The Bear Facts

Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

Dave & Busters Entertainment, Inc.
PLAY - $50.50 – NasdaqGS

Recommendation: Sell Short

Reasons For Short Sale Recommendation

- **Poor business model, extremely susceptible to economic slowdown.**
- **Current quarter (4Q19) will be sixth quarter in a row of declining Same Store Sales. Kiss of death for restaurants.**
- **Revenue growth is less than new unit growth.**
- **Weak traffic, increasing costs..**
- **One GM, 9 managers, 130 part time employees per store.**
- **Earnings growth only from lower tax rate and buying back stock.**
- **Revenue growth down 50% in 3 years, from 16% to 8%.**
- **Declining net income despite 48% more stores?**
- **Earnings growth going from 51% in 2017 to 6% in 2019.**
- **Weak results in a good economy, means terrible results in a weak economy.**

Financials

Market Capitalization	$1.94B	Revenue/Shr (TTM)	$31.26
Enterprise Value	$2.09B	EBITDA (TTM)	**$274.67**
Trailing P/E	16.51	Diluted Earnings/Shr mrq)	**$0.30**
Forward P/E	16.61	Total Cash (MRQ)	$19.72M
PEG ratio (5 Yr Expected)	1.33	Total Cash/Shr (mrq)	$0.51
Price/Sales (TTM)	1.56	Total Debt (MRQ)	$383.16M
Price/ Book (MRQ)	4.57	Current Ratio (MRQ)	0.45
Enterprise Value/Revenue	1.69	Book Value/Share (MRQ)	$10.96
Enterprise Value/ EBITDA	7.6	Operating cash Flow (TTM)	$300.61M
Profit Margin %	**9.97%**	Levered Free Cash Flow(TTM)	-$15.7M
Operating Margin (TTM)	**12.86%**	52 Week Change	13.21%
Return on Assets (TTM)	**8.24%**	**Shares Short**	**4.29M**
Return on Equity (TTM)	**29.01%**	**% of Float Short**	**15.55%**
Revenue (TTM)	$1.24B	Short Ratio	6.46

(TTM) = Trailing 12 months, (MRQ) = Most recent quarter, M = Millions, B = Billions, m = Thousands

Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

Short Thesis

We are bearish on the restaurant industry in general because we believe that the economy is going to slowdown with a possibility of a recession in the near future. If the economy slows down or enters a recession, PLAY will be extremely vulnerable to a business implosion.

Almost all restaurants will suffer in an economic slowdown. PLAY will suffer more than most because: 1). It is already doing poorly, 2). It is more costly for the customer than similar restaurants, 3). Its cost structure is higher than similar restaurants.

The company is slowly expanding, but not getting anywhere. It needs to open new restaurants every year just to stay even. They are not in a good spot entering a slowdown.
We describe this business as the "Chuck E Cheese" for adults.
It is a casual restaurant with a bar and an amusement midway, video game arcade.

Business (2018 10K Yr End Jan 18) (Our comments in red)

We opened the **first Dave & Buster's store in Dallas, Texas in 1982,** and as of February 4, 2018 (the last day of fiscal 2017), **we owned and operated 106 stores (now 121)** located in 36 states, Puerto Rico and one Canadian province. Our fiscal year consists of 52 or 53 weeks ending on the Sunday after the Saturday closest to January 31. **Our customer mix skews moderately to males, primarily between the ages of 21 and 39**, and we believe we also serve as an attractive venue for families with children and teenagers.

EAT: Our food revenues, which include non-alcoholic beverages, accounted for 67.9% of our food and beverage revenues and **29.5% of our total revenues** during fiscal 2017.

DRINK: Our alcoholic beverage revenues accounted for 32.1% of our total food and beverage revenues and **13.9% of our total revenues** during fiscal 2017.

PLAY: The games in our Midway are a key aspect of the Dave & Buster's entertainment experience, which we believe is the core differentiating feature of our brand. The Midway in each of our stores is an area where we offer a wide array of amusement and entertainment options, some of which are exclusive to Dave & Buster's on a permanent or temporary basis. **Each of our stores typically has over 150 redemption and simulation games**. Most of

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

our games are activated by game play credits on magnetic stripe cards or RFID devices (collectively, "Power Cards").

Our amusement and other revenues accounted for 56.6% of our total revenues during fiscal 2017. Redemption games, which represented 75.7% of our amusement and other revenues in fiscal 2017, offer our customers the opportunity to win tickets that are redeemable at a retail-style space in our stores**(for crappy carnival prizes, think whoopee cushion).** **Our video and simulation games, many of** which can be played by multiple customers simultaneously and include some of the latest high-tech games commercially available, **represented 21.5% of our amusement and other revenues** in fiscal 2017.

WATCH: Sports-viewing is another key component of the entertainment experience at Dave & Buster's. **All of our stores have multiple large screen televisions** and **high quality audio systems** providing customers with a venue for watching live sports and other televised events.**(8 different live sports games, but only ONE with audio, drowned out by the noise from the restaurant and arcade. A horrible place to watch a game if you want to concentrate on the game)**

Our entertainment offerings have low variable costs and produced gross margins of 89.3% for fiscal 2017. With approximately 57.0% of our revenues from entertainment, we have less exposure than traditional restaurant concepts to **food costs, which represented only 8.0% of our total revenues in fiscal 2017.**

Our Growth Strategies : Build great new stores.

(New stores do great, then fall off a cliff after the novelty wears off. Company calls this the "Honeymoon effect", revenue declines 10%-20% after 1st year). Research suggests a **total store potential in the United States and Canada in excess of 230 stores (including our 106 (121) stores as of the end of fiscal 2017)(2018). (So, their maximum growth is 90% going forward, 70% after 2019, 6 more years at 15 stores/YR).** We anticipate that approximately 20% of our future new store openings will utilize our new 17K design and that the balance of our future openings will be fairly evenly split between our traditional large and small formats. **We opened fourteen stores (15% growth) in fiscal 2017 (They opened 15 new stores in 2018, 14% growth).** Store openings during the past five fiscal years were primarily financed with available cash and operating cash flows. **In 2018 and thereafter, we believe that we can continue opening new stores at an annual growth rate of 10% or more** of our then existing store base.

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

Drive our comparable store sales.

We **intend to grow our comparable store sales** in the **highly competitive** dining and entertainment segment by seeking to differentiate the Dave & Buster's brand from other food and entertainment alternatives, through the following strategies: **(Comparable SSS has been negative for 6 straight quarters, more like driving them into the ground.)**

- Provide our customers with the latest exciting games **(not working)**.
- Leverage D&B Sports **(What, How?)**.
- Serve food and beverage offerings with broad appeal (**As opposed to food everyone hates?)**.
- Grow our special events usage **(down 7% last quarter).** The special events portion of our business **represented 10.1% of our total revenues** in fiscal 2017.

- **Enhance brand awareness (Management mumbo jumbo)** and generate additional visits to our stores through marketing and promotions **(Not working, SSS down 6 quarters in a row, walk in traffic down 1%)**.
- Drive customer frequency through greater digital and mobile connectivity **(Not working).**
- Expand the Dave & Buster's brand internationally **(There are no international stores)**.

Our **typical store team** consists of a **General Manager supported by an average of NINE additional management positions.** A typical store employs approximately **130 hourly employees, most of whom work part time. (So, 10 high priced managers and 130 part time workers. As someone who owned 3 restaurants, I can tell you that finding that many quality employees is next to impossible).**

Store-Level Quarterly Fluctuations and Seasonality

Our operating results fluctuate significantly from quarter to quarter as a result of seasonal factors. Typically, **we have higher first and fourth quarter revenues** associated with the spring and year-end holidays. **These quarters will continue to be susceptible to the impact of severe or unseasonably mild weather on customer traffic and sales** during that period. Our **third quarter**, which encompasses the back-to-school fall season, has historically **had lower revenues** as compared to the other quarters.

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

We typically do not own any real property. **Payments under our non-cancelable, operating leases account for a significant portion of our operating expenses** and we expect the new stores we open in the future will also be leased. **(If stores are closed they are on the hook for all the rent payments for the remainder of the lease. They are closing one store in 2019).**

Our new stores typically open with sales volumes in excess of their expected long term run-rate levels, which we refer to as a "honeymoon" effect.
We **expect our new store sales volumes in year two to be 10% to 20% lower** than our year one targets, and to grow in line with the rest of our comparable store base (**negative)** thereafter.**(Novelty wears off).**

For the year ended February 4, 2018:
Food: 29.5% of total revenue.
Beverage: 13.9% of total revenue.
Amusement: 55.8% of total revenue. **(So, nobody is going there for the food)**.

