

# The LakeView Restaurant and Food Chain Report Featuring “The Finance Professor” Scott Rothbort



Investment and trade ideas from the farm to your mouth

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## Will Low Priced Restaurant Stocks Survive?

The Commerce Department released retail sales for the month of December 2008 today. That data indicated a 2.2% decline in restaurant sales. Many stocks in this sector have seen sales, earnings and stock prices decline dramatically in the past year.

Amongst the corporate casualties of this recession are many restaurant companies with stock values that are now priced at less than \$5 and some at even less than \$1. Some of those stocks are justifiably low and those companies could wind up bankrupt. Others could weather the economic storm, survive and see stock price appreciation in the future. In this newsletter issue I will explore four low priced stocks.

### JAMBA (JMBA)



JMBA manufactures and retails blended juices, beverages and snacks with an emphasis on freshness and nutrition. JMBA was featured in the 2008 movie “Baby Mama” as the workplace of Greg Kinnear’s character providing some excellent marketing for the company. Unfortunately JMBA has had

a lousy track record since coming public in June 2005 at a price of \$8.00 per share. As is usual with these “fad” companies, early success was short lived. JMBA has posted losses in six of the last eight quarters. Sales peaked in the company’s first quarter of 2008 and have steadily declined since then.

The problem with JMBA is its lack of a full menu. Other than a few baked goods items, JMBA only serves juice and juice blends. That is not enough menu diversification to attract diners and generate growth. In its attempt to grow, JMBA has burned cash and has saddled itself with debt and lease obligations. We should expect cash burn and further balance sheet deterioration to continue. It is unlikely that JMBA will survive in its current form and I would avoid investing in this penny stock.

### COSI (COSI)



Così (COSI) owns and franchises casual dining restaurant shops primarily in the United States. The company’s menu is an eclectic mix of sandwiches, soups, salads, desserts and beverages. Unfortunately

what COSI offers in its menu is offset by the company’s lack of visibility. COSI is virtually unrecognizable by most casual diners. While COSI is categorized as a casual dining operation, its menu selection and price is closer to that of quick service chains.

While sales have grown slowly but consistently since the company came public in 2002 at \$7.00 per share, COSI has yet to generate a quarterly profit in that period of time. The company has cash with no long-term debt. As a result COSI market value is greater than its enterprise value with approximately 60% of the stock price representing cash. COSI has been able to generate positive cash flow from operations in the past, which has been redeployed in capital expenditures for store expansion and renovation. However, I am not confident that COSI can generate positive cash flow in the current economic environment.

There are simply too many mixed messages to conclude with a positive investment opinion on COSI. However, in the event that the company could ever demonstrate that it could deliver positive EPS then COSI would be eligible as a turnaround play. Until that occurs

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## Low Priced Restaurants (continued)

I would suggest that COSI is best left to dine and not invest.

### BENIHANA (BNHNA)



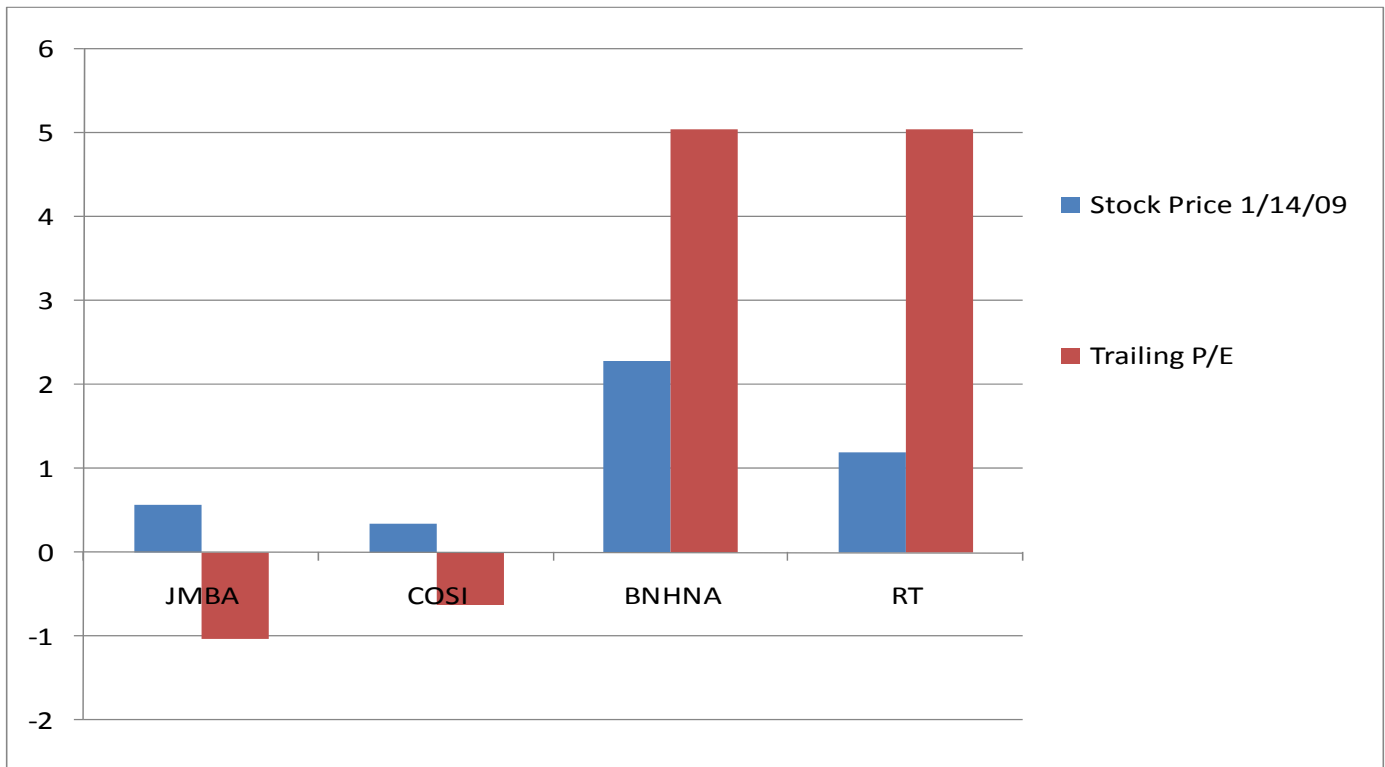
Benihana (BNHNA) is the teppanyaki style restaurant which offers Japanese food which is cooked in front of diners on large grills under the Benihana brand. In addition the company operates RA Sushi and Hara Sushi branded

