



BBQ Holdings, Inc. (BBQ)

3Q:21 EPS Top Expectations; Updated Estimates Still Imply Robust Gains; Maintain Moderately Risky Rating, Raise Price Target To \$22 (Was \$19) As We Extend Valuation To Initial 2023 Forecast

	2020		2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	(\$0.09)	\$0.12A		\$0.21	\$0.07		\$0.18	
June	(0.21)	0.25A		0.31	0.33		0.37	
Sep.	0.05	0.20	0.23A	0.27	0.26		0.29	
Dec.	(0.18)	0.19	0.14	0.25	0.27		0.28	
EPS	(\$0.38)	\$0.76	\$0.74	\$1.04	\$0.94		\$1.12	
P/E			17.7x		13.9x		11.7x	
EBITDA (mil)	\$0.76	\$15.40	\$16.46	\$20.10	\$20.34		\$24.13	
EV / EBITDA			12.4x		10.0x		8.5x	

Note: EPS excludes stock-based compensation expense of \$0.05 per share in 2019 and \$0.10-\$0.12 in 2020-2023 and acquisition and restructuring charges. 2Q:21 excludes a one-time gain of \$1.47 tied to debt forgiveness for a PPP loan. 3Q:21 excludes a \$0.31 gain on bargain purchase. * Enterprise Value includes \$89.1 million in lease commitments. Sum of quarterly may not equal full year due to rounding. NC= Not Covered by Sidoti & Co., LLC.

Year	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	\$149.4	\$114.2	\$99.2	\$64.6	\$54.9	\$82.3	\$121.4	\$202.5	\$266.4	\$291.6
GAAP EPS*	\$0.40	(\$0.63)	(\$0.35)	(\$1.16)	\$0.56	(\$0.07)	\$0.54	\$2.29	\$0.82	\$1.03

* 2021 EPS includes a \$14.1 million benefit from the forgiveness tied to a PPP loan

Description: BBQ Holdings, Inc. (www.bbq-holdings.com) is a national restaurant company engaged in the ownership and operation of casual and fast dining restaurants. As of November 2021, BBQ Holdings had seven brands (Famous Dave's, Village Inn, Granite City, Bakers Square, Real Urban BBQ, Clark Crew BBQ and Tahoe Joe's) with 303 locations in three countries including 89 corporate locations and 214 franchised locations. Headquarters are in Minnetonka, MN.

- **With this note, we transition coverage of BBQ Holdings, Inc. (BBQ) to Anthony C. Lebiezdinski.**
- **Earlier this month, BBQ reported better-than-expected 3Q:21 results with the company posting an increase in revenue of 56% and adjusted EPS of \$0.23 versus only \$0.05 a year earlier.**
- **Management is focused on improving latent capacity of its current restaurants (including having more ghost kitchens, virtual brands and dual concepts) along with new unit growth and making operational improvements to the business.**
- **In our view, EPS will expand at an average annual rate of 23% through 2023 (from 2021) as we expect BBQ to benefit from same-store sales growth, new restaurant additions and higher margins as BBQ is also likely to leverage its increased scale, corporate overhead and operating expenses despite some inflationary headwinds.**
- **As we see it, the company's balance sheet is in very good shape, and we estimate average annual free cash flow per share of \$1.39 in 2021-2023.**
- **We raise the price target to \$22 (from \$19), now based on 20x our newly introduced 2023 EPS estimate of \$1.12. (Our previous \$19 price target was based on 18x our former 2022 EPS projection of \$1.04.)**
- **Given the ample upside potential relative to current price target, we argue that BBQ shares are undervalued. We maintain our Moderately Risky Rating.**

Recent results and outlook are encouraging. On November 10, BBQ reported 3Q:21 total revenue growth of 56% to \$55.4 million (we had expected \$55.2 million), which included company-owned same-store sales growth of 24%, a franchised same-store sales gain of 18% along with top-line contributions from the July 2021 acquisition of Village Inn and Bakers Square restaurants and several new Famous Dave's restaurants. Along with improved margins, BBQ reported 3Q:21 adjusted EPS of \$0.23 (we estimated \$0.20) versus \$0.05 in 3Q:20. In conjunction with its 3Q:21 results, the company also reaffirmed its 2021 net restaurant revenue guidance of \$183 million to \$188 million and raised its GAAP net income

