

Opportunity Equity Research

Good Times Restaurants (GTIM)

Initiation Report (Date Published 12/11/2017)



Good Times Restaurants (GTIM) Stats

\$ 2.50 Current Price

\$ 31.1 million Market Cap

52 Week Range \$ 2.25 - \$ 3.78

Shares Outstanding: 12.4 million

Enterprise Value: \$39.0 million

LT Debt: \$5.3 million

Institutional Holdings: 36.5%

Insider Holdings: 4.6%

Short Interest: .7% of float, 62.6k

30 Day Avg Volume: 20.4k

Condensed Income Statement

FY Sept	Q1	Q2	Q3	Q4	Yr
EPS 16a	-\$.09a	-\$.06a	\$.04a	\$.00a	-\$.11a
EPS 17e	-\$.05a	-\$.04a	-\$.02a	-\$.04a	-\$.17a
EPS 18e	-\$.08e	-\$.04e	\$.02e	-\$.02e	-\$.11e
Rev16a	\$13.8a	\$15.3a	\$18.1a	\$17.2a	\$64.4
Rev17e	\$16.6a	\$18.2a	\$21.7a	\$22.6a	\$79.1a
Rev18e	\$21.2e	\$22.8e	\$27.0e	\$28.2e	\$99.2e

EV/Revenue

2016a: .6a times 2017e: .49e 2018e: .39e

Stock Chart-Short Term



Stock Chart-Long Term



Company Description: Good Times Restaurants is an owner and operator of two different restaurant concepts, “Good Times Burgers and Frozen Custard” with 38 locations primarily in Colorado and “Bad Daddy’s Bar and Grill” with 26 locations based largely in Colorado and North Carolina.

Opportunity Summary: Sporting a tiny market cap, if Good Times Restaurants continues its revenue ramp and sustains its growth in company-wide adjusted EBITDA (by focusing on further expansion of restaurant level EBITDA contribution from newer Bad Daddy’s units), this stock contains considerable upside potential.

- Management needs time for restaurant level EBITDA margins on recent Bad Daddy’s units to mature and flow through to the corporate level with six new openings in 2016, five in 2017, and nine planned for FY2018.
- The company needs to continue to be smart with cash, controlling expenses and focusing on disciplined unit growth in their most promising new locations.
- After a year-long period of flat to negative same store sales comps from their “cash cow” Good Times concept, management initiatives are set to put this piece of the business back on the positive comp track, with two quarters of solid improvement.
- Changes in minimum wage laws enacted in their Colorado base at the beginning of 2017 that hit them hard are now recognized in their model, and both expense control and future growth in states with more favorable labor laws should help in the future.
- Trading at less than .5 times enterprise value to revenue, and around 8 times cap/adj. TTM EBITDA, the stock has multi bagger upside from these levels if they continue to successfully manage expenses and show disciplined unit growth, increasing EBITDA over time with continued growth in Bad Daddy’s units and profitability.

CEO Name: Boyd Hoback, CEO and President

CFO Name: Ryan Zink

Greg Edwards, CFA greg@oppequity.com

Company Overview/History:

Good Times Restaurants opened its first restaurant in 1987 in Boulder Colorado and became a public company back in 1992. The company focused on growth of its core concept in Colorado, and currently has 38 Good Times Burgers and Frozen Custard locations (36 in Colorado, 2 in Wyoming). The concept has a higher end “Fresh, Handcrafted, All-Natural” positioning. The higher quality message includes that they are the only quick service restaurant with steroid-free, hormone-free, vegetarian-fed, humanely raised beef and chicken. Average unit volumes at these restaurants come in at \$1.1 million with an average check at roughly \$6.75 (reflecting the higher quality positioning vs. traditional QSR).

Post a successful secondary back in May of 2015 that raised over \$20 million for the firm, management concurrently and opportunistically bought the Bad Daddy’s Burger Bar restaurant concept from an owner in the Carolinas and proceeded to ramp a number of new Bad Daddy’s locations primarily in Colorado. Acquisition price was \$21 million (\$18.5 in cash, \$2.5 in a seller’s note that has since been paid off in full). Bad Daddy’s was founded in 2007 and is a higher end, full-service, “chef-driven” restaurant and bar with an established restaurant base in the Carolinas and a newer base that has ramped in Colorado. The menu includes “create your own” burgers and salads and highlights monthly chef specials. Sales for stores open over 12 months recently averaged over \$2.6 million per location with an average check at \$17-18 per person including alcohol. Recent focus of management over the past few years has been the ramp of this concept into their Colorado home base, but this has now changed to openings in better labor unit economics areas including Georgia, the Carolinas, and Tennessee.

