Mossberg's Investor Digest

Best Idea Profile: **Bravo Brio Restaurant Group, Inc. (NASDAQgs:BBRG)**

DESCRIPTION:

Bravo Brio Restaurant Group, Inc. owns and operates two distinct Italian restaurant brands: BRAVO! Cucina Italiana, a sophisticated atmosphere, and BRIO Tuscan Grille, an upscale chophouse. Both restaurants deliver quality food and dining experience at a value more typically associated with casual dining. This segment is known as upscale affordable dining, and would include restaurants such as Cheesecake Factory and PF Chang's. The two concepts have distinct brands and therefore can operate in the same markets. All restaurants offer lunch, dinner and weekend brunch, with dinner making up 70% of the business. There are 47 BRAVO! restaurants in 21 states. There are 60 BRIO restaurants, all company owned, in 21 states. The first restaurant was opened in Columbus, Ohio, its current headquarters, in 1992.

KEY INVESTMENT CONSIDERATIONS:

Tough Market – The restaurant market in general is a tough place to be, but the Italian segment is particularly competitive. Bravo Brio's annual comparable sales for the year will be down at least 5%, and expenses are up in large part because of commodity price increases. Brio doesn't expect this negative dynamic to change meaningfully in the near term. Its strategy to cope with this malaise is to take action toward attracting and retaining guests with more discretionary income.

Value Creation – BBRG began a share repurchase program in late 2012 and has repurchased 1.5 million shares at a cost of $22.4 million. Management just recently announced its intent to purchase up to $50 million of common shares through a modified "Dutch auction" tender offer. The offer began in mid-November, at the price per share of not less than $12.50 and not greater than $14.50. The offer expires on December 10. It will be financed from borrowing under a new $100 million credit facility, representing the first time the company has leveraged its balance sheet in order to repurchase shares. Management has stated that this transaction, if successful, will be accretive to shareholders into 2015 and beyond.

New Initiatives – Bravo Brio is focusing on multiple new initiatives. It introduced a Lighter Side menu to offer a healthier option within the Italian dining segment. There are more than 19 items on the menus that have fewer than 550 calories. This effort, as well as the new bar program, is a direct result of the effort to target upscale customers. It is also implementing programs to showcase its culinary-trained executive chefs; it has monthly, limited time, chef creations. It is also sourcing more sustainable products, such as lamb and scallops. The successful loyalty program got a new look in the third quarter. Technology is also playing a bigger role with the enhancement of mobile capabilities, brand applications, and cloud-based reservation system and table management platforms that will be in all of the restaurants by the end of the year. The restaurants should also get a short-term bump from holiday gift card promotions and banquet business.

Careful Expansion – Despite the cautionary stance, the company expects to add six new restaurants this year, four of which opened during the third quarter. Management has committed to open five restaurants in 2015, all of which will be in existing markets. The company has industry-leading new unit economics and the ability to secure prime locations within a retail center because of the retailers it attracts.

VALUATION:

The stock has traded more vigorously recently and in a volatile range. There have been multiple downward estimate revisions resulting from management's guidance. Investors may be overreacting to this downward guidance and, if patient, could be rewarded longer term as conditions in the Italian restaurant segment improve on the sales and cost fronts.

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Investment Data (as of 11/24/14)

Recent Price	**$13.15**
52-Week Range	$11.58 - $17.13
Fiscal Year End	Dec 29
Dividend/Yield	NA
Yield	NA
Shares Outstanding	18.7 M
Average Trading Volume (3 mos)	122k
Market Capitalization	$245 M
Cash	$346 K
Long-term Debt	$14 M
Enterprise Value (EV)	$258 M
Book Value	$5.41
TTM Revenue	$408 M
P/ Revenue	1 x
TTM EPS	$0.27
P/ EPS	50 x
TTM EBITDA	$39 M
EV/ EBITDA	7 x