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TENT RATING:
Strong Buy

Company Summary

•**We anticipate Total Entertainment expanding from 64 restaurants at the end of 2003, to over 150 restaurants by 2010 and 166 restaurants by 2014** while revenue should more than triple over the same period. However, these figures could prove conservative.

•**Total Entertainment has not attracted significant analyst coverage.** Currently, only one analyst has published a report since July of 2003 and they are very bullish on the firm. Interestingly, the beta of the company is slightly negative providing further evidence that the street has barely monitored their progress.

•**Comparables analysis indicates Total Entertainment is significantly undervalued.** We looked at the entire industry and an average of five highly similar restaurant companies, and looking at P/E, EV/E, or P/S ratios, Total Entertainment appears undervalued relative to its peers by at least 30%.

•**We are initiating coverage with a Strong Buy** with a target price of \$40. Our DCF model shows 195% upside.

•**Total Entertainment is undervalued even if they open zero new restaurants.** At this level, our DCF model shows them as having 60% upside. In fact, if they open zero restaurants after 2004, net income as a percentage of market cap would be 8.6%, still above the market risk premium. In effect, all restaurant growth is free.

Total Entertainment:
TENT Price: 13.99

TENT:

52 week Lo: 6.92
52 week Hi: 14.90
Market Cap: 137.31M
P/E: 16.63
Profit Margin: 7.1%
EBIT Margin: 9.9%
ROA: 10.6%
ROE: 18.6%
EPS: 0.84
Beta: -0.228



Restaurants Industry

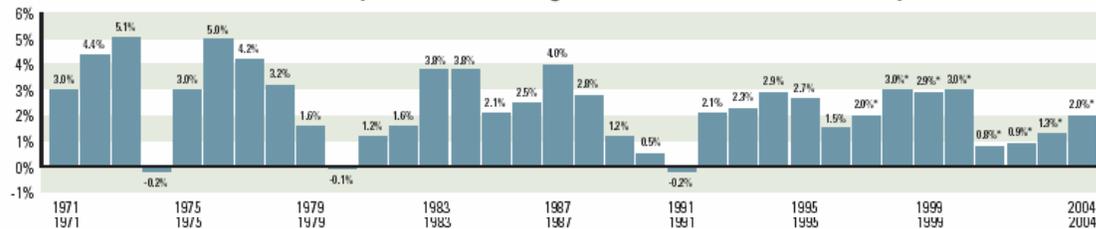
After a weak performance in 2003, the restaurant industry has shown increased levels of performance, and optimism for the group has dramatically improved. In 2003, sales were impacted by discounting in the Quick Service Restaurant industry, by severe winter weather, and by the buildup to the war in Iraq, which led a decrease in restaurant traffic.¹

As the economy continues to improve, we expect increased levels of consumption in the restaurant industry. On the other hand, a better economy will positively affect the job market, resulting in higher levels of job turnover. In the past, this has led to a small increase in costs in salary expenses for the industry as a whole².

The National Restaurant Association estimates restaurant industry sales will be approximately \$440B in 2004. Total Entertainment is included as a full-service restaurant, which, as an industry is expected to reach \$157.9 billion in 2004 or 4.6% higher than 2003³. The restaurant industry as a whole is expected to reach to \$577B in 2010 when consumers will spend 53% of every food dollar on meals, snacks, and beverages prepared away from home. The major factors contributing to this growth are the decline of free time, the erosion of price differences between eating out and at home, and the increase in disposable income.

The last 30 years have experienced reasonably consistent real sales growth in restaurant sales.

2004 marks the 13th consecutive year of real sales growth for the restaurant industry



Total Entertainment Restaurant Corp

On March 12th, 2004, Total Entertainment Restaurant Corp., announced the opening of its 66th restaurant. The company owns and operates entertainment restaurant locations which utilize the Fox and Hound English Pub & Grille and Fox and Hound Smokehouse & Tavern ("Fox and Hound"), Bailey's Sports Grille, Bailey's Pub & Grille and Bailey's Smokehouse & Tavern ("Bailey's") trade names.

"The Company's entertainment concepts combine a comfortable and inviting social gathering place, full menu and full service bar, state-of-the-art audio and video systems for sports entertainment, traditional games of skill such as pocket billiards and a late-night dining and entertainment alternative all in a single location. The Company's entertainment restaurant concepts appeal to a broad range of guests who can participate in one or more aspects of the Company's total entertainment restaurant experience. Both the Fox and Hound and Bailey's

¹ S&P TENT report – sub-industry outlook section. March 20, 2004.

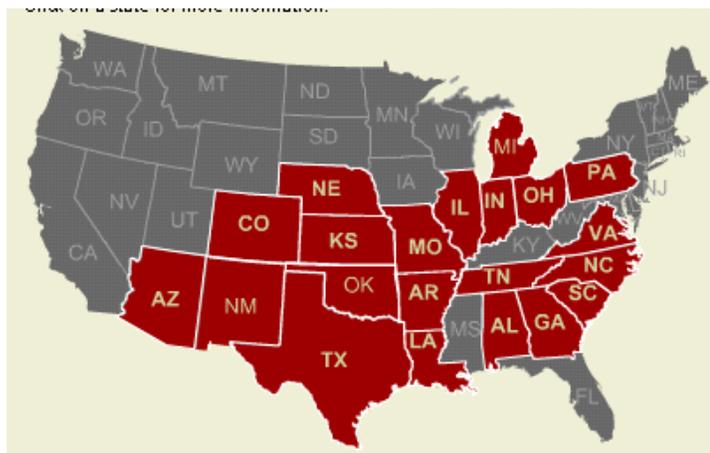
² Ibid.

³ National Restaurant Association- Executive Summary of 2004 Restaurant Industry forecast.

locations encompass the Company's multi-dimensional concept and serve both larger urban and smaller regional markets. The Company operates in one business segment”⁴.

The Company owns and operates its units in Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, New Mexico, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas and Virginia.

Total Entertainment Restaurant Corp. aims at being the leader in the entertainment restaurant market segment.



The company believes that this will be possible to achieve given their experienced management team, which is constantly utilized to start other restaurants in other locations, and due to their focus in offering the best quality of its products and services. The company offers a social gathering place where people can go for food and beverages (including premium craft beers) and enjoy numerous state-of-the-art audio and video systems for viewing sporting events. People can also enjoy a set of games of skill such as pocket billiards, shuffleboard and darts.

Menu

“Both Bailey's and Fox and Hound concepts offer a single menu for lunch dinner and late-night dining. The menu features a selection of appetizers, including quesadillas, chicken wings and nachos, soups and salads, gourmet-style sandwiches, pizzas, ribs, burgers, a selection of grilled and smoked barbecued entrees and desserts. Appetizers typically range in price from \$3.49 to \$6.99, and entrees range from \$5.99 to \$16.99, with most entrees priced below \$10.00. Each location features a full service bar and most units have over 100 brands of ales, lagers, stouts and premium craft beers from around the world, including over 35 on tap. Alcoholic beverage service accounted for approximately 58% of the Company's revenues in the fiscal year ended December 31, 2003”⁵.

Ambiance and design

“The Fox and Hound English Pub & Grille, Fox and Hound Smokehouse & Tavern, Bailey's Pub & Grille, and Bailey's Smokehouse & Tavern entertainment restaurant concepts incorporate the tradition, spirit and sophistication of a contemporary social gathering place, with an elegant, yet comfortable atmosphere of finished wood, polished brass, embroidered chairs and booths, hunter green and burgundy walls and etched glass. Each location features a full service restaurant and bar as well as state-of-the-art audio and video technology (including several mega-screen TV's) and traditional games of skill such as pocket billiards generously spaced to avoid crowding, darts and shuffleboard. The entertainment area can be readily configured into a comfortable "arena" for viewing national, regional and local sporting and other television

⁴ TOTAL ENTERTAINMENT RESTAURANT CORP's 10K, 2002

⁵ http://www.edgar-online.com/bin/edgardoc/finSys_main.asp?dcn=0001019056-04-000453&nad=

events. All locations are also capable of accommodating business and social organizations for special events.”⁴

We agree with Total Entertainment’s management who believes that the restaurants’ design plays an essential role in the company’s success. The restaurants’ layout provides guests with an open view of the main dining room, bar and gaming areas. The bar and main dining room are centrally located while the wing rooms are partitioned from the bar, dining, and gaming area by etched glass.

All locations opened since July 1997 have incorporated the general layout and design of the Fox and Hound unit in Dallas, Texas. The Company anticipates this layout and design will be utilized for future locations⁶.

Expansion

The Company's has been expanding aggressively from 43 to 54 to 64 restaurants in 2001, 2002, and 2003 respectively. The company intends to open 12 to 15 new restaurants in FY 2004.⁵

The Company currently leases all locations, with the exception of the Bailey's unit in Columbia, South Carolina, which is owned by the Company. Most of the units are located in shopping centers. Leases are generally negotiated with initial terms of three to ten years, with multiple renewal options. In the future, the Company anticipates principally leasing its locations, although it may consider purchasing free-standing sites where it is cost-effective to do so⁷.

Revenue

Revenue was calculated via sales per restaurant and was broken down further into sales per square foot. Total Entertainment has grown substantially during the past several years through new restaurant openings and also from same store sales growth. We believe that both of these trends are likely to continue, and we have built this into our model using conservative assumptions. Factors contributing to continued growth in same store sales include historical industry averages, inflation, population growth (2% in US for the last 20 years), and increasing population densities in cities relative to rural areas (>2%). Factors contributing to new restaurant openings include continued liquidity and the companies stated intentions.

