Build-A-Bear Workshop, Inc. (NYSE: BBW)

Stock Analysis - Mar 21, 2023

Business Analysis

BBW is trading at a PE of 7 and has announced a buyback of 22% of shares outstanding.

The stock seems to be doing quite well.

The business is simple. They allow customers to go through an interactive process where they build a teddy bear.

Here's an example of how it works:
https://youtu.be/d9WTUgJb5Xo
https://buildabear.gcs-web.com/corporate-profile

Key Facts:

First Store Opened	1997
World Bearquarters	St. Louis, Missouri
Revenues	$411.5 million (FY 2021)
Employees (as of Jan. 29, 2022)	1,000 full-time 2,700 regular part-time employees
Number of Stores (as of Jan. 29, 2022)	346 corporately-managed locations, including 305 stores in the United States and Canada, 41 stores in the United Kingdom and Ireland, 61 locations operated through our “third-party retail” model in which we sell our products on a wholesale basis to other companies that then in turn execute our retail experience, and 72 franchised stores operating internationally, all under the Build-A-Bear Workshop brand.

https://buildabear.gcs-web.com/static-files/67f74704-33ec-42ea-afa6-75e8d762b45b

BBW SNAPSHOT: BY THE NUMBERS

25
YEARS OF EMOTIONAL CONNECTIONS

~225MM
Furry Friends Sold Since Inception

93%
Brand Awareness*

20MM+
First Party Data Contacts, Social Media Followers & Loyalty Members

~500
Experience Locations Worldwide with Multiple Business Models

~35%
of Experience Locations Outside Traditional Malls

50MM+
Visitors Per Year to Experience Locations

~100%
Of Locations are Profitable**

~40%
of Sales to TEENS AND ADULTS

~80%
Visits are DESTINATION DRIVEN (Planned in Advance)*

>135%
Digital Demand Growth (vs pre-pandemic 2019)

3,500+
Skilled Associates and Seasoned Management

** Source: Proprietary research, LEK Consulting, 2022 survey with consumers*
*** North America and European corporately-operated experience location portfolio*

BRAND POWER PRESENTS MONETIZABLE OPPORTUNITIES:
Trusted and iconic brand appeals to today's desire for personalized, shared & *share-able* experiences, unique gifting, enthusiast/collectibles & nostalgia fueled by 25-years of one:one experiences with multi generational demographics spanning ages, genders and socio-economic strata, who desire loyal brand relationships providing relevant engagements that can drive lifetime value

PROVEN STRATEGY AND DYNAMIC BUSINESS MODEL DIVERSIFIES REVENUE:
Multi-channel, vertical "experience locations" in a variety of viable formats, settings and geographies combined with integrated robust e-commerce business and extensive digital capabilities as well as content and key category expansions

BUSINESS STRENGTH AND MOMENTUM SUPPORTS PROVEN STRATEGIC INITIATIVES:
Strong financial results with profitable, growing revenue, high margins, good free cash flow, clean debt-free balance sheet and seasoned executive team

BBW'S UNIQUE COMPETITIVE POSITION, GROWTH OPPORTUNITIES AND SIGNIFICANT CONTROL OVER ITS FUTURE HAS BEEN COMPARATIVELY UNRECOGNIZED BY THE MARKET

BBW has a strong brand with a moat. What I'm worried about are the falling visits in malls in the developed world.

They say that 80% of visits are planned. This can be a good thing.

Well-Known | Multi-Generational | Emotional | Trusted | Extendable

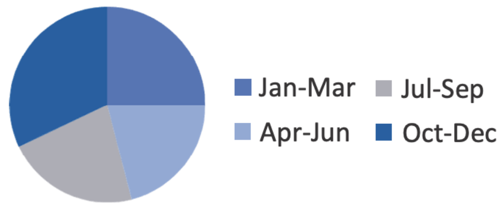
93% Aided Brand Awareness*

76% Purchase consideration* of those aware

DESTINATION-DRIVEN

~80% of visits to experience locations are Planned* and the top occasion is a birthday

MULTIPLE OCCASIONS BALANCE BUSINESS SEASONALITY**



20MM+ First party data email contacts, social followers and loyalty members

** Source: Proprietary research, LEK Consulting, 2022 survey with consumers*
*** Reflects average results of multiple years*

Build-A-Bear appeals to a broad demographic market with strong purchasing power and brand loyalty

Over 50MM annual visitors to experience locations each year. BBW guest profile:

Wide interest across ages

MILLENNIALS ~40%

GEN X ~40%

OTHERS ~20%

Household Profile

~70% have children giving us reach within households to approximately 20 million people

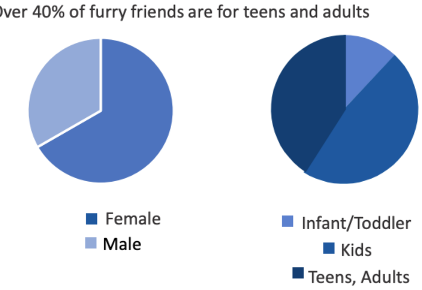
Interests include:
Eating out, books/reading, visiting amusement parks

Educated with spending power:
Professional careers, Appx 70% attended college

Over 80% are homeowners

Approximately 70% are married

Diverse Demographics
Over 40% of furry friends are for teens and adults



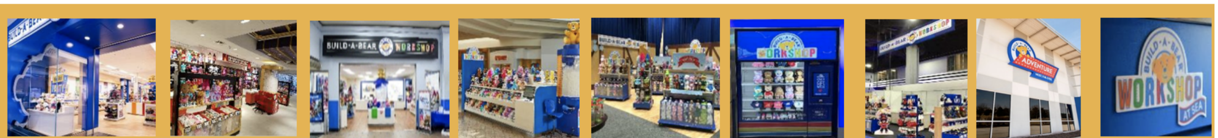
Source: BBW proprietary loyalty program database

BBW CO-BRANDS WITH LEADING LICENSES

License relationships with over 75 world-class collaborators from film, TV, art, games, sports and more support enthusiast, collectible, affinity and gifting businesses with appeal to expanded consumer demographics...yet BBW is a brand unto itself providing balanced sales

It goes without saying that much of the value of the company comes from intangibles.

