

Famous Dave's of America Inc.

Restaurants October 29, 2009

Company Description: Famous Dave's owns, operates and franchises BBQ centered casual dining restaurants. The company currently operates 45 restaurants while franchisees operate 133 units in 37 states. The restaurants offer a variety of barbecue items such as ribs, brisket, chopped pork, roasted chicken, sandwiches, sides and desserts. The company was founded in 1994 and is headquartered in Minnetonka, Minnesota.

3Q:09 Results Exceed Our Expectations, Raise Estimates Slightly (DAVE - \$6.69) STRONG BUY

Key Points

- DAVE reported 3Q:09 EPS of \$0.17 (excluding one-time items) on \$33.3 million, better than our \$0.13 estimate on \$33.1 million.
- Margins were higher than anticipated as the company benefitted from low commodity prices and cost cutting.
- Year-to-date the company has repaid approximately \$10 million in debt which helps boost results through lower interest expense.
- Management indicated it expects at least eight new franchised restaurants in 2010; we anticipate nine new franchised openings and two new company-operated units.
- We raised our 4Q:09 and 2010 EPS estimates by \$0.01 each as we still remain cautious regarding the consumer environment.
- We reiterate our STRONG BUY rating and \$9 price target as DAVE is the cheapest restaurant stock we cover and the company has a clean balance sheet and earnings growth.

	3Q:09 Actual	3Q:09 Estimate	Variance	3Q:08 Actual	YOY % Change
Total Revenue	\$33,305	\$33,071	0.7%	\$35,088	-5.1%
Gross Profit	\$7,609	\$7,366	3.3%	\$8,252	-7.8%
Operating Income	\$2,655	\$2,133	24.5%	\$3,185	-16.6%
Net Income	\$1,557	\$1,190	30.9%	\$1,525	2.2%
Diluted EPS	\$0.17	\$0.13	\$0.04	\$0.16	\$0.01

Management will host a conference call to discuss results on October 29th at 10:00 a.m. Central. The conference call will be hosted on the company's website www.famousdaves.com.

DAVE reported strong 3Q:09 results. DAVE reported slightly better-than-expected revenues and expanding margins to beat our \$0.13 EPS estimate by \$0.04. We are encouraged by the strong quarterly results. We think the company's promotions, primarily the "Dave's Day", helped boost restaurant revenue in 3Q:09. Restaurant operating margin was 10.7%, better than our 9.6% estimate as the company benefitted from lower commodity prices and continued to efficiently manage costs. SG&A expense was approximately \$200k less than we expected as management has trimmed corporate expenses. Additionally, interest expense was below our estimates due to large debt repayments during the quarter. EPS of \$0.17 (excluding impairments and other one-time items) was above our \$0.13 estimate.

New unit growth will boost results. DAVE franchisees opened two restaurants during 3Q:09 and closed one unit. Since the end of 3Q:09 franchisees have opened an additional 3 units and closed one and the company closed one restaurant. We are encouraged by the new restaurant openings, but note that the new restaurants (those opened in 2H:09 and 2010) pay a decreased royalty rate (1.5%) for the initial twelve months from opening. We do not expect a meaningful impact from these restaurants until late 2010, but these units should have a significant positive impact beginning in 2011. Management indicated it expects to open at least eight new franchised restaurants in 2010 and that company-operated restaurant

Financial Summary

Rev(mil)	2008A	2009E	2010E
Mar	\$33.7	\$33.8A	\$31.9E
Jun	\$38.8	\$36.3A	\$36.5E
Sep	\$35.1	\$33.3A	\$33.2E
Dec	\$32.8	\$33.1E	\$31.8E
FY	\$140.4	\$136.5E	\$133.3E
P/Sales	0.4x	0.5x	0.5x

EPS	2008A	2009E	2010E
Mar	\$0.10	\$0.15A	\$0.15E
Jun	\$0.23	\$0.26A	\$0.27E
Sep	\$0.16	\$0.17A	\$0.18E
Dec	\$0.01	\$0.08E	\$0.10E
FY	\$0.51	\$0.66E	\$0.71E
P/E	12.8x	10.7x	9.3x

Price:	\$6.69
52-Week Range:	\$7.25-\$2.00
Target:	\$9.00
Rating:	STRONG BUY
Shares Outstanding:	9.2 mil
Mkt. Capitalization:	\$62 mil
Ave. Volume:	34,400
Instit. Ownership:	49%
BV / Share:	\$3.46
Debt / Tot. Cap.:	36%
Est. LT EPS Growth:	15%

development is being evaluated. We model nine new franchise-operated restaurant openings in 2010 and two new company-operated units. We think there is potential upside to our opening expectations following the successful initiatives management has developed to incent franchisees to open new units, which resulted in franchisees opening 13 restaurants in 2009. We expect the two new company-operated restaurants in our model will be smaller footprint restaurants which have lower costs to open. We note that we expect these restaurants will not have a significant impact to revenue due to our expected timing of opening late in the year; if the units are not opened in 2010, it would have a positive impact on our earnings estimates as we model approximately \$0.04 in pre-opening expenses.