Management Profile:

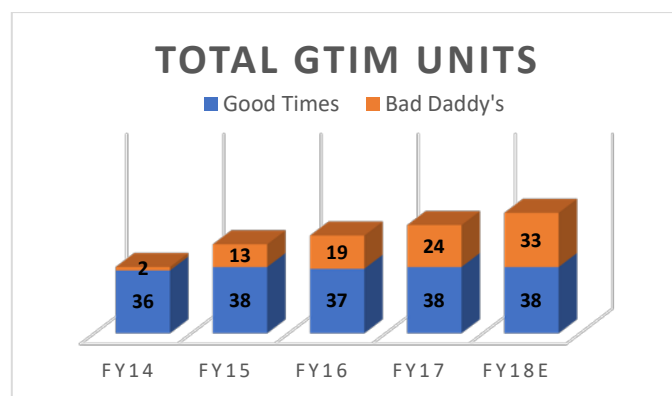
Key management members include Boyd Hoback, President and CEO, Scott LeFever, COO of Good Times, Mike Malone, COO of Bad Daddy’s and Ryan Zink, who came in as CFO in July. James Zielke was the prior CFO and left at the end of July this past summer to join a company where he was able to get an equity ownership

interest. Mr. Zink’s background includes 15 years at Fox & Hound in various operational roles including Senior VP of Finance. Scott LeFever has been with Good Times for 25 years and is in charge as COO of that division. Mike Malone is the COO in charge of Bad Daddy’s and is responsible for the key ramps going on in that division.

Boyd Hoback has been with the firm for almost 25 years and has recently been increasing his stock holdings. Boyd is the one who successfully managed the company through the 2015 secondary and the purchase of the Bad Daddy’s concept. In addition to the new CFO added to the management team, they also recently hired a new training manager from the Outback Steakhouse to help with their training ramp.

Growth Opportunities/Margin Profile:

The growth of Good Times Restaurants can be easily broken in to their two concepts, one more mature and one they are ramping quickly.



The mature Good Times Burgers and Frozen Custard concept has been at a “base unit” level for years now. Management recently added one new unit at a prime real estate location in Colorado, but for the most part, this has not been a recent growth component for the company.

With 38 Good Times Burgers and Frozen Custard locations in total now, 28 of their units are company-owned and 10 are franchise units. Average check is \$6.75 (reflecting the higher quality food and positioning vs. typical QSR.) Day mix is 9% breakfast/52% lunch/39% dinner/late night. AUVs are at roughly \$1.1 million/location, with 2016 actual company-owned restaurant EBITDA coming in at 13.1% for the year.

Management has been updating these locations (15 of 22 planned remodels completed as of the end of FY16), with a couple done in FY17 and 5 minor remodels planned for FY18. They are focusing on a new kids' meal that doubled their family sales in a test location. They plan to ramp the new children's menu throughout their entire chain during fiscal first quarter 2018 and plan to support it with advertising.

The unit economic model of Good Times requires roughly a \$350,000 investment with year one sales of approximately \$1.2 million and 13.4% store level EBITDA margins (call it \$160k store level EBITDA,) for a roughly 46% cash on cash return.

The Bad Daddy's Burger Bar concept has been the management team's recent revenue growth driver, with 11 established locations in North Carolina, 1 in Oklahoma, 1 in South Carolina, 1 in Georgia and now 12 in Colorado. 23 locations are currently company-owned, 2 are franchise stores and 1 is a licensed unit (the Charlotte airport). The average check is \$17-18 including alcohol, with 59% dinner/41% lunch day mix. Average alcohol sales/unit is at 16%, but recent growth in Colorado is pushing this mix higher over time.

Average unit volume for the Bad Daddy's is \$2.6 million for the 10 company owned stores open for at least 12 months, with 2017 actual restaurant level operating profit coming in at 15% for the entire concept. What is important to note both now and for results going forward, the mature North Carolina stores have average unit volumes of roughly \$2.7 million and restaurant level operating profit of over 20%. Management has indicated that post the changes to Colorado's minimum wage laws, the Colorado Bad Daddy's units now have a roughly -5% differential in restaurant operating profit margins vs. their Carolina base. Although a disappointing hit to company expectations and the growth game plan, this is now in the numbers and the ramp of Colorado locations is basically behind them.

The unit economic model of Bad Daddy's shows why the management was eager to get control of the concept years ago. They have a target cash-on-cash return of 46%, with a \$1 million net build out cost and targeted AUV of \$2.5 million. With store level EBITDA

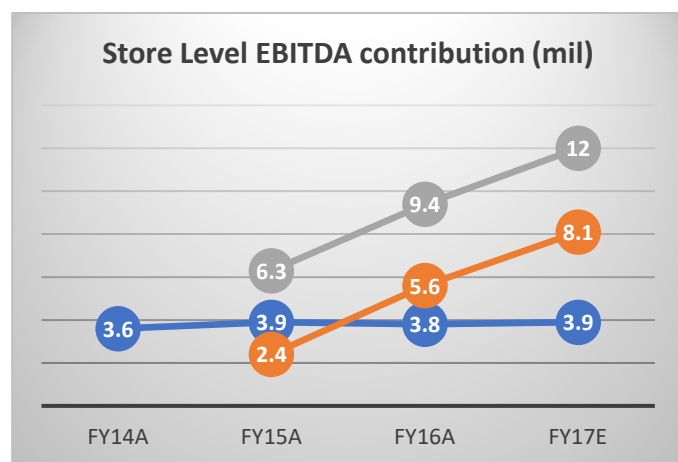
margins in the newer locations in the 16-18%+ range, the emphasis on ramping these units becomes clear.

