



Opportunity Equity Research

Build a Bear Workshop (BBW)

Initiation Report (Date Published 11/14/2017)

Build a Bear (BBW) Stats

\$ 7.65 Current Price

\$122 Million Market Cap

52 Week Range \$7.25 - \$15.85

Shares Outstanding: 16.0 Mil

Enterprise Value: \$110.8 Million

Debt: \$0

Institutional Holdings: 81.9%

Insider Holdings: 5.2%

Short Interest: 9.7% of float

30 Day Avg Volume: 89,600

Condensed Income Statement

FY (Dec)	Q1	Q2	Q3	Q4	Yr
EPS 16a	\$.22a	-\$.28a	\$.11a	\$.31a	\$.41a
EPS 17e	\$.17a	-\$.15a	\$.07a	\$.35e	\$.51e
EPS 18e	\$.22e	-\$.09e	\$.10e	\$.34e	\$.57e
Rev16a	\$95a	\$75.1a	\$83.7a	\$110.3a	\$364.2a.
Rev17e	\$90.6a	\$77.2a	\$82.4a	\$111.7e	\$366.3e
Rev18e	\$92.3e	\$77.3e	\$83.3e	\$112e	\$365.0e

EV/Revenue

2016a/17e: .30a/.30e

P/E

2016a/17e: 18.7a/14.9e

BBW Stock Chart-Short Term



BBW Stock Chart-Long Term



Company Description: Build a Bear Workshop is primarily a mall based interactive retail store that invites its customers to create their own customized stuffed animals. Build a Bear has been in business for over 20 years and has 353 company-owned stores (292 N.A., 60 EU, 1 China) and 90 franchise stores in 11 countries. Build a Bear has sold over 170 million “furry friends” and has over \$6 billion in cumulative sales since inception.

Opportunity Summary: After a profitable stock run in the 2013-2015 time frame associated with a strong rebound in company revenue and profitability, BBW has been under pressure for the past two years in a very challenging retail environment. Trading at valuation levels that make investment attractive (.3 times EV/Revenue and roughly 4 times TTM EV/EBITDA), BBW now moves in to its seasonal strong period with a better marketing game plan and an improving unit profitability story for the upcoming years.

- BBW is coming in to its historically important Q4 focusing on a more traditional marketing plan and facing easy year over year comps.
- Management has been facing the “declining mall traffic” headwind for years now and is moving in to multiple attractive new non-mall retail locations for new unit growth.
- Both the updated “Discovery Format” stores (think updated/remodeled stores) and the newer Concourse shops (with smaller footprints but much stronger net unit economics) provide flexibility in the future-they can choose to reinvest in current locations that are most profitable (or where they can get better rent deals) or they can change to the smaller, more flexible Concourse locations.
- Trading at roughly 4 times EV/TTM Adjusted EBITDA, BBW is attractively valued going in to its strongest seasonal period with a better long-term game plan.

CEO Name: Sharon Price John, President, CEO

CFO Name: Voin Todorovic

Greg Edwards, CFA greg@oppequity.com

Company Overview/History:

Founded by Maxine Clark with her first store opening in St. Louis in October of 1997, Build A Bear was a new creation loosely described as being “experiential retail”. In this concept, customers can come in and go through a seven-step process that includes personalization of the bears and other stuffed animals being offered. They can choose to include sound effects, scents and outfits to make it personalized to their tastes and “bring it to life”. What becomes a true value-add is that it isn’t just a simple purchase, it becomes a personalized buy that includes an “experience” that adults can share with their kids and that every child will remember.

The company saw its highest revenue in 2007 reaching \$474 million, and now has over 400 locations in 15 countries around the world. The worldwide economic downturn in 2009 and 2010 proved challenging to all retailers, and BBW was no exception. After struggling for a number of years under the pressure of declining mall traffic, slower consumer spending and a migration to consumer online purchasing, the founder stepped down in June of 2013 to bring in a new management with a fresh outlook for the company.

Management Profile:

The Build a Bear management team is now led by Sharon Price John, President and CEO who joined the company in June of 2013 after serving in Stride Rite’s Children’s Group. The CFO Voin Todorovic started in September of 2014 and was previously at Wolverine World Wide. Chief Operations Officer Christopher Hurt started in April of 2015 and was with American Eagle Outfitters prior to that. Chief Marketing Officer Gina Collins started in 2014 and also came from Stride Rite Children’s Group.