EXPERIENCE LOCATIONS HAVE DIVERSE FORMATS AND MODELS



Traditional Model · *Tourist Locations* · *Walmart Model* · *Concourse Model* · *Seasonal Locations* · *Vending Machines* · *Event/Temp Locations* · *BAB Adventure* · *Cruise Ships*

OPPORTUNITY FOR ADDITIONAL LOCATIONS - BBW is NOT overstored

- Opened over 20 new locations in 2022 including sites such as **Six Flags Magic Mountain** and the **Pro Football Hall of Fame;** expect to add 20-30 locations through combination of corporately-operated and third-party partner-operated models in 2023
- Recently added format called **Build-A-Bear Adventure** includes arcade and party rooms
- Can successfully operate for days (events such as the NFL Experience), weeks (Gaylord seasonal shops) to months and years

Most common business model options:

Corporately-operated store model	Third-party retail model	International franchise model
Long-term and seasonal locations in the US, Canada, the UK and Ireland	70 locations with a variety of operators primarily in the US	Currently 68 locations in 9 countries

Location counts as of end of 2022

Rather than "digitizing" the BBW "physical" experience, BBW extended the reach and size of our market with diverse consumer segments including teens, adults, gift-givers, brand enthusiasts and collectors with new licensed relationships, experiences, and advanced digital marketing activities

	Experience Locations	Buildabear.com
PRIMARY TARGET	FAMILIES WITH CHILDREN	COLLECTOR AND GIFT GIVERS (TWEENS/TEENS/ADULTS)
SECONDARY TARGET	COLLECTOR & GIFT GIVERS (TWEENS/TEENS/ADULTS)	FAMILIES WITH CHILDREN
	~67% Kids ~33% Teen/Adult Age of bear "owner" registered in "Name Me" database	~70% Teen/Adult ~30% Kids Age of bear "owner" per post-purchase consumer survey

In late 2022, a new mobile first e-commerce site was launched featuring multiple "shop-in-shop" landing pages to appeal to specific consumer segments and purchase occasions

E-commerce should not really be their focus.

2022 FINANCIAL SNAPSHOT

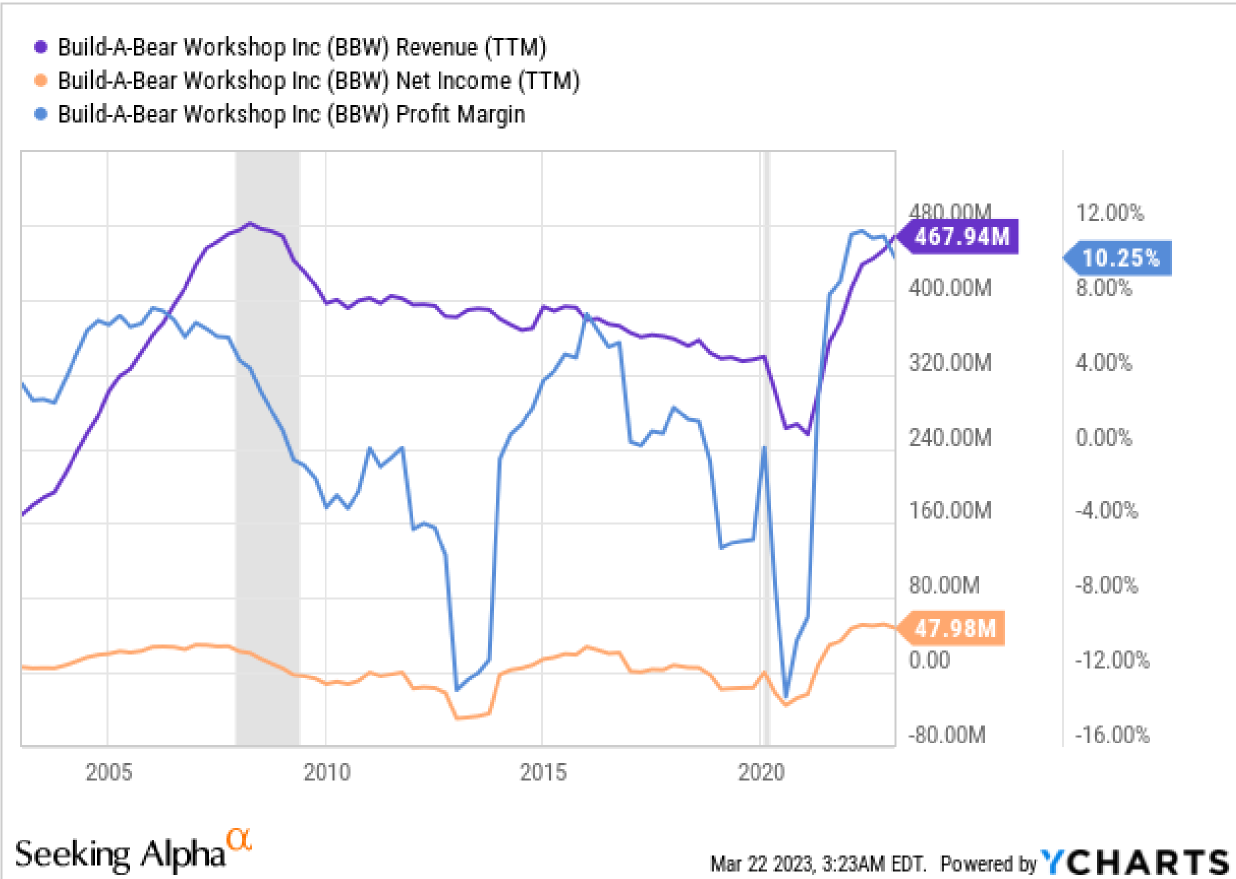
THE MOST PROFITABLE YEAR IN BBW HISTORY

TOTAL REVENUES	PRE-TAX INCOME
$467.9MM +13.7% OVER 2021 +83.3% OVER 2020	**$61.9MM** HIGHEST IN COMPANY'S HISTORY +$11.2MM OVER 2021 +$82.1MM OVER 2020

