

October 11, 2016

CHANTICLEER HOLDINGS, INC.

(NASDAQ – HOTR - \$0.48)

Price Target: \$2.00

Rating: Speculative Buy



little big burger



CHANTICLEER HOLDINGS, INC.

Stock Offers Greatest Upside in Fast Casual Space

Rob Goldman
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October 11, 2016

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NT Price Target \$2.00, LT 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 South Africa, and Europe, and two Hooters restaurants in the United States. The Company also owns and operates Little Big Burger, 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 10/10/16	\$0.48
52 Week High – Low	\$1.32 - \$0.36
Est. Shares Outstanding	22.0M
Market Capitalization	\$10.6M
3 Mo Avg. Vol.	101,490
Exchange	NASDAQ

COMPANY INFORMATION

Chanticleer Holdings, Inc.
 7621 Little Avenue
 Suite 414
 Charlotte NC 28226

Website: www.ChanticleerHoldings.com
 Email: IR@Chanticleerholdings.com

INVESTMENT HIGHLIGHTS

Solid sales trends, new store openings, and decisive management decisions are set to pay big dividends for HOTR and its shareholders. Unlike some players in the *Fast Casual Dining* space that are experiencing headwinds, HOTR appears to have the wind at its back as management has pushed the right buttons.

HOTR may be the Rodney Dangerfield of its industry segment as its stock price has not been afforded the respect or valuation it deserves—and we believe that is set to change beginning this quarter. A peer group analysis indicates that HOTR trades at a substantial discount to its peers on a price/sales basis and price/book ratio, despite key metric characteristics. We believe this spread will narrow dramatically as HOTR records consecutive quarterly adjusted EBITDA results.

The confluence of 3 events should translate into impressive operating metrics beginning in 2H16 and drive the stock toward the \$2.00 level. These include the combination of domestic store profitability on an adjusted EBITDA basis with the 2Q16 exit of unprofitable overseas stores, and the opening of new stores in key U.S. territories.

We estimate that HOTR will generate \$46.2M in sales next year, with \$1.5M or more in adjusted EBITDA. At current levels, the stock trades at a paltry 7x adjusted EBITDA for 2017 and .22x our FY17E revenue forecast.

With an absurdly low current valuation and favorable financial results ahead, HOTR should trade at the \$2 level in the coming months. This sentiment is confirmed by a series of key valuation metrics. For example, at the \$2 level, HOTR would still trade at a 1x 2017E price/sales ratio, a valuation that is a 38% discount to the average price/sales ratio afforded its comps. Therefore, we reiterate our Speculative Buy rating.

COMPANY OVERVIEW

We initiated coverage of **Chanticleer Holdings, Inc. (NASDAQ – HOTR - \$0.48 – Speculative Buy)** on September 17, 2015 at a price of \$1.31. As noted in our disclaimer, we were previously paid by the Company for sponsored research; however, we have elected to cover the stock on a non-sponsored basis due to what we believe is an extraordinary and compelling valuation that offers tremendous upside potential. As a result, while we provide an overview of the Company, along with highlighting recent news, this report is valuation/comps-heavy in order to fully illustrate our thesis. We will issue a pro forma income statement in a future report, ahead of the 3Q16 financial report.

HOTR: At a Glance

Tracing its current roots to 2006, Chanticleer Holdings, Inc. is one of the fast casual dining industry's fastest-growing companies. During its formative years in the dining segment, Chanticleer and a group of noteworthy private equity investors, which included H.I.G. Capital, KarpReilly, LLC and Kelly Hall, president of Texas Wings Inc., the largest *Hooters* franchisee in the United States, acquired [Hooters of America](#) (HOA), a privately held company. Today, HOA is an operator and the franchisor of over 412 Hooters® restaurants in 28 countries. Chanticleer owns an ownership stake in HOA, and its CEO and President, Michael Pruitt, serves as a member of HOA's Board of Directors.