In terms of alcohol sales, bar sales have averaged from the low teens in their North Carolina locations to 20%+ in some of their Colorado locations. They focus on including 17-20 local micro-brews on tap and feature specialty cocktails including the "Bad Ass Margarita". The higher alcohol mix should help the Colorado locations overall restaurant level profitability over time as they mature.

Other positive moves by the management include testing online ordering and exploring some delivery options. Management is in test right now with Door Dash in Colorado (for Bad Daddy's) for delivery, and are ramping their online ordering across the Bad Daddy's network to come in the next few quarters (they currently do not have online orders on their website, but anticipate at least one test location up in the near-term). For reference, they noted that one of their smaller footprint locations does over 18% of sales in take out alone (urban exposure helps). Although they mentioned they are not planning to charge for delivery, with average delivery charges of 20%, this may change in the future (other companies have successfully increased prices for their delivery menus to pass on some of the incremental cost.) Margins on delivery business are typically slightly lower because of mix (i.e. low to no high margin drinks, alcohol, desserts, etc.), yet it is additional business with high incremental margins in a tough restaurant environment (these sales should be welcomed).

Future unit growth in their geographic footprint will now be focused on the Southeast and the Midwest. They are largely done with their Colorado roll-out and are avoiding states like Arizona which they had intended to move into, but like Colorado also recently increased their state's tip credit minimum wage. Units with the potential for rooftop or patio exposure also are more profitable and will be a real estate focus going forward. Future planned growth through FY2018 are all in lower minimum wage states and should be funded with cash flow from operations and additional debt. Management mentioned having a good pipeline of locations for FY2018 now including leases and letters of

intent signed or pending in North Carolina, Oklahoma, Georgia and Tennessee. They have already opened two new Bad Daddy's this FY (were expected to open last FY and just ran over in to October). They expect seven additional units to come including Atlanta in January 2018, and units in North Carolina, South Carolina and Tennessee forthcoming. Eight Bad Daddy's leases are signed, and they expect to sign another four by the end of the calendar year for both this fiscal year and next fiscal year's development plans.



Out of all the metrics and charts, this is my favorite in terms of looking at potential future opportunity and valuation for GTIM. GTIM's core concept has been running at just under a \$4 million store level EBITDA contribution for years now. Although they added a new company owned unit over this past year, this isn't their main revenue growth driver. If this piece simply stabilizes or potentially continues to improve some with the higher comp store sales we've recently seen, the growth will become focused on the store level EBITDA contributions by the new Bad Daddy's units. As seen above, this is beginning to change materially over the past few years, and future growth of new units in higher margin and lower average minimum-wage regions will only help these numbers.

Most recent company guidance from this past quarter's conference call includes revenue guidance for FY2018 of \$100-102 million and a revenue run rate exiting the year of \$109-111 million. Same store sales guidance included in those numbers are +3 to +3.5% comps for

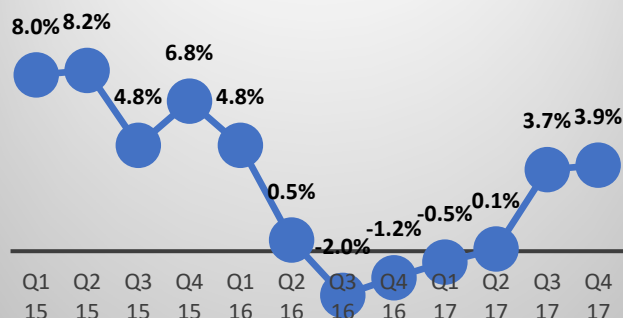
Good Times and +1 to +2% comps for Bad Daddy's (fairly consistent growth quarterly). They expect to open seven more Bad Daddy's in FY2018 (for a total of 9 for the year-2 just opened in October that were just pushed from opening during FY17). They are guiding to adjusted EBITDA in the range of \$5-5.5 million for the year, and expect adjusted EBITDA to reach the \$7 million range run rate at year end. Other notable guidance includes capital expenditures of \$9.6 million, G&A at \$7.9-8.1 million, pre-opening expenses of \$2.2-2.7 million, and total year-end debt balance of \$10.5-11 million (they finished the year with \$4.3 million cash and \$5.3 million drawn on their \$12 million credit line).