These are some of the key management members who successfully reinvigorated BBW’s growth post the 2009 recessionary period and were instrumental in the company’s revenue growth, profitability and stock rebound in the 2013-2015 time-frame. Looking back, the original goals of this team included a return to profitability and then sustained profitability. They originally focused on improving unprofitable stores, increasing average transaction value and margin

expansion in general. Approximately 50% of the board was also “upgraded” as well during this initial turnaround phase.

This is the same team that is now putting in place a number of initiatives to react to the consistent negative mall traffic trends and the move to more and more consumer spending migrating to the web.

It’s appropriate to highlight as a long-term reflection on the company and the management team that Build a Bear is consistently ranked as one of the Fortune 100 best companies to work for.

Growth Opportunities/Margin Profile:

One of the things the management has been focused on in recent years is the expansion of its “Discovery Store” format. These include both new and remodeled locations and include a different footprint, improved productivity, and “the stuffer” (a large machine for stuffing the bears that has a faster fill rate and increases capacity by 60%). These stores historically have seen double digit comps vs. norm with both higher dollars and units per transaction. The most recent opening was a new store in NY City next to the Empire State Building.

Another major newer catalyst is the use of the Concourse store format. This is perhaps one of the most interesting pieces of the story, in that they project these locations will have annualized sales of \$500-\$600,000 per location with four-wall contribution higher than their traditional store targets of 20-22%. They can potentially generate 50% of a traditional store’s sales in 10% of the footage with 80% less capital required than a new or remodeled Discovery store. The management has repeatedly talked about having 130+ stores coming out of long term leases in the upcoming three years (many were 10-year leases with automatic escalators involved). With mall traffic trends being consistently down, those types of leases going forward simply don’t make sense to get in to. Mall retailers need to push back on these contracts or find alternatives to the malls that aren’t flexible on rent terms.

The Concourse stores can help them in the renegotiation of all future leases. If they can keep a

current location (often already fully depreciated) with a better landlord lease rate offered, they can do that. If the landlord won't budge, they can either leave the location or potentially create a Concourse store. Although the metrics talked about regarding the Concourse stores are really impressive (and if they continue, we should expect to see many more of these in the future—there are 23 now, 17 opened in this past Q2), the management is clearly focusing on profitability metrics at each location. The current focus is on revenue and profitability, not simply same store sales growth. Another advantage of the new Concourse store format is pure flexibility—think three year lease and the ability to pick it up and go to a new location at the end of the lease if it makes sense.

In terms of responding to the consistent negative pressure seen in mall traffic, the management team has been going after it on multiple fronts. One way they have been addressing weaker mall results is to push back on rents and rent length. The Concourse store format mentioned above gives them lots of flexibility in terms of what malls they go in to and for how long. A totally different way they are addressing this is to “go where the families are”. They are moving in to tourist locations and are now on all 25 Carnival Cruise Ships, they are adding test locations in Bass Pro Shops, they are going in to the village area at the Fairmont Hotel in Scottsdale, Arizona and at Kings Island amusement park in Ohio. They have tested going in to AMC theaters, are in three Beaches Resorts in the Caribbean and will be back in Gaylord resorts for the holiday ice events. The main problem and drive here is that families still want the Build a Bear experience, they just aren't going to the traditional malls as much as they used to. The solution is to renegotiate rents in malls that are struggling, move out of bad/unprofitable locations, use the concourse shops where they make sense and create and focus on new locations in tourist areas and “where families are”. This will be a multi-year push for the company and a multi-year positive backdrop for the stock.

In terms of mix of sales, BBW has created key licensing partnerships with hot movie and television shows and studios including My Little Pony, Teenage Mutant Ninja Turtles, Disney, Marvel, Dreamworks, Hasbro, Star

Wars, Pokemon and Minions. Results can be somewhat choppy on a quarterly basis based on timing of some of the movie releases, but the relationships are with top notch companies and are recurring. BBW has also augmented those relationships and offerings with their own proprietary lines. They have created the “Honey Girls”, “Merry Mission” and “Promise Pets” internal brands, complete with their own back stories, apps, music, videos and games to create a core offering with better margins.

Another initiative management has been focusing on is using the Build a Bear brand in a licensing format. They drove wholesale business with Costco gift sets and started relationships with Spin Master (which made a holiday mini-bear stuffing toy station) and Frankford (novelty candies).