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Price Target: \$22

Price: \$13.08

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$140
Enterprise Value*	\$204
52-Week Range (NASDAQ)	20-4
5-Year EPS CAGR	14%
Avg. Daily Trading Volume	22,000
Shares Out (Mil)	10.495
Float Shares (Mil)	9.960
Insider Ownership	4%
Institutional Holdings	86%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2022E)	\$1.67
FCF Yield (2022E)	12.8%
Net Cash Per Share (2022E)	(\$3.92)
Price to Book Value	2.3x
Return on Equity (2022E)	12.68%
Total Debt to Capital	61%
Interest Coverage Ratio	18.7x
Short Interest %	0.1%
Short Interest Days To Cover	1.1
Russell 2000	2,246
Russell 2000 – Last 12 Months	21.7%
BBQ – Last 12 Months	184.0%



Source: FactSet Prices

guidance to \$22.5 million to \$23.0 million (from \$20.6 million to \$21.0 million) and upwardly revised its cash EBITDA outlook to \$16.5 million to \$17.0 million (from \$14.5 million to \$15.0 million).

Filling latent capacity of current locations is a top strategic priority. To drive average unit volumes (AUV) higher, BBQ is focused on developing dual concepts within its restaurants, adding more ghost kitchens and virtual brands. Note that ghost kitchens operate either out of the kitchen of another restaurant or a shared kitchen space. Virtual brands are marketed through delivery service providers (DSPs) such as Door Dash, GrubHub, Uber Eats, etc. and produced in a ghost kitchen. In Colorado Springs, CO, BBQ has a dual-branded restaurant with Famous Dave's and Texas T-Bone and in Woodbury, MN, the company has Famous Dave's and Cowboy Jacks in one location. BBQ is now exploring additional dual concepts (i.e., Famous Dave's and Tahoe Joe's). With a dual-branded concept, the expectation is that BBQ will add about \$800,000-\$1 million in incremental annual revenue which, at a 25% flow-through, equals about \$200,000-\$250,000 in additional EBITDA per location. In 2020, the company began to add Famous Dave's ghost kitchens in Granite City restaurants which at this point are producing on average an incremental \$5,500 of weekly revenue per site. Note that of the 104 Famous Dave's franchise-operated restaurants, 20 are Famous Dave's ghost kitchens operating out of the kitchen of another restaurant location or a shared kitchen space. In addition, eight of the company's Granite City locations are operating Famous Dave's ghost kitchens under licensing agreements. All in, we think additional dual concepts, ghost kitchens and virtual brands will be key catalysts to our expectation of increased AUV and average annual same-store sales gains of 4% in 2022-2023.

We also expect the company to focus on organic unit growth and expansion of the business through M&A activity. At this point, we expect organic restaurant growth will be focused on Famous Dave's and Village Inn; we model 3 and 4 net new corporate restaurants in 2022 and 2023, respectively. So far this year, the company opened two Famous Dave's Quick Queue line-serve type restaurants. Thus far in 2021, the company has acquired 150 new locations (41 corporate and 109 franchised) with Tahoe Joe's being the latest brand addition to BBQ's growing portfolio of well-diversified restaurant brands. Typically, the company's strategy is to acquire brands that are immediately accretive to earnings and have withstood various adversities over time. In addition, BBQ is focused on buying additional franchise units at attractive valuations (3x-4x EBITDA). Nonetheless, given the uncertainty about timing and size of future deals, we do not include unannounced acquisitions in our financial models.