Competitive Environment/Industry Thoughts:

The restaurant group as a whole has been under significant pressure over the past couple of years. Intense competition, particularly in certain geographies, combined with both food and minimum wage pressure, has created a tough environment to manage through. Good Times' geographical strong point in Colorado has been under intense pressure both from the competitive dynamics of the restaurant industry in Colorado specifically and the wage pressure felt both through the increase in Colorado's minimum wage +12% and minimum tipped employee wage +19% (at \$6.28/hour now vs. \$2.13 in North Carolina) on 1/1/2017 and the general fight to hire quality workers in a tight employment area (management has estimated that wage pressure has been 8-9% the last couple of years in their markets).

The competitive environment can also be looked at vs. both of their concepts main competitors. For Good Times, price discounting by other QSR concepts, including "trying to sell as much food as you can at certain price points" has certainly pressured comp stores sales. Management has attempted to hold price as much as possible, focusing on the higher quality aspect of their food, while testing new items like the West Coast Burger at attractive price points (with an April rollout of \$3 and \$5 price points for the "West Coast Double" and the "West Coast Double Combo").

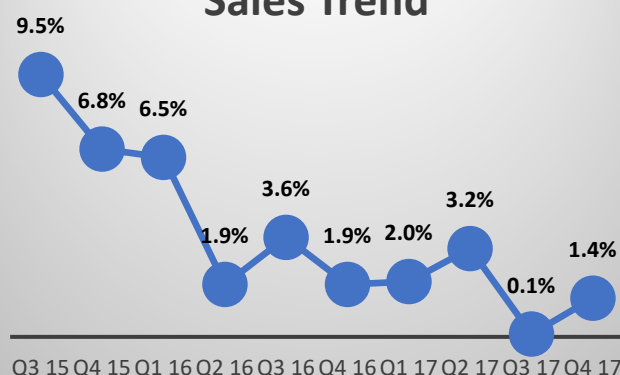
Good Times Same Store Sales Trend



If you listen to the past years' conference calls, you get a feel for a management team that was putting in place steps to address the negative same store sales trend in their flagship concept. They've been focusing on this for a while now, and this past quarter's +3.9% comp on the Good Times front is a nice positive change and the second quarter of nice sss results. Management highlighted new advertising that began ramping in the June calendar quarter and expects this impact should be felt in the second half of the calendar year.

For Bad Daddy's Burger Bar, the main competition can be any full-service sit down restaurant or higher end burger concept, including chains from Chili's, Red Robin, Burger Lounge and Applebees to local upscale mom and pops to brewpubs. Bad Daddy's started as a full service high end burger place with unique burgers, good craft beer, and chef inspired menu specials. They are higher end than all of the above concepts, adopting a slightly edgier and higher energy feel. Management has mentioned that customers are willing to pay \$3-5 more per person for their quality, service and unique offering.

Bad Daddy's Same Store Sales Trend



The most recent quarter's same store sales number came in at +1.9% adjusted for a Cherry Creek location that has been heavily impacted by local construction. (that should get some relief come next March when the hotel next door opens).

Ownership Profile:

Current insider holdings are 4.6%, with just under 37% of shares held by institutions. The institutional ownership profile is interesting with some fairly concentrated longer-term holders involved. Delta Partners is top with a 18.3% position in the stock followed by Manatuck Hill Partners at 8.4% and Reit Redux at 3.5%. Delta Partners started buying back in Q2 of 2016 (they are a smallcap consumer sector focused hedge fund) and both Manatuck and Reit Redux initiated positions in Q2 of 2014. Manatuck is another smallcap focused hedge fund in the small and microcap space. I like seeing two focused hedge fund groups zeroing in on this as an investment. Reit Redux is controlled by Robert Stetson (board member). Granite Point Capital Management and Vanguard are the only other larger institutional investors at this point at 2.2% and 2% respectively.

Eric Reinhard (director) owns .93%, James Zielke (former CFO) owns .79%, Robert Stetson (director) owns .78% and Boyd Hoback (CEO) owns .66%. Scott LeFever and Ryan Zink are also listed as management owners. I'd like to see the overall management ownership a bit

higher than this, yet the company management's focus is on store operating profitability, with their bonuses in part based on EBITDA and growth in EBITDA (a shareholder friendly focus).

Risk Profile:

The risk profile of this restaurant group is similar to the risks seen by the larger restaurant group as a whole. Labor costs and control of this metric is key, and any changes in local minimum wage standards can change the outlook for those locations pretty substantially. Any major changes in cost for main food ingredients can hurt in the short term (until they either adapt pricing or morph their menus). Management noted in recent calls that they have felt price escalation in almost all of their

protein costs. They highlighted an approximate \$800,000 hit over the past 7 months in "unplanned commodity cost increases", that have mitigated somewhat lately. Small price increases implemented in August for both brands should alleviate some of this recent cost pressure, as should a new distribution agreement in Colorado and another small price increase they plan to take in January on both brands. The management team has mentioned that most of the price increases have been to absorb the minimum wage increase in Colorado and the pressure they have seen due to that over the past year.

Expense control and the balance sheet status is a risk that needs to be watched as the management team continues to methodically find and add new restaurant locations to the mix. It takes time for new restaurants to be profitable, and site selection is key (some of the best sites are hard to acquire, and timing of openings may be delayed for reasons well beyond a management team's ability to control). Another specific risk to GTIM in particular is the general liquidity of micro cap stocks. Although this can work both for and against you, position size and diversification are important.