Chanticleer owns and operates various fast casual dining restaurant brands in the U.S. and internationally. As of the end of 2Q16, the Company boasted 55 system-wide locations, up from just 1 in 2009, and includes both company-owned and franchised fast casual dining concepts. Chanticleer has successfully executed its operational and M&A strategy resulting in enviable organic and inorganic growth over the past few years and appears to be on the verge of reaching a key inflection point with respect to critical revenue mass and EBITDA.

Given the fast growth in recent years, it is no wonder that 2016 is a year focused on an improvement in margins through expense reductions, disciplined growth, and the exit of unprofitable businesses. As a result, investors will be able to witness positive adjusted EBITDA, greater cash flow levels, and store growth via innovative, non-dilutive equity capital financing, and franchising. In the meantime, 2Q16 of \$10.8M represent an annualized \$41.6M in sales, versus \$35M+ for all of 2015.

The Company owns and operates 9 *Hooters* franchises, of which all but two are outside of the U.S., as well as several domestic "better burger" focused fast casual restaurant brands, and a majority interest in a fresh, nutritional food concept chain. Based on 2Q16 results, the Better Burger brands segment represented 55% of total company-wide revenue, versus 40% in 2Q15. This segment's share of the revenue mix continues to rise as new, existing brand stores are opened. As a result, the Company benefits from a diverse revenue stream via concept, style, and geography.

The second quarter of 2016 was a landmark period for the Company as HOTR achieved a number of significant milestones, including posting of restaurant EBITDA of 13% along with adjusted EBITDA for the period. It should be noted during the 2Q16, management elected to exit 6 underperforming stores abroad and while it will negatively impact top-line on a company-wide comparison basis, operating margins should enjoy a meaningful benefit, going forward. As a result, we forecast revenue of \$43M in sales this year and \$46.2M in

total sales in 2017. Note: When taking into account continuing operations only, top-line sales growth from 2016 to 2017 is likely to reach the double digit level. Moreover, we believe that HOCR could generate \$1.5M in adjusted EBITDA or more in 2017, since as many as 9 new stores (across all brands) could be opened by year-end 2017.

In our view, Chanticleer's shares offer emerging growth investors with a compelling and unusual opportunity to buy a fast-growing, diverse, fast casual dining stock that trades at a significant discount to its peer group on a price/sales and price/book value bases.

Trading .22x 2017E sales, HOCR's shares carry an absurdly low current valuation. Moreover, with favorable financial results ahead, HOCR should trade at the \$2 level in the coming months. This sentiment is confirmed by a series of key valuation metrics. For example, at the \$2 level, HOCR would still trade at a 1x 2017E price/sales ratio a valuation that is a 38% discount to the average price/sales ratio afforded its comps. Separately, HOCR trades at a substantial discount to its peers on price/book value basis as well (.67x versus the 3.0x average).

THE BRANDS

Hooters:

Chanticleer currently owns in whole or part of the exclusive franchise rights to develop and operate Hooters restaurants in South Africa, Europe, and Oregon and Washington in the U.S., while evaluating several additional international opportunities. The Company currently owns and operates in whole or part of 9 Hooters restaurants in all of its territories.



SOUTH AFRICA

With restaurants on four continents, management ensures that there is a "local flavor" to the menu while maintaining the Hooters image and brand in each location. The Company acquired the exclusive franchise rights to South Africa in 2008 and it has worked well for Chanticleer. This segment now includes 6 locations with the potential to open 15 more. Hooters South Africa has been generally in a narrow range of around \$1.6M in revenue per quarter, thanks to the highest mix of beverages/food in the system.



Hooters Europe includes a location in England. The Nottingham England store is one of the largest of the Hooters international sites and new locations are under consideration.



The U.S. locations are generating solid performance. Thus, it is no surprise that management sees opportunity in the Pacific Northwest, since it owns rights in Oregon and Washington.