For the year ended February 4, 2018, the **cost of food products was 26.6%** of food revenue, the **cost of beverage products was 24.1%** of beverage revenue, and the **amusement and other cost of products was 10.7%** of amusement and other revenues.

2019 Third Quarter results (Figures in thousands)

Total revenues increased $32,160, or 12.9%, to $282,139 in the third quarter of fiscal 2018 compared to total revenues of $249,979 in the third quarter of fiscal 2017. **(17% more stores, but revenue only increased 12.9%)** For the thirteen weeks ended November 4, 2018, we derived **28.3% of our total revenue from food sales, 13.8% from beverage sales, 57.1% from amusement sales** and 0.8% from other sources.
Comparable store revenue decreased $2,723, or 1.3%, in the third quarter of fiscal 2018 compared to the comparable thirteen weeks of fiscal 2017. Comparable store revenue compared to prior year was **negatively impacted by increased competitive pressure.**

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

Comparable walk-in revenues, which accounted for 91.2% of comparable store revenue for the third quarter of fiscal 2018, **decreased $1,352, or 0.7%** compared to the similar period in fiscal 2017.

Comparable store special events revenues, which accounted for 8.8% of comparable store revenue for the second quarter of fiscal 2018, **decreased $1,371, or 6.9%** compared to the comparable period in fiscal 2017.

Food sales at comparable stores decreased by $3,094, or 5.0%, to $58,670 in the third quarter of fiscal 2018 from $61,764 in the comparable period in fiscal 2017.

Beverage sales at comparable stores decreased by $1,479, or 4.9%, to $28,755 in the third quarter of fiscal 2018 from $30,234 in the 2017 comparison period. The decrease in food and beverage unit sales at comparable stores was **partially offset by an overall increase in menu prices.** **(They are making the same mistake that our very profitable short in Red Robin Gourmet Burgers made. Raising prices, when your guest count is decreasing, temporarily masks the decline, but makes it worse in the long run. Customers are already telling you that they are not coming back because of negative SSS, the worst thing that you can do is to raise prices, which causes even more customers to not come back. You raise prices when SSS is positive NOT negative!).**

Comparable store **amusement and other revenues** in the third quarter of fiscal 2018 **increased by $1,850, or 1.5%**, to $121,343 from $119,493 in the comparable 13 weeks of fiscal 2017.

Conference Call after 3rd quarter

We now expect to open 15 stores, representing 14% unit growth, which is at the upper end of our prior guidance. During the third quarter, we opened 1 new store in Harrisburg, Pennsylvania; and in the fourth quarter, we've opened 2 stores, 1 in Milford, Connecticut and another in Birmingham, Alabama, which is a new state for us.

Revenues from our 86 comparable stores decreased 1.3% to $208.8 million, down from $211.5 million in the prior year on a comparable week basis.

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

F&B was down 5%. Within F&B, **food and bar business was down 5% and 4.9%**, respectively. The **combination of competitive intrusion and cannibalization continued to be a greater headwind both sequentially as well as compared to the same period last year.** **(Competitive intrusion? Yes. Cannibalization? They only have 121 stores. How can there already be cannibalization? They are only in 37 states?)**

Our **operating payroll and benefits cost** as a percentage of sales was 25.3% or **210 basis points higher** year-over-year due to the unfavorable impact of **nearly 5% wage inflation.** **(10 managers and 130 part time employees per store + rising minimum wage pressure, will do that).**

EBITDA was $46 million, up 1 point -- up 1% and **EBITDA margins were 16.3%, down 190 basis points** versus the prior year.

Net **interest expense for the quarter increased to $3.3 million, up from $2.9 million** in the prior year, driven by increases in the underlying LIBOR rate and higher average debt levels resulting from our capital allocation initiatives, including share repurchases and quarterly cash dividend.**(Increase debt so that you can buyback stock and pay a dividend while your net income declines?)**

Our expected **tax rate for the quarter was 2.4% compared to 28.7%** in the year ago period. **(They made $0.30 vs $0.29, a penny more, with a 91% decrease in their tax rate and 17 more stores, 118 vs 101).**

We generated **net income of $11.9 million** or $0.30 per share on a diluted share base of 39.9 million shares **compared to net income of $12.2 million** or $0.29 per share in the third quarter of last year on a diluted share base of 42.3 million shares. **(So, with 17 more stores, 17% more, net income DECLINED 2.5% or $300K?).**

At the end of the quarter, we had **$384 million of outstanding debt**, resulting in leverage of approximately 1.4x EBITDA. During the quarter, we **repurchased approximately 437,000 shares of our common stock for $25 million**. The inception to date total as of December 4, 2018 is 5.1 million shares or $276 million, with approximately $124 million still

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

available under our $400 million authorization. In addition, we paid our first quarterly cash dividend of $0.15 per share during Q3. **(Sigh).**

Outlook for fiscal year 2018

We are **raising the lower end of our guidance (The Street heard raising guidance and got excited)** on several key metrics. **Total revenues are now expected to range from $1.243 billion to $1.255 billion, up 11% to 12%** on a comparable 52-week basis. **Revised guidance is $13 million higher at the lower end** and **unchanged at the upper end** compared to prior guidance. At the lower end of guidance, **it is because of an extra store**. **We continue to project comp store sales on a comparable 52-week basis to decline low single digits.**

From a development perspective, we are refining our target to 15 new stores this year from prior guidance of 14 to 15 new stores.

We are **projecting net income of $106 million to $113 million**, which is $5 million higher at the lower end and $2 million higher at the upper end. Net income is based on an effective tax rate of approximately 22%, which compares to prior guidance of approximately 24%. **(So, if net income is, say $110 million, that implies 4Q19 net income of $22.1 million vs $35.6 million a year earlier, down 38%!, Net income down 38% with 17% more stores?).**

We estimate a diluted share count of approximately 40.2 million, slightly lower than prior guidance of 40.3 million. We are projecting EBITDA of $268 million to $277 million for the fiscal year. The lower end of the range represents an increase of $5 million versus prior guidance, while **at the upper end, guidance is unchanged**.

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981
TomChanos@BadgerConsultantsLLC.com

Preliminary view on the upcoming year (2020).

Overall, we **expect revenue to grow high single digits (lowest in 6 years) and EBITDA to grow mid- to high single digits**. This expectation reflects **margin compression** primarily resulting from **continued wage pressure** and a rising mix of new stores that, although have strong returns, are **modeled to have lower Average Unit Volume (AUVs) and margins compared to our existing stores**.

We are excited to have a strong store pipeline and **plan to add 15 to 16 new stores in 2019. We will not be renewing the lease for one of our older, lower-volume stores in Q1**. On a net basis, we are planning on **unit growth of approximately 12% in 2019,** consistent with our target of 10%-plus annual unit growth.

Personal Experience

There is a new D&B in Madison, WI that I have been to a couple of times. Granted I am not in their demographic target. PLAY builds their stores in or next to malls. This was a great strategy, ten years ago! Today, not so much. The D&B is at West town mall on Madison's west side, an affluent area. The mall used to have Sears, Boston Store and JC Penny. Only JC Penney is still there, for now, soon to be bankrupt. In fact D& B took some of Sears space. My wife and I went to the mall two weeks before Christmas. Ten years ago, you would have been hard pressed to find a parking space at that time. We breezed right in up close. Ten years ago the food court would have been packed and the mall would have been very busy. The food court was not busy, the McDonalds that was there for 100 years was gone. The mall felt quiet. We commented on how depressing it felt. Our 16 year old nephew wanted to have his family birthday dinner at D&B. So, we had a party of about 12 people. The service was ok, the food was ok, the

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

cleanliness was ok. We ate dinner. There were about eight different sporting events on about two dozen big screen TV's. There was only sound for one of the games, which you can barely hear over the noise from your table, the restaurant and the arcade. **If you want to go and watch your favorite team and concentrate on the game, this is NOT the place to go**. Too many distractions, too loud, etc...