Valuation:

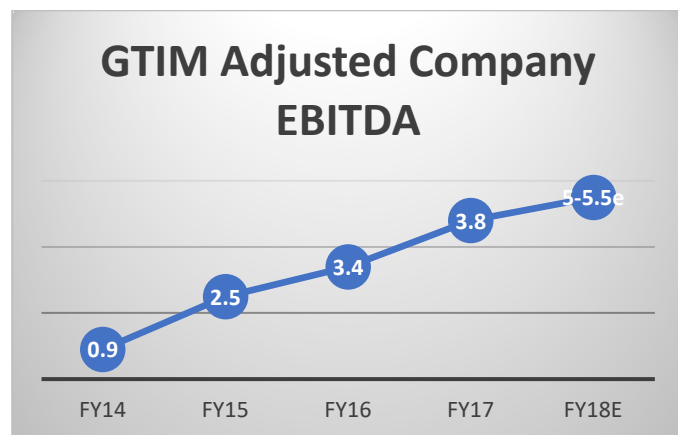
It's always difficult to put a valuation on a high revenue growth company that's in a unit growth investment stage. Below is a chart of the historical enterprise value/sales ratio for GTIM for the past two years. Although they had a period in 2015 where the market was valuing GTIM at an over 1.5 times enterprise value to revenue ratio, disappointing results from recent Bad Daddy's openings in Colorado (with a number initially being opened a bit later than planned), and with the large recent pressure on restaurant level EBITDA results from higher wage costs in Colorado, the stock has been basing at roughly .5 times enterprise value to sales for over a year, recently breaking the .4 times level.



The comparison chart below shows current Good Times valuation vs. a number of the other smaller cap public restaurants out there. GTIM trades at one of the very smallest enterprise value to trailing twelve-month revenue multiples in the group, and has significant room to move just to get up to valuations where the other small cap names trade. The EV/estimated EBITDA FY1 also shows the compelling valuation this stock trades at both on the absolute level and vs. the group.

Stock	Enterprise Value	EV/ttm Revenue	EV/est. EBITDA FY1
GTIM	39	.49	7.1
ZOES	364	1.84	16.3
PBPB	296	.79	7.9
TACO	627	1.61	8.8
RRGB	951	.82	6.9
HABT	247	1.59	7.9

A main valuation metric to watch over time on this high revenue growth company will be company level adjusted EBITDA margins. As the chart on page 4 shows, the recent impact of higher store level EBITDA contributions from new Bad Daddy's is really starting to have an impact. Below is the graph of adjusted total companywide adjusted EBITDA since 2014. Continued growth and maturation of the Bad Daddy's brand will be key over time.



At a current enterprise value of roughly \$39 million, investors are currently paying roughly 10 times adjusted FY17 EBITDA for this company (at the midpoint of the company's guidance for the year). Management has stated a goal in the past to increase EBITDA by 40-50% over the next few years. Their most recent guidance from the September quarter called for a potential adjusted EBITDA level of \$5-\$5.5 million for FY2018 with a potential range exiting FY2019 at a \$7 million run rate.

Just keeping current adjusted EBITDA multiples, enterprise value works out to around \$70 million (again, at \$39 million enterprise value now, a 12 times multiple gets you to a \$84 million valuation). With some patience, continued disciplined unit growth, and maturation and contribution of EBITDA from the new Bad Daddy's ramp, this stock has significant investment potential.

<https://goodtimesburgers.com> Company webpage/more information on the company/historical financials/links to IR/etc.

Historical Income Statement/Standard Calendar Format:

GTIM Income Statement (in millions)											
	2014	2015	2016	2016	2016	2016	2017	2017	2017	2017	2017
	Year	Year	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Sales	27.74	44.06	15.3	18.1	17.2	64.44	16.6	18.2	21.7	22.6	79.1
(% sales growth year over year)	21%	59%	76%	40%	18%	46%	20%	19%	20%	31%	23%
Cost of Goods Sold incl. D&A	19.82	32.27	10.7	12.2	15	50.24	13.3	13	17	20.7	64
Gross Income	7.93	11.79	4.6	5.9	2.2	14.2	3.3	5.3	4.7	1.9	15.1
(% gross income growth yoy)	39%	49%	74%	42%	45%	20%	37%	21%	39%	-14%	6%
SG&A Expense	8.16	11.37	5.03	5.01	2.016	14.52	3.73	5.78	4.68	2.12	16.31
(% SG&A growth yoy)	34%	39%	85%	37%	nmf	28%	-26%	15%	-7%	5%	12%
EBIT (Operating Income)	-0.22	-0.24	-0.43	0.85	0.16	-0.36	-0.47	-0.53	0.02	-0.44	-1.42
Interest Expense Net Total	-0.14	-0.05	-0.04	-0.02	-0.02	-0.11	-0.02	-0.04	-0.05	-0.08	-0.18
Pretax Income	-0.37	-0.3	-0.47	0.82	0.14	-0.47	-0.49	-0.56	-0.04	-0.51	-1.61
Income Taxes	0	0	0	0	0	0	0	0	0	0	0
Minority Interest	-0.32	-0.49	-0.21	-0.28	-0.21	-0.86	-0.14	-0.15	-0.21	-0.15	-0.65
Net Income	-0.69	-0.79	-0.67	0.55	-0.07	-1.32	-0.63	-0.71	-0.25	-0.66	-2.26
EPS (diluted) per share	-0.12	-0.08	-0.05	0.04	-0.01	-0.11	-0.05	-0.06	-0.02	-0.05	-0.18
Normalized EBITDA	0.45	1.75	0.14	1.46	0.88	2.01	0.19	0.22	0.83	1.31	2.55