Competitive Environment/Industry Thoughts:

Build a Bear really doesn't have a direct competitor. Depending on what data sources you use, BBW is listed as being a competitor in the “specialty retail” space, also in “toy stores” and in “stuffed animals” specifically. Although many larger malls may contain a toy store or department stores that sell toys, BBW stands out as a very special experience that others simply don't provide.

The main industry pressure for them has been both in terms of the consistently negative mall traffic trends throughout a majority of the U.S. combined with the trend of consumer spending moving to online sales. The management is doing what it can to focus on the profitability of the mall locations while also focusing on unit growth outside the typical mall space. They have recently upgraded and revamped their online store as well, having distinct online only specials and the ability for a consumer to go through an online purchase while adding on different features and “having fun” online.

Ownership Profile:

Institutions hold 81.8% of the total stock and 88.1% of the float. Insiders own an additional 5.2% of the company. Important individual institutional positions include Point72 who owns 16.1% of the company, Dimensional Fund Advisors at 8.4%, BML Capital

Management at 8%, Blackrock at 5.5% and Cannell Capital at 4.7%. Point72 is the family office of Steven Cohen (famed hedge fund manager). Dimensional Fund Advisors is a huge asset manager, and their holdings are spread across a large number of portfolios at the firm. BML is a hedge fund managed by Braden Leonard, who is a value investor based out of Indiana. Blackrock owns their holdings in five different funds, and Cannell Capital is a fairly diversified small and micro cap fund managed by Carlo Cannell. Total insider ownership at 5.2% is a fairly decent exposure given market cap size of this company-the management team has some skin in the game.

Short interest level in Build a Bear is at 9.7% of float or over 1.4 million shares total. The total short interest ratio in the year cratered in February after it appears the shorts cleared their positions post a February conference call. The short interest ratio peaked this year at 25.3 back in June, and has bled off since then to just over 10 recently. Given the concentrated ownership profile, the short interest level seems high and could lead to short squeezes with fairly little buy-side buying pressure.

Risk Profile:

Build a Bear has a number of business risks that potential investors should be aware of. BBW has been fighting against the constant recent strain of negative mall traffic. In addition, a number of their stores have been in existence for a long time and have leases coming up. Although this gives the management some opportunity to renegotiate rents and potentially exit out of bad locations, it will also keep them very active in the renegotiation business.

Other risks include not keeping up with current customer tastes and wants, and although the management has shown an ability to both license desired product lines and grow their own in house, they need to continue to stay on top of product lines that are in high demand. Recent management moves in to new types of retail locations may not pan out as planned, and yet the constant testing and trial of new retail options is promising. In addition to typical retail business risks, this is a small cap stock and has the

traditional trading and liquidity risks associated with all smaller public equities. Although this stock has decent liquidity for a small cap, position size and diversification are important.

Recent Results and Guidance:

Recent quarter results included a 7.4% decline in comparable store sales, which management anticipated and attributed to continued softness in mall traffic and to the evolution of their retail footprint (among other things, they are downsizing some stores and taking those stores out of the comp base). E-commerce sales were down 18% as they launched their new website and transitioned to a new platform in front of the seasonally strongest time period for the company.

In terms of sales trends, the company mentioned on the last call that the sales trend has improved sequentially from July to August to September and now into October. Other guidance includes fourth quarter revenue growth expected to be in the low single-digit range vs. last year, with comparable store sales flat to down. Management reiterated Q4 gaap pre-tax income of \$8-\$10 million and for the full year gaap pre-tax income of \$12-14 million. They anticipate ending the year with 360 stores, 106 being Discovery format and 26 being Concourse shops (small but growing).

Other recent news included the completion of an exploration of strategic alternatives that the company was paying for. The management did not put a lot of public color on this process, but they have added a new member to their board of directors with experience in marketing and the media space (with intentions to continue to evolve the board through a Russell Reynolds search). A new \$20 million share buyback was also authorized and apparently was a result of this process. The company has a history of backing up its share buyback plans with purchases, buying back over \$25 million in stock in the 2015 time frame.