After dinner, we of course wandered over to the arcade and wound up spending another $15 on a bunch of dumb carnival games like Pop a Shot, air hockey, a couple of video games and dance revolution. The games don't have prices listed but credits instead. This is because they are about $1.75 a play, up to $5 for the VR games, which you would not pay for if you thought about it.

After we got home, I had a headache, I felt like we just spent $60 to get average food and some dumb games, when usually we could go to a similar restaurant and spend at most $40 and not have sensory overload. Now, an extra $20 to anyone reading this report probably wouldn't blink an eye, but to a cheapskate like me or the average family, it is a huge difference. It is the kind of experience that you don't go back to on a regular basis. Once a year for a birthday party, or to watch a prizefight/MMA fight that you are too cheap to buy on pay per view, yes, but on a regular basis? No.

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

DAVE & BUSTER'S ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands, except share and per share amounts)

	Thirteen Weeks Ended November 4, 2018	Thirteen Weeks Ended October 29, 2017
Food and beverage revenues	$ 118,807	$ 107,690
Amusement and other revenues	163,332	142,289
Total revenues	282,139	249,979
Cost of food and beverage	31,163	28,387
Cost of amusement and other	17,571	16,220
Total cost of products	48,734	44,607
Operating payroll and benefits	71,309	57,967
Other store operating expenses	96,267	82,766
General and administrative expenses	15,043	13,432
Depreciation and amortization expense	30,574	25,672
Pre-opening costs	4,740	5,609
Total operating costs	266,667	230,053
Operating income	15,472	19,926
Interest expense, net	3,321	2,156
Loss on debt refinancing	—	718
Income before provision for income taxes	12,151	17,052
Provision for income taxes	295	4,895
Net income	11,856	12,157
Unrealized foreign currency translation loss	(76)	(225)
Total comprehensive income	$ 11,780	$ 11,932
Net income per share:		
Basic	$ 0.30	$ 0.30
Diluted	$ 0.30	$ 0.29
Weighted average shares used in per share calculations:		
Basic	38,892,288	41,077,206
Diluted	39,855,648	42,250,611
Cash dividends declared per share	$ 0.15	$ —

Total stores up 17%, 118 vs 101
Revenue up 12.9%
Total operating expenses up 15.9%
Operating Income down 22.4%
Interest expense up 54%
Income tax down 91%
Net income down 2.5%
EPS up 3.4%

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

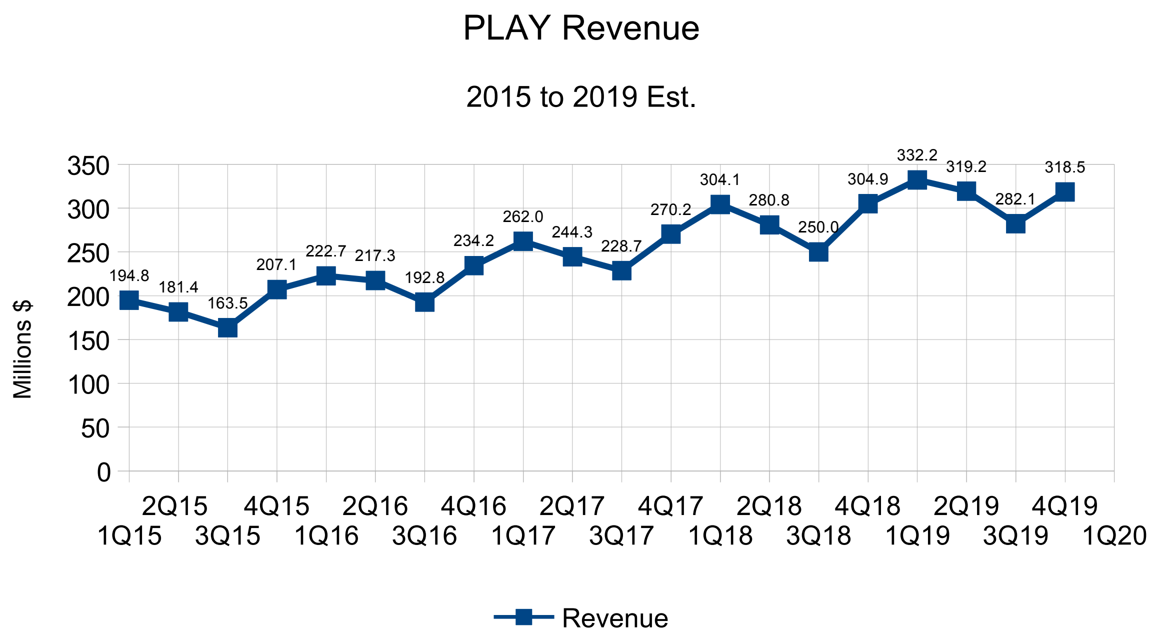
TomChanos@BadgerConsultantsLLC.com

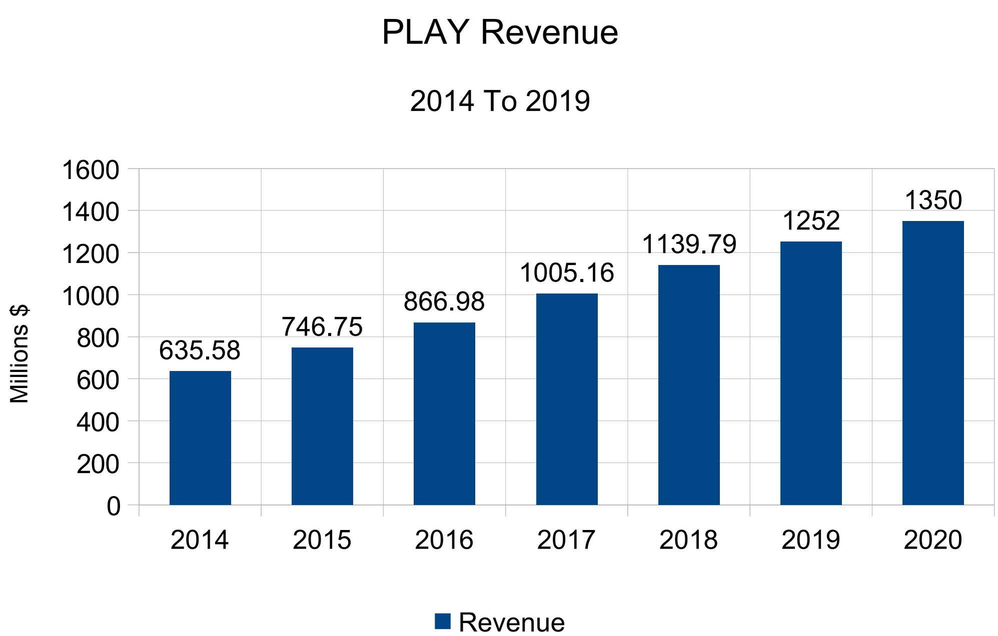
DAVE & BUSTER'S ENTERTAINMENT, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	November 4, 2018 (unaudited)	February 4, 2018 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,717	$ 18,795
Inventories	27,730	27,560
Prepaid expenses	20,488	19,052
Income taxes receivable	2,927	4,867
Other current assets	31,329	24,633
Total current assets	102,191	94,907
Property and equipment (net of $552,563 and $474,330 accumulated depreciation as of November 4, 2018 and February 4, 2018, respectively)	800,724	726,455
Deferred tax assets	6,917	7,789
Tradenames	79,000	79,000
Goodwill	272,625	272,566
Other assets and deferred charges	16,807	16,313
Total assets	$1,278,264	$1,197,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 15,000	$ 15,000
Accounts payable	59,665	54,627
Accrued liabilities	149,603	135,161
Income taxes payable	4,118	3,037
Total current liabilities	228,386	207,825
Deferred income taxes	17,408	10,213
Deferred occupancy costs	215,967	184,994
Other liabilities	23,028	21,103
Long-term debt, net	368,164	351,249
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01; authorized: 400,000,000 shares; issued: 43,137,976 shares at November 4, 2018 and 42,660,806 shares at February 4, 2018; outstanding: 38,791,237 shares at November 4, 2018 and 40,102,085 shares at February 4, 2018	431	427
Preferred stock, 50,000,000 authorized; none issued	—	—
Paid-in capital	329,394	320,488
Treasury stock, 4,346,739 and 2,558,721 shares as of November 4, 2018 and February 4, 2018, respectively	(234,081)	(147,331)
Accumulated other comprehensive loss	(687)	(249)
Retained earnings	330,254	248,311
Total stockholders' equity	425,311	421,646
Total liabilities and stockholders' equity	$1,278,264	$1,197,030