DAVE produces strong free cash flow and has a clean balance sheet. The company has repaid approximately \$10 million in debt year-to-date with the strong free cash flow generated from a highly franchised model. Through 3Q:09 the company has produced approximately \$1.15 in free-cash flow per share which equates to a 17% free-cash yield on the first three quarters worth of free-cash flow. Debt repayment has been the primary use of cash, but with debt/EBITDA of approximately 1x and low rates on the credit facility, we think the company may have better alternatives for capital allocation than further debt repayment. Historically DAVE has actively repurchased stock and the company has a current share repurchase authorization. We expect free-cash flow to decline in 2010 as we model capital expenditures will rise due to two new projected restaurant openings.

We raised our 4Q:09 and 2010 earnings estimates slightly, but remain cautious regarding the consumer. We are encouraged by the strong 3Q:09 results and expect many of the positive trends to continue into 2010. We lowered our 4Q:09 and 2010 revenue estimates to \$33.0 and \$133.3 million, respectively, from \$33.5 and \$137.5. We do not anticipate an improving consumer environment in 2010 and think stiff competition in the casual dining segment will lead to difficult traffic trends for DAVE. We think our revenue estimates are conservative, but given the current environment we are not comfortable modeling an improving consumer in the next twelve months. We expect DAVE will benefit from low commodity prices through much of 2010 and think labor cost inflation has subsided with no Federal minimum wage hikes planned. Management's cost cutting initiatives will continue to bear fruit in 2010, in our view and we project operating margin will expand 10 basis points in 2010. Additionally, the company will benefit from lower interest expense. We raised our 4Q:09 and 2010 EPS estimates by \$0.01 each to \$0.08 and \$0.71, respectively.

INVESTMENT THESIS

We reiterate our STRONG BUY rating and \$9 price target. We are encouraged by 3Q:09 results and are cautiously optimistic for 2010. We think management has taken the proper steps to position the company to grow in spite of the difficult operating environment. We are encouraged by the strong free-cash flow and the clean balance sheet. DAVE shares trade at 9.3x our new 2010 EPS estimate and 4.7x our revised 2010 EBITDA estimate. DAVE is trading at a steep discount to its peers in the casual dining segment of the restaurant industry which trade at approximately 12x-13x forward earnings and approximately 6.0x EV/EBITDA. We think the discount is unwarranted given DAVE's healthy balance sheet, strong cash flow and earnings growth. We maintain our \$9 price target which is a 14x multiple of our new 2009 EPS estimate of \$0.66. With significant upside to our \$9 price target, we reiterate our STRONG BUY rating.

Ticker	Company	(2010)	P/E	EV/EBITDA
BWLD	BUFFALO WILD WINGS INC		18.8	6.8
CHUX	O'CHARLEY'S INC		15.7	4.2
DRI	DARDEN RESTAURANTS INC		10.1	6.1
EAT	BRINKER INTERNATIONAL		9.1	4.9
RRGB	RED ROBIN GOURMET BURGERS		10.2	4.6
RT	RUBY TUESDAY INCORPORATED		9.2	6.4
DIN	DINEEQUITY INC		10.3	7.7
TXRH	TEXAS ROADHOUSE INC		14.9	6.7
	<i>Average</i>		12.3	5.9
DAVE	FAMOUS DAVE'S OF AMERICA		9.3	4.7

Famous Dave's of America, Inc. Income Statement
(Dollars in thousands, except where noted)