Better Burgers:



American Burger is a nine location chain, with a 10 year track record with a “Made in America” menu including beef burger, shakes, etc. Four of the five locations are in the southeastern U.S. It should be noted that the President and CEO of ABC played a big role in the success of the Bojangles chain.



Another chain with a regional focus (primarily Mid-Atlantic), **BGR The Burger Joint** was acquired in March 2015 and is known for its high quality ingredients and prime, dry-aged burgers grilled over an open flame. There are a total of 21 locations, including corporate and franchised locations. According to management, meaningful franchise opportunities exist, leveraging recent successes in the Mid-Atlantic.



Little Big Burger, is a very profitable (on restaurant EBITDA basis) 8-store location. With what appear to be HOTR footprints established in the Southeast and Northwest, it will be interesting to see how soon new locations are opened.

Nutritional:



The Company also owns a majority interest (56%) in **Just Fresh Restaurants**, a fresh food-focused casual dining establishment with 8 restaurant locations in Charlotte, NC. Management is currently exploring growing this concept via franchising opportunities.

RECENT NEWS

Second Quarter 2016 Financial Highlights:

- Total revenue for the second quarter increased 25.0% to \$10.8 million, primarily from growth in the Fast Casual Better Burger segment.
- Cost of sales improved to 32.7% compared to 34.5% in the comparable quarter last year.
- Operating expenses improved to 54.5% compared to 58.4% in the comparable quarter last year.
- General and administrative expenses decreased to 12.8% from 21.0% in the comparable quarter last year.
- Net loss from continuing operations decreased to \$(0.6) million or \$(0.03) per share, compared to \$(2.6) million or \$(0.21) in the comparable quarter last year.
- Restaurant EBITDA improved to \$1.4 million compared to \$0.7 million for the comparable quarter of last year.
- Adjusted EBITDA improved to a profit of \$0.2 million compared to a loss of \$(0.6) million in the comparable quarter last year.
- HOTR approved a plan to exit the Australia and Eastern Europe markets, authorizing management to sell or close its five Hooters stores in Australia and its one store in Budapest. Management expects to complete the disposal of the operations by the end of 2016.

Other News:

- Chanticleer Holdings Expands Geographic Scope of Agreement with Financial Partner; Investor Funding New Progress Ridge Restaurant.
 - Noteworthy: This is the first of a 10 store commitment with this financial partner
- Chanticleer Holdings Closes \$500,000 Direct EB-5 Financing for the Opening of Two Little Big Burgers in Oregon---both to open by end of 2016
- New American Burger location in Charlotte, NC; 1st Little Big Burger to open in Seattle (9 ore to go with partner); 1st BGR location in Oman

MANAGEMENT

Michael Pruitt, Chairman, Chief Executive Officer and President

Michael Pruitt, a long-time entrepreneur with a proven track record, possesses the expertise to evaluate potential investments, form key relationships and recognize a strong management team. Mr. Pruitt founded Avenel Financial Group, a boutique financial services firm concentrating on emerging technology company investments. The business succeeded immediately, and in order to grow Avenel Financial Group to its full potential and better represent the company's ongoing business model, he formed Avenel Ventures, an innovative technology investment and business development company. In the late 1980s, Mr. Pruitt owned Southern Cartridge, Inc., which he eventually sold to MicroMagnetic, Inc., where he continued working as Executive Vice President and a Board member until the company was sold to Carolina Ribbon in 1992. From 1992 to 1996, Mr. Pruitt worked in a trucking firm where he was instrumental in increasing revenues from \$6 million to \$30 million. Between 1997 and 2000, Mr. Pruitt assisted several public and private companies in raising capital, recruiting management and preparing companies to go public or be sold. He was the CEO and President of RCG Companies, Inc. (later changed to One Travel), a publicly traded holding company listed on the AMEX. Mr. Pruitt received a Bachelor of Arts degree from Coastal Carolina University in Conway, South Carolina, where he sits on the Board of Visitors of the Wall School of Business, the Coastal Education Foundation Board and the Athletic Committee of the Board of Trustees. He also sits on the Board of Chanticleer Holdings, Inc. (HOTR).