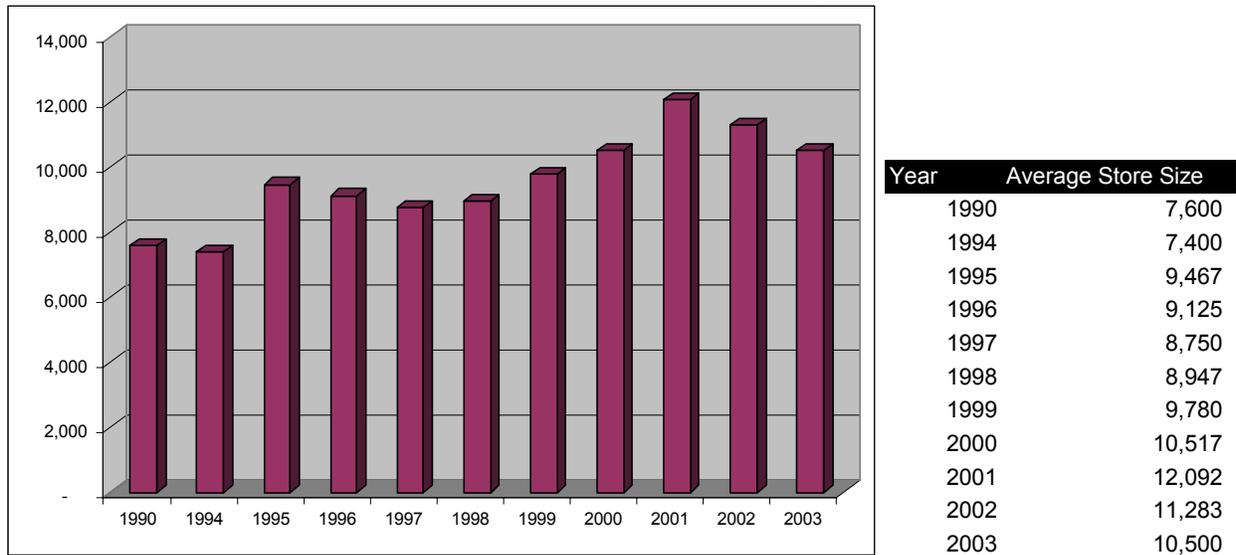
In order to break-out revenue effectively, an analysis was done on a square footage basis. New restaurant sales have consistently been higher than older restaurants, but this statistic is misleading as new restaurants are also, on average, larger than older restaurants. Therefore, direct comparisons between the success of new restaurants and old restaurants are not fair. In order to reduce this error, comparisons are made on a square footage basis.

We have assumed that, like most new stores and restaurants, the first year will be weaker than future years. While the average restaurant appears to have a higher level of sales, they have a lower level on a square foot basis. Therefore, we adjusted the first year sales slightly, based on their new status. It has only a very minor effect on valuation.

⁶ TOTAL ENTERTAINMENT RESTAURANT CORP’s 10K, 2002

⁷ TOTAL ENTERTAINMENT RESTAURANT CORP’s 10K, 2002

Average Restaurant Size for Total Entertainment Restaurant (square feet)



Restaurant Growth:

In 2004, Total Entertainment announced an intention to build an additional 12 – 15 restaurants. In our projections, we modeled 12 new restaurants as only 9 leases have been signed so far for 2004, and achieving 14 or 15 would be a strain. At best, we estimate that they would reach 13 new leases, but if they can surpass this figure, our estimates will prove conservative. We believe that management is actively targeting growth of about 20% per year in new restaurants, given their historic patterns and previously announced goals for 2004 and beyond.

In fact, we modeled approximately 17 – 18% annual growth in restaurants over the next few years, giving Total Entertainment 13 new restaurants in 2005, and 16 in 2006. We maintained growth in the upper teens until 2007, when we began to reduce the rate of restaurant growth. It is possible that this is unnecessary, as the market for Total Entertainment restaurants is potentially large enough to allow double digit growth well past 2007. The market capacity for Total Entertainment is much larger than our base case.

In our model, even on the high end of sensitivity analysis (266 total restaurants by 2014), we do not model what we consider to be the saturation level. The one analyst report available believes the market for Total Entertainment is at least 350-550 restaurants.⁸ In addition, our comparables analysis indicates that these numbers could be even higher, as evidenced by the growth of similar chains such as California Pizza Kitchen and Lonestar Steakhouse. This serves as an area of additional upside, if they continue to grow at a faster rate than we have modeled and beyond our 2014 growth period.

Total Entertainment launched its first store in 1994. As of 12/31/2003 they had 64 restaurants and \$122MM in annual revenues. Based on the conservative assumptions in our model we project that by 2014 (20 years from inception), Total Entertainment will have 183 restaurants and \$483MM in annual revenues. As evidence for how realistic these projections are let's look at the growth of three comparable restaurants. All three of these restaurants have similar

⁸ Merriman Curhan Ford & Co. Restaurants. Total Entertainment Restaurant Corp. (TENT). Q4 Results Exceed Expectations. February 17, 2004

characteristics (sit-down, themed, alcohol sales, etc.) and economics (operating margins, net margins, etc.) to Total Entertainment, as we will discuss in detail later in the paper.

- 1) California Pizza Kitchen (CPKI): California Pizza Kitchen is a sit-down restaurant serving exotic pizzas, pastas, and salads. It was launched in California in 1985. As of 12/31/2003 (19 years later) CPKI had 137 restaurants and \$360MM in annual revenue.⁹
- 2) Outback Steakhouse (OSI): Outback Steakhouse is an Australian themed steakhouse that was founded in 1988. As of 12/31/2003 (15 years later) OSI had 1055 restaurants and \$2.7B in annual revenue. Compared to this growth, our projections for Total Entertainment seem highly conservative.¹⁰
- 3) Lone Star Steakhouse (STAR): Lone Star Steakhouse operates a variety of themed steakhouses and was founded in 1989. As of 12/31/2003 (16 years later) STAR had 290 restaurants and \$591MM in annual revenue.¹¹

The size of the average Total Entertainment Restaurant is also likely to continue to grow. However, given the structure of the latest restaurant, we do not anticipate this level growing as much as it has for the past 5 years. Therefore, we estimated square footage growth at 1% for the next few years tailing off to a long-term growth rate of 0.5% annually.

CapEx

Capital Expenditures were detailed as cash constraints often become problematic for growing companies and indicate the necessity for them to issue debt. For 2004, Total Entertainment has announced that they intend to spend \$20 million in CapEx, all tied to restaurant growth.¹² We assumed that the average cost of launching a new restaurant would increase by 3.5% annually through 2014, a very conservative assumption.

One of the truly amazing aspects of Total Entertainment growth is that they will be able to finance future growth *entirely* through their own cash flow. The little debt that they already have could quickly be paid off. This is quite significant as it implies that they are capable of growing at a faster rate than we have outlined, should units perform as anticipated.

This does create cash issues in future years. 2004 is the last year that Total Entertainment will need to raise any capital to fund growth and, in fact, this isn't even a necessity. In the future, they will generate tremendous cash flow starting in 2009. By 2010, the cash flow tidal wave will rise further as the growth of new restaurants slows. Rather than leaving the cash in the bank, we anticipate that they would be more likely to buyback some of the outstanding shares. Again, in order to keep valuation in the model **lower**, we assumed that the stock appreciated at the rate of the cost of capital, **plus** 7%. This is depicted at the last line of the cash flow statement. We deliberately chose a high return for the stock because as the unit growth plans are executed as predicted in the model, the stock is likely to rise significantly. By increasing the price of stock only at the level of the cost of capital would be inconsistent with our significant undervaluation estimate and would have resulted in a very rapid reduction in shares outstanding. In fact, they would be able to buy back nearly all of their shares.

The point here is that we anticipate that Total Entertainment will actually continue to open restaurants with their additional cash on hand until the market begins to become saturated.

⁹ CPKI web site and annual report

¹⁰ OSI web site and annual report

¹¹ STAR web site and annual report

¹² <http://biz.yahoo.com/pz/040209/52283.html> (February 13, 2004 Company Conference Call)

Beta:

Yahoo has the Beta for Total Entertainment as -0.228 ¹³. We did not feel that this was a realistic beta for the company. As a result, we used a beta of 1.2 to be conservative. Using a lower beta would have resulted in an even higher valuation. While other restaurant betas tended to be below 1, we felt that some additional level of risk needed to be adjusted for and a negative beta simply did not reflect this risk. We also wanted to adjust for some of the risk of new restaurant growth. We also performed a sensitivity analysis around the discount rate. The largest reason for the assigned beta of 1.2 was simply that we wanted to be conservative. We did not want any focus on the beta; rather, the focus should be on restaurant growth.

