

## CHANTICLEER HOLDINGS, INC. HOTR Set to Enjoy a Record Year in 2016

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### CHANTICLEER HOLDINGS, INC. (NASDAQ – HOTR - \$1.06

Price Target \$5.00

Rating: Speculative Buy

#### COMPANY SNAPSHOT

Headquartered in Charlotte, NC, Chanticleer Holdings, together with its subsidiaries, owns and operates restaurant brands in the United States and internationally. The Company is a franchisee owner of Hooters® restaurants in international markets including Australia, South Africa, and Europe, and two Hooters restaurants in the United States. The Company also owns and operates American Burger Co., BGR the Burger Joint, BT's Burger Joint, and owns a majority interest in Just Fresh restaurants in the U.S.

#### KEY STATISTICS

|                          |                 |
|--------------------------|-----------------|
| Price as of 11/30/15     | \$1.06          |
| 52 Week High – Low       | \$4.18 - \$0.96 |
| Est. Shares Outstanding* | 21.5M           |
| Market Capitalization*   | \$22.8M         |
| 3 Mo Avg. Vol.           | 158,800         |
| Exchange                 | NASDAQ          |

#### COMPANY INFORMATION

##### Chanticleer Holdings, Inc.

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#### INVESTMENT HIGHLIGHTS

**Following a solid 3Q15, Chanticleer Holdings, Inc. is set to enjoy the highest ever revenue and restaurant adjusted EBITDA in Company history in 4Q15, setting the stage for a record 2016.** Moreover, management anticipates exiting 2015 with an estimated annual revenue-run rate of \$55M.

**The third quarter was a watershed period for HOTR that will long be viewed as transformational for the Company and its shareholders.** HOTR completed a key acquisition, a rights offering, solidified the balance sheet and strengthened its Australian operations.

**With more chains and stores under its belt along with greater operating efficiency, 4Q15 restaurant sales could grow by more than 75% from a year ago and result in a much lower loss per share.** Plus, updated industry forecasts suggest a continued decline in beef prices which can incrementally enhance HOTR's gross profits.

**A peer group analysis indicates that HOTR trades at a huge discount to its peers on a price/sales basis and price/book ratio.** We believe this spread will narrow in the coming months.

**In our view, HOTR is a \$5 stock based on a number of qualitative and quantitative factors.** For example, HOTR trades at a ridiculously low price/sales (P/S) ratio of 0.36x versus the industry average of 3.2x on projected 2016 revenue, despite growing at a much faster rate than its peers. Plus, HOTR is the only way to play the growth of the Hooters brand through its 3% ownership stake. Our target price of \$5 reflects a P/S ratio of 1.6x on next year's sales—which is still a 50% discount to the peer group average. Therefore, we reiterate our Speculative Buy rating.

## THE Q

Overall, the third quarter of 2015 was a solid one for Chanticleer, which may have been overlooked by investors focused on the many operational, structural, and financial changes during the period.

Total revenue of \$10.3M was 10% ahead of the \$9.3M recorded in 3Q14 while restaurant sales rose 14%, driven largely by the fast casual better burger concept stores. In fact, these revenues would have been higher if not for the temporary reduction in revenue from the Australian locations (due to issues with the former partner) and foreign currency translation. The Company resumed operational control of its five Hooters locations in Australia during early October 2015 and investors can expect better results due to stronger direct management of these locations. The Company also increased its investment in these locations to 80%, up from 60% previously.

Chanticleer reported an operating loss of \$5.8 million in the third quarter of 2015 as compared to an operating loss of \$0.5 million in the third quarter of fiscal 2014. Operating loss in the third quarter of 2015 included a non-cash asset impairment charge of \$4.5 million related to the reorganization of operations at the Company's Australia stores and \$0.2 million in non-recurring transaction-related expenses. Meanwhile, the non-GAAP loss per share of (\$0.11) was ahead of our forecast and Wall Street estimates.

While the impairment charge was a bit of a surprise, the end result is that the Company's financials are even stronger, now that the Australia situation has been favorably changed. Total current liabilities dropped from \$11.4M at the end of last year to \$8.2 million at September 30, 2014 due largely to the restructuring of the Company's Australia operations and shareholders' equity increased to \$24.2 million as of September 30, 2015 up from \$15.0 million at December 31, 2014.

## WHAT'S NEW

During 3Q15, Chanticleer closed on the *BT's Burger Joint* acquisition along with what may be its most strategic acquisition to date, *Little Big Burger*. The company has eight locations in Oregon and it should contribute \$1M in EBITDA annually. The Company also opened its Port Elizabeth Hooters location along with BGR franchise locations in Texas and Kuwait.