Eric Lederer, Chief Financial Officer

Eric joined Chanticleer Holdings in February 2011. Mr. Lederer has served as the Company's Controller since February, 2011 and was appointed CFO in June 2012. From December 2005 through January 2011, Eric was the Controller of PokerTek, Inc. (NASDAQ, PTEK), a licensed gaming company that develops and distributes electronic table games, where he was responsible for day-to-day accounting functions and preparing SEC filings. There is no written agreement or contract between Mr. Lederer and the Company.

Mark Roberson, Chief Operating Officer

Mark Roberson has more than 25 years of finance and operations experience with publicly-traded companies. Most recently, he was Chief Executive Officer of PokerTek, Inc., a NASDAQ-listed gaming technology company. Under Roberson's leadership, PokerTek developed innovative new products, expanded internationally and delivered profitable operating results, leading the company to be acquired at a significant market premium in late 2014. Roberson also served in financial and operational management roles with Krispy Kreme Doughnut Corporation, a NYSE-listed fast-casual restaurant franchisor and operator, LifeStyle Furnishings International, a \$2 billion furniture manufacturer, and Curtiss-Wright, Inc. a NYSE-listed aerospace and defense contractor.

Mark is a Certified Public Accountant, starting his career in public accounting with Ernst & Young and PricewaterhouseCoopers. He received a Master's in Business Administration from Wake Forest University and a Bachelor of Science in Accounting from UNC-Greensboro. He was named Small Public Company CFO of the Year by the Charlotte Business Journal in 2010.

April Miller, Director of Training

April Miller joined Chanticleer in September 2013. She has over thirteen years of experience specializing in employee hourly training, quality assurance, new store openings, Image and Hospitality Training, management development, as well as educating managers during Hooters University - Phase 1 for both HOA and Franchise locations. As Master Trainer for Hooters of America, LLC, her focus was Field Training for new management positions. April got her start with Hooters Restaurants in 2000 as a part-time Hooters Girl at Hooters of Columbia, SC. Since that time she has doggedly climbed through the ranks as a Certified Trainer, Regional Training Coordinator, Opening Training Coordinator, etc; she emerged as a role model and leader and continued to increase her passion through MIT Communication, Training and Tracking. April has led on-site training for over 50 new store openings, to include 9 international locations. She has also conducted FOH/HOH hourly training for over 100 Franchise stores as a Field Training Coordinator. She is a Certified Hospitality Trainer (CHT) and a member of the Counsel of Hotel and Restaurant Trainers (CHART). April is also a proctor and instructor for ServSafe Alcohol. April graduated Cum Laude from Newberry College with a major in Business Administration in 2000 and was recognized as President of SIFE (Students in Free Enterprise), a member of Phi Gamma Nu Business team, as well as being nominated for Who's Who among Universities and Colleges. She has shared the honor of being acknowledged as Department of the Year for the Hooters Corporate Office support in 2009.

Michelle Arcidiacono, Accountant / Corporate Secretary

Michelle joined Chanticleer Holdings in January 2008. She is a 2003 Magna Cum Laude graduate of Winthrop University earning a Bachelor degree in Business Administration with a concentration in Accounting. In May of 2011, Michelle received her Master of Business Administration in Accounting from Winthrop University. She is a member of the South Carolina Association of Public Accountants. Prior to Chanticleer, Michelle worked as an Accounting Manager for a real estate development company headquartered in Charlotte. Prior to this position, Michelle was employed as a Staff Accountant for a local CPA firm which she specialized in corporate taxation.

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 nearly 900,000 shares short of these shares, which could be a boon to share prices down the road, but considered a negative by some, present-day.