(Thomson Reuters and company financial statements used as sources.)

When examining the historical income statements, potential investors might see a number of things that are important for this stock. First is the absolute level of revenue growth over the past few years (59% and 46% over the past two years with the acquisition of Bad Daddy's in 2015). Second is the leverage that they have been seeing as they are adding to revenue, with SG&A expenses growing substantially less than overall sales growth for the past two years. The adjusted diluted EPS have been stubbornly negative on a yearly basis for a long time, but this is during a time when the company continues to invest and grow new units. Normalized EBITDA is also growing steadily on a yearly basis, giving protection for any further need to use debt financing to continue supporting their unit growth plans. Out of all the company's metrics, the adjusted EBITDA is what will be most interesting to watch. If the Colorado Bad Daddy's units can gain traction as they mature, and new units in new states start contributing EBITDA to their historical profile, this could become a multi-year high growth revenue and EBITDA story.

Historical Balance Sheet/Standard Calendar Format:

GTIM Balance Sheet (in millions)										
	2014	2015	2016	2016	2016	2016	2017	2017	2017	2017
	Year	Year	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Assets										
Cash & Short Term Investments	9.89	13.81	9.04	7.21	6.33	6.33	3.52	4.83	4.08	4.34
Total Receivables, net	0.15	0.19	0.86	0.79	0.48	0.43	0.62	0.91	1.08	
Total Inventory	0.28	0.51	0.61	0.60	0.63	0.63	0.65	0.70	0.79	
Total Current Assets	10.39	14.73	10.83	8.96	7.79	7.79	5.18	6.84	6.42	6.07
Gross Property, Plant and Equipment	18.24	27.44	32.98	33.69	35.11	35.11	38.07	41.01	43.79	
Net Property, Plant and Equipment	5.75	14.22	18.78	18.84	19.60	19.60	21.90	24.12	26.22	29.70
Goodwill, net	0.10	15.07	15.08	15.08	15.08	15.08	15.08	15.08	15.15	
Intangible Assets	0.00	4.02	4.00	4.00	3.99	3.99	3.98	3.98	3.97	
Other Assets	0.06	0.12	0.20	0.21	0.36	0.06	1.66	0.24	1.45	19.40
Total Assets	16.88	48.23	48.90	47.14	46.88	46.88	47.86	50.31	53.26	55.20
Liabilities & SH Equity										
ST Debt and Current LT Debt	0.07	2.62	2.61	0.19	0.02	0.02	0.02	0.02	0.02	
Accounts Payable	1.09	2.73	2.09	2.29	1.92	1.92	3.36	3.18	3.30	
Accrued Expenses	0.71	1.88	2.71	2.54	3.16	3.16	2.67	3.89	3.02	
Total Current Liabilities	0.68	0.03	7.43	5.05	5.12	0.02	6.09	7.12	6.37	6.92
Long-Term Debt	0.22	1.10	1.01	0.96	0.02	0.02	0.05	1.45	4.14	5.34
Minority Interest	0.28	1.62	1.55	1.47	1.72	1.72	1.83	1.90	2.28	
Other Liabilities	0.79	1.61	3.69	3.70	3.94	3.94	4.25	4.71	5.38	5.61
Total Liabilities	3.84	11.59	13.69	11.18	10.80	10.80	12.22	15.17	18.17	17.87
Total Shareholder's Equity	13.04	36.64	35.22	35.96	36.08	36.08	35.64	35.14	35.10	37.28
Total Liabilities & SHEquity	16.88	48.23	48.90	47.14	46.88	46.88	47.86	50.31	53.26	55.15
(Q4 FY2017 numbers unaudited)										

A couple of things worth note on the company's historical balance sheet. They have done a solid job always having cash on hand and brought on \$15 million in goodwill with the Bad Daddy's acquisition in 2015. Gross Property, Plant and Equipment is almost \$44 million (\$30 million net unaudited end of year balance), a solid number to see on a company with a \$39 million current total enterprise value (with \$37 million in shareholder's equity). Minority interest is steadily growing and reflects equity interests of unrelated limited partnerships-it shows the limited partners' (and members') share of the net income or loss. The management team just recently started using the debt market to help support unit growth. This is something worth watching, but the total level is still relatively small given a largely debt free balance sheet up to this point. On 9/11/2017, the company increased its senior credit facility with Cadence Bank to \$12 million from \$9 million. The Q4 numbers noted above are unaudited numbers at time of publication and taken from the company's quarterly statements.

