Mossberg's Investor Digest

Best Idea Profile: **Famous Dave's of America Inc. (NASDAQ:DAVE)**

DESCRIPTION:

Famous Dave's of America Inc. has 53 company-owned restaurants and 136 franchise-operated restaurants, in 34 states, Puerto Rico and Canada. It offers primarily hickory-smoked meats and chicken, primarily prepared with proprietary seasonings and sauces. Famous Dave's restaurants also offer salads, side items and desserts. The company opened its first Famous Dave's restaurant in Minneapolis in June 1995. It is based in Minnetonka, Minnesota.

KEY INVESTMENT CONSIDERATIONS:

Energized Management – The management team and the board was reconstituted in recent years, with a new chief executive arriving a year ago. They have been charged with increasing shareholder value by taking quick action to reverse sales declines, improve unit level economics, and bring general and administrative expenses in line with the size of Famous Dave's business. General and administrative expenses are declining rapidly and should continue to benefit from smart spending and a growing top line. Management is targeting a level of 10% for G&A expenses within a year or two. With the emphasis on quick, the most recent quarter demonstrated the success of these initiatives. The improvements are somewhat hidden by a bonus recapture in 2012 and by severance costs associated with the recent reduction in force.

Improving Unit Economics – Same-store comparisons are improving despite the industry's well documented revenue challenges. Same-store sales for company restaurants grew 3.8% versus last year, which is above the company's aggressive targets for the year. Franchise sales have improved as well but are still down. Operating margins increased 360 basis points at the restaurant level in second quarter comparisons. Dine-in per person ticket average for the second quarter of fiscal 2013 was $16.69, compared with $15.79 in the second quarter of 2012. And industry analyses indicate Famous Dave's is gaining share in the markets in which it operates. Management is committed to carefully growing its stores; it expects to add two new company stores and nine franchise stores in 2013.

Reduced Discounting and Improved Menu – There is obviously a lot of experience and analysis going into product and marketing decisions. Famous Dave's rolled out a new menu beginning in April with new products and a simpler menu design, but with fewer overall items. It also analyzed pricing and demand to optimize the pricing of its items. Also in its analysis it determined to discontinue much of its discounting practices, and instead implemented a loyalty program that appears to be working extremely well. Discounting has gone from 5.5% last year to 4.6% this year; a huge contribution to the bottom line. The new advertising campaign is generating strong traffic as well.

Innovative Ideas Are Working – DAVE tested a call center for catering last year and is now rolling it out to more stores based on its success: it frees in-store employee resources and utilizes specialists that are better equipped to optimize the catering business. Management is also targeting a more local feel for full-service restaurants by offering craft beers from local microbreweries. The company is now using more environmentally friendly and cost-effective packaging that will further reduce costs in its take-out business, which represents 25% of sales.

VALUATION:

Despite a well deserved run-up in stock price following the knock-out second quarter, the stock still has considerable upside based on the huge ongoing improvements in all major areas of the business. Revenues, margins, expenses, and marketing all seem to be running on all cylinders. Additionally, the company continues to carry out a share repurchase program.

Famous Dave's (NASDAQ:DAVE)
Investment Data (as of 9/19/13)

Recent Price	**$16.00**
52-Week Range	$7.75 - $17.23
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	7.6 M
Average Trading Volume (3 mos)	20k
Market Capitalization	$123 M
Cash	$3 M
Long-term Debt	$16 M
Enterprise Value (EV)	$135 M
Book Value	$4.79
TTM Revenue	$156 M
P/ Revenue	0.8x
TTM EPS	$0.49
P/ EPS	33x
TTM EBITDA	$11 M
EV/ EBITDA	12x