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com



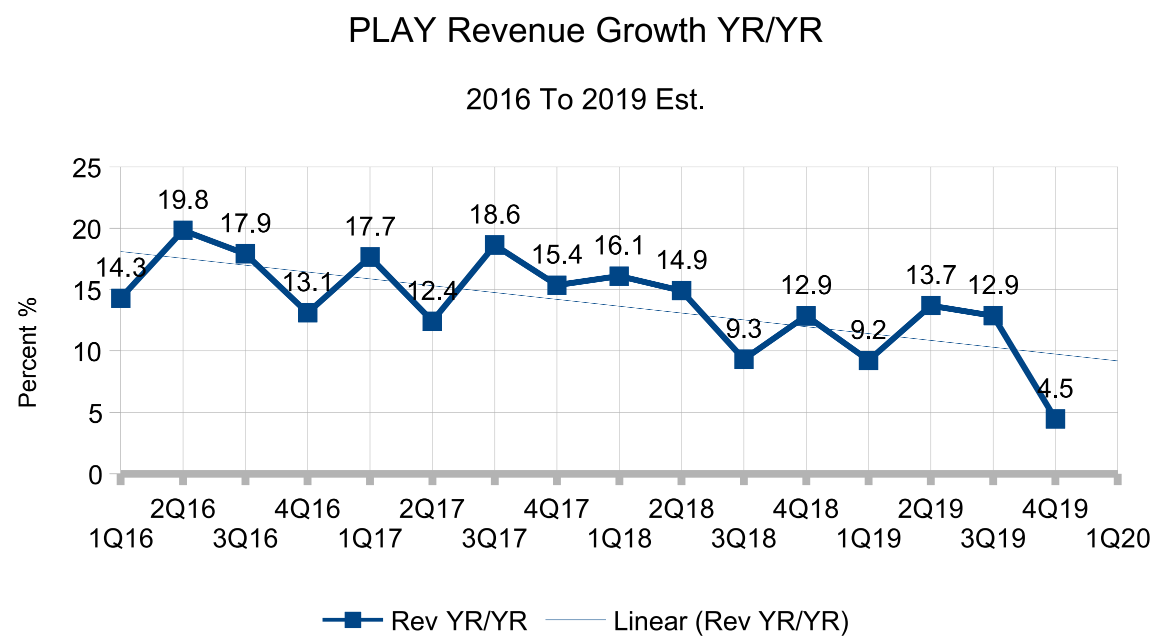


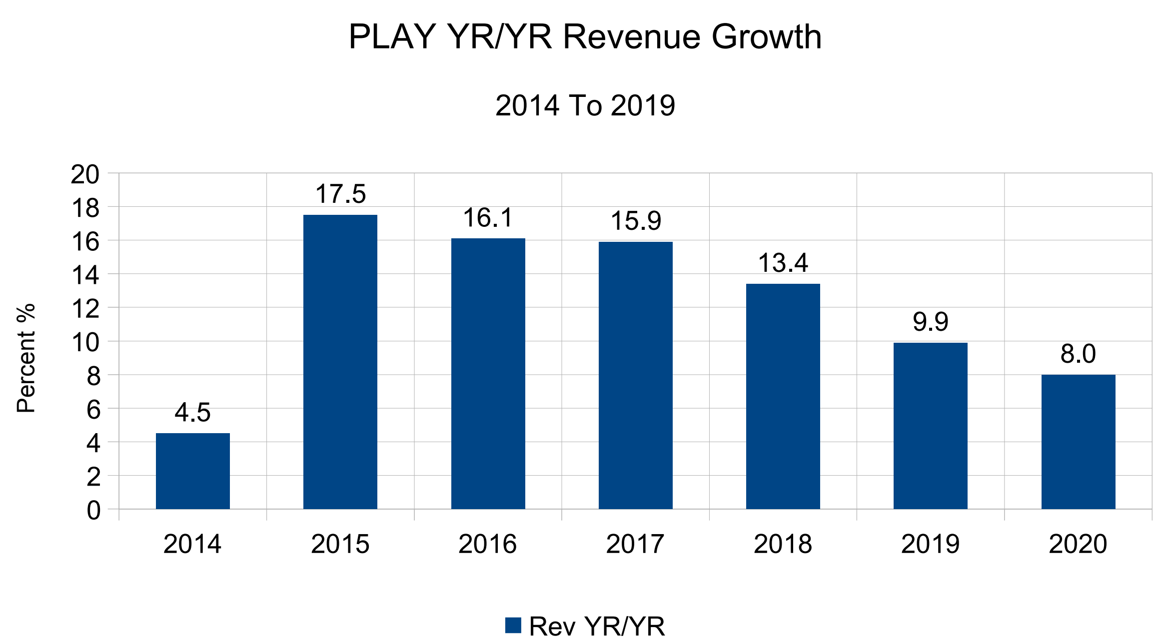
Revenue growth looks OK. It is all due to adding new stores.
But, lets look closer.
NOTE: Their year ends in January. The current quarter is 4Q19.

Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

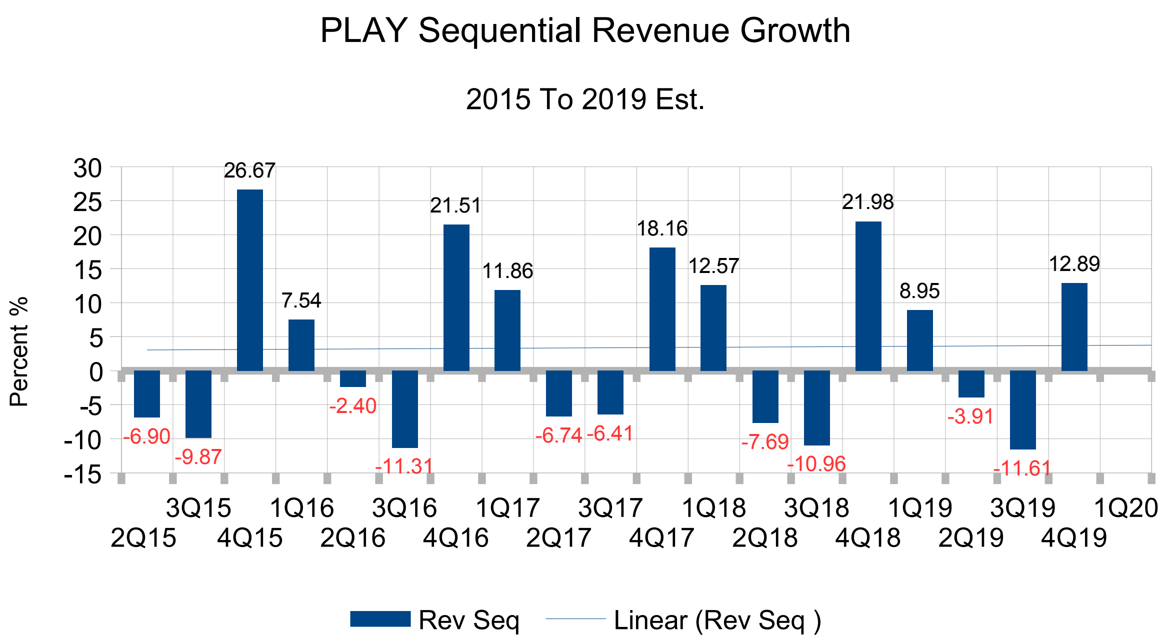
TomChanos@BadgerConsultantsLLC.com





The 13% to 20% revenue growth is long gone. It is now down to single digits. But wait, they are opening 12% to 14% new stores every year? Why is revenue growth only going to be 8%? Because the stores are doing poorly!

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981
TomChanos@BadgerConsultantsLLC.com



4Q19 **sequential revenue growth is going to decline 41.4%** from a year earlier, 21.98% to 12.89%. But there are 17 percent more stores?