Other restaurant company betas include¹⁴:

BUCA Inc.	0.751
Cheesecake Factory	1.063
Chicago Pizza & Brewery Inc.	0.372
Dave & Busters Inc.	0.541
Champps	0.65
Outback Steakhouse	0.821
Lonestar Steakhouse	0.43
California Pizza Kitchen	0.321

¹³ <http://finance.yahoo.com/q/ks?s=TENT>

¹⁴ Yahoo Finance was used for all Beta data

Total Entertainment Restaurant Corp (TENT)

Projection Model

	195%		<----- Historical	Explicit	----->								
	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Income Statement													
TOTAL SALES	102,464	121,708	149,297	179,567	214,684	254,784	302,315	345,008	380,404	406,140	424,066	437,639	447,050
COGS	(26,815)	(32,006)	(39,265)	(47,226)	(56,301)	(66,626)	(78,829)	(89,702)	(98,620)	(104,987)	(109,303)	(112,473)	(114,556)
Pre-opening costs	(1,654)	(1,822)	(2,274)	(2,562)	(3,279)	(3,837)	(4,433)	(3,458)	(2,877)	(1,995)	(1,297)	(1,079)	(561)
Operating Expenses	(52,067)	(63,490)	(77,882)	(93,673)	(111,992)	(132,910)	(157,705)	(179,976)	(198,441)	(211,866)	(221,218)	(228,298)	(233,207)
SG&A	(5,181)	(6,293)	(7,614)	(8,978)	(10,520)	(12,293)	(14,360)	(16,215)	(17,689)	(18,682)	(19,295)	(19,738)	(19,983)
EBITDA	16,747	18,097	22,262	27,128	32,593	39,118	46,988	55,656	62,777	68,609	72,954	76,051	78,742
Depreciation & Amortization	(5,177)	(6,036)	(7,255)	(8,726)	(10,218)	(11,871)	(13,784)	(15,385)	(16,583)	(17,299)	(17,639)	(17,766)	(17,701)
EBIT	11,570	12,061	15,007	18,402	22,375	27,246	33,204	40,271	46,194	51,310	55,315	58,286	61,041
Interest Income	0	0	8	13	23	25	30	31	90	143	305	499	680
Interest Expense	(342)	(266)	(327)	(237)	(147)	0	0	0	0	0	0	0	0
Net Other income/(expense)	(46)	1	1	1	1	1	1	1	1	1	1	1	1
Pretax Income	11,182	11,796	14,689	18,179	22,252	27,272	33,235	40,303	46,285	51,454	55,621	58,786	61,722
Equity Earnings	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes	(3,961)	(3,192)	(5,141)	(6,363)	(7,788)	(9,545)	(11,632)	(14,106)	(16,200)	(18,009)	(19,467)	(20,575)	(21,603)
Recurring Net Income	7,221	8,604	9,548	11,816	14,464	17,727	21,602	26,197	30,085	33,445	36,154	38,211	40,119
Loss on disposal of assets	(31)	(58)	0	0	0	0	0	0	0	0	0	0	0
Asset Impairment	0	(2,008)	0	0	0	0	0	0	0	0	0	0	0
Extraordinary Items -Gain (loss)	13	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	7,203	6,538	9,548	11,816	14,464	17,727	21,602	26,197	30,085	33,445	36,154	38,211	40,119
EPS, recurring	0.74	0.84	0.93	1.14	1.38	1.68	2.06	2.59	3.16	3.73	4.31	4.92	5.68
EPS, reported	0.74	0.64	0.93	1.14	1.38	1.68	2.06	2.59	3.16	3.73	4.31	4.92	5.68
Shares outstanding, millions	9,800	10,228	10,299	10,362	10,453	10,548	10,486	10,130	9,511	8,972	8,385	7,773	7,063
Income Statement Ratios													
Sales Growth	46.3%	18.8%	22.7%	20.3%	19.6%	18.7%	18.7%	14.1%	10.3%	6.8%	4.4%	3.2%	2.2%
Gross Margin	73.8%	73.7%	73.7%	73.7%	73.8%	73.9%	73.9%	74.0%	74.1%	74.2%	74.2%	74.3%	74.4%
EBITDA Margin	16.3%	14.9%	14.9%	15.1%	15.2%	15.4%	15.5%	16.1%	16.5%	16.9%	17.2%	17.4%	17.6%
EBIT Margin	11.3%	9.9%	10.1%	10.2%	10.4%	10.7%	11.0%	11.7%	12.1%	12.6%	13.0%	13.3%	13.7%
Net Margin	7.0%	7.1%	6.4%	6.6%	6.7%	7.0%	7.1%	7.6%	7.9%	8.2%	8.5%	8.7%	9.0%
Tax Rate	35.4%	27.1%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net Income Growth	74.8%	19.2%	11.0%	23.8%	22.4%	22.6%	21.9%	21.3%	14.8%	11.2%	8.1%	5.7%	5.0%
EPS growth	55.1%	14.2%	10.2%	23.0%	21.3%	21.5%	22.6%	25.5%	22.3%	17.8%	15.7%	14.0%	15.5%
Pre-opening costs as a % of Sales	1.6%	1.5%	1.5%	1.4%	1.5%	1.5%	1.5%	1.0%	0.8%	0.5%	0.3%	0.2%	0.1%
Operating Expenses as % of Sales	50.8%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%
COGS as a % of Sales	26%	26%	26.3%	26.3%	26.2%	26.2%	26.1%	26.0%	25.9%	25.9%	25.8%	25.7%	25.6%
SG&A as a % of Sales	5.1%	5.2%	5.1%	5.0%	4.9%	4.8%	4.8%	4.7%	4.7%	4.6%	4.6%	4.5%	4.5%
Depreciation as a % of Sales	5.1%	5.0%	4.9%	4.9%	4.8%	4.7%	4.6%	4.5%	4.4%	4.3%	4.2%	4.1%	4.0%

	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Balance Sheet													
Cash and Short-Term Investments	1,116	813	1,300	2,326	2,470	2,962	3,080	8,971	14,345	30,486	49,915	67,997	81,909
Accounts Receivable, net	212	200	204	246	294	349	414	472	521	556	581	599	612
Inventory	1,604	2,600	3,190	3,836	4,574	5,412	6,404	7,287	8,011	8,529	8,879	9,137	9,306
Other Current Assets	1,034	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912
Notes Receivable, Short-Term	-	-	-	-	-	-	-	-	-	-	-	-	-
Net PPE	47,213	56,401	69,146	82,845	101,193	122,584	147,051	161,357	169,359	169,024	162,358	153,679	140,680
Net goodwill & intangibles	3,661	4,287	4,287	4,287	4,287	4,287	4,287	4,287	4,287	4,287	4,287	4,287	4,287
LT investments and LT deferred income taxes	1,055	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Other Long Term Assets, Total	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in unconsolidated affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	55,895	67,413	81,240	96,652	115,930	138,705	164,347	185,487	199,635	215,993	229,132	238,811	239,907
Accounts Payable	9,443	11,586	14,214	17,096	20,381	24,118	28,536	32,472	35,700	38,005	39,567	40,715	41,469
Accrued Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Notes Payable - Short Term Debt	141	-	-	-	-	-	-	-	-	-	-	-	-
Current Port. Of LT Debt and Capital Leases	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Debt	2,442	3,635	3,635	2,635	1,635	-	-	-	-	-	-	-	-
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	586	2,872	3,523	4,237	5,066	6,012	7,134	8,141	8,977	9,584	10,007	10,327	10,549
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	43,284	49,320	59,868	72,684	88,848	108,575	128,677	144,874	154,959	168,404	179,558	187,769	187,888
Total Liabilities and Equity	55,896	67,413	81,240	96,652	115,930	138,705	164,347	185,487	199,635	215,993	229,132	238,811	239,907
Assets=Liabilities+Owner's Equity	1	-	-	-	-	-	-	-	-	-	-	-	-
BALANCE SHEET RATIOS													
Days sales in receivables	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Inventory turns	16.7	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Days COGS in payables	128.5	132.1	132.1	132.1	132.1	132.1	132.1	132.1	132.1	132.1	132.1	132.1	132.1
Other Current Assets as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Current Liabilities as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Days Net Working Capital	(23.5)	(20.6)	(21.8)	(22.6)	(23.1)	(23.6)	(23.9)	(24.1)	(24.2)	(24.3)	(24.3)	(24.2)	(24.2)
Debt Equity Ratio	5.6%	7.4%	6.1%	3.6%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt Total Capital Ratio (ex-excess cash)	5.5%	7.0%	5.8%	3.6%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Return on Assets	14.5%	10.6%	12.8%	13.3%	13.6%	13.9%	14.3%	15.0%	15.6%	16.1%	16.2%	16.3%	16.8%
Return on Average Equity	21.4%	18.6%	17.5%	17.8%	17.9%	18.0%	18.2%	19.2%	20.1%	20.7%	20.8%	20.8%	21.4%