With an ongoing emphasis on additional revenue streams and operational improvements, as we see it, adjusted EPS will expand on average 23% annually through 2023. Other revenue streams include further expansion of CPG (consumer packaged goods) licensing where BBQ receives a licensing fee of 3% for the sale of Famous Dave's sauces, seasonings, etc. through mass retailers and Granite City's own beer subscription program. BBQ also plans to have Bakers Square's pies to be sold in grocery stores, kiosks and its own restaurants (Famous Dave's, Granite City and Real Urban BBQ). Furthermore, BBQ also plans to rejuvenate the Village Inn brand with a new VI Café prototype and new trendy breakfast initiative. In 2022, the company plans to implement price increases to help to offset increased food, beverage and labor costs and other inflationary pressures. In addition, BBQ plans to implement a new unified point-of-sale (POS) system, which we expect to lead to improved efficiencies. As the business gains more scale, we think the company will also be able to better leverage its corporate overhead and infrastructure and reduce benefits and insurance costs, as a percentage of sales. All in, following our expectation of adjusted EPS of \$0.74 in 2021, we estimate adjusted EPS will rise 27% in 2022 to \$0.94 and another 19% in 2023 to \$1.12.

In our view, BBQ has a healthy balance sheet, and we expect ample free cash flow generation. At the end of 3Q:21, the company's long-term bank debt was only \$8.8 million and with lease obligations, debt to total capital was 61%. In our view, BBQ's cash position was more than adequate with the company ending 3Q:21 with \$30.1 million. Note that in 2Q:21, the company completed a one million total share offering that raised \$12.46 million net of fees (with proceeds used for the acquisition of Village Inn and Barkers Square). By our forecast, free cash flow (operating cash flow less capex) will total \$12.8 million (\$1.22 per share) in 2021, \$13.5 million (\$1.29 per share) in 2022 and \$17.5 million (\$1.67 per share) in 2023. We do not think there is a need to raise additional capital with either debt or equity, unless a large acquisition is announced.

Valuation	<p>We maintain our Moderately Risky Rating on BBQ shares and raise our price target to \$22 (from \$19). Over the past 12 months, BBQ shares are up 184% compared with the 22% increase of the Russell 2000 Index. We attribute this outperformance to much-improved sales and earnings posted during the last few quarters. With its growing and well-diversified portfolio of restaurant brands (now with a mix of roughly 30% company owned and 70% franchised), we think BBQ Holdings, Inc. can over time benefit from its increasing scale and buying power, profit from corporate overhead leverage and expand its 5-year EPS at a CAGR of 14%. As per FactSet, during the last three years, BBQ shares traded in a range of 9x-35x two-year forward consensus EPS estimates with an average of 19x. Considering the solid EPS gains that we anticipate through 2023, along with the company's healthy balance sheet and ample free cash flow prospects, we think a slightly higher-than-average P/E multiple is appropriate. Hence, our \$22 price target is now based on 20x our newly introduced 2023 EPS estimate of \$1.12. (Our prior \$19 price target was based on 18x our former 2022 EPS forecast of \$1.04.) Given the upside potential implied by our new price target, we argue that BBQ shares are undervalued.</p>		
Key Risks	COVID-19	Food and labor costs	Operating lease exposure

BBQ HOLDINGS, INC.

Table 1.: BBQ Holdings, Inc. Income Statement

(Dollars in millions except per share data)