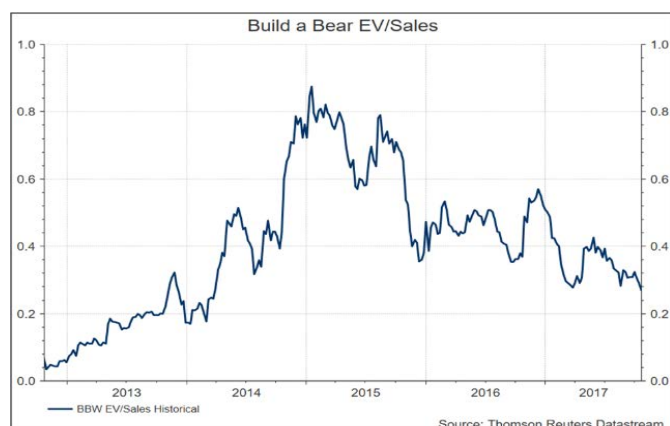
The company has also recently announced the signing of a new franchise agreement with a partner in China, representing their "first major international expansion in several years".

Valuation:

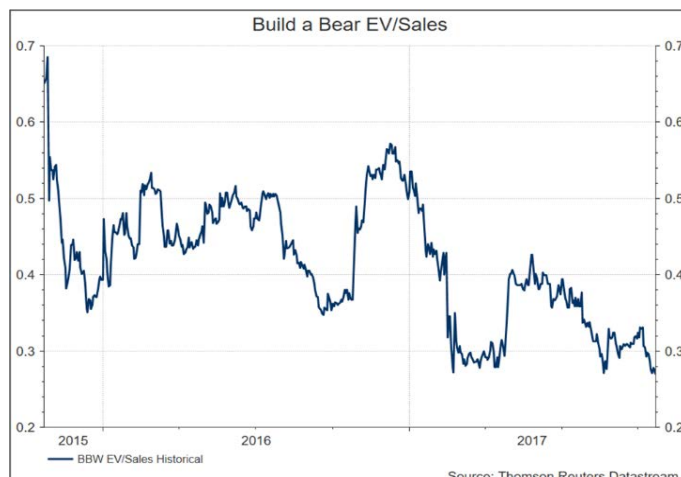
It's a bit difficult to come up with helpful public retail comps when looking at BBW's valuation relative to "similar businesses". Below is a chart showing some of the potentially most relevant comps to BBW. Of the group, GNC is also primarily mall based and is also a specialty retailer and Party City has a similar specialty retail destination flavor to it. Both companies are currently trading at over 7 times EV/adjusted EBITDA and are trading at .8 times EV/Revenue for GNC and 1.2 times EV/Revenue for Party City. With BBW currently trading around the 4 times and .3 times levels vs. those metrics, BBW is trading at a significant discount vs. two of the most similar comps.

Comparative Company Valuations			
	Mkt Cap	EV/EBITDA	EV/Rev
BBW	131 Mil	4	0.3
GNC	479 Mil	8.1	0.8
Party City	1.32 Bil	7	1.2
Ulta	12.8 Bil	10.5	1.9
Sally Beauty	2.3 Bil	6.4	1
Michaels	3.6 Bil	7.2	1.2

Another way to look at valuation for BBW is to look at where it trades vs. its historical trading pattern. A look at BBW's enterprise value/sales historical trading range shows the stock trading at near-term lows at the .3 times level with historical recent highs at the .8 level at the end of 2014 and 2015 when topline and bottom line results were growing.



Below is a shorter-term 2 year look at BBW EV/Sales ratio. This highlights the recent pressure on the stock, but also points to potential upside if management's efforts to reinvigorate revenue growth and manage costs take effect.



A look at BBW's historical enterprise value/EBITDA shows where the market is currently valuing BBW's results. BBW has recently traded up to the 10 times level on this metric when the company was showing strong revenue and bottom line results (and results at the company were improving and growing). Trading at under 4 times EV/adjusted EBITDA currently, patient investors may be well served to take a look at investing in this company at these levels in front of a potentially much improved year over year seasonally strong Q4.



A shorter-term look at EV/EBITDA shows not only the volatility in the underlying stock, but also shows the stock trading at near-term lows on this metric.



www.buildabear.com Company webpage/more information on the company/historical financials/links to IR/etc.