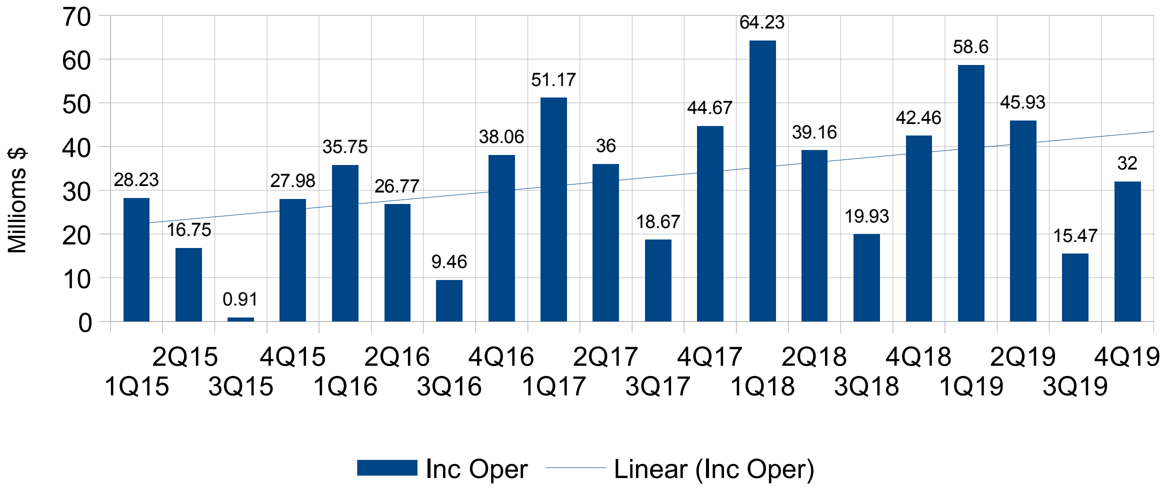
Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

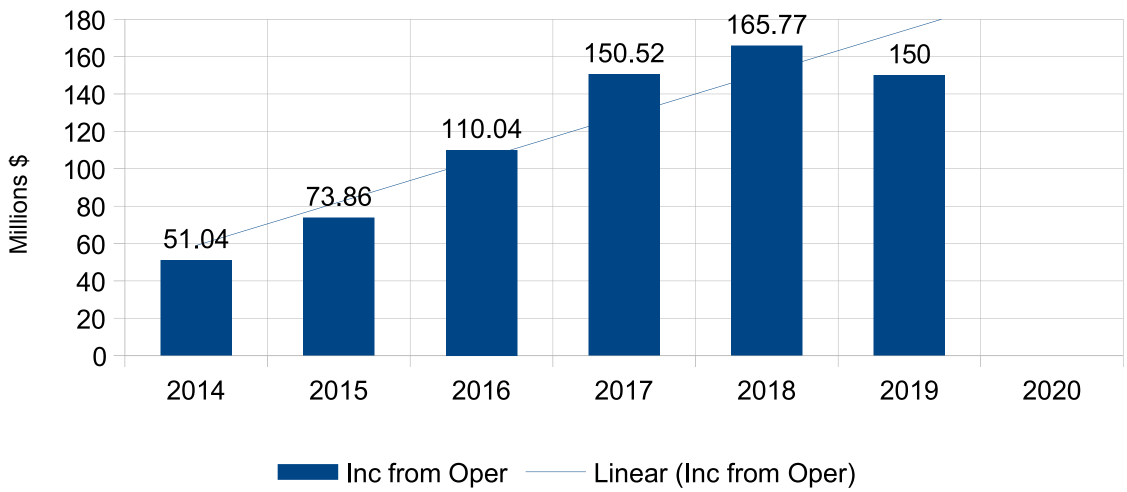
Play Income From Operations

2015 To 2019 Est.



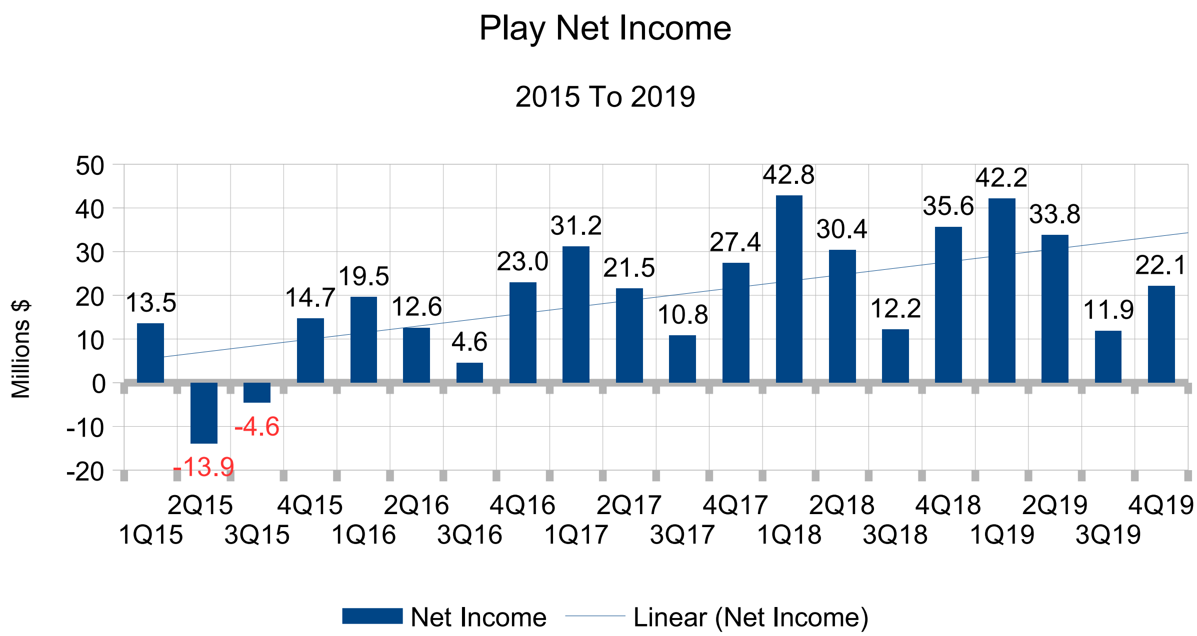
PLAY Income From Operations

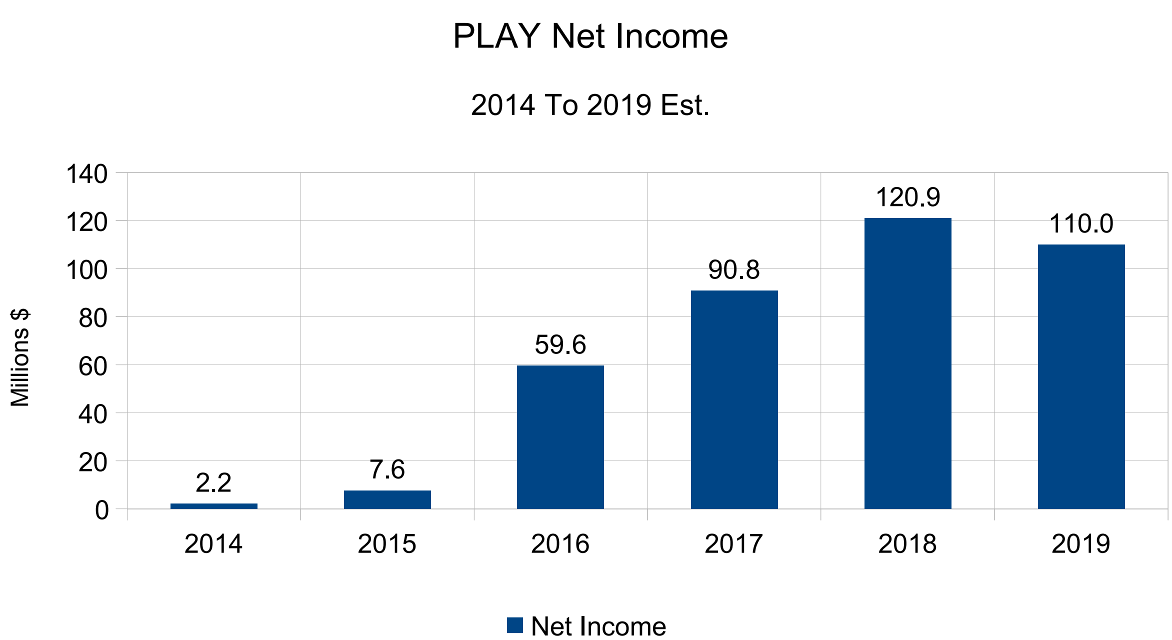
2014 To 2019



In 2017 PLAY had 92 stores. In 2019 PLAY had 121 stores, yet operating income is the same. So, they need to open 32% more stores every two years just to stay even! And this was in a good economy. Not a good business.