FINANCIALS AND FINANCING

As sales have grown, expenses as a percentage of sales have dramatically dropped. The cost of goods have decreased by roughly two percentage points from 2Q15 to 2Q16 and G&A's decline has been even more pronounced, with the 2Q16 figure 12.8% as compared with 21.5% just a year ago. It is no wonder that adjusted EBITDA of 1.8% was achieved for the first time during the period. With double-digit restaurant EBITDA already recorded for Q2, this line item is likely to move incrementally higher on a percentage basis going forward, beginning with 3Q16.

In our view, many of the cost-cutting initiatives are already integrate into the Company's financial model. Therefore, top-line growth will likely be the biggest driver of adjusted EBITDA growth going forward.

Our current 2016 and 2017 estimates call for \$43M and \$46.2M in sales, respectively. However, these figures do not necessarily tell the whole story since some new openings are offset to a degree by the exit of 6 stores abroad earlier this year. Therefore, we believe that by comparing continuing operations, sales comparisons for 2H16 and FY17 could demonstrate double digit top-line growth. At this time, we are forecasting several hundred thousand in adjusted EBITDA for 2016 and at least \$1.5M in adjusted EBITDA for 2017.

In our view, the Company's innovative financing initiatives are undervalued and overlooked and serve to drive expansion of key Better Burger brands in the U.S. Via an arrangement with its financial partner, HOTR is utilizing creative, non-dilutive equity capital to finance new store openings in 2016 and 2017. The typical terms of this financial partner model involves investor-contributed financial capital required to open stores, with Chanticleer contributing the brand, operating model, and management expertise. In exchange for the funding the investor will receive 80% in cash distributions until the investment is recouped. Once this occurs, that figure is reduced to 50%. Separately, Chanticleer will receive 5% management fee along with 20% cash distributions initially, then rising to 50%. The EB-5 model is similar, with a difference in the share terms following the investor funding recoup.

VALUATION AND CONCLUSION

Solid sales trends, new store openings, and decisive management decisions are set to pay big dividends for HOTR and its shareholders. Unlike some players in the *Fast Casual Dining* space that are experiencing headwinds, HOTR appears to have the wind at its back as management has pushed the right buttons.

HOTR may be the Rodney Dangerfield of its industry segment as its stock price has not been afforded the respect or valuation it deserves—and we believe that is set to change beginning this quarter. A peer group analysis indicates that HOTR trades at a substantial discount to its peers on a price/sales basis and price/book

ratio, despite key metric characteristics. We believe this spread will narrow dramatically as HOTR records consecutive quarterly adjusted EBITDA results.

Figure 1: HOTR Peer Group

Goldman Small Cap Research
 10/10/2016
 Small Cap Casual Dining Stocks Valuation: Full List

Name	Sym	Price	Mkt Cap (mil)	2016 FYE Rev (mil)	P/Rev	FYE Rev Growth	2017		RSI	
							FYE Rev (mil)	FYE Rev Growth		
El Pollo Loco	LOCO	\$11.70	\$450	\$383	1.17	8.0%	\$422	1.07	10.2%	24
Famous Dave's	DAVE	\$5.28	\$37	\$100	0.37	12.0%	\$96	0.39	-4.0%	42
Good Times	GTIM	\$3.25	\$40	\$65	0.62	47.0%	\$84	0.48	29.2%	39
Habit	HABT	\$13.93	\$421	\$285	1.48	23.0%	\$349	1.21	22.5%	44
Kona Grill	KONA	\$12.06	\$126	\$176	0.72	23.0%	\$209	0.60	18.8%	39
Noodles	NDLS	\$4.65	\$129	\$491	0.26	8.0%	\$508	0.25	3.5%	23
Rave	RAVE	\$2.76	\$29	\$64	0.45	27.1%	\$70	0.41	9.4%	29
Red Robin	RRGB	\$44.25	\$588	\$1,320	0.45	5.0%	\$1,420	0.41	7.6%	37
Shake Shack	SHAK	\$33.15	\$1,220	\$258	4.73	36.4%	\$336	3.63	30.2%	34
Wingstop	WING	\$28.35	\$814	\$92	8.85	17.6%	\$101	8.06	9.8%	37
Zoe's Kitchen	ZOES	\$21.43	\$417	\$278	1.50	22.6%	\$333	1.25	19.8%	27
Average			\$388	\$319	1.87	21%	\$357	1.61	14%	34
Chanticleer	HOTR	\$0.48	\$10	\$43	0.23	23%	\$46	0.22	7%	42

Notes:
 This list contains all stocks we deem relevant in this category under \$1B in mkt cap except peer SHAK.
 Green indicates oversold, red overbought.

