

Mossberg's Investor Digest

Best Idea Profile:

Luby's Inc (NYSE:LUB)

DESCRIPTION:

Headquartered in Houston, Luby's Inc. is a multi-branded restaurant and contract food services industry operator. The company's primary brands include Luby's Cafeteria, Luby's Culinary Contract Services, and Fuddruckers. The brand portfolio also includes Luby's, Etc. and Koo Koo Roo Chicken Bistro. Luby's currently operates 155 restaurants located throughout the United States. These establishments are located in close proximity to retail centers, business developments and residential areas. Of the 155 restaurants, 83 are located on properties that are owned by the company and 72 are on leased premises. In July '10, LUB completed the acquisition of substantially all of the assets of Fuddruckers. Upon the completion of the acquisition, LUB became the owner and operator of 56 Fuddruckers locations, with franchisees currently operating an additional 130 locations and 3 Koo Koo Roo Chicken Bistro ("Koo Koo Roo") locations. The company also operates culinary contract services at 18 locations as Luby's Culinary Services provides food service management to healthcare, educational and corporate dining facilities.

KEY INVESTMENT CONSIDERATIONS:

Fuddruckers Acquisition – On July 26, 2010 Luby's completed the acquisition of substantially all of the assets of Fuddruckers. This acquisition gives the company the opportunity to utilize synergies, cost savings and operational efficiencies within a reasonable period of time. It also adds a growth opportunity to a company that has long been a value story. This event also transformed the company into a multi-brand food service company with a national footprint.

Cafeteria Chain Turnaround – Last year, Luby's announced a cash flow improvement and capital redeployment plan focused on improving cash flow from operations, which included closing 25 underperforming stores in the first quarter of FY10. In conjunction with these store closings, the company incurred a non-cash pre-tax \$19.0 million impairment charge during 4Q09. The closure of these locations eliminated negative cash flow incurred from their operations and is estimated to generate approximately \$25 million to \$30 million in cash from the sale of the properties based on current estimates of individual property values. Luby's has also stepped up efforts to attract restaurant customers with a focus on local and on-line marketing. The company reported a positive and growing trend in year-over-year traffic comparables for the third and fourth quarters of fiscal year 2010.

Underlying Assets – Luby's Cafeterias has 96 operating locations with seating capacity for 250 to 300 customers at each location. The company owns the underlying land and buildings for 68 of the Luby's restaurant locations. Eight of these restaurant properties contain excess building space, which is leased to tenants unaffiliated with Luby's, Inc. The company's real estate can, depending on the method, be valued in excess of \$5 per share.

Seasoned Management – Both CEO Christopher Pappas and COO Harris Pappas have a long and successful history in the restaurant business. Collectively they own just under 30% Luby's common stock, which also leaves their interest closely aligned with that of the other shareholders.

Insider Buying – Over 150,000 shares of Luby's common stock has recently been purchased by insiders.

Strong Cash Flow and Balance Sheet – For the FY Ended August 2010, the company generated \$9.1 million in operating cash flow. Luby's currently has \$2.3 million in cash and \$19.5 million in property held for sale on the balance sheet.

VALUATION:

Luby's cafeteria business turnaround is complete and the company is profitable. With a book value of \$5.75 the company offers investors a classic value story with a growth catalyst.

(Luby's Inc: NYSE)

Investment Data (as of 12/3/10)

Recent Price	\$6.59
52-Week Range	\$3.30 - \$6.97
Fiscal Year End	Aug
Shares Outstanding	28MM
Average Trading Volume (3 mos)	50,000
Market Capitalization	\$185MM
Cash	\$2.3MM
Long Term Debt	\$42MM
Enterprise Value (EV)	\$225MM
LT Debt/ Equity	0.26
BV/ Share	\$5.75
TTM Revenue	\$245MM
P/ Revenue	0.8x
TTM EPS	\$(0.10)
P/ EPS	NA
TTM EBITDA	\$13MM
EV/ EBITDA	\$17x

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