Fiscal year ends on the Sunday nearest to December 31

	2020	Mar. A	June A	Sep. A	Dec. E	2021 E	Mar. E	June E	Sep. E	Dec. E	2022 E	Mar. E	June E	Sep. E	Dec. E	2023 E
Restaurant sales, net	109.544	33.603	41.205	50.374	60.599	185.781	54.015	64.323	61.658	67.064	247.060	56.235	71.039	67.524	74.938	269.736
Franchise royalty and fee revenue	8.919	2.374	2.946	3.329	2.949	11.598	3.264	3.775	3.142	3.356	13.537	3.964	4.389	3.705	3.556	15.614
Franchisee national advertising fund contributions	1.124	0.328	0.421	0.461	0.313	1.523	0.344	0.442	0.484	0.329	1.599	0.362	0.464	0.508	0.345	1.679
Licensing and other revenue	1.850	1.014	0.948	1.219	0.440	3.621	1.166	1.094	1.390	0.510	4.160	1.283	1.203	1.515	0.556	4.557
Total revenue	\$121.437	\$37.319	\$45.520	\$55.383	\$64.301	\$202.523	\$58.790	\$69.635	\$66.674	\$71.258	\$266.356	\$61.844	\$77.095	\$73.252	\$79.395	\$291.586
Food and beverage costs	(33.867)	(10.057)	(11.932)	(14.731)	(17.728)	(54.4)	(16.367)	(19.040)	(18.016)	(19.261)	(72.7)	(16.814)	(20.985)	(19.785)	(21.537)	(79.1)
% of company store revenue	30.9%	29.9%	29.0%	29.2%	29.3%	29.3%	30.3%	29.6%	29.2%	28.7%	29.4%	29.9%	29.5%	29.3%	28.7%	29.3%
Labor and benefits costs	(37.228)	(10.254)	(12.429)	(16.805)	(20.264)	(59.8)	(16.853)	(19.619)	(20.100)	(21.662)	(78.2)	(17.332)	(21.688)	(21.972)	(24.160)	(85.2)
% of company store revenue	34.0%	30.5%	30.2%	33.4%	33.4%	32.2%	31.2%	30.5%	32.6%	32.3%	31.7%	30.8%	30.5%	32.5%	32.2%	31.6%
Operating expenses	(36.984)	(10.249)	(11.594)	(14.512)	(16.895)	(53.2)	(16.496)	(18.139)	(16.956)	(18.349)	(69.9)	(17.079)	(19.962)	(18.502)	(20.458)	(76.0)
% of company store revenue	33.8%	30.5%	28.1%	28.8%	27.9%	28.7%	30.5%	28.2%	27.5%	27.4%	28.3%	30.4%	28.1%	27.4%	27.3%	28.2%
Depreciation and amortization expenses	(5.121)	(1.552)	(1.433)	(1.940)	(1.882)	(6.8)	(1.979)	(1.999)	(2.019)	(2.006)	(8.0)	(2.120)	(2.172)	(2.194)	(2.205)	(8.7)
General and administrative expenses	(14.395)	(4.038)	(4.544)	(5.109)	(5.607)	(19.3)	(5.938)	(6.232)	(5.934)	(6.071)	(24.2)	(5.813)	(6.861)	(6.461)	(6.828)	(26.0)
% of total revenue	11.9%	10.8%	10.0%	9.2%	8.7%	9.5%	10.1%	9.0%	8.9%	8.5%	9.1%	9.4%	8.9%	8.8%	8.6%	8.9%
National advertising fund expenses	(1.124)	(0.328)	(0.421)	(0.461)	(0.470)	(1.7)	(0.529)	(0.627)	(0.600)	(0.641)	(2.4)	(0.557)	(0.694)	(0.659)	(0.715)	(2.6)
% of total revenue	0.9%	0.9%	0.9%	0.8%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Asset impairment, lease termination and other costs	(5.683)	(0.012)	(0.025)	(0.069)	0.000	(0.1)	0.000	0.000	0.000	0.000	0.0	0.000	0.000	0.000	0.000	0.0
Pre-opening expenses	(0.010)	(0.028)	(0.092)	(0.063)	(0.063)	(0.2)	(0.063)	(0.063)	(0.063)	(0.063)	(0.3)	(0.067)	(0.073)	(0.076)	(0.079)	(0.3)
Gain on acquisition, net of acquisition costs	0.000	0.000	0.000	0.000	0.000	0.0	0.000	0.000	0.000	0.000	0.0	0.000	0.000	0.000	0.000	0.0
Net gain / loss on disposal of property	1.810	0.008	(0.143)	0.001	0.000	(0.1)	0.000	0.000	0.000	0.000	0.0	0.000	0.000	0.000	0.000	0.0