Historical Income Statement:

BBW Income Statement (in millions)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Sales	392.4	377.7	95	75.1	83.7	110.3	364.2	90.6	77.2	82.4
(% sales growth year over year)	3.5000%	-3.7000%	1.7000%	-7.3000%	-2.2000%	-6.2000%	-3.6000%	-4.6000%	2.8000%	-1.5532%
Cost of Goods Sold incl. D&A	211.8	198.5	48.8	43.2	47	59.2	198.2	47.8	43.1	45.5
Gross Income	180.5	179.2	46.2	31.9	36.8	51.2	166	42.9	34.1	36.9
(% gross income growth yoy)	14.000%	-0.700%	4.400%	-9.900%	-5.700%	-15.500%	-7.400%	-7.100%	8.700%	0.272%
Gross Margin %	46.01%	47.45%	48.61%	42.52%	43.88%	46.37%	45.59%	47.30%	44.15%	44.78%
SG&A Expense	164.1	161.2	39.7	37.1	33.4	47	157.2	37.6	35.8	34.3
(% SG&A growth year over year)	2.600%	-1.800%	6.600%	3.100%	-11.300%	-7.100%	-3.100%	-5.100%	-3.100%	2.695%
SG&A %	41.84%	42.67%	41.78%	49.31%	39.89%	42.63%	43.16%	41.54%	46.41%	0.00%
EBIT (Operating Income)	16.1	17.8	5.2	-6.3	2.8	3.5	5.3	4.6	-2.6	2.2
OI %	0.0410%	0.0470%	5.5200%	-8.3200%	3.3200%	3.2100%	0.0146%	5.0600%	-3.4000%	2.6699%
Interest Inc (Exp)	-0.1	0.1	0	0	0	-0.1	0	0	0	0
Pretax Income	16	17.9	5.3	-6.2	2.8	3.5	5.3	4.6	-2.6	2.2
Income Taxes	1.7	-9.4	3.5	-4.3	1.8	0.3	3.9	2.8	-1.5	0.7
Net Income	14.4	27.3	3.5	-4.3	1.8	0.3	1.4	2.8	-1.5	1.5
Net %	0.0366%	0.0724%	3.7000%	-5.7200%	2.2000%	0.2720%	0.0038%	3.0500%	-1.9900%	1.8204%
EPS (diluted) per share	0.81	1.59	0.23	-0.28	0.11	0.02	0.09	0.17	-0.1	0.09
Normalized EBITDA	34.5	34.5	9.1	-2.4	6.7	8.1	21.5	8.5	1.3	unk

A number of things stand out when looking at BBW's historical income statement. Topline yearly sales have been under pressure over these past few years as mall traffic in the U.S. continues to slowly fall and consumers have grown increasingly comfortable and reliant on internet shopping. For a company like Build a Bear with single digit operating income and net income metrics, the details really matter and this topline pressure (even though in just low single digits) has pressured recent results. SG&A expense has seen negative operating margin leverage in the past few years, with SG&A being down just -1.8% vs. revenue down -3.7% in 2015 and SG&A -3.1% in 2016 vs. revenue -3.6% in the same period. The management team needs to keep a focus on controlling spending in this difficult retail environment.

Other numbers to note: Q4 of last year was very atypical for BBW. This is typically a very strong seasonal Q for the firm, yet last year a sharp fall-off in mall traffic as we approached Christmas and a change in company promotions that moved away from what typically has worked for them created a bad combination and really tough quarter for the company to work through. We are heading in to that "much easier comp" as we move in to their historically strong Q4/Christmas season, and it sounds like management is not going to make the same promotional missteps that happened last year, choosing to focus on marketing in the traditional channels that have worked for them to promote sales in the past.

Historical Balance Sheet:

BBW Balance Sheet (in millions)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Assets										
Cash & Short Term Investments	66.50	46.70	30.80	10.20	11.80	32.50	32.50	35.60	12.60	10.90
Accounts Receivable, Trade, Net	11.50	13.30	10.40	9.40	8.80	12.90	12.90	6.40	9.00	7.90
Total Inventory	51.90	53.90	54.00	55.50	59.40	51.90	51.90	53.30	58.40	62.00
Prepaid Expenses	7.80	7.90	7.80	6.90	7.00	7.20	7.20	5.10	7.50	13.40
Gross Property, Plant and Equipment	247.80	251.40	254.80	253.70	251.60	247.30	247.30	247.10	246.50	unk
Net Property, Plant and Equipment	62.80	67.70	68.90	69.90	72.00	74.90	74.90	73.20	75.70	76.70
Intangible Assets, net	0.30	1.70	1.60	1.90	1.70	1.70	1.70	1.60	1.40	1.10
Other Long Term Assets	3.20	15.10	15.30	15.80	15.50	12.90	12.90	11.90	12.70	12.40
Total Assets	212.10	213.30	196.00	176.40	182.90	199.60	199.60	192.30	182.60	184.30
Liabilities & SH Equity										
Accrued Expenses	22.90	18.70	16.00	10.10	11.20	15.30	15.30	13.90	11.30	13.10
Accounts Payable	38.10	42.60	27.80	22.40	26.20	27.90	27.90	21.90	17.00	16.90
Other Current Liabilities, total	38.10	38.60	36.10	31.40	29.90	39.70	39.70	34.00	31.50	29.40
Total Current Liabilities	99.10	99.90	79.90	63.90	67.30	82.90	82.90	69.80	59.70	59.40
Long-Term Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Long Term Liabilities	15.30	14.10	15.10	16.00	16.90	17.60	17.60	18.90	19.50	20.10
Total Liabilities	114.40	113.90	94.90	79.90	84.20	100.50	100.50	88.70	79.30	79.40
Additional Paid In Capital	69.40	66.00	65.70	66.50	67.20	68.00	68.00	68.90	69.70	70.00
Retained Earnings	36.80	43.20	45.80	41.50	43.40	43.70	43.70	47.00	45.50	46.40
Total Equity	97.60	99.40	101.10	96.40	98.70	99.10	99.10	103.60	103.30	104.90
Total Liabilities & SHEquity	212.10	213.30	196.00	176.40	182.90	199.60	199.60	192.30	182.60	184.30
Total Book Value	97.30	97.70	99.50	94.60	97.10	97.40	97.40	102.00	102.00	103.80

Build a Bear has a solid balance sheet with zero in long term debt and a historical cash generating capability that adequately services the seasonal inventory building and capex needs of the firm. Although cash is at a low level for the year, this is seasonally typical as the management team builds in preparation for second half seasonal strength in the business. Total shareholder's equity and book value are just below current enterprise value, showing a potential floor level on valuation of the stock.

Historical Cash Flow Statement:

BBW Cash Flow Statement (in millions)									
	2014	2015	2016	2016	2016	2016	2016	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
<u>Operating Activities</u>									
Net Income/Starting Line	14.36	27.35	3.52	-4.30	1.84	0.32	1.38	2.77	-1.53
Depreciation, Depletion, & Amort.	18.13	16.42	3.81	3.81	3.95	4.60	16.17	3.93	3.96
Deferred Taxes & Inv. Tax Credit	-2.04	-8.12	0.00	0.04	-0.28	2.50	2.26	1.91	-0.60
Non Cash Items	5.26	2.89	0.88	0.89	1.10	5.25	8.07	1.15	1.29
Changes in Working Capital	-0.82	-6.50	-15.17	-15.67	1.27	17.70	-11.90	-3.90	-20.06
Net Operating Cash Flow	34.90	32.05	-7.01	-15.23	7.89	30.36	16.01	5.86	-16.96
<u>Investing Activities</u>									
Capital Expenditures	-10.90	-24.40	-6.19	-5.70	-6.33	-9.91	-28.80	-2.29	-5.74
Other Investing Cash Flow Items	-0.90	-0.76	1.46	0.00	0.00	0.00	1.46	0.00	0.00
Net Investing Cash Flow	-11.80	-25.20	-4.72	-5.70	-6.33	-9.91	-26.70	-2.29	-5.74
<u>Financing Activities</u>									
Retirement of Stock	-1.80	-26.40	-1.88	-0.09	-0.02	0.03	-1.95	-0.36	-0.10
Net Financing Cash Flow	-1.80	-26.40	-1.88	-0.09	-0.02	0.03	-1.95	-0.37	-0.12
Net Change in Cash	20.72	-20.19	-14.42	-20.62	1.62	20.70	-12.71	3.14	-23.06
Free Cash Flow	23.99	7.66	-13.20	-20.93	1.56	20.45	-12.10	3.57	-22.70

A look at Build A Bear's historical cash flow statement highlights years of capital expenditures and investments in to the business. Ramping from the \$11 million level to \$24 and \$29 million levels in the past two years, operating cash flow has been reinvested in to the business through capex. BBW just got through another one of its high working capital need quarters and is heading in to the Q4 time frame when operating cash flow seasonally is typically very strong. Another thing to note is the \$25.9 million plus used in 2015 to buy back stock. Although these purchases were at higher levels than current trading ranges, it does show a historical desire to buy back stock with "excess capital". The board has recently authorized another share repurchase program worth up to \$20 million, with \$1 million already bought back in the year.

