivery and takeaway services from late March through late April, it started to initiate dine-in openings thereafter. With 28 stores already reopened, the company expects to re-open 48 stores across 15 states by Jun 12.

Company-owned stores at the end of the fiscal first quarter totaled 137 compared to 127 stores in the prior-year quarter.

Fiscal 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.

Quarter Ending 04/2020

Report Date	Jun 11, 2020
Sales Surprise	-14.60%
EPS Surprise	-73.42%
Quarterly EPS	-1.37
Annual EPS (TTM)	0.43

Valuation

Dave & Buster's shares are down 67% in the year-to-date period, and 67.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down by 6.4%, but Zacks Retail-Wholesale sector are up by 20.4% in the year-to-date period. Over the past year, the Zacks sub-industry is down 11%, but the sector is up 25.8%.

The S&P 500 index is up by 0.3% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 30.86x trailing 12-month earnings, which compares with 28.36x for the Zacks sub-industry, 35.03x for the Zacks sector and 20.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.77x and as low as 1.66x, with a 5-year median of 21.36x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14 price target reflects 32.55x 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	30.86	28.36	35.03	20.81
	5-Year High	48.77	29.42	35.03	22.25
	5-Year Low	1.66	22.96	23.34	15.98
	5-Year Median	21.36	26.08	26.49	19.13
P/S F12M	Current	0.69	3.61	1.2	3.58
	5-Year High	2.5	3.93	1.2	3.58
	5-Year Low	0.12	2.81	0.82	2.53
	5-Year Median	1.57	3.32	0.97	3.02
P/CF	Current	1.92	19.99	17.96	16.51
	5-Year High	20.13	21.25	17.96	22.73
	5-Year Low	0.53	8.61	11	11.7
	5-Year Median	7.85	16.83	13.18	16.38

As of 07/17/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Jack In The Box Inc. (JACK)	Outperform	2
Papa Johns International, Inc. (PZZA)	Outperform	1
BJs Restaurants, Inc. (BJRI)	Neutral	3
Dunkin Brands Group, Inc. (DNKN)	Neutral	3
McDonalds Corporation (MCD)	Neutral	3
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
Carrols Restaurant Group, Inc. (TAST)	Neutral	2
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	2
VGM Score	F	-	-	F	D	F
Market Cap	629.69 M	262.26 M	22.62 B	5.57 B	105.12 M	263.62 M
# of Analysts	6	6	14	11	4	3
Dividend Yield	0.00%	0.00%	1.82%	2.37%	0.00%	0.00%
Value Score	C	-	-	D	D	C
Cash/Price	0.27	0.15	0.07	0.13	0.81	0.16
EV/EBITDA	8.80	12.46	13.05	16.73	9.42	25.84
PEG Ratio	NA	4.96	2.99	2.68	NA	NA
Price/Book (P/B)	2.53	2.07	3.13	NA	0.57	0.92
Price/Cash Flow (P/CF)	1.73	8.11	12.20	17.99	1.05	4.27
P/E (F1)	NA	42.17	22.02	26.40	NA	NA
Price/Sales (P/S)	0.55	0.63	2.34	4.06	0.09	0.17
Earnings Yield	-25.77%	0.52%	4.28%	3.79%	-137.84%	-6.40%
Debt/Equity	10.36	1.32	0.75	-5.31	3.99	4.70
Cash Flow (\$/share)	7.69	1.81	6.94	3.77	7.72	1.17
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	7.70%	5.16%	10.85%	13.06%	-22.89%	-26.49%
Proj. EPS Growth (F1/F0)	-216.27%	-77.39%	-9.37%	-18.90%	-1,909.68%	12.04%
Curr. Cash Flow Growth	-0.07%	3.07%	5.51%	5.44%	-15.30%	-14.11%
Hist. Cash Flow Growth (3-5 yrs)	16.47%	5.23%	8.55%	5.81%	-0.74%	18.25%
Current Ratio	0.73	0.92	1.30	1.48	0.80	0.54
Debt/Capital	91.19%	70.06%	44.33%	NA	79.95%	82.46%
Net Margin	1.24%	2.50%	10.59%	17.59%	-15.10%	-2.81%
Return on Equity	8.89%	0.99%	15.74%	-42.33%	-25.04%	-8.11%
Sales/Assets	0.49	1.01	0.54	0.36	1.00	0.87
Proj. Sales Growth (F1/F0)	-48.60%	-11.64%	-2.44%	-9.86%	-28.86%	6.69%
Momentum Score	D	-	-	F	A	D
Daily Price Chg	2.31%	0.00%	0.36%	1.27%	-0.97%	1.83%
1 Week Price Chg	-5.10%	-0.93%	-0.41%	-0.43%	-11.72%	-3.41%
4 Week Price Chg	-20.63%	-2.82%	2.56%	5.21%	-31.88%	2.46%
12 Week Price Chg	14.30%	12.14%	15.49%	16.08%	-32.56%	66.11%
52 Week Price Chg	-67.78%	-37.99%	-3.93%	-15.66%	-73.40%	-43.18%
20 Day Average Volume	8,503,096	263,681	2,236,294	805,280	1,239,452	564,253
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.25%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.28%	0.01%	-0.25%	0.00%	0.00%
(F1) EPS Est 12 week change	15.25%	-11.28%	-5.24%	-4.23%	-309.57%	58.33%
(Q1) EPS Est Mthly Chg	0.00%	0.55%	0.00%	0.00%	0.00%	0.00%

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	C
Growth Score	F
Momentum Score	D
VGM Score	F

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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