	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	
Cash flow Statement														
Net income		7,203	6,538	9,548	11,816	14,464	17,727	21,602	26,197	30,085	33,445	36,154	38,211	40,119
Depreciation & Amortization		5,177	6,036	7,255	8,726	10,218	11,871	13,784	15,385	16,583	17,299	17,639	17,766	17,701
Other Non-Cash Items														
Increase (decrease) in deferred taxes				-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in working capital		294	281	2,034	2,194	2,500	2,844	3,361	2,994	2,455	1,753	1,187	871	572
Minority interest, net of equity income		-	-	-	-	-	-	-	-	-	-	-	-	-
Cash from operations		12,674	12,855	18,836	22,736	27,181	32,442	38,747	44,576	49,124	52,497	54,979	56,848	58,392
Capital Expenditures		(17,903)	(16,670)	(20,000)	(22,425)	(28,566)	(33,262)	(38,251)	(29,692)	(24,585)	(16,964)	(10,973)	(9,086)	(4,702)
Acquisitions		-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-
Net decrease (increase) in other assets, net of o		15	-	651	714	829	946	1,122	1,007	835	607	423	320	222
Cash From Investing Activities		(17,888)	(16,670)	(19,349)	(21,711)	(27,737)	(32,315)	(37,129)	(28,685)	(23,750)	(16,356)	(10,550)	(8,766)	(4,480)
Free cash flows after investing		(5,214)	(3,815)	(513)	1,025	(556)	127	1,618	15,892	25,374	36,141	44,429	48,082	53,912
Financed by:														
Short-Term Debt, Net				-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt, Net	\$	(7,810)	\$	3,338	-	(1,000)	(1,000)	(1,635)	-	-	-	-	-	-
Repay LT Debt				-	-	-	-	-	-	-	-	-	-	-
Issue LT Debt				-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in debt	\$	(7,810)	\$	3,338	-	(1,000)	(1,000)	(1,635)	-	-	-	-	-	-
Equity Issuances, Net	\$	11,616	\$	-	1,000	1,000	1,700	2,000	(1,500)	(10,000)	(20,000)	(20,000)	(25,000)	(30,000)
Dividends Paid	\$	-	\$	-	-	-	-	-	-	-	-	-	-	(40,000)
Net cash provided by Financing		3,806	3,338	1,000	-	700	365	(1,500)	(10,000)	(20,000)	(20,000)	(25,000)	(30,000)	(40,000)
Change in Cash		(1,408)	(477)	487	1,025	144	492	118	5,892	5,374	16,141	19,429	18,082	13,912
Reference: Cash Flow Ratios														
Cash from operations / Sales		12.4%	10.6%	12.6%	12.7%	12.7%	12.7%	12.8%	12.9%	12.9%	12.9%	13.0%	13.0%	13.1%
Available cash after investing / Sales		-5.1%	-3.1%	-0.3%	0.6%	-0.3%	0.0%	0.5%	4.6%	6.7%	8.9%	10.5%	11.0%	12.1%
Cash used in investing / Sales		17.5%	13.7%	13.0%	12.1%	12.9%	12.7%	12.3%	8.3%	6.2%	4.0%	2.5%	2.0%	1.0%
Cash / Sales		1.1%	0.7%	0.9%	1.3%	1.2%	1.2%	1.0%	2.6%	3.8%	7.5%	11.8%	15.5%	18.3%
Cash / Total Assets		2.0%	1.2%	1.6%	2.4%	2.1%	2.1%	1.9%	4.8%	7.2%	14.1%	21.8%	28.5%	34.1%
CASH FLOW RATIOS														
Capex & Acquisitions to Sales		17.5%	13.7%	13.4%	12.5%	13.3%	13.1%	12.7%	8.6%	6.5%	4.2%	2.6%	2.1%	1.1%
Depreciation / Capex & Acquisitions		28.9%	36.2%	36.3%	38.9%	35.8%	35.7%	36.0%	51.8%	67.5%	102.0%	160.7%	195.5%	376.4%
Growth in capex & acquisitions		87.7%	-6.9%	20.0%	12.1%	27.4%	16.4%	15.0%	-22.4%	-17.2%	-31.0%	-35.3%	-17.2%	-48.3%
Growth in Gross investment		88.5%	-6.8%	16.1%	12.2%	27.8%	16.5%	14.9%	-22.7%	-17.2%	-31.1%	-35.5%	-16.9%	-48.9%
Incremental Cash from operations to gross inves		34.1%	1.0%	42.8%	22.8%	23.3%	21.2%	21.9%	17.0%	17.2%	15.2%	16.2%	19.1%	18.6%
Common Dividends per share		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend payout ratio		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Memo: stock price growing at equity discount rate	\$	14.00		14.00	16.09	18.50	21.26	24.43	28.08	32.28	37.10	42.65	49.02	56.34
*Capex & acquisitions lagged one year; equity investments not included														

Total Entertainment Restaurant Corp (TENT)

Sales by Stores

195%

TENT	Historical			Explicit										
	2001A	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Existing Stores														
Sales from Stores (m)	66,755	87,949	112,443	135,894	164,875	196,238	233,721	278,652	327,494	366,452	396,874	418,268	432,961	444,701
Same Store Sales Growth %	7.4%	6.6%	-2.2%	2.2%	1.6%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.0%
# of Stores	38	43	54	64	76	89	104	122	141	156	167	174	178	181
Avg. Sales per Store (m)	1,757	2,045	2,082	2,123	2,169	2,205	2,247	2,284	2,323	2,349	2,376	2,404	2,432	2,457
Avg. Sq. footage of existing stores	9,014	9,380	9,795	10,045	10,277	10,474	10,667	10,843	11,003	11,104	11,177	11,223	11,251	11,275
Total Sq. footage of existing stores (weighted)	4,110,162	4,840,080	6,347,337	7,714,877	9,372,335	11,185,871	13,312,233	15,873,755	18,616,321	20,787,360	22,398,751	23,433,571	24,033,142	24,488,457
New Stores														
Sales from New Stores (m)	3,297	14,515	9,265	13,403	14,692	18,446	21,063	23,663	17,514	13,952	9,266	5,799	4,678	2,348
# New Units	5	12	10	12	13	16	18	20	15	12	8	5	4	2
% increase in new units	13.2%	27.9%	18.5%	18.8%	17.1%	18.0%	17.3%	16.4%	10.6%	7.7%	4.8%	2.9%	2.2%	1.1%
Avg. months in existence	4	6.33	5.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Total yearly sq. footage gain (weighted)	241,840	857,082	603,997	828,729	906,768	1,127,182	1,280,761	1,437,298	1,085,520	872,758	584,748	367,295	295,305	148,391
New weighted sq. footage as % of total	5.9%	17.7%	9.5%	10.7%	9.7%	10.1%	9.6%	9.1%	5.8%	4.2%	2.6%	1.6%	1.2%	0.6%
Avg. Sales per New Store (at maturity)	1,767	2,287	2,166	2,234	2,260	2,306	2,340	2,366	2,335	2,325	2,317	2,319	2,339	2,348
Avg. Sq. footage of new stores	12,092	11,283	11,396	11,510	11,625	11,741	11,859	11,977	12,061	12,122	12,182	12,243	12,304	12,366
New stores % larger than old	34.2%	20.3%	16.3%	14.6%	13.1%	12.1%	11.2%	10.5%	9.6%	9.2%	9.0%	9.1%	9.4%	9.7%
Growth of new stores Sq. footage	15.0%	-6.7%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.7%	0.5%	0.5%	0.5%	0.5%	0.5%
Closed Stores														
# of Closed Stores	-	1	-	-	-	1	-	1	-	1	1	1	1	-
Per Store Change in Sales	-	(1,636)	(1,666)	(1,699)	(1,736)	(1,764)	(1,798)	(1,827)	(1,858)	(1,879)	(1,901)	(1,923)	(1,946)	(1,966)
Per Year Change in Sales (all closings)	-	(1,636)	-	-	-	(1,764)	-	(1,827)	-	(1,879)	(1,901)	(1,923)	(1,946)	-
Sales of closed stores compared to existing	-	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
TENT Stores Total														
Total Sales (m)	70,052	102,464	121,708	149,297	179,567	214,684	254,784	302,315	345,008	380,404	406,140	424,066	437,639	447,050
Total Sales Growth %	27.5%	46.3%	18.8%	22.7%	20.3%	19.6%	18.7%	18.7%	14.1%	10.3%	6.8%	4.4%	3.2%	2.2%
Total # Stores	43	54	64	76	89	104	122	141	156	167	174	178	181	183
Avg. Sales per Store (m)	1,629	1,897	1,902	1,964	2,018	2,064	2,088	2,144	2,212	2,278	2,334	2,382	2,418	2,443
Adjustments														
vs. existing stores	80%													
Adjusted increase in sq. footage	95%													

Source: <http://www.tentcorp.com/Investors/pr2001/02082001.html>

Source: <http://www.tentcorp.com/Investors/pr2002/02062002.html?d=23524>

Source: <http://www.tentcorp.com/Investors/pr2000/02042000.html>

Source: http://www.tentcorp.com/Investors/pr_2003.html: Total Entertainment Restaurant Corp. Reports Financial Results for the Fiscal Quarter and Fiscal Year Ended December 31, 2002, February 14, 2003

Source: <http://www.tentcorp.com/Investors/pr1998/01151998.html>

Total Entertainment Restaurant Corp (TENT) Capital Expenditures

195%	<----- Historical		Explicit ----->										
Stores	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
New Stores	12	10	12	13	16	18	20	15	12	8	5	4	2
Total Stores	57	67	79	92	108	126	146	161	173	181	186	190	192
New Store Investment (MM)	(17,903)	(16,670)	(20,000)	(22,425)	(28,566)	(33,262)	(38,251)	(29,692)	(24,585)	(16,964)	(10,973)	(9,086)	(4,702)
Investment as % of Sales	17.5%	13.7%	13.4%	12.5%	13.3%	13.1%	12.7%	8.6%	6.5%	4.2%	2.6%	2.1%	1.1%
Cost per Store	1,492	1,667	1,667	1,725	1,785	1,848	1,913	1,979	2,049	2,120	2,195	2,271	2,351
Total Pre-opening Costs	(1,654)	(1,822)	(2,274)	(2,562)	(3,279)	(3,837)	(4,433)	(3,458)	(2,877)	(1,995)	(1,297)	(1,079)	(561)
Pre-opening Costs per Store	(138)	(182)	(189)	(197)	(205)	(213)	(222)	(231)	(240)	(249)	(259)	(270)	(280)
Total CapEx as % of Sales	19.1%	15.2%	14.9%	13.9%	14.8%	14.6%	14.1%	9.6%	7.2%	4.7%	2.9%	2.3%	1.2%

Total Entertainment Restaurant Corp (TENT) CAPM and Financials

Current Stock Price	14
Target Price	41.3

CAPM: $R_f + \text{Beta} (R_m - R_f)$

r_f	0.820%	* Yield for 3 month treasury bond (Yahoo Finance - 03/24/04)
beta	1.2	* Based on comparables. Yahoo Beta was negative.
r_m	6.320%	* Based on range for market risk premium

CAPM = 7.420% = COST OF EQUITY

Cost of Debt and Return on Invested Cash		
9.00%	= COST OF DEBT	Rate that the company must borrow at
1.00%	= RETURN ON CASH	Return the company will receive from investing cash

\$137 = MARKET CAP (MM) Market Cap of the equity from Yahoo

Total Entertainment Restaurant Corp (TENT)

WACC and APV

	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
= EBIT	12,061	15,007	18,402	22,375	27,246	33,204	40,271	46,194	51,310	55,315	58,286	61,041
- Corporate tax	(3,192)	(5,141)	(6,363)	(7,788)	(9,545)	(11,632)	(14,106)	(16,200)	(18,009)	(19,467)	(20,575)	(21,603)
= EBI	8,869	9,866	12,039	14,587	17,701	21,572	26,165	29,994	33,301	35,848	37,711	39,439
+ Depreciation	(6,036)	(7,255)	(8,726)	(10,218)	(11,871)	(13,784)	(15,385)	(16,583)	(17,299)	(17,639)	(17,766)	(17,701)
- CAPX	(16,670)	(20,000)	(22,425)	(28,566)	(33,262)	(38,251)	(29,692)	(24,585)	(16,964)	(10,973)	(9,086)	(4,702)
- Change in NWC	281	2,034	2,194	2,500	2,844	3,361	2,994	2,455	1,753	1,187	871	572
- Repayment of Loan	-	-	-	-	-	-	-	-	-	-	-	-
+ Sale price of firm	-	-	-	-	-	-	-	-	-	-	-	-
= (Unlevered) free cash flow	(1,484)	(846)	534	(1,262)	(845)	466	14,852	24,448	35,389	43,700	47,262	1,058,915