Sources: GSCR, Yahoo Finance, Finviz

The table above is a list of what we believe are the best comps for HOTR and include leading fast casual and casual dining stocks that are in the small cap category. As noted above, the 2016 and 2017 price/sales ratios for HOTR are a joke considering the average P/S metric for the group. Granted, sales growth for 2017 is below this group, but even companies such as DAVE and NDLS are trading at higher valuations and their sales growth forecasts pale in comparison.

Figure 2: HOTR Comps

Goldman Small Cap Research										
10/10/2016										
Small Cap Casual Dining Stocks Valuation: Category Comps										
Name	Sym	Price	Mkt Cap (mil)	2016 FYE Rev (mil)	P/Rev	2017		P/Rev	FYE Rev Growth	RSI
						FYE Rev (mil)	FYE Rev Growth			
Good Times	GTIM	\$3.25	\$40	\$65	0.62	47.0%	\$84	0.48	29.2%	39
Habit	HABT	\$13.93	\$421	\$285	1.48	23.0%	\$349	1.21	22.5%	44
Red Robin	RRGB	\$50.39	\$681	\$1,320	0.52	5.0%	\$1,430	0.48	8.3%	51
Shake Shack	SHAK	\$33.15	\$1,220	\$258	4.73	36.4%	\$335	3.64	29.8%	34
Wingstop	WING	\$28.35	\$814	\$92	8.85	17.6%	\$101	8.06	9.8%	37
Average			\$635	\$404	3.24	26%	\$460	2.77	20%	41
Chanticleer	HOTR	\$0.41	\$9	\$43	0.21	23%	\$46	0.20	7%	41

Sources: GSCR, Yahoo Finance, Finviz

Figure 2 includes pure fast casual and casual dining comps that are HOTR peers based on their business models or signature foods (burgers for HOTR Better Burger concept and wings for Hooters). The price/sales ratio disparities here are even more pronounced than with the full list.

One of the most striking valuation stories in this space, where a number of brands have struggled both regionally and nationwide, is the fact that so many companies trade at low price/sales valuations in the small cap space. It is as if there are the “haves” and “have nots”, or those in favor and those not in favor. As illustrated in the table Low Valuations table below, six companies on our list, or more than half, trade less than .75x next year’s projected sales. The average 2017E P/S ratio is a paltry .48x and is still more than double the HOTR valuation! Moreover, there is no material difference in sales growth expectations, especially considering the HOTR store exits. Clearly, considerable value exists from current levels, as the Company reports consecutive quarterly adjusted EBITDA.

It is interesting to note that when comparing HOTR with the main group’s list that includes only those companies below a \$300M market cap, this group’s average P/S ratio is nearly ten times that of HOTR. So, one cannot merely assume that all casual dining microcaps trade at extremely low valuations.

