

Mossberg's Investor Digest

Best Idea Profile:

Pizza Inn, Inc. (NASDAQ:PZZI)

DESCRIPTION:

Founded in 1958 and headquartered in Dallas, Texas; Pizza Inn operates 5 company-owned and 297 franchise pizza buffets, delivery/carry-outs and express restaurants domestically and internationally under the trademark "Pizza Inn." Through its Norco Restaurant Services division, Pizza Inn also provides food, equipment and supply distribution to its franchisees. Domestic restaurants are located predominantly in the southern half of the United States, with Texas, North Carolina, Arkansas and Mississippi accounting for approximately 34%, 17%, 9% and 8%, respectively, of the total number of restaurants in the United States.

KEY INVESTMENT CONSIDERATIONS:

Establish restaurant franchiser generates stable returns and cash flows – Pizza Inn has built a 50-year-old brand with an established franchise base. The first franchise was formed in the early 70's. The asset-light franchise business model provides for a very attractive return on capital and is highly profitable. The company consistently produces greater than 20% return on equity, and even during the past recession, ROE was greater than 35%.

Low price-point casual/ fast food category is more resistant to recessionary pressures - Pizza Inn operates in the low price-point casual/fast food dining niche. This type of dining is better suited to consumers in a recessionary, or low growth economic environment than more upscale alternatives. The Pizza Inn buffet is typically offered at prices ranging from \$5.49 to \$6.99, and the average ticket price per meal, including a drink is approximately \$8.30 per person, with slightly higher prices in restaurants offering beer and wine. This makes the company a more affordable alternative to consumers in a time of less disposable income.

New Concept is the "Chipotle" of Pizza and provides growth vehicle – This summer, Pizza Inn launched a new upscale store format known as Pie Five, which will provide the company with an exciting growth vehicle. The upscale brand will serve pizzas made to order in less than five minutes. The first Pie Five Pizza store was opened on June 2011. The company has experienced success with this format and is now looking to expand the concept to 23 more Company-owned restaurants over the next 18 to 24 months and by nearly 5x over the next two years. The Company also expects to begin awarding franchises for Pie Five this month in top tier markets throughout the US.

Food and Supply Distribution – The Company's food and supply distribution system provides proprietary ingredients to franchisees and generates approximately 80% of total revenue. Like most franchise models, franchisees are required to buy these ingredients from the Company, which creates nice recurring revenue stream. The Company outsources the warehouse and distribution service to a third party and only maintains ownership of the inventory. This way, the company is able to maintain its asset-light business model, lower operating costs and capture the scale and efficiencies of a third party logistics provider.

KEY INVESTMENT CONSIDERATIONS:

Pizza Inn has been a sleepy microcap company for years and many have questioned the need for it to continue to be public. However, because it is public, investors now have an opportunity to invest in a high growth concept at the very early stages. This type of investment would typically be reserved for venture capital or private equity. The Pizza Inn franchise by itself can easily justify the current market cap and valuation of 7-8x EBITDA. At its current valuation, investors get a stable franchise operation at fair value and an exciting high-growth concept for free.

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Investment Data (as of 10/14/11)

Recent Price	\$3.50
52-Week Range	\$1.75 - \$3.54
Fiscal Year End	Jun
Dividend	NA
Yield	NA
Shares Outstanding	8.01MM
Average Trading Volume (3 mos)	40k
Market Capitalization	\$28MM
Cash	\$1MM
Long Term Debt	\$0.8MM
Enterprise Value (EV)	\$28MM
BV/ Share	\$0.73
TTM Revenue	\$43MM
P/ Revenue	0.60x
TTM EPS	\$0.17
P/ EPS	20x
TTM EBITDA	\$3.6MM
EV/ EBITDA	7.7x

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