Chanticleer has been busy in Q4 as well. In addition to opening a new *BGR The Burger Joint* in Springfield, Virginia, its 23<sup>rd</sup> location, the Company is expected to open the 9<sup>th</sup> *Little Big Burger* location in Oregon. Separately, Chanticleer has received an additional \$180,000 in cash distribution from its investment in Hooters® of America ("HOA"), bringing the total 2015 distribution received to \$543,000, this bolstering an already improved balance sheet. Looking ahead, management expects to have 62 restaurants in operation by year-end, with an annual revenue-run rate of \$55M. We believe the total number of stores will approach 70 by year-end 2016, assuming no new acquisition(s) during the year, which remain a possibility. The Company reiterated on its quarterly call that it has no plans to execute new acquisitions at this time but it is apparent that the right deal at the right price would be hard to pass up. Going forward, it is clear that the higher revenue growth generation and therefore the higher valuation afforded the Company will be based upon the domestic better burger segment. Thus, investors should expect this segment to drive the revenue mix, growth, and positive EBITDA for the entire company.

## RISK FACTORS

### *Business Risk*

There is always risk associated with the restaurant business ranging from the basic cost of goods expense variability, ability to attract and retain customers, cash flow, and others. Chanticleer's risk profile is enhanced by geography (businesses abroad) and the number of different brands it needs to maintain, versus a single brand. Given the Company's M&A and franchising strategy, execution risk at favorable terms certainly exists. Moreover, a larger player may enter the space or conduct a roll-up of other chains, thus negatively impacting the Company's model. Still, we believe that the diversity of the business is a strength rather than a risk and the other issues are commensurate with firms in the industry and of Chanticleer's size.

### *Capital Markets Risk*

Volatility and liquidity are typical concerns for microcap stocks that trade on NASDAQ. Investors that track shorted stocks may notice that there are roughly 1.7 million shares short. We are of the opinion that the short position could be subject to a reversal in reaction to a re-valuation of the company as management executes its model and the Street takes notice. As this occurs, the desire by short sellers to cover all or a portion of their short positions could result in swift moves higher, taking the stock toward our target price sooner rather than later.

## VALUATION

We have tweaked our estimates to account for changes in share count (due to the completion of the recent rights offering) and other line items, relative to our original forecast. At present, management projects \$13-14M in revenue for Q4, which includes a full quarter of *Little Big Burger*, and should result in positive adjusted EBITDA. We have elected to leave our 4Q15 top-line forecast of \$14.5M unchanged for now, but have reduced the loss per share to (\$0.07) from (\$0.14). For 2016, our \$64.4M in total sales estimate is also unchanged but the loss per share is narrowed to (\$0.23) from (\$0.40), previously. These changes reflect greater operating efficiency and a change in the share count.

As illustrated in Table I, HOTR trades at a big discount to the entire peer group and even when leader **Shake Shack (NASDAQ – SHAK)** is excluded, the difference in 2016 P/S ratios is very meaningful. Despite growing top-line at an estimated 45% clip next year, higher than any other stock in this peer group, HOTR stock trades less than 0.4x 2016 revenue. This compares with the 3.2x overall average. We even added **WingStop (NASDAQ – WING)**, a new Wall Street darling to the peer group, to illustrate the dichotomy between HOTR and the rest of the space. WING, which not only is growing at a slow clip but participates in a space (fast casual chicken) that is enduring chicken shortages that raise cost of goods prices and impair margins, trades at a ridiculous 7.2x projected 2016 sales.

Separately, these shares also appear undervalued on a price/book basis. For example, Shake Shack, **Habit Restaurants (NASDAQ – HABT)** and **RAVE Restaurant (NASDAQ – RAVE)** have an average price/book of 3.2x while HOTR's price/book is a paltry 0.95x.