With yearly operating cash flow coming in at over \$30 million/year in both 2014 and 2015, BBW has shown an ability to be a large cash generator. Changes in working capital needs in 2016 put some strain on this history, but management noted on a recent call that changes in the accounts payable line item specifically relates to changes in their sourcing agreements. They are morphing these to pay for inventory sooner than what they have done in the past, but expect "getting significant benefit in our margin that we expect to continue". This seems to be a promising use of a strong balance sheet. The absolute level of capex and the focus of spending will need to be monitored going forward. BBWs' new Concourse Shop format may help with future capex needs with a lower upfront cost and higher profitability per square foot than their traditional locations.

BBW Charts:



Above: Short-term one year chart of Build A Bear. After basing in the beginning of the year in the \$8+ level and rebounding some in to the summer, BBW has gone back to those early year trading ranges.

Below: A five year look at Build A Bear stock chart. After feeling significant pressure post the 2009 recession, Build A Bear rebounded to the \$20 level back in 2014 and 2015. Recent mall traffic pressure and changes in consumer buying behavior have challenged the management team recently and forced new initiatives for the company.

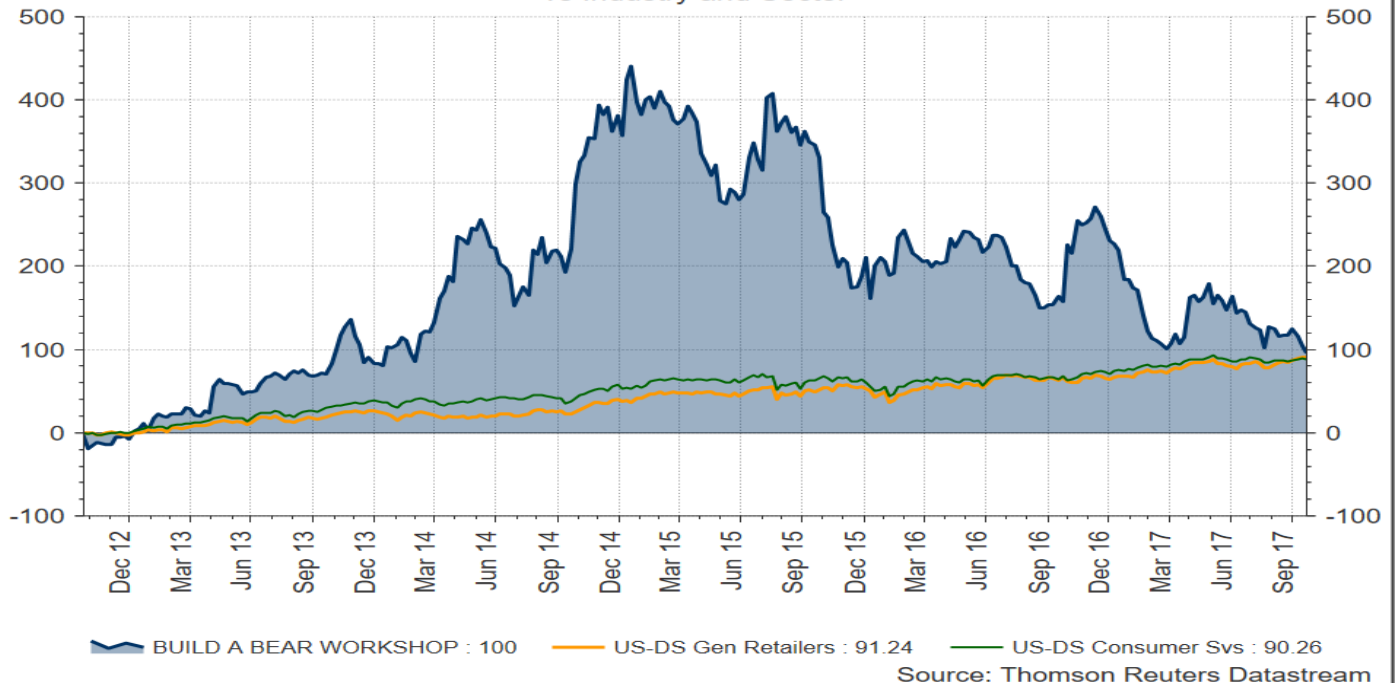