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981
TomChanos@BadgerConsultantsLLC.com





With 17% more stores in 2019, Net income will decline 9%. This is a terrible business in good times. What will it be like in bad times?

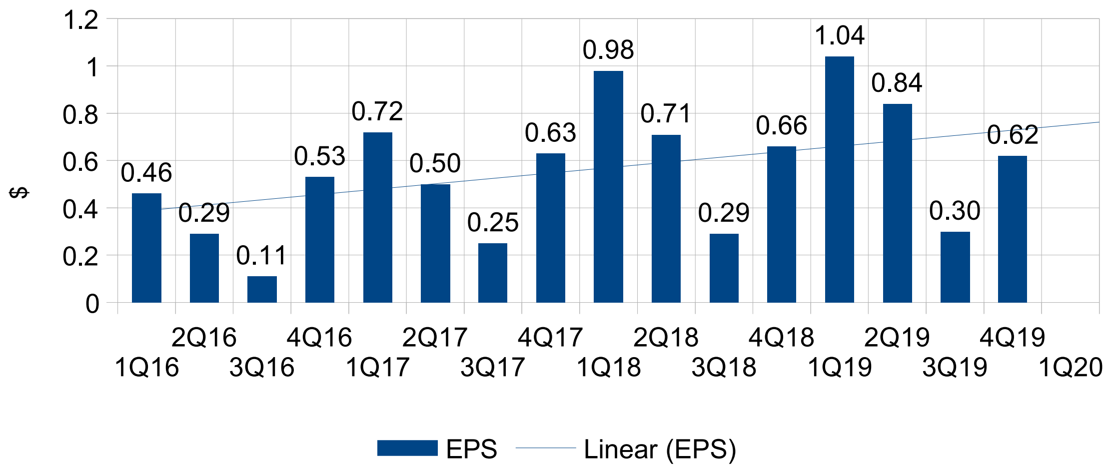
Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

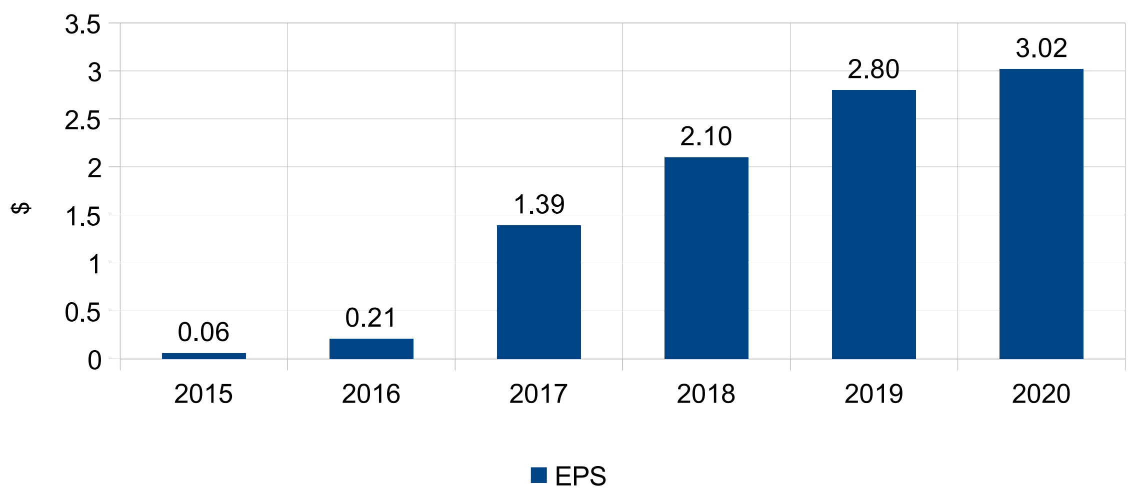
PLAY Earnings Per Share

2016 To 2019 Est. (4th Qtr is January)



PLAY Earnings Per Share

2014 To 2019 Est.

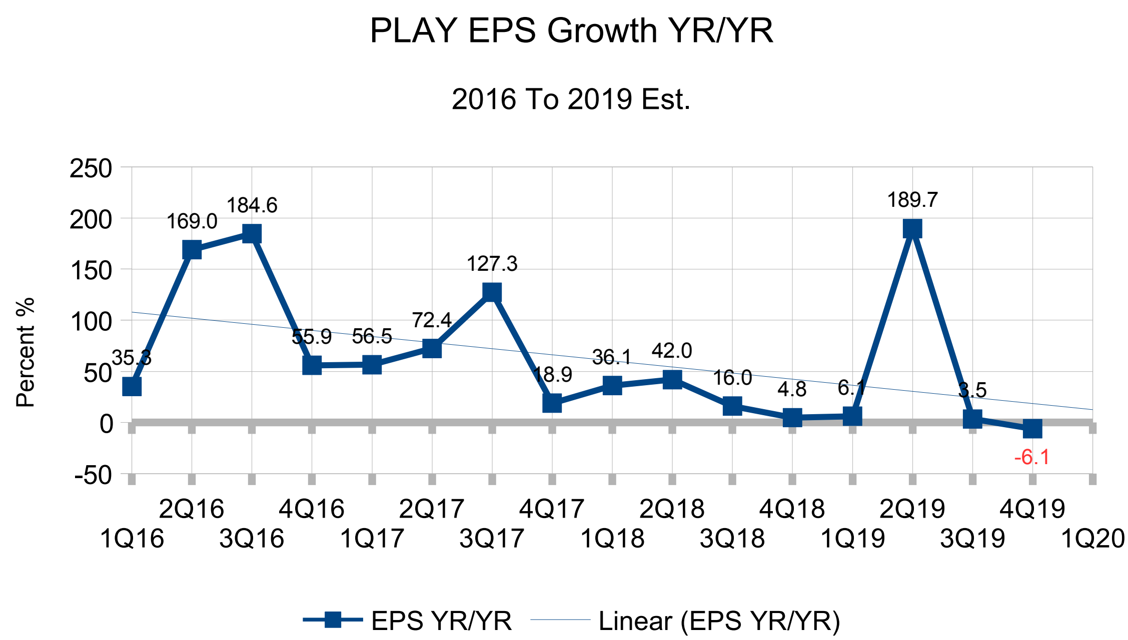


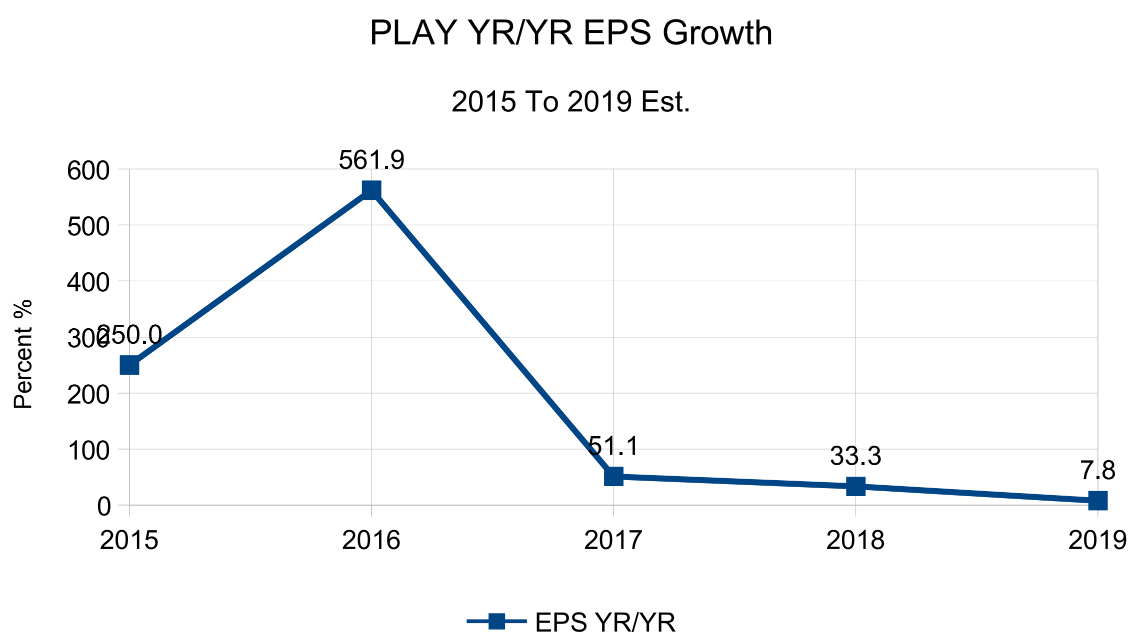
The $3.02 estimate for 2020 is too high. The $0.62 estimate for 4Q19 is below the $0.63 in 4Q17, with 31% more stores in 2019. So, with share buybacks and 31% more stores, EPS is down a penny! This is a terrible business.

Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

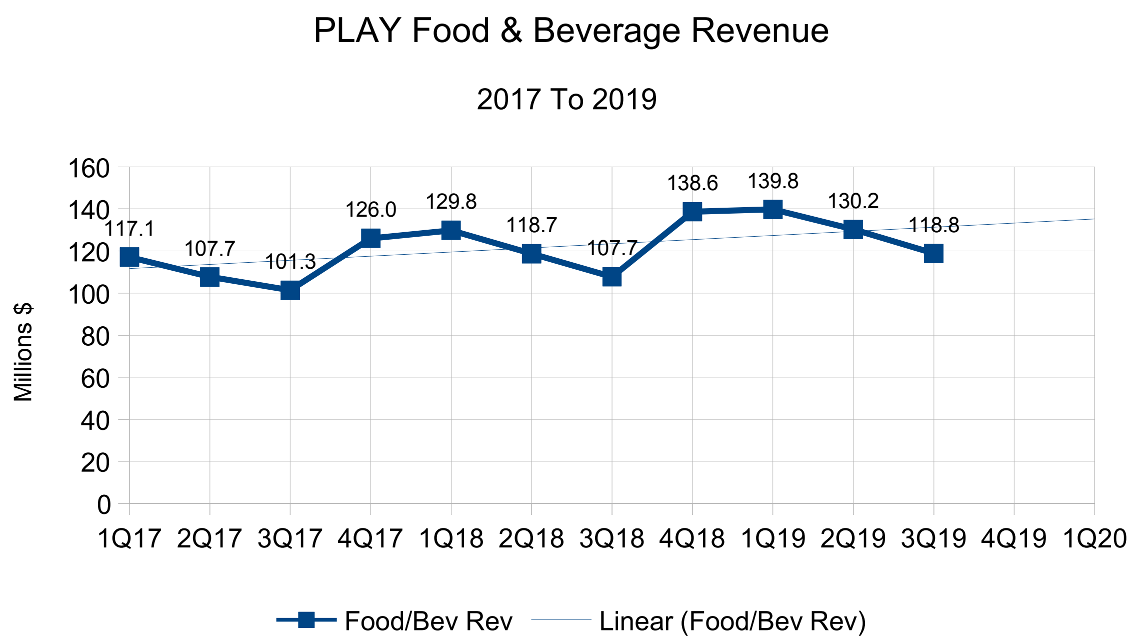
TomChanos@BadgerConsultantsLLC.com

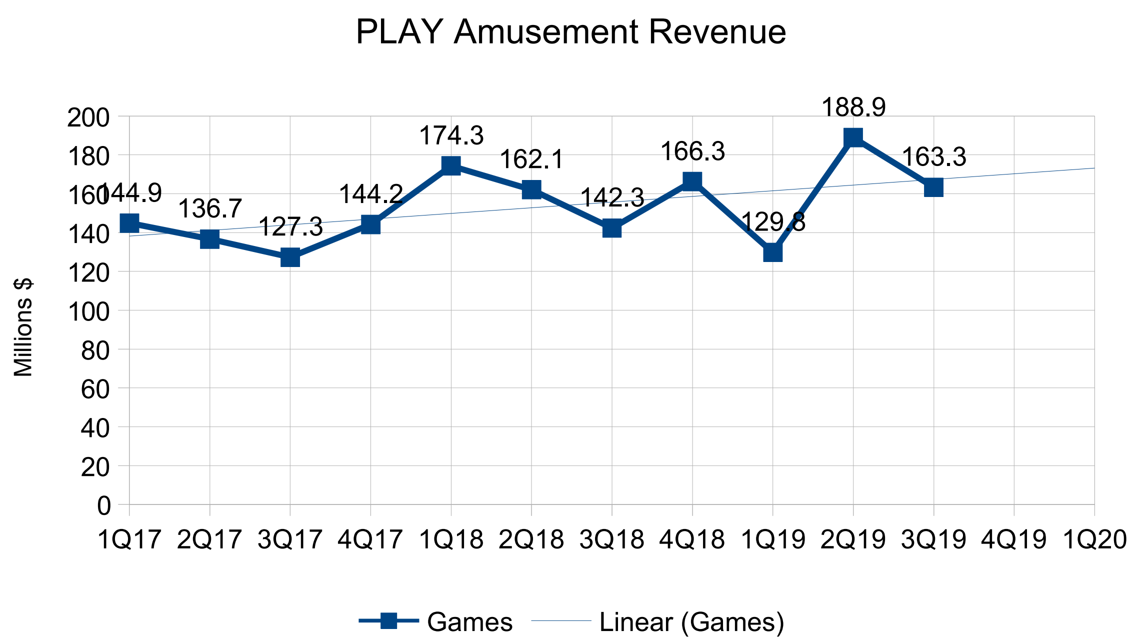




So, even with share buybacks and more stores, EPS growth will be far below new store openings growth. 4Q19 will be the first quarter of NEGATIVE EPS growth. This will be the first of many poor results.

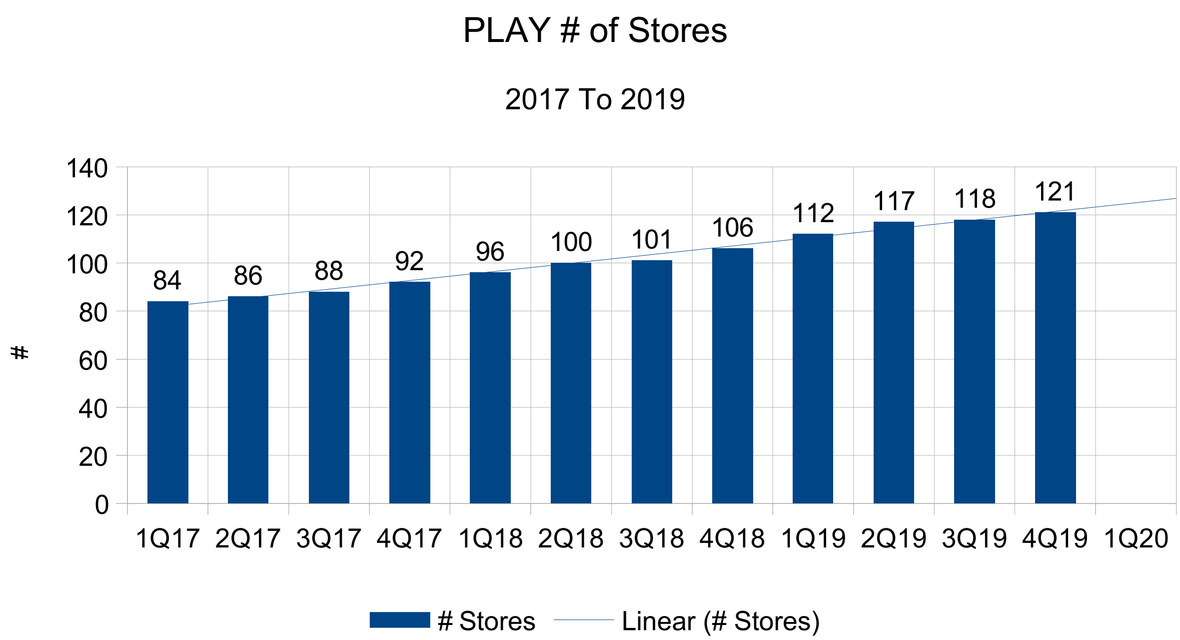
Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981
TomChanos@BadgerConsultantsLLC.com