Figure 3: HOTR Microcap Peers

Goldman Small Cap Research										
10/10/2016										
Small Cap Casual Dining Stocks Valuation: Low Valuation										
Name	Sym	Price	Mkt Cap (mil)	2016 FYE Rev (mil)	P/Rev	2017		P/Rev	FYE Rev Growth	RSI
						FYE Rev (mil)	FYE Rev Growth			
Famous Dave's	DAVE	\$5.28	\$37	\$100	0.37	12.0%	\$96	0.39	-4.0%	42
Good Times	GTIM	\$3.25	\$40	\$65	0.62	47.0%	\$84	0.48	29.2%	39
Kona Grill	KONA	\$12.06	\$126	\$176	0.72	23.0%	\$209	0.60	18.8%	39
Noodles	NDLS	\$4.65	\$129	\$491	0.26	8.0%	\$508	0.25	3.5%	23
Rave	RAVE	\$2.76	\$29	\$64	0.45	27.1%	\$70	0.41	9.4%	29
Red Robin	RRGB	\$44.25	\$588	\$1,320	0.45	5.0%	\$1,420	0.41	7.6%	37
Average			\$158	\$369	0.48	20%	\$398	0.42	11%	35
Chanticleer	HOTR	\$0.48	\$10	\$43	0.23	23%	\$46	0.22	7%	42

Sources: GSCR, Yahoo Finance, Finviz

Another key metric, price/book value, shows an even greater contrast in valuation for HOTR. Figure 3 illustrates that the average price/book value for the group is a whopping 3.0x while HOTR is afforded a .67x P/B. Enough said.

The confluence of 3 events should translate into impressive operating metrics beginning in 2H16 and drive the stock toward the \$2.00 level. These include the combination of domestic store profitability on an adjusted EBITDA basis with the 2Q16 exit of unprofitable overseas stores, and the opening of new stores in key U.S. territories.

We estimate that HOTR will generate \$46.2M in sales next year, with \$1.5M or more in adjusted EBITDA. At current levels, the stock trades at a paltry 7x adjusted EBITDA for 2017 and .22x our FY17E revenue forecast.

With an absurdly low current valuation and favorable financial results ahead, HOTR should trade at the \$2 level in the coming months. This sentiment is confirmed by a series of key valuation metrics. For example, at the \$2 level, HOTR would still trade at a 1x 2017E price/sales ratio, a valuation that is a 38% discount to the average price/sales ratio afforded its comps. Therefore, we reiterate our Speculative Buy rating.

Goldman Small Cap Research										
10/10/2016										
Small Cap Casual Dining Stocks Valuation: Book Value										
Name	Sym	Price	Mkt Cap (mil)	2016 FYE Rev (mil)	P/Rev	FYE Rev Growth	2017 FYE Rev (mil)	P/Rev	FYE Rev Growth	BV
El Pollo Loco	LOCO	\$11.70	\$450	\$383	1.17	8.0%	\$422	1.07	10.2%	1.7
Famous Dave's	DAVE	\$5.28	\$37	\$100	0.37	12.0%	\$96	0.39	-4.0%	1.6
Good Times	GTIM	\$3.25	\$40	\$65	0.62	47.0%	\$84	0.48	29.2%	1.1
Habit	HABT	\$13.93	\$421	\$285	1.48	23.0%	\$349	1.21	22.5%	4.1
Kona Grill	KONA	\$12.06	\$126	\$176	0.72	23.0%	\$209	0.60	18.8%	2.5
Noodles	NDLS	\$4.65	\$129	\$491	0.26	8.0%	\$508	0.25	3.5%	1.6
Rave	RAVE	\$2.76	\$29	\$64	0.45	27.1%	\$70	0.41	9.4%	3.2
Red Robin	RRGB	\$44.25	\$588	\$1,320	0.45	5.0%	\$1,420	0.41	7.6%	1.5
Shake Shack	SHAK	\$33.15	\$1,220	\$258	4.73	36.4%	\$336	3.63	30.2%	9.5
Wingstop	WING	\$28.35	\$814	\$92	8.85	17.6%	\$101	8.06	9.8%	N/A
Zoe's Kitchen	ZOES	\$21.43	\$417	\$278	1.50	22.6%	\$333	1.25	19.8%	3.2
Average			\$388	\$319	1.87	21%	\$357	1.61	14%	3.0
Chanticleer	HOTR	\$0.48	\$10	\$43	0.23	23%	\$46	0.22	7%	0.67

Sources: GSCR, Yahoo Finance, Finviz

RECENT TRADING HISTORY FOR HOTR

(Source: 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*.

Analyst Certification

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