APV	
Cost of unlevered equity	0.07420
Discount factor	0.931
PV(cash flow)	(1,381)
PV(all cash flows)	529,900
Cost of debt	9.00%
Debt	\$ 3,635
Interest payment	\$ 327.2
Tax saving	\$ 88.5
PV(tax saving)	\$ 82.4
PV(tax shield)	\$ 287
PV(firm)	\$ 530,188
PV(debt)	\$ 3,635
PV(equity)	\$ 526,553
PV(equity)+ PV(debt) imply leverage:	0.006856064
Terminal Value = CF(r-g)	g= 0.021502204
r=	0.07420

WACC	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Cost of unlevered equity	0.0742											
Cost of debt	9.00%											
Target leverage ratio D/(D+E)	0.0069											
Target weight on equity	0.9931											
Cost of levered equity	0.0741											
Tax rate	0.3500											
WACC	0.0740											
Discount factor	0.931	0.867	0.807	0.752	0.700	0.652	0.607	0.565	0.526	0.490	0.456	0.425
PV(cash flow)	(1,382)	(733)	431	(948)	(591)	304	9,012	13,812	18,616	21,405	21,554	449,663
PV(all cash flows)	531,142											
PV(firm)	531,142											
PV(debt)	3,635											
PV(equity)	527,507											

Total Entertainment Restaurant Corp (TENT)

Restaurant Detail

Location	Restaurant	Date Opened	Year Opened	Number Opened	Total Stores	Sq. Feet	Sq. feet per new store by year	Sq. feet overall	Avg. Months existing
1 Charlotte #1 NC	Bailey's	Oct-90	1990	1	1	7600		7600	2.00
2 College Station TX	Fox and Hound	Sep-94	1994		1	7700			
3 Dallas #1 TX	Fox and Hound	Aug-94	1994		1	6500			
4 Greenville SC	Bailey's	Sep-94	1994	4	5	7000	7400	7440	5.25
5 Little Rock AR	Fox and Hound	Feb-94	1994		5	8400			
6 Dallas #2 TX	Fox and Hound	Nov-95	1995		5	9600			
7 Knoxville TN	Bailey's	Dec-95	1995	3	8	9400	9467	8200	3.00
8 Nashville #1 TN	Bailey's	Apr-95	1995		8	9400			
9 Columbia SC	Bailey's	Oct-96	1996	2	10	10000	9125	8385	4.50
10 Johnson City TN	Bailey's	May-96	1996		10	8250			
11 Chicago #1 IL	Fox and Hound	Dec-97	1997		10	10100			
12 Memphis #1 TN	Fox and Hound	Sep-97	1997		10	8400			
13 Nashville #2 TN	Bailey's	Oct-97	1997		10	7500			
14 Omaha NE	Fox and Hound	Dec-97	1997	4	14	9000	8750	8489	1.25
15 Atlanta #1 GA	Bailey's	Oct-98	1998		14	8500			
16 Canton OH	Fox and Hound	Nov-98	1998		14	9700			
17 Chapel Hill NC	Bailey's	Dec-98	1998		14	9000			
18 Cleveland #1 OH	Fox and Hound	May-98	1998		14	8500			
19 Dayton OH	Fox and Hound	Oct-98	1998		14	8700			
20 Detroit #1 MI	Bailey's	Nov-98	1998		14	9100			
21 Erie PA	Fox and Hound	Aug-98	1998		14	10400			
22 Evansville IL	Fox and Hound	Jul-98	1998		14	8600			
23 Kansas City #1 KS	Fox and Hound	Nov-98	1998		14	9100			
24 Lubbock TX	Fox and Hound	Oct-98	1998		14	10600			
25 Memphis #2 TN	Fox and Hound	Nov-98	1998		14	7600			
26 Montgomery AL	Fox and Hound	Jan-98	1998		14	7700			
27 New Orleans LA	Fox and Hound	Dec-98	1998	15	29	9200	8947	8726	3.00
28 San Antonio TX	Fox and Hound	Aug-98	1998		29	8400			
29 Springfield MO	Fox and Hound	Aug-98	1998		29	9100			
30 Baton Rouge LA	Fox and Hound	Mar-99	1999	5	34	11500	9780	8881	10.20
31 Houston #1 TX	Fox and Hound	Feb-99	1999		34	9100			
32 Indianapolis IN	Fox and Hound	Feb-99	1999		34	8400			
33 Pittsburgh PA	Fox and Hound	Jan-99	1999		34	10500			
34 Winston-Salem NC	Fox and Hound	Jan-99	1999		34	9400			
35 Cleveland #2 OH	Fox and Hound	Oct-00	2000		34	13500			
36 Dallas #3 TX	Fox and Hound	Dec-00	2000		34	7600			
37 Detroit #2 MI	Bailey's	Dec-00	2000	3	37	10450	10517	9014	0.67
38 Atlanta #2 GA	Bailey's	Nov-01	2001		37	10500			
39 Charlotte #2 NC	Fox and Hound	Aug-01	2001		37	15300			
40 Dallas #4 TX	Fox and Hound	Dec-01	2001	5	42	13360	12092	9380	4.00
41 Ft. Worth #1 TX	Fox and Hound	Apr-01	2001		42	9900			
42 Nashville #3 TN	Bailey's	May-01	2001		42	11400			
43 Austin TX	Fox and Hound	Jul-02	2002		42	11600			
44 Charlotte #3 NC	Fox and Hound	Mar-02	2002		42	7200			
45 Chicago #2 IL	Fox and Hound	Sep-02	2002		42	12600			
46 Dallas #5 TX	Fox and Hound	Jun-02	2002		42	15800			
47 Denver #1 CO	Fox and Hound	Jan-02	2002		42	10500			
48 Denver #2 CO	Fox and Hound	Apr-02	2002		42	10300			
49 Denver #3 CO	Fox and Hound	Jul-02	2002		42	12600	11283	9803	6.33
50 Ft. Worth #2 TX	Fox and Hound	Feb-02	2002		42	14000			
51 Kansas City #2 KS	Fox and Hound	Nov-02	2002		42	9100			
52 Phoenix AZ	Fox and Hound	Feb-02	2002		42	11600			
53 Richmond VA	Bailey's	May-02	2002	12	54	8500			
54 Tucson AZ	Fox and Hound	Nov-02	2002		54	11600			
55 Chicago #3 IL	Fox and Hound	Mar-03	2003		54	9600			
56 Houston #2 TX	Fox and Hound	Jan-03	2003	10	64	12000	10500	9912	5.50
57 Denver #4 CO	Fox and Hound	Apr-03	2003		64	11600			
58 Philadelphia #1 PA	Fox and Hound	Jun-03	2003		64	7400			
59 Arlington, VA	Bailey's	Jul-03	2003		64	15500			
60 Houston #3 TX	Fox and Hound	Jul-03	2003		64	8600			
61 Oklahoma City, OK	Fox and Hound	Sep-03	2003		64	9800			
62 Albuquerque, NM	Fox and Hound	Oct-03	2003		64	9800			
63 Philadelphia #2, PA	Fox and Hound	Oct-03	2003		64	10800			
64 Richmond #2 PA	Bailey's	Dec-03	2003		64	9900			

Source: http://www.edgar-online.com/bin/cobrand/finSys_main.asp?nad=&formfilename=0001019056-04-000453&x=14&y=11
 Source: <http://www.sec.gov/Archives/edgar/data/1035374/000113388403000185/g10k-30778.txt>

Valuation

Based on our model and comparables analysis, we found that Total Entertainment was 195% undervalued. The bulk of the gain in valuation comes from the growth in new restaurants.

In order to provide further and stronger evidence of the scope of the undervaluation, we assumed that Total Entertainment would open zero additional restaurants in the future. Also, we eliminated any of the benefits that came from scale, such as increased margins. Even in this world, the firm is undervalued by over 60%!

How is this possible?

Consider this: In the event no additional restaurants are opened after 2004, the firm would earn at least \$11.8 million in net income in 2004. Note that we have attached the income statement for this precise situation on the following page.

Given that the market cap is only \$137 million (as of March 29th, 2004), this yields a return of 8.6%. This is significant as it indicates that the market has not priced in any further growth of restaurants. But, Total Entertainment *is* and has been opening restaurants which have consistently been performing well.

Forbes, in fact, has featured Total Entertainment as the No. 9 best small company in the United States.¹⁵ In other words, this company is growing quickly.

¹⁵ <http://wichita.bizjournals.com/wichita/stories/2002/10/14/daily31.html>
Yale School of Management: Total Entertainment Restaurant Corp.