Historical Cash Flow Statement/Standard Calendar Format:

GTIM Cash Flow Statement (in millions)									
	2014	2015	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q2	Q3	Q4	Year	Q1	Q2	Q3
<u>Operating Activities</u>									
Net Income/Starting Line	-0.37	-0.300	-0.470	0.820	0.140	-0.47	-0.490	-0.56	-0.04
Depreciation, Depletion, & Amort.	0.68	1.330	0.570	0.610	0.670	2.340	0.670	0.75	0.82
Other Non-cash items	0.20	0.670	0.280	0.170	0.260	0.92	0.250	0.28	0.28
Changes in Working Capital	0.80	1.450	2.140	0.070	0.730	2.63	-0.780	2.07	-0.38
Net Operating Cash Flow	1.44	3.170	2.530	1.680	1.790	5.40	-0.350	2.54	0.69
<u>Investing Activities</u>									
Capital Expenditures	-3.40	-7.630	-2.240	-0.720	-1.590	-8.50	-2.430	-4.27	-4.48
Net Assets from Acquisitions	0.00	-17.600	0.000	0.000	0.000	0.00	0.000	0.00	0.00
Purchase of Investments	-0.38	0.000	0.000	0.000	0.000	0.00	0.000	0.00	0.00
Other Investing Cash Flow	-0.08	1.530	0.000	0.010	-0.010	0.01	0.000	1.72	0.16
Net Investing Cash Flow	-3.85	-23.720	-2.230	-0.710	-1.600	-8.48	-2.420	-2.55	-4.33
<u>Financing Activities</u>									
Other Financing Cash Flow	-0.31	20.190	-0.220	-0.350	0.040	-0.75	-0.030	-0.07	0.20
Issuance/Reduction of Stock, net	6.58	3.300	0.020	0.020	0.000	0.04	0.000	0.00	0.00
Issuance/Reduction of Debt, net	-0.05	0.980	-0.050	-2.470	-1.120	-3.68	-0.010	1.39	2.69
Net Financing Cash Flow	6.16	24.460	-0.250	-2.800	-1.080	-4.40	-0.040	1.32	2.89
Net Change in Cash	3.75	3.920	0.040	-1.830	-0.880	-7.48	-2.810	1.31	-0.74
Free Cash Flow	-1.96	-4.470	0.290	0.960	0.200	-3.10	-2.780	-1.73	-3.79

A number of things stick out when taking a look at Good Times' cash flow statement. Net operating cash flow has been nicely positive and increasing on a yearly basis for years—better working capital management has been helpful. Net investing cash flow is where their money is going to, with -\$24 million going to the 2015 acquisition and capex that year. In 2016 the management followed up with another -\$8.5 million used for capex too. Financing cash flow has benefitted from issuance of stock including over \$20 million coming in during the company's 2015 secondary offering. Free cash flow has been consistently negative, with -\$9.5 million total negative free cash flow over the past three calendar years.

Cash management from the management team will continue to be important as they continue to ramp new units. The management has mentioned a goal of adding 9 new Bad Daddy's locations in FY2018 (2 done so far-both simply small push-outs from the prior year's goals), with the potential to accelerate that to the 10-12 new units per year level in 2019 and 2020. They have also stated in the past that they have no plans to raise additional equity capital at the \$3.50/share level. This means they simply need to proactively manage cash flows and match additional unit openings to cash flows coming in and new debt capacity.

GOOD TIMES REST.