GROSS PROFIT MARGIN	YEAR-END CASH AND EQUIVALENTS
52.5% VS 53.0% IN 2021 VS 38.2% IN 2020	**$42.2MM** VS $32.8MM 2021 VS $34.8MM 2020

- Delivered the highest revenue in over a decade and highest profit in company's history even with inflationary impacts and external uncertainty
- Positive momentum has continued into FY2023

Another possible headwind for the company would be slowdown of the economy as we have seen in 2008.



We will need to determine what happened recently that catapulted margins.

2023 FINANCIAL EXPECTATIONS

2023 TO BE MOST PROFITABLE IN COMPANY'S HISTORY

TOTAL REVENUES
+5%-7%
VS 2022
With growth in all 3 operating segments

PRE-TAX INCOME
+10%-15%
VS 2022
HIGHEST IN COMPANY'S HISTORY

+20-30
NEW EXPERIENCE LOCATIONS COMBINED CORPORATELY AND THIRD-PARTY OPERATED

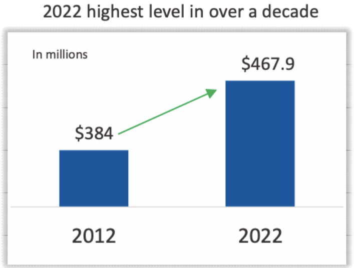
CAPITAL EXPENDITURES
$15MM – $20MM

- Fiscal 2023 is a 53-week year compared to a 52-week year in fiscal 2022; growth is expected in total revenues and pre-tax income versus the prior year exclusive of the projected benefit of the 53rd week. For reference, the additional week in fiscal 2023, which will be reflected in the fourth quarter, is estimated to be $7 million in total revenues with approximately 35% flow-through to EBITDA

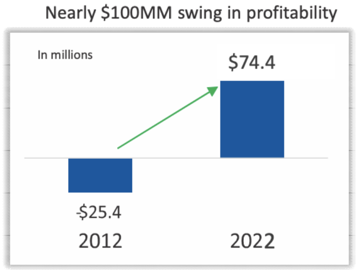
They expect growth to continue in 2023.

CURRENT MANAGEMENT LED SUCCESSFUL BUSINESS TURNAROUND

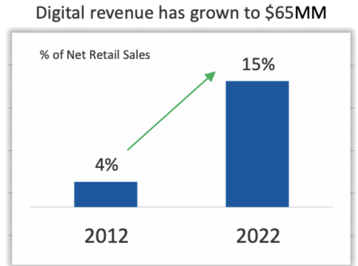
TOTAL REVENUES
2022 highest level in over a decade



EBITDA
Nearly $100MM swing in profitability

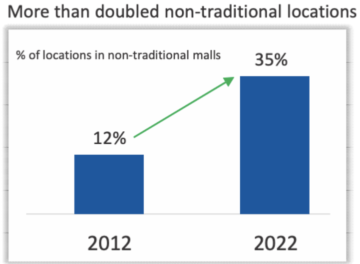


DIGITAL DEMAND
Digital revenue has grown to $65MM



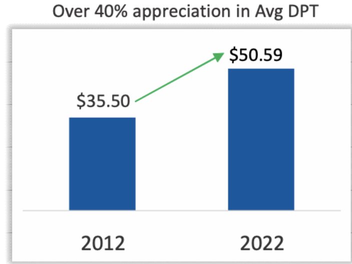
PROFITABLE STORES
In North America

LOCATION DIVERSIFICATION
More than doubled non-traditional locations



EOY fiscal 2022 vs EOY fiscal 2012

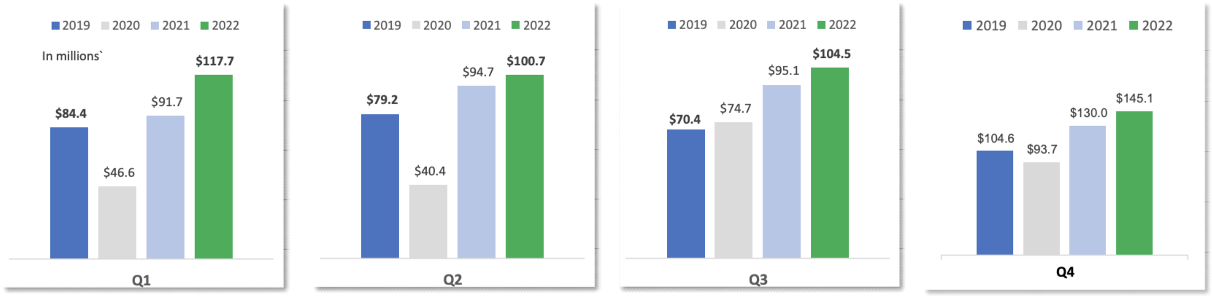
AVERAGE DOLLARS PER TRANSACTION
Over 40% appreciation in Avg DPT



SUSTAINED GROWTH (Excluding 2020 due to negative COVID impact)