Total costs and expenses	(132.602)	(36.510)	(42.613)	(53.689)	(62.909)	(195.7)	(58.224)	(65.718)	(63.688)	(68.053)	(255.7)	(59.782)	(72.436)	(69.649)	(75.982)	(277.8)
Income / loss from operations	(11.165)	0.809	2.907	1.694	1.392	6.802	0.565	3.917	2.985	3.205	10.673	2.062	4.660	3.603	3.413	13.738
Total other expense	12.595	(0.030)	13.922	3.128	0.016	17.036	0.017	0.018	0.021	0.024	0.080	0.027	0.030	0.034	0.037	0.128
Income / loss before income taxes	1.430	0.779	16.829	4.822	1.408	23.838	0.582	3.935	3.007	3.229	10.753	2.089	4.689	3.637	3.450	13.866
Income tax (expense)/ benefit	2.837	(0.082)	(0.399)	(0.036)	(0.253)	(0.770)	(0.116)	(0.787)	(0.601)	(0.646)	(2.151)	(0.460)	(1.032)	(0.815)	(0.794)	(3.100)
Net income	4.267	0.697	16.430	4.786	1.155	23.068	0.466	3.148	2.405	2.583	8.602	1.630	3.658	2.822	2.657	10.766
Net income / loss from discontinued operations, net of tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.0	0.000	0.000	0.000	0.000	0.0
Net loss attributable to non-controlling interest	0.680	0.102	(0.644)	0.048	0.000	(0.494)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net income / loss attributable to shareholders	4.947	0.799	15.786	4.834	1.155	22.574	0.466	3.148	2.405	2.583	8.602	1.630	3.658	2.822	2.657	10.766
GAAP Diluted EPS	\$0.54	\$0.08	\$1.64	\$0.46	\$0.11	\$2.29	\$0.04	\$0.30	\$0.23	\$0.25	\$0.82	\$0.16	\$0.35	\$0.27	\$0.25	\$1.03
Adjusted EBITDA (dollars in millions)	0.762	3.120	5.104	4.425	3.815	16.464	3.266	6.228	5.317	5.525	20.336	4.908	7.155	6.123	5.948	24.134
Adjusted EBITDA margin	0.6%	8.4%	11.2%	8.0%	5.9%	8.1%	5.6%	8.9%	8.0%	7.8%	7.6%	7.9%	9.3%	8.4%	7.5%	8.3%
Adjusted EBITDA per share	0.083	0.328	0.531	0.422	0.364	1.571	0.312	0.594	0.507	0.527	1.940	0.468	0.683	0.584	0.567	2.302
Adjusted EPS per share	(\$0.38)	\$0.12	\$0.25	\$0.23	\$0.14	\$0.74	\$0.07	\$0.33	\$0.26	\$0.28	\$0.94	\$0.18	\$0.37	\$0.29	\$0.28	\$1.12
Diluted share count	9.2	9.5	9.6	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Growth: year over year																
Restaurant sales, net	62.8%	62.3%	64.9%	54.7%	93.6%	69.6%	60.7%	56.1%	22.4%	10.7%	33.0%	4.1%	10.4%	9.5%	11.7%	9.2%
Franchise royalty and fee revenue	-26.4%	-5.9%	51.0%	54.6%	28.7%	30.0%	37.5%	28.2%	-5.6%	13.8%	16.7%	21.4%	16.2%	17.9%	6.0%	15.3%
Franchisee national advertising fund contributions	-30.4%	16.3%	74.0%	52.6%	5.0%	35.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Licensing and other revenue	48.1%	193.1%	63.4%	145.3%	3.0%	95.7%	15.0%	15.4%	14.0%	16.0%	14.9%	10.0%	10.0%	9.0%	9.0%	9.5%
Total revenue	47.6%	56.4%	64.0%	56.0%	87.4%	66.8%	57.5%	53.0%	20.4%	10.8%	31.5%	5.2%	10.7%	9.9%	11.4%	9.5%
Total costs and expenses	58.1%	45.0%	21.8%	51.3%	70.3%	47.6%	59.5%	54.2%	18.6%	8.2%	30.6%	2.7%	10.2%	9.4%	11.7%	8.7%
GAAP Diluted EPS	NM	NM	NM	1052.9%	NM	328.0%	-44.5%	-81.7%	-50.2%	123.7%	-64.2%	249.9%	16.2%	17.3%	2.8%	25.2%