	2007	Mar	Jun	Sept	Dec	2008	Mar	Jun	SeptA	Dec	2009E	Mar	Jun	Sept	Dec	2010E
Revenue																
Restaurant revenue	\$107,820	\$29,247	\$33,565	\$30,407	\$28,797	\$122,016	\$29,291	\$31,546	\$28,763	\$28,727	\$118,327	\$27,343	\$31,334	\$28,416	\$27,430	\$114,522
Franchise revenue	17,041	4,282	4,893	4,476	3,867	17,518	4,250	4,434	4,322	4,148	17,154	4,297	4,781	4,513	4,131	17,721
Licensing revenue	1,012	186	316	205	141	848	246	345	220	160	971	260	350	240	235	1,085
Total revenue	125,873	33,715	38,774	35,088	32,805	140,382	33,787	36,325	33,305	33,035	136,452	31,900	36,465	33,168	31,796	133,328
year-over-year % change	7.9%	16.2%	15.6%	10.0%	4.4%	11.5%	0.2%	-6.3%	-5.1%	0.7%	-2.8%	-5.6%	0.4%	-0.4%	-3.8%	-2.3%
Costs and expenses																
Restaurant expenses																
Food and beverage costs	32,419	8,939	10,292	9,523	8,827	37,581	8,778	9,506	8,762	8,748	35,794	8,203	9,457	8,695	8,421	34,776
Labor and benefits	32,673	9,182	9,728	9,816	9,459	38,185	9,311	9,372	9,174	9,153	37,010	8,703	9,400	8,866	8,585	35,555
Operating expenses	27,547	7,493	9,172	7,497	8,348	32,510	7,550	8,182	7,760	8,306	31,852	7,306	8,068	7,601	7,625	30,601
Total costs and expenses	92,639	25,614	29,192	26,836	26,634	108,276	25,639	27,060	25,696	26,260	104,655	24,212	26,925	25,162	24,632	100,932
Gross profit	33,234	8,101	9,582	8,252	6,171	32,106	8,148	9,265	7,609	6,776	31,798	7,687	9,539	8,006	7,164	32,397
Gross margin	26.4%	24.0%	24.7%	23.5%	18.8%	22.9%	24.1%	25.5%	22.8%	20.5%	23.3%	24.1%	26.2%	24.1%	22.5%	24.3%
Depreciation and amortization	4,934	1,461	1,268	1,397	1,396	5,522	1,312	1,269	1,253	1,265	5,099	1,270	1,300	1,345	1,390	5,305
Pre-opening expenses	1,154	254	49	333	467	1,103	0	0	0	0	0	60	155	90	320	625
General and administrative expenses	15,603	4,653	4,380	3,337	4,151	16,521	4,300	3,975	3,701	4,129	16,105	4,051	4,048	3,848	3,974	15,921
% of revenue	12.4%	13.8%	11.3%	9.5%	12.7%	11.8%	12.7%	10.9%	11.1%	12.5%	11.8%	12.7%	11.1%	11.6%	12.5%	11.9%
Total operating expenses	21,691	6,368	5,697	5,067	6,014	23,146	5,612	5,244	4,954	5,394	21,204	5,381	5,503	5,283	5,684	21,851
Operating income	11,543	1,733	3,885	3,185	157	8,960	2,536	4,021	2,655	1,381	10,593	2,306	4,037	2,724	1,480	10,546
Operating margin	9.2%	5.1%	10.0%	9.1%	0.5%	6.4%	7.5%	11.1%	8.0%	4.2%	7.8%	7.2%	11.1%	8.2%	4.7%	7.9%
Interest income (expense)	(1,421)	(453)	(422)	(431)	(425)	(1,731)	(440)	(393)	(251)	(221)	(1,305)	(175)	(141)	(112)	(90)	(518)
Other income (expense)	29	(1)	(29)	(3)	4	(29)	10	(18)	7	0	(1)	0	0	0	0	0
Gain (loss) from nonrecurring items	(1,073)	6	(12)	(3,889)	(3,035)	(6,930)	(106)	(22)	(493)	0	(621)	0	0	0	0	0
Pretax income	9,078	1,285	3,422	(1,138)	(3,299)	270	2,000	3,588	1,918	1,160	8,666	2,131	3,896	2,612	1,390	10,028
Pretax margin	7.2%	3.8%	8.8%	-3.2%	-10.1%	0.2%	5.9%	9.9%	5.8%	3.5%	6.4%	6.7%	10.7%	7.9%	4.4%	7.5%
Income tax expense (benefit)	3,235	450	1,150	(375)	(1,344)	(119)	680	1,220	679	394	2,973	725	1,325	888	472	3,410
% of pretax income	35.6%	35.0%	33.6%	33.0%	40.7%	-44.1%	34.0%	34.0%	35.4%	34.0%	34.3%	34.0%	34.0%	34.0%	34.0%	34.0%
Net income (excl. nonrecurring items)	5,741	983	2,280	1,525	48	4,836	1,390	2,383	1,557	766	6,096	1,407	2,571	1,724	917	6,619
Net income (GAAP)	5,843	835	2,272	(763)	(1,955)	389	1,320	2,368	1,239	766	5,693	1,407	2,571	1,724	917	6,619
EPS	0.56	0.10	0.23	0.16	0.01	0.51	0.15	0.26	0.17	0.08	0.66	0.15	0.27	0.18	0.10	0.71
EPS (GAAP)	0.57	0.09	0.23	(0.08)	(0.22)	0.04	0.15	0.26	0.13	0.08	0.62	0.15	0.27	0.18	0.10	0.71
EPS growth rate	3.7%	-23.1%	15.0%	0.0%	-83.3%	-8.9%	50.0%	13.0%	6.3%	700.0%	29.4%	0.0%	3.8%	5.9%	25.0%	7.6%
Diluted shares	10,298	9,773	9,795	9,304	9,075	9,542	9,087	9,212	9,254	9,300	9,213	9,330	9,350	9,365	9,375	9,355
Number of restaurants period end:																
Company-owned (incl joint venture)	44	45	45	47	47	47	46	46	46	45	45	45	45	46	47	47
Franchised	120	123	125	123	123	123	127	130	131	133	133	135	136	137	139	139
Total	164	168	170	170	170	170	173	176	177	178	178	180	181	183	186	186
Same-store sales (yoy pct. chg.):																
Company-owned	2.1%	3.6%	1.7%	-4.7%	-8.3%	-2.0%	-5.5%	-9.4%	-6.8%	-3.5%	-6.3%	-4.2%	1.0%	-0.8%	-3.2%	-1.8%
Franchised	-3.3%	-3.2%	-1.4%	-4.6%	-7.4%	-3.6%	-6.2%	-10.9%	-9.5%	-7.3%	-8.5%	-6.8%	-0.3%	-1.5%	-3.5%	-3.0%
EBITDA	16,477	3,194	5,153	4,582	1,553	14,482	3,848	5,290	3,908	2,646	15,692	3,576	5,337	4,069	2,870	15,851