**Table I. Chanticleer Holdings Peer Group**

| Company Name                | Symbol      | Price<br>(11/27/15) | Mkt Cap<br>(mil) | FY15E Revs<br>(mil) | FY16E Revs<br>(mil) | 15E - 16E<br>Revs Growth | 2015E<br>Price/Revs | 2016E<br>Price/Revs | HOTR @ 1.6x<br>2016E Revs |
|-----------------------------|-------------|---------------------|------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|---------------------------|
| Shake Shack                 | SHAK        | \$44.12             | \$1,650          | \$190               | \$240               | 26.3%                    | 8.7                 | 6.9                 |                           |
| Habit Restaurants           | HABT        | \$24.09             | \$333            | \$230               | \$290               | 26.1%                    | 1.4                 | 1.1                 |                           |
| Red Robin Gour. Burg.       | RRGB        | \$68.66             | \$943            | \$1,270             | \$1,370             | 7.9%                     | 0.7                 | 0.7                 |                           |
| Zoe's Kitchen               | ZOES        | \$33.93             | \$664            | \$225               | \$275               | 22.2%                    | 3.0                 | 2.4                 |                           |
| Wingstop                    | WING        | \$21.62             | \$618            | \$77                | \$86                | 11.7%                    | 8.0                 | 7.2                 |                           |
| Rave Restaurant             | RAVE        | \$6.07              | \$62             | \$47                | \$65                | 38.3%                    | 1.3                 | 1.0                 |                           |
| Average                     |             |                     | \$712            | \$340               | \$388               | 22%                      | 3.9                 | 3.2                 |                           |
| Average w/o SHAK            |             |                     | \$524            | \$370               | \$417               | 21%                      | 2.9                 | 2.5                 |                           |
| <b>Chanticleer Holdings</b> | <b>HOTR</b> | <b>\$1.06</b>       | <b>\$23</b>      | <b>\$44</b>         | <b>\$64</b>         | <b>45.5%</b>             | <b>0.52</b>         | <b>0.36</b>         | <b>\$5.00</b>             |

Sources: www.Yahoo!Finance.com, Company websites, Goldman Small Cap Research

We surmise by the incredibly low valuation and the current short position that Wall Street is waiting for HOTR to produce the \$13-14M in sales and positive adjusted EBITDA for Q4. Once this occurs, and it becomes obvious that the stock is tremendously undervalued relative to the peer group, the valuation spread between HOTR and the group should narrow considerably and the shares rise toward our price target. Our target price of \$5 reflects a P/S ratio of 1.6x on next year's sales—which still represents a 50% discount to the peer group. We reiterate our Speculative Buy rating.