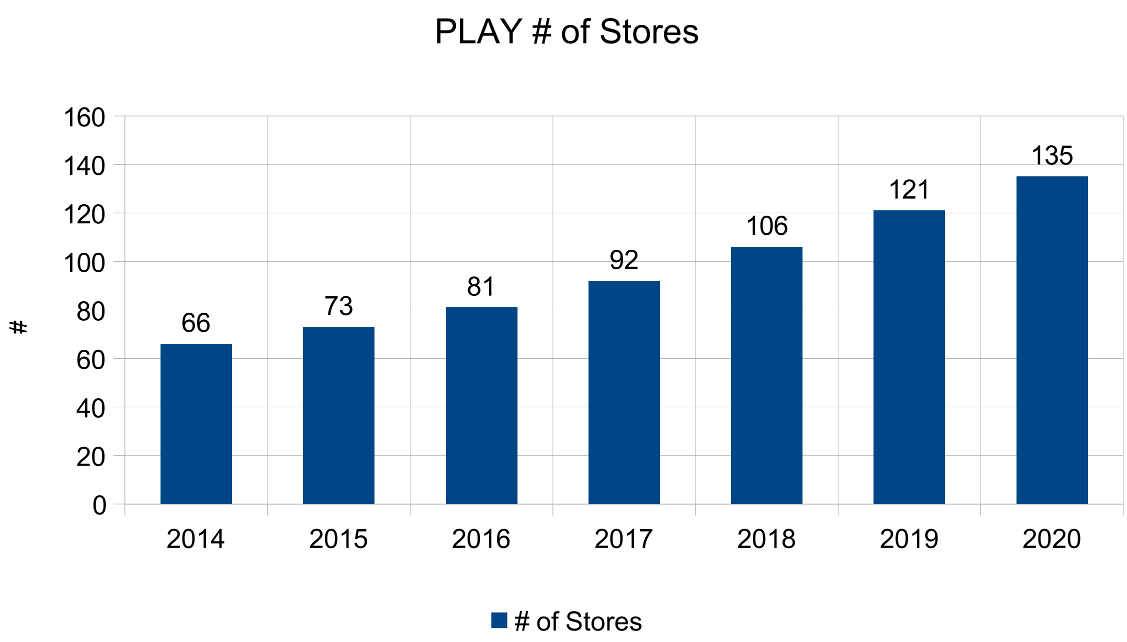




How can the food and beverage revenue be up 1.5% in 3Q19 compared to 1Q17, 10 quarters, when there are 34 additional stores that each do over $2.4 million per year in revenue?

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981
TomChanos@BadgerConsultantsLLC.com





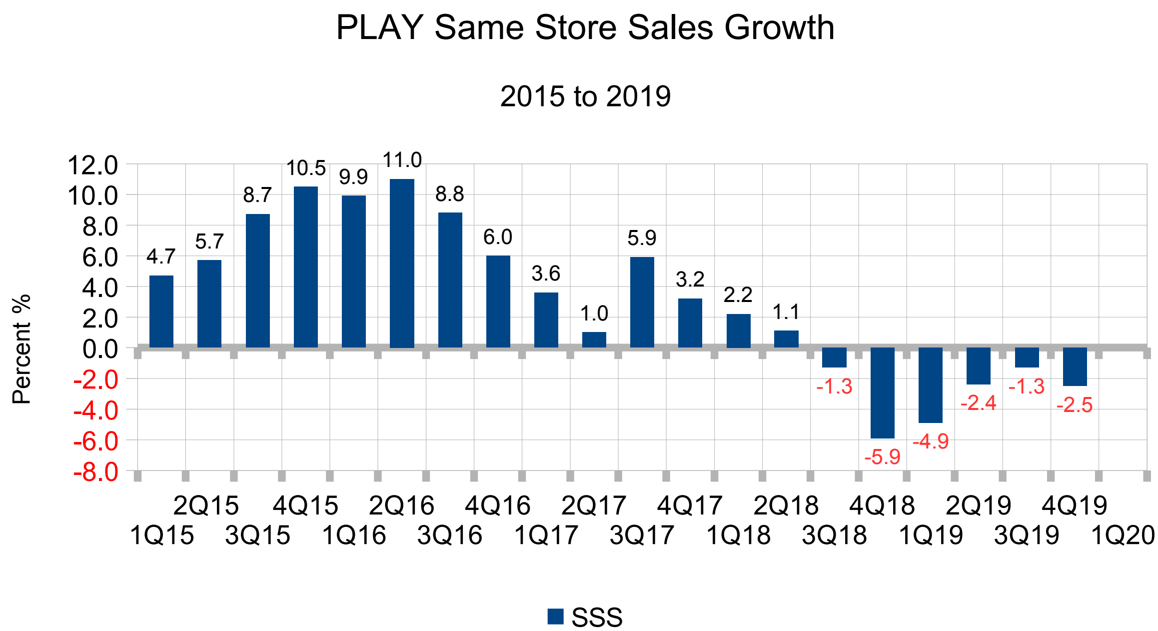
They are growing new units at about 15 per year which is about 12% growth. This will probably decline to about 10%, which means no net income growth and barely any EPS growth.

Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

The Kiss of Death



Any restaurant can have a negative SSS for a quarter or two. Maybe there is bad weather or a new restaurant opens across the street, etc... **But quarter after quarter of negative SSS, means something is wrong.** It is usually a combination of: poor food &/or poor service &/or high prices &/or poor cleanliness. Think about restaurants that you go back to. They usually have great food, great service, are clean and maybe even have high prices. You can put up with high prices if everything else is great. But if prices are high and the food is average and service is poor, and the restaurant is dirty, you don't go back. The best way to tell is to look at SSS.

The kiss of death in the restaurant industry is when negative SSS comps anniversary over previous negative SSS numbers. In 3Q19, PLAY's SSS was -1.3% vs -1.3%. The 4Q19 will be about -1% to -2.5% vs -5.9%. These are horrible numbers and say that something is seriously wrong with the business model. The absolute worst thing that the restaurant can do to fix the problem is to raise prices. What is PLAY doing? Raising prices. This only makes the guest count worse while temporarily masking the weakness in SSS.

Red Robbin had a very similar problem with negative SSS and they raised prices 15% over three years. It fooled the street for a time, but eventually the stock went from $78 to $25. **Worse**,

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981
TomChanos@BadgerConsultantsLLC.com

these horrible SSS numbers for PLAY have occurred during a strong economy. If we are right and the economy slows, they are in big trouble.

Conclusion

Play is very exposed to a slowing economy. **Their results have been weak in a strong economy**. If the economy weakens or goes into a recession they are in a tight spot. Consumers will cut back on eating out, especially at higher priced restaurants that offer little extra value. At 16 times earnings, it does not seem like it is overvalued, but it is a value trap. Net income is declining with 14% unit growth. If unit growth slows and or SSS continues declining, EPS growth will turn negative. A 15 multiple on $2.50 in EPS equals $37.5/share, a 26% decline from here.

The problem with D&B is that a new restaurant does well the first year, but the opening costs eat up most of the outperformance, and then the business falls off a cliff. There is a big novelty element to their business. People go once or twice and then don't go back. It is truly a "Chuck E Cheese" for adults. Arcades are mostly for young males.

For the current quarter, 4Q19, the EPS estimate is $0.62. There are 121 stores currently. How is it that two years earlier, with 92 stores, EPS was $0.63, a penny better? There are 31 percent more stores now! And this is with buying back stock. So, **they have to open 15 percent new stores every year AND buyback stock AND have their tax rate decline 91% to have earnings decline a penny? This is a terrible business IN GOOD TIMES!**

We think the upside is limited even if we are wrong, and the downside could be substantial if there is a slowdown in the economy. They have to grow at 14% just to stay even. If growth slows, net income and earnings will decline substantially.

We have a short term (3 mo) price target of $45.
We have a medium (6 mo) price target of $40.
We have a long term (12-18 mo) price target of $35.
If we go into a recession, our price target is $25-$30.

Sell...

Report Date:
January 9, 2019

Badger Consultants, LLC
Thomas S. Chanos
(608) 669-0981

TomChanos@BadgerConsultantsLLC.com

PLAY 2 Year Chart

The stock declined to $38 in May 2018. We believe that the stock will retest those lows, since they are doing worse now than they were then. A new low is likely in our opinion.