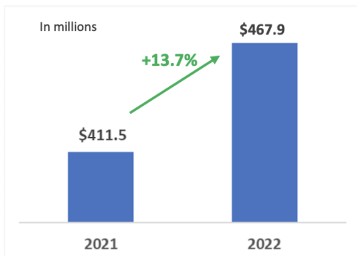
QUARTERLY REVENUES

Q4 2022 delivered 8th consecutive quarter of revenue growth



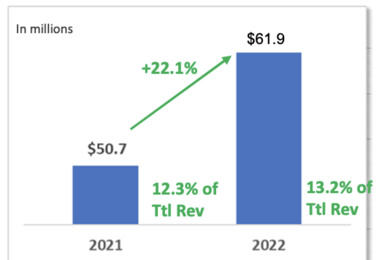
TOTAL REVENUES

Highest in more than a decade



PRETAX INCOME

Double-digit profit margin



CONTINUED FOCUS ON SHAREHOLDER RETURN

- Second special dividend declared on 3/8/2023 by Board of Directors reflecting ongoing commitment to continue to return value to shareholders in the form of stock repurchases and dividends which have totaled over $70 million during the past 24 months
- $46.5MM available on current $50.0MM stock repurchase program adopted 8/21/2022*

- **Multi-year high stock price of $26.87 reached on 3/10/2023**
- **As of 3/10/2023, market capitalization of ~$400MM**

We should also know why the shares are so heavily shorted.

https://buildabear.gcs-web.com/static-files/60759f55-08ce-47f3-a075-289af4fbf7ed

ITEM 1. BUSINESS

Overview

Build-A-Bear Workshop, Inc., a Delaware corporation, was formed in 1997 as a mall-based, experiential specialty retailer where children and their families could create their own stuffed animals. Over the last nearly 25 years, Build-A-Bear has become a brand with high consumer awareness and positive affinity with over 200 million furry friends having been made by our guests around the world. The Company has leveraged, and expects to continue to leverage, its brand strength to strategically evolve its brick-and-mortar retail footprint beyond traditional malls with a versatile range of formats and locations including tourist destinations; to extend into international markets primarily via a franchise model; and to broaden its consumer base beyond children by adding teens and adults with entertainment/sports licensing, collectible and gifting offerings. The Company has also significantly advanced its digital transformation which is enabling meaningful growth in its e-commerce and omnichannel business primarily via opportunities related to Build-A-Bear's pop-culture and multi-generational appeal; the advancement of an elevated consumer loyalty program with the goal of capturing first party data, expanding multi-channel shopping and driving lifetime value; the development of robust digital marketing programs and content capabilities with industry-leading partners.

As of January 29, 2022, we operated 346 corporately-managed locations, including 305 stores in the United States ("U.S.") and Canada, 41 stores in the United Kingdom ("U.K.") and Ireland, 61 locations operated through our "third-party retail" model in which we sell our products on a wholesale basis to other companies that then in turn execute our retail experience, and had 72 franchised stores operating internationally, all under the Build-A-Bear Workshop brand. In addition to our stores, we sold product on our company-owned e-commerce sites, third-party marketplaces and franchisee sites and through retailer's wholesale agreements.

Select corporately-managed, franchised, and third-party retail locations were temporarily closed due to pandemic-related government mandates as well as our internal COVID management policies at various times throughout fiscal 2021, primarily in the U.K. and Canada.

Competition

As our company has diversified and evolved, we view our competition through a number of categories. For our retail stores, we view the Build-A-Bear Workshop store experience as a distinctive combination of entertainment and retail with limited direct competition. We are aware of several small companies that operate “make your own” teddy bear and stuffed animal stores or kiosks in retail locations, but we believe none of those companies offer the breadth of assortment nor depth of experience or operate as a national or international retail company.

Since our signature products, teddy bears and other stuffed animals, are included in the toy category, we compete indirectly with a number of companies that sell plush products or premium children’s toys, including, but not limited to, Ty, Mattel, Hasbro, Lego, Ganz, and Steiff. We also compete with toy retailers including online and mass merchandisers such as Amazon, Walmart or Target as well as specialty stores such as The Entertainer Toy Shop, Smyths Toys Superstores and Hamleys.

As our gift-giving and affinity business has grown, our competitors include diverse retail and online companies such as Vermont Teddy Bear, Funko, or 1-800 Flowers. Since we sell a product that integrates merchandise and experience, we also view our competition as any company that competes for family time and entertainment dollars, such as movie theaters, amusement parks and arcades, other mall-based entertainment venues, party venues and online entertainment.

It is hard to compete with them because of the licenses.

Intellectual Property and Trademarks

We believe our copyrights, service marks, trademarks, trade secrets, patents and similar intellectual property are critical to our success, and we intend, directly or indirectly, to maintain and protect these marks and, where applicable, license the intellectual property. Our patents do not expire until the years 2032 and 2033.

We have developed licensing and strategic relationships with leading retail and cultural organizations. We plan to continue to collaborate with companies that have strong, family-oriented brands and provide us with attractive marketing and merchandising opportunities. These relationships for specific products are generally reflected in contractual arrangements for limited terms that are terminable by either party upon specified notice. Specifically, we have key strategic relationships with select companies in which we feature their brands on products sold in our stores, including Disney®, NBCUniversal, Lucasfilm, Warner Bros., Pokémon, ViacomCBS, Nintendo, and major professional and collegiate sports along with other culturally relevant brands.

We rely on a few global supply chain vendors to supply substantially all of our merchandise, and significant price increases or any disruption in their ability to deliver merchandise could harm our ability to source products and supply inventory to our stores.