Above, Build A Bear stock chart since the end of 2007. The U.S. recession in the 2009 time-frame put significant pressure on the entire retail space, and BBW was not immune. After bringing in new management leadership in 2011, measures were put in place to return BBW to a growth path. Recent continued pressure on mall traffic and significant changes in consumer buying behavior towards the web has put pressure on Build a Bear's return to profitable growth. The current management team is putting in place new initiatives to focus on profitability, including upgrading only the stores deemed worthy of the investment (based in part on new rent deals with malls), introducing new smaller footprint stores that have higher ROIs and moving stores into many different atypical, non-mall locations including cruise ships, tourist destination sights and amusement parks.

BUILD A BEAR WORKSHOP

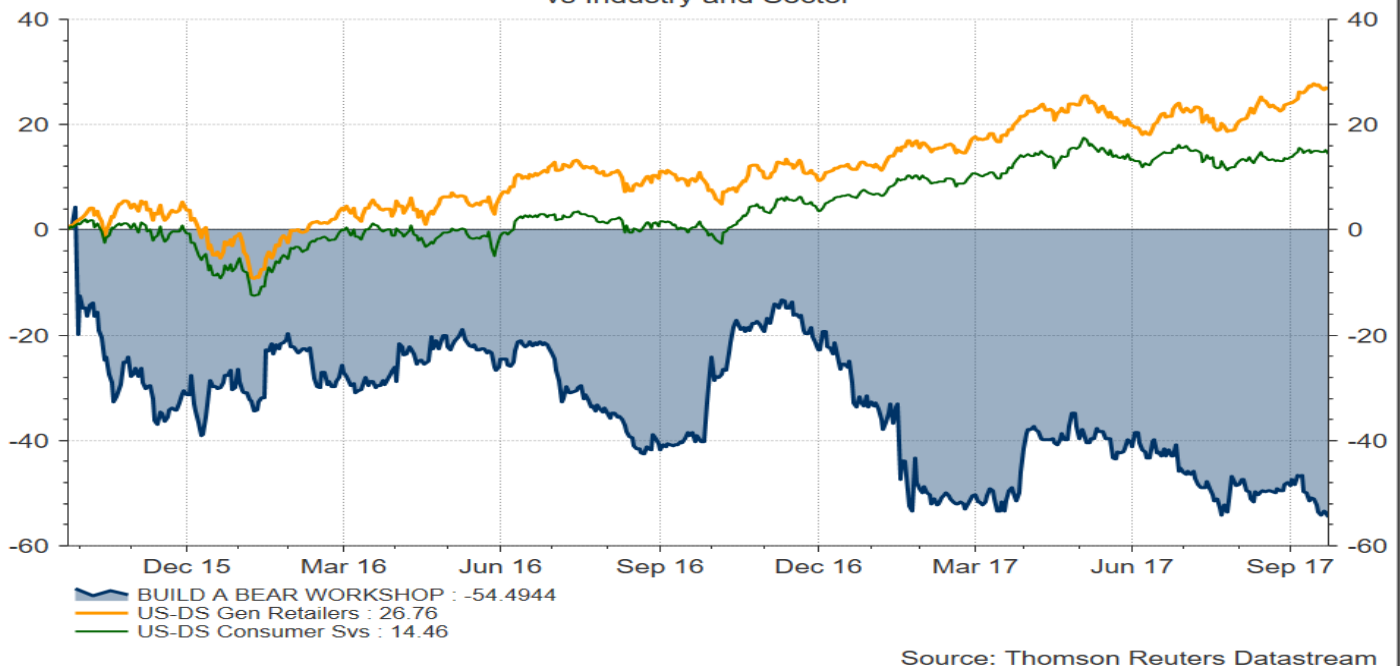
vs Industry and Sector



Build a Bear's management team was successful in returning the company to profitable growth after feeling significant pressure during the last recession. The five year chart above puts in to perspective the recent pressure on the stock, which only has occurred after numerous years of outperforming the general retail space and the consumer services area. The chart below highlights the most recent few years of relative weakness, where declining mall traffic and the move of consumer shopping dollars online has not yet been offset by lower rent and occupancy costs in traditional retail locations.

BUILD A BEAR WORKSHOP

vs Industry and Sector



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