restaurants. BNHNA has been established in this country for many decades but in the past few years both the remainder of this year and has undergone a system-wide restaurant renovation and is currently expanding to new locations.

Just yesterday BNHNA reported companywide sales decline of 3.7% for the company's fiscal 3rd quarter ended January 4, 2009. Same store comparable sales fell 11.1% and 10.9% at the Benihana brand. Accounting for the difference in these two sales metrics was the opening of new and newly-renovated units during the period. Currently BNHNA operates 94 restaurants of which 63 are Benihana, 9 are Haru Sushi

and 22 are RA Sushi. Five new restaurants are expected to open for both the remainder of this year and in the next fiscal year. For the first half of the current fiscal year BNHNA earned 23 cents versus 39 cents in the same period a year earlier. Along with that report, issued last October, the company guided to full year EPS of 40 - 45 cents. Given the accelerated slowdown in the last quarter and the sales report just issued this week, I am wary of the company's ability to meet those targets but unlike the other restaurants discussed in this report, BNHNA is profitable and should continue to generate profits (continued on page 3)

## Comparative Trailing P/E and Stock Price of JMBA, COST, BNHNA and RT



# The LakeView Restaurant and Food Chain Report

## Low Priced Restaurants (continued)

IN THIS ISSUE I ANALYZED FOUR LOW PRICED RESTAURANT STOCKS, IDENTIFYING TWO POTENTIAL SURVIVORS - BENIHANA (BNHNA) AND RUBY TUESDAY (RT)

through this economic slowdown. On a conservative basis I expect BNHNA to earn 35 cents in FY09 and 40 cents in FY10.

Historically BNHNA has sold at a premium PE multiple of 23 to 25 times earnings. That multiple was too great given the company's slower growth rate and the current economic contraction. I am willing to apply a 12 multiple to earnings for BNHNA.

Finally, while BNHNA carries close to \$26 million in debt net of cash, the balance sheet and operational cash flow give no indication that the company is in financial distress.

When I put all of these facts and figures together, I arrive at a target price of \$4.25 to \$5.00 for BNHNA. This is significantly higher than the current stock price of \$2.29. In conclusion, any investor with patience can begin to accumulate BNHNA for a long term investment.

### RUBY TUESDAY (RT)



Ruby Tuesday (RT), the casual dining chain, is a classic example

of mismanagement. For many years the company relied on coupon issuance to generate traffic. Once the coupon program ended, diner loyalty and traffic declined. Furthermore, RT was always a step behind its competitors in designing menu changes.

RT released 2nd quarter 2009 earnings early this month. The company reported a total loss of 73 cents per share which included 71 cents for impairment charges, netting to a 2 cent per share operating loss. Those charges were incurred in conjunction with the closing of 40 restaurants in the 3rd quarter. RT expects to close an additional 30 restaurants over the next few years as their leases expire. I welcome this proactive approach to restructuring RT.

Management guided to a full year loss of 45 to 55 cents, including 85 cents of restructuring charges. This implies 2nd half earnings from operations of 30 to 40 cents per share.

Same-store sales comps declined by 10.8% for company owned units and by 6.2% for franchised units during the quarter. RT expects full year comps to decline by 9 to 10%.

The company is saddled with nearly \$547 million of long term debt and lease obligations. So far this year RT has paid down ap-

proximately \$40 million in such liabilities, which is about halfway toward the full year goal of \$80 to \$90 million in reductions. As leases expire, these balances will continue to decline.

While I am not excited about a \$63 million market cap company with \$547 million in debt, I believe that RT is making moves in the right direction. In the past few years I was not enamored with RT management or its business model. However under new management and with a restructuring/rebranding plan in effect, I believe that RT is on the path to survival. However that path may be crooked as the economy and consumers continue to struggle.

### CONCLUSION

In this issue I analyzed four low priced restaurant stocks, identifying two potential survivors - Benihana (BNHNA) and Ruby Tuesday (RT) - as well as two companies that are likely destined for extinction by way of bankruptcy - Jamba (JMBA) and Cosi (COSI).

On a strategic basis an initial purchase of BNHNA and RT can be initiated at current levels. Then one should carefully monitor both companies as they progress through the recession, planning to add more shares as results improve and subtracting some shares if results continue to deteriorate.



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