We do not own or operate any factories that produce our plush products, clothing, shoes or accessories. For fiscal 2021 and fiscal 2020, we purchased 74% and 77% of our merchandise from four vendors, respectively. These vendors in turn contract for the production of merchandise with multiple manufacturing facilities. Prior to 2020, over 90% of merchandise received annally was produced in China, however, our efforts to diversify our supply chain reduced China sourcing to 58% of merchandise received as production shifted primarily to Vietnam, which provided 34% of our merchandise in 2021. Our relationships with our vendors generally are on a purchase order basis and do not provide a contractual obligation to provide adequate supply or acceptable pricing on a long-term basis. Our vendors could discontinue sourcing merchandise for us at any time. If any of our significant vendors were to discontinue their relationship with us, or if the factories with which they contract were to suffer a disruption in their production, we may be unable to replace the vendors in a timely manner, which could result in short-term disruption to our inventory flow or quality of the inventory as we transition our orders to new vendors or factories which could, in turn, disrupt our store operations and have an adverse effect on our business, financial condition and results of operations. Such disruptions may result from public health issues such as the current COVID pandemic (or other future pandemics), weather related events, natural disasters, trade restrictions, tariffs, changes in local laws, work stoppages or slowdowns, shipping capacity constraints, supply or shipping interruptions, or other factors beyond our control. Additionally, in the event of a significant price increase from these suppliers, we may not be able to find alternative sources of supply in a timely manner or raise prices to offset the increases, which could have an adverse effect on our business, financial condition and results of operations.

Financial Analysis

Revenues

Net retail sales, commercial revenue and international franchising: See Note 3 — Revenue to the consolidated financial statements for additional accounting information.

We use net retail sales per square foot as a performance measure for our business. The following table details net retail sales per square foot for stores open throughout the fiscal year other than periods of temporary government-mandated closures, for the periods presented:

	Fiscal year ended	
Net retail sales per square foot	**January 29, 2022**	**January 30, 2021**
North America (1)	$ 404	$ 234
United Kingdom (2)	£ 418	£ 199

(1) Net retail sales per square foot in North America represents net retail sales from stores open throughout the entire period in North America, excluding e-commerce sales, divided by the total leased square footage of such stores.

(2) Net retail sales per square foot in the U.K. represents net retail sales from stores open throughout the entire period in the U.K., excluding e-commerce sales, divided by the total selling square footage of such stores.

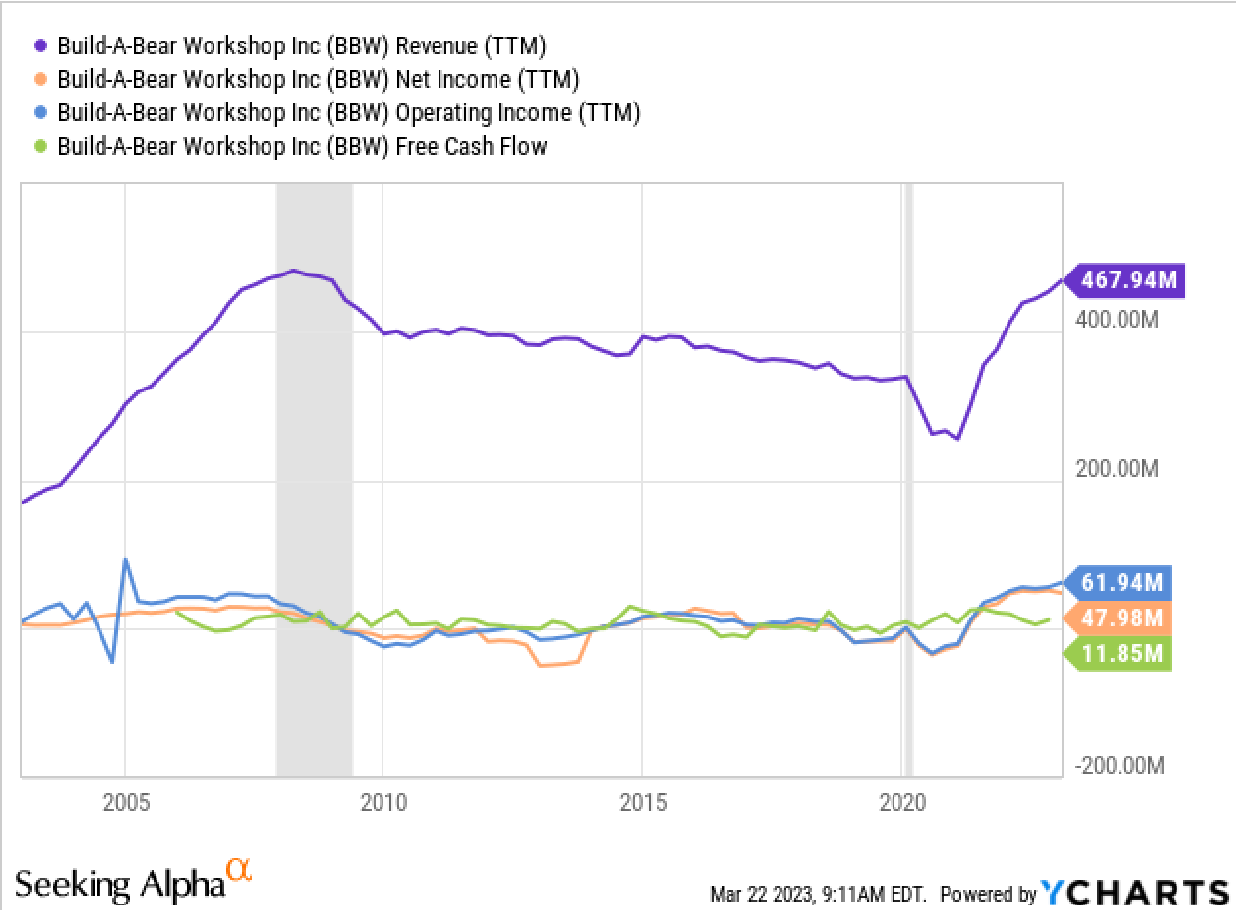
	Fiscal year ended	
	January 29, 2022	**January 30, 2021**
Revenues:		
Net retail sales	96.6%	97.6%
Commercial revenue	2.8	1.7
International franchising	0.6	0.7
Total revenues	100.0	100.0
Costs and expenses:		
Cost of merchandise sold - retail (1)	46.9	59.3
Store asset impairment	0.0	2.9
Cost of merchandise sold - commercial (1)	49.1	41.5
Cost of merchandise sold - international franchising (1)	66.1	55.9
Total cost of merchandise sold	47.0	61.8
Consolidated gross profit	53.0	38.2
Selling, general and administrative	40.6	46.1
Interest (income) expense, net	(0.0)	0.0
Income (loss) before income taxes	12.3	(7.9)
Income tax expense	0.8	1.1
Net income (loss)	11.5	(9.0)
Retail gross margin (2)	53.1%	40.7%