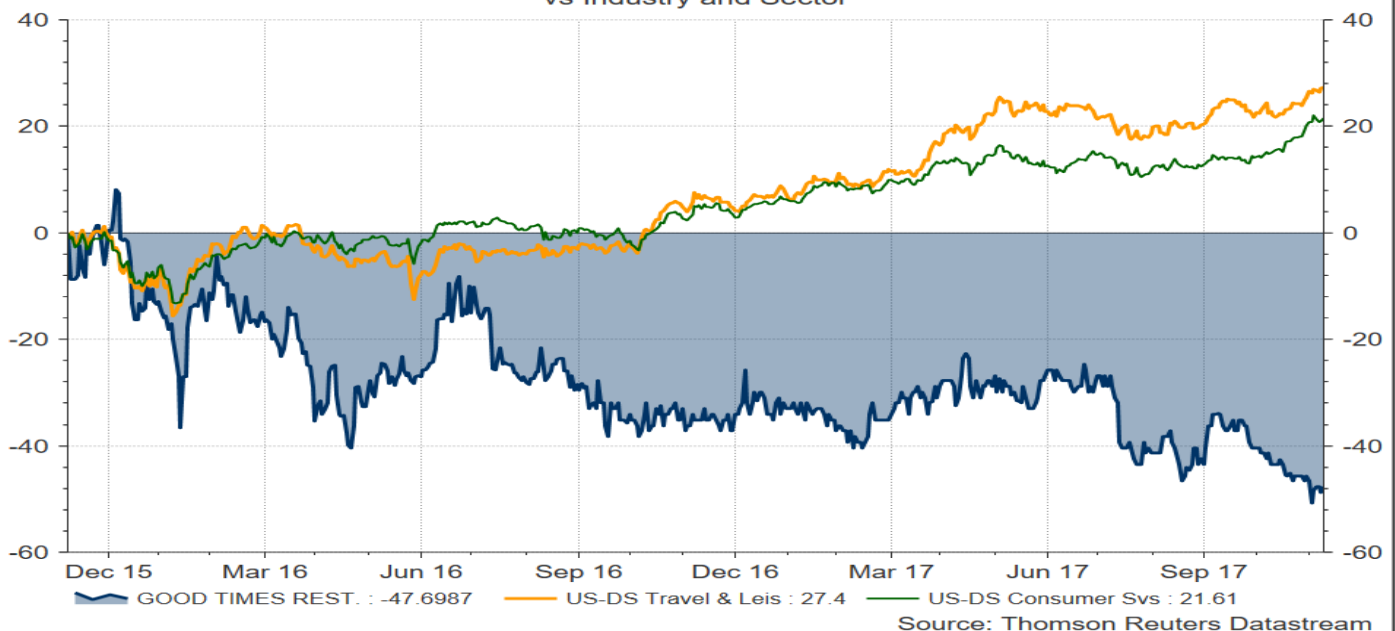
vs Industry and Sector



Good Times Restaurants stock has substantially underperformed the Consumer Discretionary Sector and the market over the past few years and has a lot of ground to make up. The chart below shows the stock's two-year return vs. the Travel and Leisure space as well as the broader Consumer Services group. Bad Daddy's unit opening time frames that came under pressure, a large raise in the non-tip minimum wage in Colorado and overall intense competition in the restaurant space have taken a historical toll. Longer-term and looking forward, Bad Daddy's new unit ramps in more favorable tip credit states, a more conservative and methodical approach to new unit openings and a management focused on EBITDA provides a better outlook for the company's future.

GOOD TIMES REST.

vs Industry and Sector





Both the long-term chart for GTIM above and the short-term chart below give investors an idea of both the volatility and the potential for this company. GTIM has had multiple runs over the long term where the stock worked well, corresponding in part to unit growth ramps at the company. We believe that a patient investor has a chance to participate in another long-term upswing in the stock, as the company continues to methodically ramp new Bad Daddy's units while controlling expenses until they reach company-wide profitability.



Important Disclosures:

Opportunity Equity Research is an independent publisher and may be paid fees by covered companies for various services including but not limited to providing the publication and distribution of initiation reports, both quarterly and yearly company updates, "Fireside Chat" conference calls, and "Company Teach In" conference calls.

Recipients of this report who are not market professionals or institutional investors should seek the advice of their independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. Any decisions you make based upon any information contained in this report are your sole responsibility, and the reports and website are not intended to provide tax, legal, insurance or investment advice. Information is provided with the understanding that the reader assumes all risk involved. Your sole remedy for dissatisfaction with our reports, newsletter or website is to stop using the services. Our research is not to be construed as an offer or the solicitation of an offer to sell or buy the securities herein mentioned.

The information and statistics in this report have been obtained from sources we believe are reliable, but we do not warrant their accuracy or completeness. We do not undertake to advise the reader as to changes in figures or our views. The report may also contain forward looking statements that are subject to risk and uncertainty. Actual results could differ materially from those currently anticipated due to a number of factors, including those set forth in the risk factors section in the corresponding company's annual report on Form 10-K. The management of covered companies undertake no obligation to revise any forward-looking statements.

O.E.R. employees are restricted from holding or trading in any securities in the issuers which the firm covers. O.E.R. is an unregistered U.S. based services firm and does not make a market in any security nor do they act as dealers in securities. O.E.R. does not provide nor has it received compensation for investment banking services on the securities covered in this report. No part of compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

Electronic Research including this initiation report and follow up quarterly and yearly updates are simultaneously available to all. This report is provided by Opportunity Equity Research, llc and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Opportunity Equity Research, llc. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusions or information contained in this report without first obtaining express permission from Opportunity Equity Research, llc. This report is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This report is the independent work of Opportunity Equity Research, llc, and is not to be construed as having been issued by, or in any way endorsed or guaranteed by, any issuing companies of the securities mentioned herein.

Opportunity Equity Research makes its reports available to interested parties at www.OppEquity.com, at the company websites, via our proprietary e-mail distribution list and through traditional distribution platforms.

Copyright © Opportunity Equity Research, llc.