Analyst Certification

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10/29/2009

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Rating	Number of Stocks	Percent of Total	----- Investment Banking -----	
			Number of Stocks	Percent of Rating category
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Hold	16	38%	0	0%
Sell	1	2%	0	0%
	42	100%	2	5%

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Date	Nature of Report	Rating	Price Target
05/30/07	Initiation @ \$20.13	Buy	\$26
09/21/07	Estimates and Target Reduced	Buy	\$24
11/01/07	Estimates and Target Reduced	Buy	\$22
12/21/07	Raised Estimates	Buy	\$22
01/24/08	Estimates and Target Reduced	Buy	\$19
04/16/08	Estimates and Target Reduced	Buy	\$16
04/24/08	Estimates and Target Reduced	Buy	\$15
10/21/08	Estimates and Target Reduced	Buy	\$11
11/18/08	Estimates and Target Reduced	Buy	\$9
01/29/09	Estimates and Target Reduced	Buy	\$7
04/23/09	Rating, Estimates and Target Raised	Strong Buy	\$9

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Valuation and Price Target Methodology:

High unit growth through franchisees, strong demand for its products and improving unit economics lead to our 15% five-year annualized earnings growth rate. We derive our \$9 price target by applying a 14x multiple to our 2009 EPS estimate of \$0.66. This multiple is roughly in-line with our 15% growth rate assumption.

Risks to Achievement of Estimates and Price Target:

- Famous Dave's business may be impacted by consumers' discretionary spending and confidence. Macroeconomic factors such as increasing gasoline prices, unemployment and generally tough economic times may negatively impact consumers' restaurant spending. Changing customer tastes could also have a negative impact on sales.
- Severe weather may slow sales at the restaurants as customers and staff may not be able to travel to the restaurant, or customers may choose not to eat out due to inclement weather. The catering business may face more volatility due to inclement weather in summer months.
- Volatile commodity prices may affect earnings. DAVE's diversified menu exposes it to a variety of commodities, but may decrease the risks due to menu changes that are beneficial. Food and beverage costs are approximately 30% of restaurant revenue, and we think the company's largest commodity exposures are pork, chicken and beef. Approximately 85% of food costs are under contract which should, in our view, decrease risk. We project commodity price volatility to come primarily from high corn prices, disease and changing health trends and consumer preferences.
- There is no guarantee that Famous Dave's restaurants will be successful in new markets. Restaurants are currently operated in 36 states, but the company will continue to expand geographically in the future, including new franchised restaurants in international locations. In our view, this risk is lowered through growth in new markets from franchisees.
- The restaurant business is extremely competitive and competition for customers through lower prices may negatively impact DAVE's returns. DAVE operates in the casual dining segment of the restaurant industry which we think is the most competitive.
- Our growth projections are dependent on DAVE's ability to recruit and sign competent franchisees. Lower demand for franchised restaurants could slow restaurant development and expected returns.
- Readers should recognize that the risks noted here do not represent a comprehensive list of all risk factors or potential issues, nor all factors that may preclude achievement of our forecast or price target. Additional risk factors exist and are outlined in the Company's SEC filings

Other Disclosures:

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