	Fiscal 2021			Fiscal 2020		
	North America	**Europe and China**	**Total**	North America	Europe and China	Total
Net income (loss)	43,182	4,083	$ 47,265	$ (24,256)	$ 1,273	$ (22,983)
Items excluded:						
Income tax expense	3,445	-	3,445	2,796	1	2,797
Interest (income) expense	(14)	9	(5)	15	(5)	10
Store asset impairment	-	-	-	5,429	1,917	7,346
Non-store related general and administrative expense (1)	57,888	4,660	62,548	41,972	2,657	44,629
Contribution from other retail activities (2)	(17,493)	(533)	(18,026)	(10,632)	(4,126)	(14,758)
Other contribution (3)	(3,245)	(235)	(3,480)	(1,247)	(47)	(1,294)
Store contribution	$ 83,763	$ 7,984	$ 91,747	$ 14,077	$ 1,670	$ 15,747
Total revenues from external customers	$ 361,605	$ 49,917	$ 411,522	$ 216,809	$ 38,501	$ 255,310
Items excluded:						
Revenues from other retail activities (2)	(61,784)	396	(61,388)	(43,951)	(19,154)	(63,105)
Other revenues from external customers (4)	(12,602)	(1,230)	(13,832)	(5,644)	(456)	(6,100)
Store location net retail sales	$ 287,219	$ 49,083	$ 336,302	$ 167,214	$ 18,891	$ 186,105
Store contribution as a percentage of store location net retail sales	29.2%	16.3%	27.3%	8.4%	8.8%	8.5%
Total net income (loss) as a percentage of total revenues	11.9%	8.2%	11.5%	(11.2%)	3.3%	(9.0%)

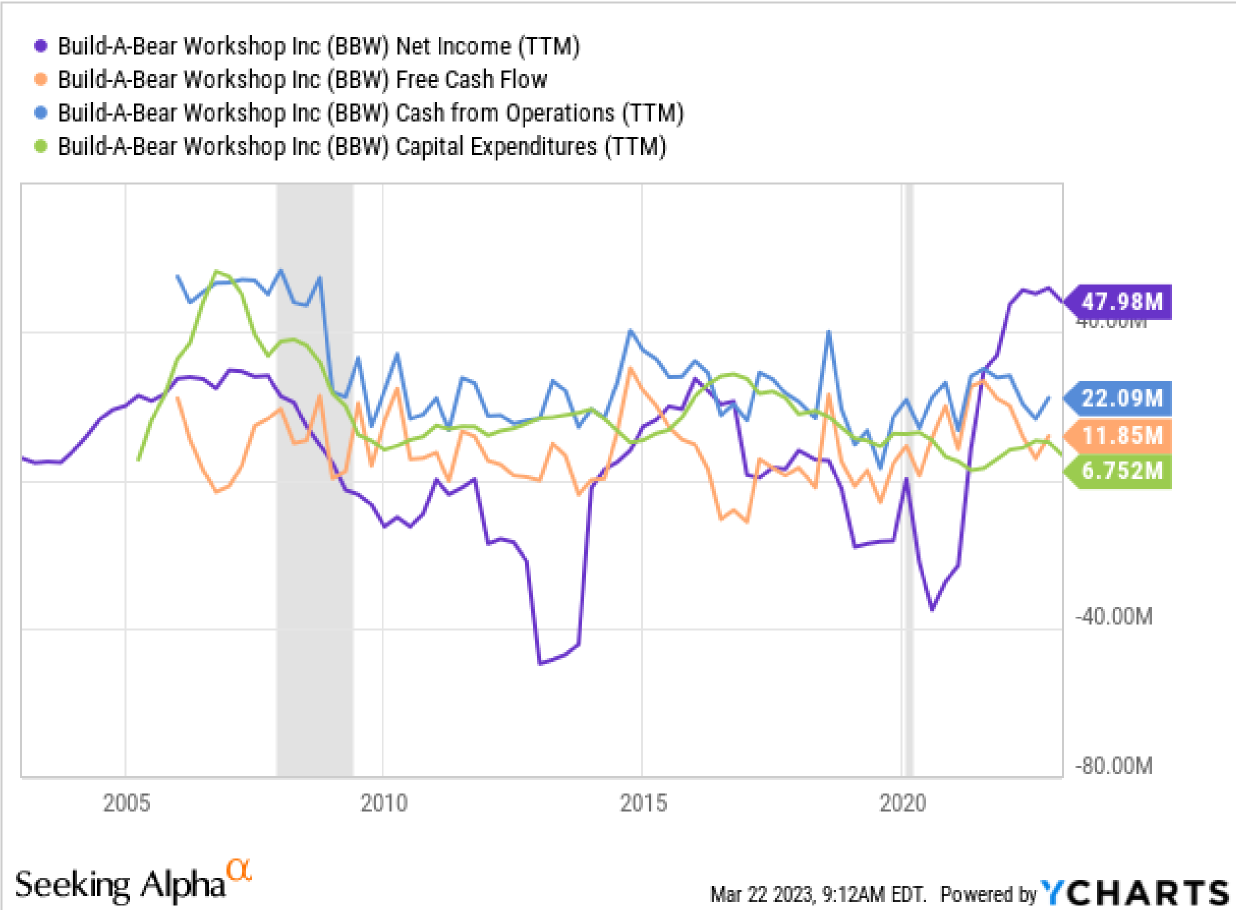
	Fiscal year ended	
	January 29, 2022	**January 30, 2021**
Net cash provided by operating activities	$ 28,077	$ 13,386
Net cash used in investing activities	(8,130)	(5,046)
Net cash used in financing activities	(22,456)	(114)
Effect of exchange rates on cash	514	(112)
Net change in cash, cash equivalents and restricted cash	$ (1,995)	$ 8,114