Sources: Company reports and Sidoti & Company, LLC estimates

BBQ HOLDINGS, INC.

Table 2.: BBQ Holdings, Inc. Cash Flow Statement

(Dollars in millions except per share data)

Fiscal year ends on the Sunday nearest to December 31

	2020	Mar. A	June A	Sep. A	Dec. E	2021 E	Mar. E	June E	Sep. E	Dec. E	2022 E	2023 E
Net income	4.267	0.697	16.430	4.786	1.155	23.068	0.466	3.148	2.405	2.583	8.602	10.766
Depreciation and amortization	5.121	1.552	1.433	1.940	1.882	6.807	1.979	1.999	2.019	2.006	8.002	8.691
Stock-based compensation	0.886	0.318	0.320	0.294	0.294	1.226	0.250	0.250	0.250	0.250	1.000	1.000
Net gain / loss on disposal of property	(1.783)	(0.008)	0.143	(0.001)	-	0.134	-	-	-	-	-	-
Gain on bargain purchase	(13.246)	-	-	(3.203)	-	(3.203)	-	-	-	-	-	-
Deferred income taxes	(2.837)	0.082	0.399	(0.040)	-	0.441	-	-	-	-	-	-
Other non-cash items	6.749	0.186	(14.127)	4.977	-	(8.964)	-	-	-	-	-	-
<i>Changes in assets and liabilities:</i>												
Accounts receivable, net	(1.011)	0.598	(0.786)	0.062	(4.139)	(4.265)	2.461	(1.018)	0.303	(2.723)	(0.978)	(1.144)
Prepaid expenses and other assets	(0.752)	(2.579)	0.100	1.111	1.115	(0.253)	(1.165)	(0.464)	1.485	(0.736)	(0.880)	(0.174)
Accounts payable	2.418	1.635	(0.970)	0.042	3.783	4.490	1.915	(1.917)	(1.987)	2.879	0.889	1.371
Accrued and other liabilities	2.276	0.323	3.138	(3.511)	(2.996)	(3.046)	(1.023)	0.830	0.231	0.382	0.419	0.749
Cash flows from operating activities	2.088	2.804	6.080	6.457	1.094	16.435	4.882	2.827	4.705	4.641	17.055	21.260
Proceeds from the sale of assets	2.869	0.691	(0.691)	-	-	-	-	-	-	-	-	-
Purchases of property, equipment and leasehold improvements	(3.499)	-	(1.114)	(1.302)	(1.200)	(3.616)	(1.000)	(1.000)	(0.900)	(0.680)	(3.580)	(3.800)
Payments for acquired restaurants	(5.381)	-	-	(14.548)	(4.212)	(18.760)	-	-	-	-	-	-
Advances on notes receivable	-	-	-	-	-	-	-	-	-	-	-	-
Payments received on notes receivable and other	0.042	0.006	0.063	0.756	-	0.825	-	-	-	-	-	-
Cash flows provided by / used for investing activities	(5.969)	0.697	(1.742)	(15.094)	(5.412)	(21.551)	(1.000)	(1.000)	(0.900)	(0.680)	(3.580)	(3.800)
Proceeds from long-term debt	22.058	-	-	-	-	-	-	-	-	-	-	-
Payments for debt issuance costs	(0.045)	-	0.010	(0.010)	-	-	-	-	-	-	-	-
Payments on long-term debt and financing lease obligation	(4.621)	(0.519)	(0.523)	(0.530)	-	(1.572)	-	-	-	-	-	-
Proceeds (repurchase) of common stock, net	-	-	12.462	(0.017)	-	12.445	-	-	-	-	-	-
Payments / proceeds from exercise of stock options	0.006	-	0.310	0.135	-	0.445	-	-	-	-	-	-
Tax benefit for equity awards issued	-	-	-	-	-	-	-	-	-	-	-	-
Cash flows used for / provided by financing activities	17.398	(0.519)	12.259	(0.422)	-	11.318	-	-	-	-	-	-
Increase / decrease in cash, cash equivalents and restricted cash	13.517	2.982	16.597	(9.059)	(4.318)	6.202	3.882	1.827	3.805	3.961	13.475	17.460
Cash, cash equivalents and restricted cash, beginning of period	6.086	19.603	22.585	39.182	30.123	19.603	25.805	29.686	31.513	35.318	25.805	39.279
Cash, cash equivalents and restricted cash, end of period	19.603	22.585	39.182	30.123	25.805	25.805	29.686	31.513	35.318	39.279	39.279	56.739