Total Entertainment Restaurant Corp (TENT)

Projection Model

65%

<---Historical Explicit ----->

	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Income Statement												
TOTAL SALES	121,708	149,690	165,309	167,292	167,539	169,549	169,775	171,813	172,017	172,196	172,349	172,131
COGS	(32,006)	(39,368)	(43,476)	(43,998)	(44,063)	(44,591)	(44,651)	(45,187)	(45,240)	(45,288)	(45,328)	(45,270)
Pre-opening costs	(1,822)	(2,274)	0	0	0	0	0	0	0	0	0	0
Operating Expenses	(63,490)	(78,087)	(86,235)	(87,269)	(87,398)	(88,447)	(88,565)	(89,627)	(89,734)	(89,827)	(89,907)	(89,793)
SG&A	(6,293)	(7,740)	(8,547)	(8,650)	(8,663)	(8,767)	(8,778)	(8,884)	(8,894)	(8,904)	(8,911)	(8,900)
EBITDA	18,097	22,221	27,050	27,375	27,415	27,744	27,781	28,115	28,148	28,177	28,202	28,167
Depreciation & Amortization	(6,036)	(7,274)	(8,033)	(7,962)	(7,806)	(7,730)	(7,571)	(7,490)	(7,327)	(7,162)	(6,996)	(6,815)
EBIT	12,061	14,947	19,017	19,413	19,609	20,014	20,210	20,625	20,821	21,015	21,206	21,351
Interest Income	0	8	3	220	427	633	845	1,055	1,271	1,486	1,702	1,919
Interest Expense	(266)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)
Net Other income/(expense)	1	1	1	1	1	1	1	1	1	1	1	1
Pretax Income	11,796	14,629	18,694	19,307	19,710	20,321	20,729	21,354	21,766	22,175	22,582	22,944
Equity Earnings	0	0	0	0	0	0	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Taxes	(3,192)	(5,120)	(6,543)	(6,757)	(6,898)	(7,112)	(7,255)	(7,474)	(7,618)	(7,761)	(7,904)	(8,030)
Recurring Net Income	8,604	9,509	12,151	12,549	12,811	13,209	13,474	13,880	14,148	14,414	14,678	14,914
Loss on disposal of assets	(58)	0	0	0	0	0	0	0	0	0	0	0
Asset Impairment	(2,008)	0	0	0	0	0	0	0	0	0	0	0
Extraordinary Items -Gain (loss)	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	6,538	9,509	12,151	12,549	12,811	13,209	13,474	13,880	14,148	14,414	14,678	14,914
EPS, recurring	0.84	0.93	1.19	1.23	1.25	1.29	1.32	1.36	1.38	1.41	1.44	1.46
EPS, reported	0.64	0.93	1.19	1.23	1.25	1.29	1.32	1.36	1.38	1.41	1.44	1.46
Shares outstanding, millions	10,228	10,228	10,228	10,228	10,228	10,228	10,228	10,228	10,228	10,228	10,228	10,228
Income Statement Ratios												
Sales Growth	18.8%	23.0%	10.4%	1.2%	0.1%	1.2%	0.1%	1.2%	0.1%	0.1%	0.1%	-0.1%
Gross Margin	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%
EBITDA Margin	14.9%	14.8%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%
EBIT Margin	9.9%	10.0%	11.5%	11.6%	11.7%	11.8%	11.9%	12.0%	12.1%	12.2%	12.3%	12.4%
Net Margin	7.1%	6.4%	7.4%	7.5%	7.6%	7.8%	7.9%	8.1%	8.2%	8.4%	8.5%	8.7%
Tax Rate	27.1%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net Income Growth	19.2%	10.5%	27.8%	3.3%	2.1%	3.1%	2.0%	3.0%	1.9%	1.9%	1.8%	1.6%
EPS growth	14.2%	10.5%	27.8%	3.3%	2.1%	3.1%	2.0%	3.0%	1.9%	1.9%	1.8%	1.6%
Pre-opening costs as a % of Sales	1.5%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Expenses as a % of Sales	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%
COGS as a % of Sales	26%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%
SG&A as a % of Sales	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Depreciation as a % of Sales	5.0%	4.9%	4.9%	4.8%	4.7%	4.6%	4.5%	4.4%	4.3%	4.2%	4.1%	4.0%

Comparables

According to Yahoo! Finance, there are 89 publicly traded restaurant companies.¹⁶ This list is very broad, including companies from McDonalds to Krispy Kreme, and Starbucks to Panera Bread. In order to find good comparables for Total Entertainment we identified certain criteria that differentiate its restaurants. These criteria include:

- Sit-Down (not counter)
- Full Service
- Alcohol Sales
- Mid Priced (this eliminated the Ruby Tuesdays and Olive Gardens of the world, which we considered to be lower priced)
- Themed

We searched the entire restaurant universe to find restaurants with these same characteristics. This gave us a small list, which we then checked to make sure their economics (margins, sales growth, etc.) were in line with Total Entertainment. In the end we identified five companies that met these criteria and are good comparables for Total Entertainment:

- 1) Champps (CMPP): Champps Entertainment, Inc. owns, operates and franchises restaurants under the name Champps Americana. The Company aims to offer an energetic, upscale casual dining experience with an extensive menu of items, set in a comfortable atmosphere that promotes social interaction. As of September 19, 2003, the Company owned and operated 44 restaurants in 16 states and had 12 restaurants operating under franchise or license agreements in five states.¹⁷
- 2) Outback Steakhouse (OSI): Outback Steakhouse, Inc. operates full-service restaurants under several types of ownership structures. Their concepts are: Outback Steakhouse, which features a menu of seasoned steaks, prime rib, chops, ribs, chicken, seafood and pasta; Carrabba's Italian Grill; Roy's restaurants, an upscale casual restaurant featuring Hawaiian-fusion cuisine; Fleming's Prime Steakhouse and Wine Bar, an upscale casual steakhouse format that serves dinner only; Lee Roy Selmon's, a casual restaurant that offers Southern comfort cuisine; Bonfish Grill, a mid-scale, casual seafood format that serves dinner only, and Cheeseburger in Paradise, a Jimmy Buffett-themed restaurant.¹⁸
- 3) The Cheesecake Factory (CAKE): The Cheesecake Factory Incorporated operated 61 upscale, full-service, casual dining restaurants under The Cheesecake Factory mark in 20 states and the District of Columbia as of March 3, 2003. The Company also operated three upscale casual dining restaurants under the Grand Lux Cafe mark, as well as one self-service, limited-menu, express foodservice operation under The Cheesecake Factory Express mark inside the DisneyQuest family entertainment center in Orlando, Florida.¹⁹
- 4) California Pizza Kitchen (CPKI): California Pizza Kitchen, Inc. is a casual dining restaurant chain with a particular focus on the premium pizza segment. As of March 14, 2003, the Company owned, licensed or franchised 151 restaurants in 26 states, the District of Columbia and five foreign countries, of which 119 are Company-owned and 32 operate under franchise or license arrangements. The Company's restaurants, which feature an exhibition-style kitchen centered around an open flame oven, provide a distinctive, casual dining experience that is

¹⁶ <http://biz.yahoo.com/p/eatingmkt.html>

¹⁷ <http://finance.yahoo.com/q/pr?s=cmpp>

¹⁸ <http://finance.yahoo.com/q/pr?s=osi>

¹⁹ <http://finance.yahoo.com/q/pr?s=cake>

designed to be family friendly and have broad consumer appeal. Its menu focuses on imaginative toppings and showcase recipes that capture tastes and flavors that customers readily identify, but do not typically associate with pizza, pasta or salads.²⁰

- 5) **Lone Star Steakhouse (STAR):** Lone Star Steakhouse & Saloon, Inc. owns and operates a chain of mid-priced, full-service, casual dining restaurants in the United States, as well as in Australia. As of March 10, 2003, the Company owned and operated 249 mid-priced, full-service, casual dining restaurants located in the United States operating under the trade name Lone Star Steakhouse & Saloon or Lone Star Cafe. The Company has 20 upscale steakhouse restaurants, with five operating as Del Frisco's Double Eagle Steak House restaurants and 15 operating as Sullivan's Steakhouse restaurants. It also operates a mid-priced restaurant operating as Frankie's Italian Grille.²¹

Income and Valuation Comparison

We analyzed 2003 (Actual) and 2004 (Projected) numbers for each of these 5 companies, focusing on income statement and valuation metrics, and store growth. We also took an average of the 5, compared it to the overall industry average, and finally compared it to Total Entertainment. The results of this analysis are below:

Ticker Company	TENT	Average Restaurant Industry	Average Five Good Comps	CMPP Champps Americana	OSI Outback Steakhouse	CAKE Cheesecake Factory	CPKI California Pizza Kitchen	STAR Lonestar Steakhouse
2003								
Revenue	\$121,708		\$4,650,223	\$180,731	\$2,744,369	\$773,835	\$359,887	\$591,401
Profit	\$8,604		\$267,213	\$3,892	\$170,206	\$57,836	\$7,956	\$27,323
NI %	7.07%	5.87%	5.75%	2%	6%	7%	2%	5%
Operating Income	\$12,061		\$402,264	\$6,552	\$264,812	\$82,718	\$9,399	\$38,783
Operating Margin	9.91%		8.65%	3.6%	9.6%	10.7%	2.6%	6.6%
EPS	\$0.84		\$1.49	\$0.30	\$2.28	\$1.12	\$0.42	\$1.29
2004								
Revenue	\$149,690		\$5,406,870	\$211,880	\$3,200,000	\$957,270	\$405,450	\$632,270
1 YR Rev Growth	22.99%		16.27%	17.24%	16.60%	23.70%	12.66%	6.91%
Profit	\$9,577		\$315,115	\$5,504	\$190,017	\$72,506	\$18,126	\$28,962
NI %	6.40%		5.83%	2.60%	5.94%	7.57%	4.47%	4.58%
EPS	\$0.93		\$1.75	\$0.43	\$2.54	\$1.40	\$0.95	\$1.37
SOURCES:								
	http://finance.yahoo.com			http://www.freedgar.com				
	http://biz.yahoo.com/ic/eating.html			http://www.hoovers.com				
	Company Web Sites							

A quick comparison of Total Entertainment's 2003 and 2004 data shows that they have very similar economics to the five restaurants that looked at in this analysis. Their margins, revenue growth, market cap, and store growth (shown below) are all in line, and because these five restaurants meet all the criteria outlined above, we feel that we have five good companies that are very similar to Total Entertainment.