So far, all the numbers look great about this company, good margins, FCF positive.

	Fiscal year ended	
	January 29, 2022	January 30, 2021
Revenues:		
Net retail sales	$ 397,690	$ 249,210
Commercial revenue	11,505	4,426
International franchising	2,327	1,674
Total revenues	411,522	255,310
Costs and expenses:		
Cost of merchandise sold - retail	186,382	147,783
Store asset impairment		7,346
Cost of merchandise sold - commercial	5,648	1,837
Cost of merchandise sold - international franchising	1,537	935
Total cost of merchandise sold	193,567	157,901
Consolidated gross profit	217,955	97,409
Selling, general and administrative expense	167,250	117,585
Interest (income) expense, net	(5)	10
Income (loss) before income taxes	50,710	(20,186)
Income tax expense	3,445	2,797
Net income (loss)	$ 47,265	$ (22,983)
Foreign currency translation adjustment	145	(601)
Comprehensive income (loss)	$ 47,410	$ (23,584)
Income (loss) per common share:		
Basic	$ 3.06	$ (1.54)
Diluted	$ 2.93	$ (1.54)
Shares used in computing common per share amounts:		
Basic	15,460,634	14,923,304
Diluted	16,122,583	14,923,304



Conversion of net income to FCF is quite low

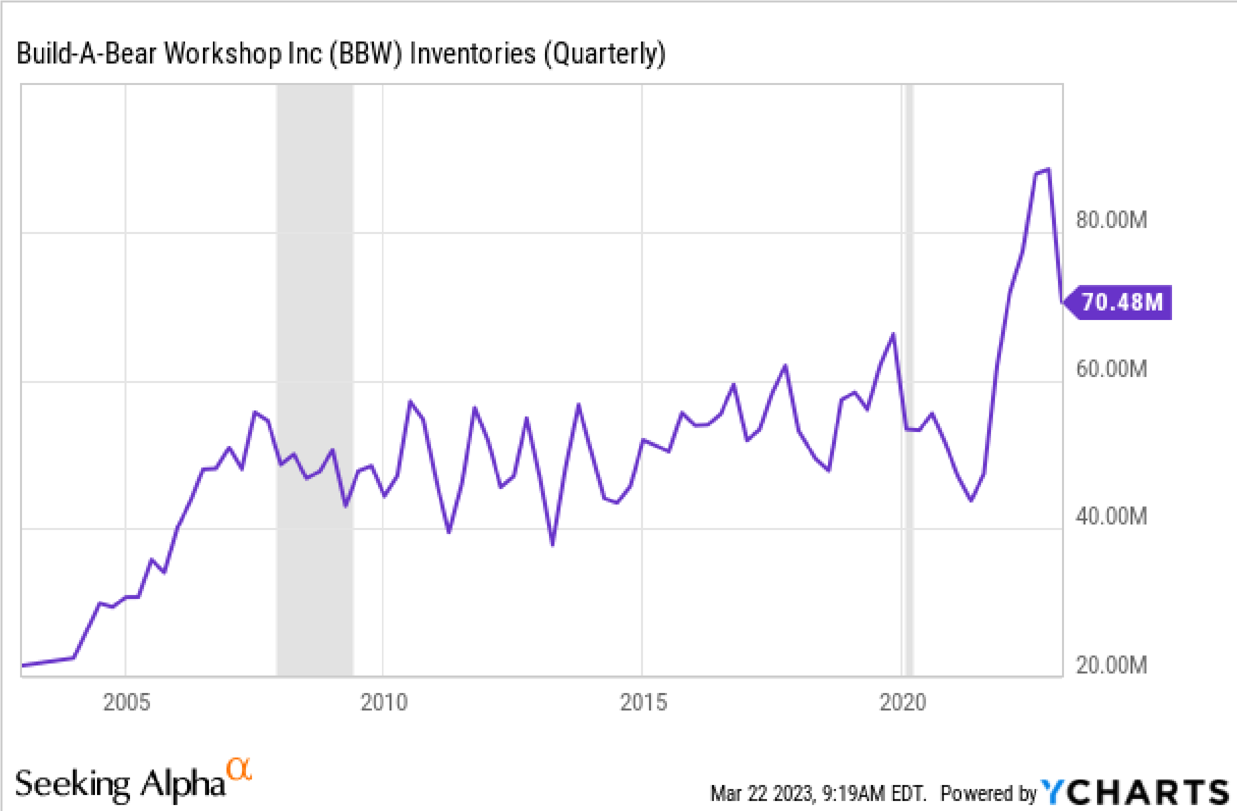


It seems that much of the profits over the TTM were non-cash.