**Chanticleer Holdings, Inc. (NASDAQ - HOTR)**  
**Historical and Projected Income Statement**  
(\$, thousands)

|                                   | 1Q14             | 2Q14             | 3Q14            | 4Q14             | 2014A            | 1Q15A            | 2Q15A            | 3Q15E            | 4Q15E            | 2015E             | 2016E            |
|-----------------------------------|------------------|------------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|------------------|
| Restaurant sales, net             | \$5,268          | \$6,444          | \$9,068         | \$7,965          | \$28,745         | \$8,422          | \$10,480         | \$10,005         | \$14,000         | \$42,907          | \$63,000         |
| Gaming Sales, net                 | \$56             | \$75             | \$141           | \$161            | \$433            | \$132            | \$100            | \$121            | \$125            | \$478             | \$500            |
| Mgmt Fee Inc, non-affiliates      | \$25             | \$25             | \$418           | \$197            | \$665            | \$101            | \$78             | \$25             | \$80             | \$284             | \$500            |
| Franchise Income                  |                  |                  |                 |                  |                  | \$16             | \$135            | \$120            | \$125            | \$396             | \$400            |
| <b>Total Revenue</b>              | <b>\$5,349</b>   | <b>\$6,544</b>   | <b>\$9,627</b>  | <b>\$8,323</b>   | <b>\$29,843</b>  | <b>\$8,671</b>   | <b>\$10,793</b>  | <b>\$10,271</b>  | <b>\$14,330</b>  | <b>\$44,065</b>   | <b>\$64,400</b>  |
| Restaurant cost of sales          | \$1,877          | \$2,293          | \$3,063         | \$2,702          | \$9,935          | \$2,962          | \$3,617          | \$3,359          | \$4,704          | \$14,642          | \$20,475         |
| Restaurant opex                   | \$3,104          | \$3,766          | \$5,198         | \$5,297          | \$17,365         | \$5,068          | \$6,385          | \$5,999          | \$7,700          | \$25,152          | \$33,705         |
| Rest pre-open and close exp       |                  | \$261            | \$62            | \$201            | \$524            | \$207            | \$391            | \$141            | \$300            | \$1,039           | \$1,300          |
| Gen'l & Admin                     | \$1,608          | \$1,236          | \$1,426         | \$1,707          | \$5,977          | \$1,898          | \$2,082          | \$1,677          | \$2,200          | \$7,857           | \$9,000          |
| Impairment Charge                 |                  |                  |                 |                  |                  |                  |                  | \$4,489          |                  |                   |                  |
| Depr & Amort                      | \$345            | \$382            | \$466           | \$394            | \$1,587          | \$438            | \$408            | \$358            | \$300            | \$1,504           | \$1,200          |
| Total Oper Expenses               | \$6,934          | \$7,938          | \$10,215        | \$10,301         | \$35,388         | \$10,573         | \$12,883         | \$16,023         | \$15,204         | \$54,683          | \$65,680         |
| <b>Operating Inc (Loss)</b>       | <b>(\$1,585)</b> | <b>(\$1,394)</b> | <b>(\$588)</b>  | <b>(\$1,978)</b> | <b>(\$5,545)</b> | <b>(\$1,902)</b> | <b>(\$2,090)</b> | <b>(\$5,752)</b> | <b>(\$874)</b>   | <b>(\$10,618)</b> | <b>(\$1,280)</b> |
| Interest Exp                      | (\$337)          | (\$351)          | (\$581)         | (\$1,012)        | (\$2,281)        | (\$705)          | (\$1,374)        | (\$658)          | (\$750)          | (\$3,487)         | (\$3,200)        |
| Total Gain (Loss) Inv, others     | \$151            | (\$75)           | (\$360)         | (\$710)          | (\$994)          | (\$538)          | (\$1,141)        | \$77             | (\$750)          | (\$2,352)         | (\$3,200)        |
| Interest & other Inc              | \$59             | \$5              | \$438           | (\$167)          | \$335            | (\$1)            | \$77             |                  |                  | \$76              |                  |
| Total Other Inc (Exp), Gain/Loss* | \$210            | (\$70)           | \$78            | (\$877)          | (\$659)          | (\$539)          | (\$1,064)        | \$77             | (\$750)          | (\$2,276)         | (\$3,200)        |
| Loss before cont ops              |                  |                  |                 |                  |                  |                  |                  |                  |                  |                   |                  |
| before inc tax                    | (\$1,375)        | (\$1,464)        | (\$510)         | (\$2,855)        | (\$6,204)        | (\$2,441)        | (\$3,154)        |                  |                  | (\$5,595)         |                  |
| Income Taxes                      | (\$8)            | \$1              | (\$19)          | (\$449)          | (\$475)          | (\$33)           | (\$4)            | (\$7)            | \$20             | (\$24)            | (\$750)          |
| Loss from cont ops                | (\$1,367)        | (\$1,465)        | (\$491)         | (\$2,406)        | (\$5,729)        | (\$2,408)        | (\$3,150)        | (\$6,340)        | (\$1,604)        | (\$13,502)        | (\$5,230)        |
| Gain (loss) from disc ops         |                  | (\$72)           |                 | (\$921)          | (\$993)          | (\$2)            | \$2              |                  |                  |                   |                  |
| Non-controlling interest          | \$2              | \$126            | (\$61)          | \$54             | \$121            | \$142            | \$201            | (\$1,824)        | \$75             | (\$1,406)         | \$300            |
| Net Loss, cont ops                | (\$1,426)        | (\$1,399)        | (\$374)         | (\$2,991)        | (\$5,482)        | (\$2,268)        | (\$2,946)        | (\$4,517)        | (\$1,529)        | (\$11,260)        | (\$4,930)        |
| For Curr Trans                    |                  |                  |                 |                  |                  |                  |                  | \$573            |                  |                   |                  |
| Net Loss cont ops per share       | (\$0.24)         | (\$0.21)         | (\$0.08)        | (\$0.45)         | (\$0.87)         | (\$0.27)         | (\$0.24)         | (\$0.31)         | (\$0.07)         | (\$0.79)          | (\$0.23)         |
| Net Loss disc ops per share       | (\$0.01)         | (\$0.01)         | \$0.00          | (\$0.14)         | (\$0.15)         | \$0.00           | \$0.00           | \$0.00           | \$0.00           |                   |                  |
| <b>Net Income (Loss)</b>          | <b>(\$1,426)</b> | <b>(\$1,399)</b> | <b>(\$374)</b>  | <b>(\$2,991)</b> | <b>(\$5,482)</b> | <b>(\$2,268)</b> | <b>(\$2,946)</b> | <b>(\$4,517)</b> | <b>(\$1,529)</b> | <b>(\$11,260)</b> | <b>(\$4,930)</b> |
| <b>Earnings (Loss) per share</b>  | <b>(\$0.24)</b>  | <b>(\$0.22)</b>  | <b>(\$0.08)</b> | <b>(\$0.59)</b>  | <b>(\$1.01)</b>  | <b>(\$0.27)</b>  | <b>(\$0.24)</b>  | <b>(\$0.31)</b>  | <b>(\$0.07)</b>  | <b>(\$0.79)</b>   | <b>(\$0.23)</b>  |
| <b>Est. Shares Out</b>            | 5,974,495        | 6,329,406        | 6,628,011       | 6,650,000        | 6,332,843        | 8,249,453        | 12,455,428       | 14,802,370       | 21,500,000       | 14,251,813        | 21,600,000       |

\*denotes combination of gains/losses on investments, deriv liab, etc.

Source: HOTR Filings & Press Releases, GSCR Estimates



## RECENT TRADING HISTORY FOR HOTR

(Source: [www.Stockta.com](http://www.Stockta.com))



### Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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