Cash Flow Analysis:

Operating Cash Flow /Share	\$0.23	\$0.30	\$0.63	\$0.62	\$0.10	\$1.57	\$0.47	\$0.27	\$0.45	\$0.44	\$1.63	\$2.03
Free Cash Flow (Operating Cash Flow -Capex)	(1.41)	2.80	4.97	5.16	(0.11)	12.82	3.88	1.83	3.81	3.96	13.47	17.46
Free Cash Flow / Share	(\$0.15)	\$0.30	\$0.52	\$0.49	(\$0.01)	\$1.22	\$0.37	\$0.17	\$0.36	\$0.38	\$1.29	\$1.67
Stock Based Compensation / Share	\$0.10	\$0.03	\$0.03	\$0.03	\$0.03	\$0.12	\$0.02	\$0.02	\$0.02	\$0.02	\$0.10	\$0.10
Free Cash Flow (Operating Cash Flow -Capex-stock comp)	(2.30)	2.49	4.65	4.86	(0.40)	11.59	3.63	1.58	3.56	3.71	12.47	16.46
Free Cash Flow Per Share Less Share Based Compensation	(\$0.25)	\$0.26	\$0.48	\$0.46	(\$0.04)	\$1.11	\$0.35	\$0.15	\$0.34	\$0.35	\$1.19	\$1.57

Sources: Company reports and Sidoti & Company, LLC estimates.

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Table 3.: BBQ Holdings, Inc. Balance Sheet

(Dollars in millions except per share data)