The first thing to note here is that Total Entertainment's operating margins and net income margins are both higher than the five-company and industry averages by about 100 basis points. This makes sense given the disproportionate portion of Total Entertainment's sales which come from alcohol, which has much higher margins than food sales. Next, we see that Total Entertainment's projected 1 year revenue growth of 22.99% is also better than the five-company average of (16.27%). Part of the reason for this superior growth is that Total Entertainment, having only been around for 10 years, is at different stage in the growth cycle as some of the other

²⁰ <http://finance.yahoo.com/q/pr?s=cpki>

²¹ <http://finance.yahoo.com/q/pr?s=star>

companies. This is even more obvious when we look at historical growth in the number of restaurants, as shown in the chart below.

Ticker Company	TENT	Average Restaurant Industry	Average Five Good Comps	CMPP Champpps Americana	OSI Outback Steakhouse	CAKE Cheesecake Factory	CPKI California Pizza Kitchen	STAR Lonestar Steakhouse
Total Stores								
1997	10	n/a	n/a	n/a	n/a	23	n/a	n/a
1998	16	n/a	n/a	n/a	n/a	27	n/a	n/a
1999	32	n/a	810	18	686	34	72	265
2000	35	n/a	903	24	755	41	83	n/a
growth %	9.38%		11.48%	33.33%	10.06%	20.59%	15.28%	n/a
2001	43		1047	28	870	50	99	n/a
growth %	22.86%		15.95%	16.67%	15.23%	21.95%	19.28%	n/a
2002	54		1169	34	956	62	117	n/a
growth %	25.58%		11.65%	21.43%	9.89%	24.00%	18.18%	n/a
2003	64		1309	41	1055	76	137	290
growth %	18.52%		11.98%	20.59%	10.36%	22.58%	17.09%	n/a
2004	76			47-49		92		

SOURCES: <http://finance.yahoo.com> <http://www.freeedgar.com>
<http://biz.yahoo.com/ic/eating.html> <http://www.hoovers.com>
 Company Web Sites

Normally when a company has a better financial profile (e.g. margins and revenue growth) than its peers, you would expect the market to value it at a **premium** to those peers. However, as we see below, with Total Entertainment **exactly the opposite is true:**

Ticker Company	TENT	Average Restaurant Industry	Average Five Good Comps	CMPP Champpps Americana	OSI Outback Steakhouse	CAKE Cheesecake Factory	CPKI California Pizza Kitchen	STAR Lonestar Steakhouse
Valuation Metrics								
EV (today)	\$143,410		\$6,977,040	\$128,430	\$3,570,000	\$2,440,000	\$332,430	\$506,180
Price (3/26/04)	\$13.92		\$149.11	\$8.30	\$48.60	\$44.46	\$19.25	\$28.50
Market Cap (today)	\$136,694		\$7,014,369	\$106,240	\$3,635,766	\$2,302,583	\$367,290	\$602,490
Shares Out (today)	9,820		179,620	12,800	74,810	51,790	19,080	21,140
Shares Out (04)	10,299		179,620	12,800	74,810	51,790	19,080	21,140
P/E (03)	15.89	22.89	26.25	27.30	21.36	39.81	46.17	22.05
P/E (04)	14.27		22.26	19.30	19.13	31.76	20.26	20.80
EV/E (04)	14.97		22.14	23.33	18.79	33.65	18.34	17.48
P/S (03)	1.12	1.27	1.51	0.59	1.32	2.98	1.02	1.02
P/S (04)	0.91		1.30	0.50	1.14	2.41	0.91	0.95

SOURCES: <http://finance.yahoo.com> <http://www.freeedgar.com>
<http://biz.yahoo.com/ic/eating.html> <http://www.hoovers.com>
 Company Web Sites

Looking at all the traditional valuation metrics (Price to Earnings, Price to Sales, Enterprise Value to Sales) we see that Total Entertainment is significantly undervalued relative to its peers. Total Entertainment's P/E, EV/E, and P/S based on 2004 earnings are **35.9%, 32.3%, and 30% lower** than the average of our five good comparables, respectively. Even when we look at the entire restaurant universe, which has a lower PE and P/S because it includes more mature companies with smaller margins, Total Entertainment is still **30% undervalued** based on 2003 P/E! In fact, based on the 2004 P/E for our five comparable companies and Total Entertainment's projected 2004 earnings, it should be **priced at \$20.70**, representing a **47% premium to the closing price** on 3/30/04. We believe this price is conservative given that we place no P/E premium on the five comparables, despite Total Entertainment's superior financial profile. Clearly our comparable analysis indicates that Total Entertainment is not valued correctly, and presents a strong buying opportunity for investors.

Total Entertainment vs. CAKE

Ticker Company	TENT	CAKE Cheesecake Factory
2003		
Revenue	\$121,708	\$773,835
Profit	\$8,604	\$57,836
NI %	7.07%	7.47%
Operating Income	\$12,061	\$82,718
Operating Margin	9.91%	10.69%
EPS	\$0.84	\$1.12
2004		
Revenue	\$149,690	\$957,270
1 YR Rev Growth	22.99%	23.70%
Profit	\$9,577	\$72,506
NI %	6.40%	7.57%
EPS	\$0.20	\$1.40
Metrics		
EV (today)	\$143,410	\$2,440,000
Price (3/26/04)	\$13.92	\$44.46
Market Cap (today)	\$136,694	\$2,302,583
Shares Out (today)	9,820	51,790
Shares Out (04)	10,299	51,790
P/E (03)	15.89	39.81
P/E (04)	14.27	31.76
EV/E (04)	14.97	33.65
P/S (03)	1.12	2.98
P/S (04)	0.91	2.41
Total Stores		
1997	10	23
1998	16	27
growth %	60.00%	17.39%
1999	32	34
growth %	100.00%	25.93%
2000	35	41
growth %	9.38%	20.59%
2001	43	50
growth %	22.86%	21.95%
2002	54	62
growth %	25.58%	24.00%
2003	64	76
growth %	18.52%	22.58%
2004	76	92

Total Entertainment seems to be at almost the same point in the growth cycle as the Cheesecake Factory. Both companies began expanding out of their original geographic region around the same time (Total Entertainment in 1994 and Cheesecake Factory in 1991). As of 2003 both companies also have a similar number of restaurants (Total Entertainment has 64, and Cheesecake Factory has 76). In addition, they both are expected to experience similar revenue growth in 2004 (22.99% for Total Entertainment and 23.7% for Cheesecake Factory). If we look at store growth, for the past three years they have both experienced restaurant growth in 20 – 25% range. Total Entertainment lags Cheesecake Factory's development by a couple of years, but this makes sense given it began to expand three years later than Cheesecake Factory did. This also helps to explain why between 1997 and 2000 Total Entertainment seemed to grow at a much faster pace than Cheesecake Factory. The reason that Cheesecake Factory's sales are much greater than Total Entertainment's is partially because they have more restaurants, but primarily because Cheesecake Factory's restaurants are at least double the size of Total Entertainment's.

Given all these similarities we would expect Total Entertainment and Cheesecake Factory would be valued by the market in a relatively similar manner. But as we see in our chart, completely the opposite is true.

Total Entertainment's Price to Earnings, Enterprise Value to Earnings, and Price to Sales Ratios are all at least 50% lower than Cheesecake Factory's. While we might expect The Cheesecake Factory to command a premium to Total Entertainment because of its larger restaurants and later stage in the growth cycle, we would never expect to see a 100% premium given their similar economics and growth profile. This provides even more evidence that Total Entertainment is significantly undervalued.

Sensitivities

The sensitivity page provides a range of valuations depending on how many restaurants are ultimately opened. What is so significant is that in all cases Total Entertainment is undervalued. Even with our significantly lower store growth estimates, Total Entertainment is still undervalued by 81%. In fact, even with a discount rate of nearly 12% and a perpetuity growth rate of 1.2%, Total Entertainment is still 50% undervalued, assuming they still reach the predicted level of restaurant openings.

Projection Model Sensitivity Analysis

Base Value

195%	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Projected Base Case	12	13	16	18	20	15	12	8	5	4	2
End of Year Total	64	76	89	104	122	141	156	167	174	178	181
Slightly Higher Store Growth											
123%	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Projected Base Case	12	13	16	18	20	15	12	8	5	4	2
Slightly Higher Store Growth	13	15	18	20	22	17	14	10	7	6	4
End of Year Total	65	80	98	118	140	157	171	181	188	194	198
Significantly Higher Store Growth											
187%	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Projected Base Case	12	13	16	18	20	15	12	8	5	4	2
Significantly Higher Store Growth	12	14	17	20	23	27	32	37	20	10	2
End of Year Total	64	78	95	115	138	165	197	234	254	264	266
Slightly Lower Store Growth											
119%	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Projected Base Case	12	13	16	18	20	15	12	8	5	4	2
Slightly Lower Store Growth	11	11	14	16	18	13	11	6	3	2	0
End of Year Total	63	74	88	104	122	135	146	152	155	157	157
Significantly Lower Store Growth											
81%	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Projected Base Case	12	13	16	18	20	15	12	8	5	4	2
Significantly Lower Store Growth	10	10	8	8	8	6	5	5	0	0	0
End of Year Total	62	72	80	88	96	102	107	112	112	112	112

Current Expected Market Value

		Discount Rate				
(Millions)		7.92%	8.92%	9.92%	10.92%	11.92%
Perpetuity Growth Rate	1.2%	391.0	351.6	316.4	285.1	257.1
	1.7%	437.6	393.3	353.8	318.6	287.2
	2.2%	501.9	450.8	405.4	364.9	328.8
	2.7%	596.2	535.3	481.1	432.8	389.7
	3.2%	748.3	671.4	603.1	542.2	488.0

Valuation

		Discount Rate				
		7.92%	8.92%	9.92%	10.92%	11.92%
Perpetuity Growth Rate	1.2%	185%	156%	130%	108%	87%
	1.7%	219%	186%	158%	132%	109%
	2.2%	265%	228%	195%	166%	139%
	2.7%	334%	290%	250%	215%	184%
	3.2%	445%	389%	339%	295%	255%

Value Analysis and Commentary

It is difficult to believe that such a value can exist. Again, we ask, why is this stock so undervalued? With a market cap of a little over \$100 million, it is difficult for Total Entertainment to attract significant Wall Street attention. After all, most brokerages cannot buy firms with such low liquidity. On a daily basis, only 38,000+ shares are traded.²² In addition, the stock is trading at a 1 year high from a low of about \$8 per share. This is nearly the highest level the company has ever traded²³. Therefore, on an average day, only \$520,000 exchange hands. So, the liquidity constraints for Total Entertainment have always been a problem for coverage.

Another indication that Total Entertainment has zero coverage is evident from the fact that the beta has hovered near zero for a long time. Yet, they should have some correlation with the market, as all other restaurants do.

A third possible reason that Total Entertainment is undervalued could be their name. The name of the company has absolutely no correlation to the names of their restaurants, Fox & Hound and Bailey's. So if people start to see more Fox & Hound's popping up, or see a long wait at Bailey's on a weekday night, it would take some extra research for them to correlate that to the parent company. As petty as this may seem, this could be a factor in the company's lack of recognition.

As Total Entertainment continues to grow and the market cap climbs, it will become increasingly targeted by Wall Street analysts. This offers the ability for the historic P/E levels (which have averaged between 7 and 15) to climb to those seen by many of their larger peers in the restaurant industry.

The capacity for a strong return comes in a one-two combination. First, internal growth of 20%+ will come from continued restaurant openings and internal same-store-sales growth. Second, P/E multiple expansion is likely to happen if Total Entertainment executes effectively and becomes more apparent and affordable to Wall Street from a liquidity standpoint. If the P/E even expands to the industry P/E, Total Entertainment is approximately 50% undervalued. This is detailed in the comparables analysis.

Currently, only two analysts follow Total Entertainment, Merriman and Stephens Inc. However, Stephens last report is over 9 months old (July 8, 2003)²⁴, so coverage is extremely light. Merriman is the only active analyst with coverage and they have recently raised their price target to \$17.50.²⁵ Interestingly enough, they believe the valuation could be as high as \$20-\$22 based on 2005 earnings growth. However, they fail to model the company beyond 2005, leaving tremendous growth off the table in their model. What has been most significantly missed is the enormous cash flow that Total Entertainment will reap once restaurant growth starts slowing as a percentage of new restaurants and the cash from existing units is simply left to build. We've assumed that they would use this cash in a buyback. Still, by 2014, Total Entertainment will have built up a large cash position. One other issue that the analyst report failed to identify was that sales per square foot has remained fairly constant, so new restaurants are not "outperforming" older restaurants. They are simply bigger.

²² <http://finance.yahoo.com/q?s=tent>

²³ <http://finance.yahoo.com/q/bc?s=TENT&t=my&l=on&z=m&q=l&c=>

²⁴ Stephens Inc. Investment Bankers: Research Bulletin, Total Entertainment Restaurant Corp. July 8, 2003

²⁵ Merriman Curhan Ford & Co. Restaurants. Total Entertainment Restaurant Corp. (TENT). Q4 Results Exceed Expectations. February 17, 2004

How much is \$500 million in revenue in the restaurant industry? By 2014, we've estimated that Total Entertainment will reach nearly \$500 million in revenue. By comparison, the largest restaurant chains of today are far larger.

LARGEST U.S. RESTAURANT CHAINS
(Ranked by U.S. systemwide foodservice sales)

CHAIN	PARENT COMPANY	FISCAL YEAR ENDING	U.S. SYSTEM-WIDE SALES (MIL. \$)	U.S. UNITS AT FISCAL YEAR END
McDonald's	McDonald's Corp.	Dec-02	20,306	13,491
Burger King	Private investment group*	Jun-03	8,350	8,030
Wendy's	Wendy's Int'l.	Dec-02	6,953	5,549
Subway	Doctor's Assoc. Inc.	Dec-02	5,230	14,522
Taco Bell	Yum! Brands	Dec-02	5,200	6,165
Pizza Hut	Yum! Brands	Dec-02	5,100	7,599
KFC	Yum! Brands	Dec-02	4,800	5,472
Applebee's	Applebee's Int'l.	Dec-02	3,183	1,451
Domino's Pizza	TISM Inc.	Dec-02	2,927	4,848
Dunkin' Donuts	Allied Domecq plc	Aug-02	2,700	3,700
Arby's	TriArc Corp.	Dec-02	2,695	3,250
Starbucks	Starbucks Corp.	Sep-02	2,478	4,242
Red Lobster	Darden Restaurants	May-03	2,360	642
Outback Steakhouse	Outback Steakhouse	Dec-02	2,271	698
Chili's Grill & Bar	Brinker International Inc.	Jun-03	2,240	809
Jack-in-the-Box	Jack in the Box Inc.	Oct-02	2,240	1,862
Sonic Drive-In	Sonic Corp.	Aug-02	2,205	2,533
Dairy Queen	Berkshire Hathaway Inc.	Dec-02	2,190	4,870
Denny's	Advantica Restaurant Group	Dec-02	2,120	1,599
Olive Garden	Darden Restaurants	May-03	1,940	512

*Texas Pacific Group, Goldman Sachs & Co., and Bain Capital.
Sources: *Nation's Restaurant News*; company reports.

Historical Context

Total Entertainment has been a public company since 1997 or about 6.75 years. How does this compare to other restaurant companies?

US Publicly Traded Restaurants (1970-2003)

SIC: 5810 and 5812

	Amt	%
Out of Business	150	32.75%
M&A	118	25.76%
Still Going	190	41.48%
Total	458	100.00%

TENT duration

7/97 - 4/04

6.75 years

81 months

# OOB > 81 mos	32
total COS > 81 mos	162
% of COS>81 OOB	19.75%
% of total	6.99%
% of out of business	21.33%
% out of business > 10 years	14.20%
% out of business > 14 years	5.56%

Source:
<https://wrds.wharton.upenn.edu/wrdsauth/members.cgi>

About 33% of companies that have been public for this time are now out of business. However, this figure decreases to 20% for companies that have been public for as long as Total Entertainment. Very interestingly, however, restaurants continue to close at a very rapid rate. By 10 years as a public company, 14% are out of business and greater than 14 years, about 5.5% are out of business. Given Total Entertainment's nearly impeccable balance sheet and near zero debt, this evidence is quite encouraging.

Risks

Intense Competition: The entertainment and restaurant industries are highly competitive. There are many competitors that operate with similar concepts. Many restaurant chains with significantly greater financial and marketing resources could serve as strong competition for the firm.

Dependence on Alcohol: Total Entertainment derives 58% of its revenues from the sale of alcohol²⁶. This helps to provide Total Entertainment with strong margins. However, future legislation could increase insurance costs and the success of future restaurant growth may depend on local alcohol laws (eg: Connecticut) where it is more difficult to secure a license.

Economic recovery brings costs up! Significant numbers of the Company's personnel are paid at rates related to the federal minimum wage, which is currently \$5.15 per hour. Accordingly, increases in the minimum wage will increase the company's labor costs. Moreover, economic recovery can increase employee turnover, which typically increases costs in the restaurant industry.

Expansion could cool down. Although Total Entertainment is far away from saturation, a number of factors could influence Total Entertainment's expansion. These include location scarcity and alcohol license competition. For the time being, Total Entertainment has not had a difficult time finding suitable locations for its restaurants. However, this may become more difficult in the future, particularly as the company continues to look for ideal free-standing locations. Liquor licenses are also difficult to secure in certain states where wait-times can exceed 3 years.

We want healthier menus. Lately, the public has focused more attention towards healthy foods and drinks. At the same time, Total Entertainment caters to a market interested in both greasy foods and lots of alcohol. But, if this type of food and drink becomes less popular, it could negatively affect the firm. Alcohol consumption is easily the largest risk of the two, especially if consumption starts to decline in the U.S. as cigarette consumption has. This would clearly impact margins.

Average return per store decreases as the number of units proliferates: Typically we would expect that the average return per restaurant to decrease as the most attractive locations are penetrated. However, the company has opened only 66 locations and has not yet reached many more affluent and population dense locations. As a result, while we note this as a long-term risk, it is not something that should come into play over the next few years.

Upsides:

The number of restaurants projected by 2014 could prove conservative. During FY03, Total Entertainment opened 10 new restaurants, representing annual unit growth of nearly 19%. With the company's Q4 earnings results, management reiterated its goal of opening 12-15 new restaurants during FY04 — representing expected unit growth of 19-23%²⁷. Other restaurants somewhat similar to Total Entertainment have upwards of 1,000 restaurants in the U.S. (Outback Steakhouse). While we do not anticipate Total Entertainment reaching 1,000 restaurants, 500 restaurants is more the possible. Our highest projection leaves Total Entertainment with 266 restaurants by 2014 and this level could be higher if 20% restaurant growth is sustained for a longer period.

²⁶ http://www.edgar-online.com/bin/edgardoc/finSys_main.asp?dcn=0001019056-04-000453&nad=

²⁷ MERRIMAN CURHAN FORD & CO. – TENT report, February 17, 2004

Beta of 1.2: Looking to our comparables, beta varies within .4 and 1. The company's 60- day historical beta is (-.2) and could reflect the fact that the market is not watching this particular stock. We used a beta of 1.2 to be conservative in our estimations.

Proven concept: Although there is intense rivalry, Total Entertainment has proven to be successful in its expansion and in keeping/exceeding average restaurant revenue. The Company's newly opened restaurants continue to generate higher average weekly sales volume than those opened for more than 18 months. Larger and better menus as well as a greater numbers of larger free-standing prototype units should continue to be the driver.

Please read this document before reading this report.

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