Fiscal year ends on the Sunday nearest to December 31

	2020	Mar. A	June A	Sep. A	2021 E	Mar. E	June E	Sep. E	2022 E	2023 E
Assets:										
Cash and cash equivalents	\$18.101	\$21.224	\$38.358	\$28.977	\$25.805	\$29.686	\$31.513	\$35.318	\$39.279	\$56.739
Restricted cash	1.502	1.361	0.824	1.146	1.146	1.146	1.146	1.146	1.146	1.146
Accounts receivable, net of allowance for doubtful accounts	4.823	4.176	4.966	4.900	9.039	6.579	7.597	7.294	10.017	11.161
Inventories	2.271	2.380	2.433	2.949	2.949	2.949	2.949	2.949	2.949	2.949
Prepaid expenses and other current assets	1.252	2.417	2.881	2.367	1.252	2.417	2.881	1.396	2.132	2.307
Assets held for sale	1.070	1.070	1.024	1.024	1.024	1.024	1.024	1.024	1.024	1.024
Total current assets	29.019	32.628	50.486	41.363	41.215	43.801	47.110	49.128	56.548	75.326
Property, equipment and leasehold improvements, net	32.389	31.508	31.112	39.174	38.492	37.513	36.515	35.396	34.070	29.178
Operating lease right-of-use assets	61.634	59.920	60.787	78.581	80.581	80.581	80.581	80.581	80.581	80.581
Goodwill	0.601	0.601	0.601	1.071	2.071	2.071	2.071	2.071	2.071	2.071
Intangible assets, net	9.967	9.850	9.733	23.231	24.443	24.443	24.443	24.443	24.443	24.443
Deferred tax assets	4.934	4.935	4.623	3.382	3.382	3.382	3.382	3.382	3.382	3.382
Other	1.724	1.669	1.660	1.129	1.129	1.129	1.129	1.129	1.129	1.129
Total assets	140.268	141.111	159.002	187.931	191.313	192.920	195.231	196.130	202.224	216.110
Liabilities:										
Accounts payable	6.385	8.020	7.050	7.092	10.875	12.790	10.873	8.886	11.764	13.135
Current portion of lease liabilities	6.185	6.332	6.844	10.624	10.624	10.624	10.624	10.624	10.624	10.624
Current portion of long-term debt and financing lease obligation	2.111	2.138	2.165	2.192	2.192	2.192	2.192	2.192	2.192	2.192
Accrued compensation and benefits	2.390	4.068	6.313	7.929	6.079	5.056	5.886	6.116	6.498	7.248
Other current liabilities	9.766	8.156	8.814	12.014	12.014	12.014	12.014	12.014	12.014	12.014
Total current liabilities	26.837	28.714	31.186	39.851	41.784	42.676	41.588	39.832	43.093	45.213
Lease liabilities, less current portion	63.105	61.445	61.839	78.470	78.470	78.470	78.470	78.470	78.470	78.470
Long term debt less current portion	22.169	21.628	7.131	6.578	6.578	6.578	6.578	6.578	6.578	6.578
Other liabilities	1.224	1.376	1.376	1.458	1.458	1.458	1.458	1.458	1.458	1.458
Total liabilities	113.335	113.163	101.532	126.357	128.290	129.182	128.094	126.338	129.599	131.719
Total equity	26.933	27.948	57.470	61.574	63.023	63.739	67.137	69.792	72.625	84.392
Total liabilities and equity	140.268	141.111	159.002	187.931	191.313	192.920	195.231	196.130	202.224	216.110
Balance sheet analysis:										
Return on equity %	15.8%	2.5%	28.6%	7.8%	36.6%	0.7%	4.7%	3.4%	11.8%	12.8%
Book value per share	\$2.94	\$2.94	\$5.98	\$5.87	\$6.01	\$6.08	\$6.40	\$6.66	\$6.93	\$8.05
Tangible book value per share	\$2.87	\$2.88	\$5.91	\$5.77	\$5.81	\$5.88	\$6.21	\$6.46	\$6.73	\$7.85
Total debt to total capital	77.6%	76.6%	57.6%	61.4%	60.8%	60.6%	59.3%	58.4%	57.4%	53.7%
Net cash (debt) per share	(\$8.23)	(\$7.40)	(\$4.12)	(\$6.57)	(\$6.87)	(\$6.50)	(\$6.33)	(\$5.97)	(\$5.59)	(\$3.92)

Sources: Company reports and Sidoti & Company, LLC estimates.

Appendix Required Disclosures

Required Disclosures

BBQ Holdings, Inc. (BBQ-\$13.08) NR Price Target: \$22 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	9/10/21	13	NR	19	M
PT	10/7/21	15.8		19	



Valuation

We maintain our Moderately Risky Rating on BBQ shares and raise our price target to \$22 (from \$19). Over the past 12 months, BBQ shares are up 184% compared with the 22% increase of the Russell 2000 Index. We attribute this outperformance to much-improved sales and earnings posted during the last few quarters. With its growing and well-diversified portfolio of restaurant brands (now with a mix of roughly 30% company owned and 70% franchised), we think BBQ Holdings, Inc. can over time benefit from its increasing scale and buying power, profit from corporate overhead leverage and expand its 5-year EPS at a CAGR of 14%. As per FactSet, during the last three years, BBQ shares traded in a range of 9x-35x two-year forward consensus EPS estimates with an average of 19x. Considering the solid EPS gains that we anticipate through 2023, along with the company's healthy balance sheet and ample free cash flow prospects, we think a slightly higher-than-average P/E multiple is appropriate. Hence, our \$22 price target is now based on 20x our newly introduced 2023 EPS estimate of \$1.12. (Our prior \$19 price target was based on 18x our former 2022 EPS forecast of \$1.04.) Given the upside potential implied by our new price target, we argue that BBQ shares are undervalued.

Key Risks

COVID-19

Food and labor costs

Operating lease exposure

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