	Fiscal year ended January 29, 2022	Fiscal year ended January 30, 2021
Cash flows provided by operating activities:		
Net income (loss)	$ 47,265	$ (22,983)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,276	13,292
Share-based and performance-based stock compensation expense	2,631	1,525
Impairment of right-of-use assets and fixed assets	-	7,346
Deferred taxes	(7,613)	3,388
Provision/adjustments for doubtful accounts	(297)	538
Loss on disposal of property and equipment	97	262
Change in assets and liabilities:		
Inventories, net	(25,126)	6,785
Receivables, net	(3,233)	2,747
Prepaid expenses and other assets	(2,579)	(2,063)
Accounts payable and accrued expenses	9,561	4,028
Operating leases	(8,193)	201
Gift cards and customer deposits	1,917	(1,209)
Deferred revenue	1,371	(471)
Net cash provided by operating activities	28,077	13,386
Cash flows used in investing activities:		
Capital expenditures	(8,130)	(5,046)
Net cash used in investing activities	(8,130)	(5,046)
Cash flows used in financing activities:		
Proceeds from exercise of employee stock options	1,835	(114)
Purchases of common stock for retirement	(4,358)	-
Cash dividends paid	(19,933)	-
Net cash used in financing activities	(22,456)	(114)
Effect of exchange rates on cash	514	(112)
Net change in cash, cash equivalents and restricted cash	(1,995)	8,114
Cash, cash equivalents and restricted cash, beginning of period	34,840	26,726
Cash, cash equivalents and restricted cash, end of period	$ 32,845	$ 34,840
Reconciliation of cash, cash equivalents and restricted cash (1)		
Cash and cash equivalents	$ 31,808	$ 33,142
Restricted cash from long-term deposits	1,037	1,698
Total cash, cash equivalents and restricted cash	$ 32,845	$ 34,840
Net cash paid (received) during the period for income taxes	$ 10,378	$ 41

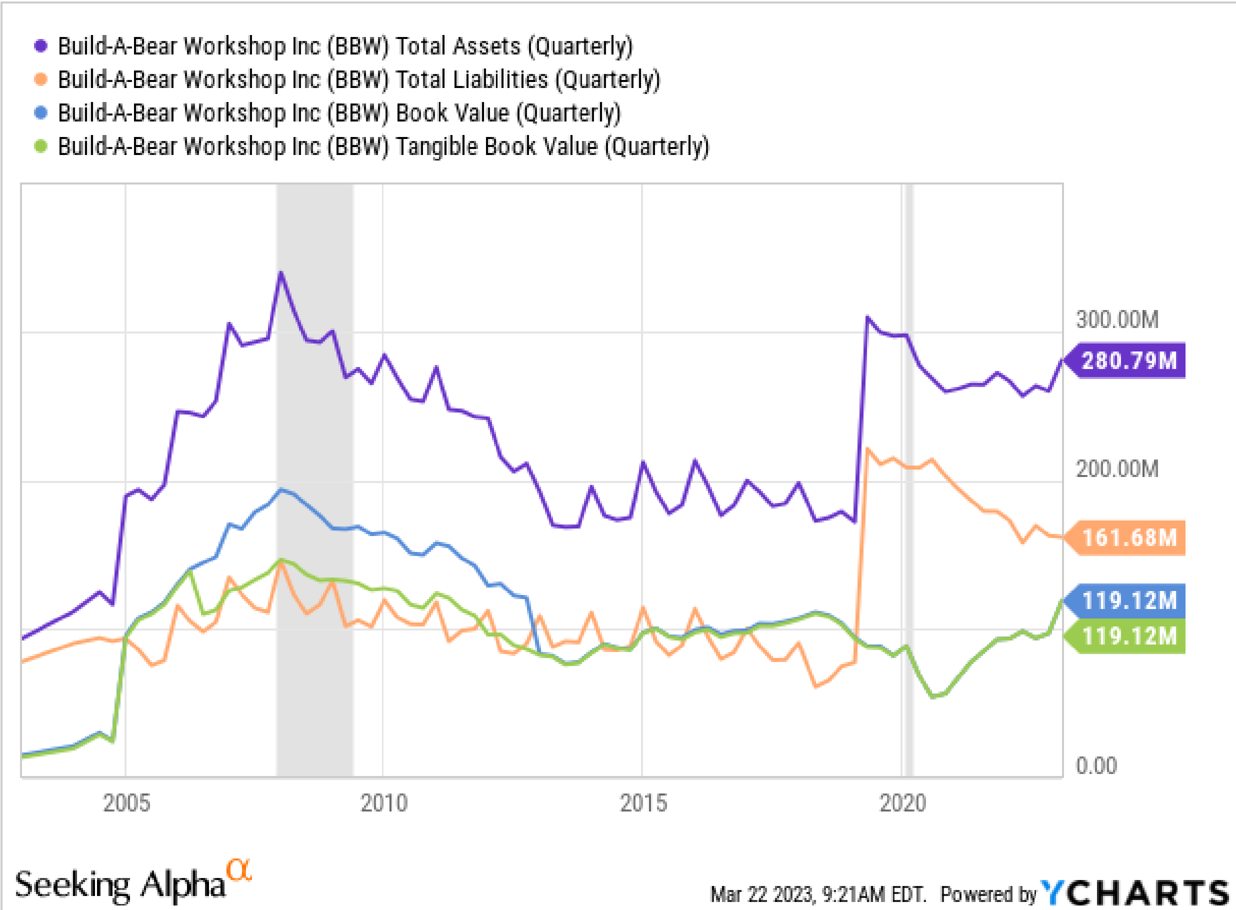
The cause for the difference is the massive increase in inventory with rising inflation.

Inventory counts as “cost of goods sold” on the income statement. If a company rapidly increases its inventory, the “cost of goods sold” will be counted only for the period that the sale was done. In reality, cash was used to buy the whole inventory and not only for that period.

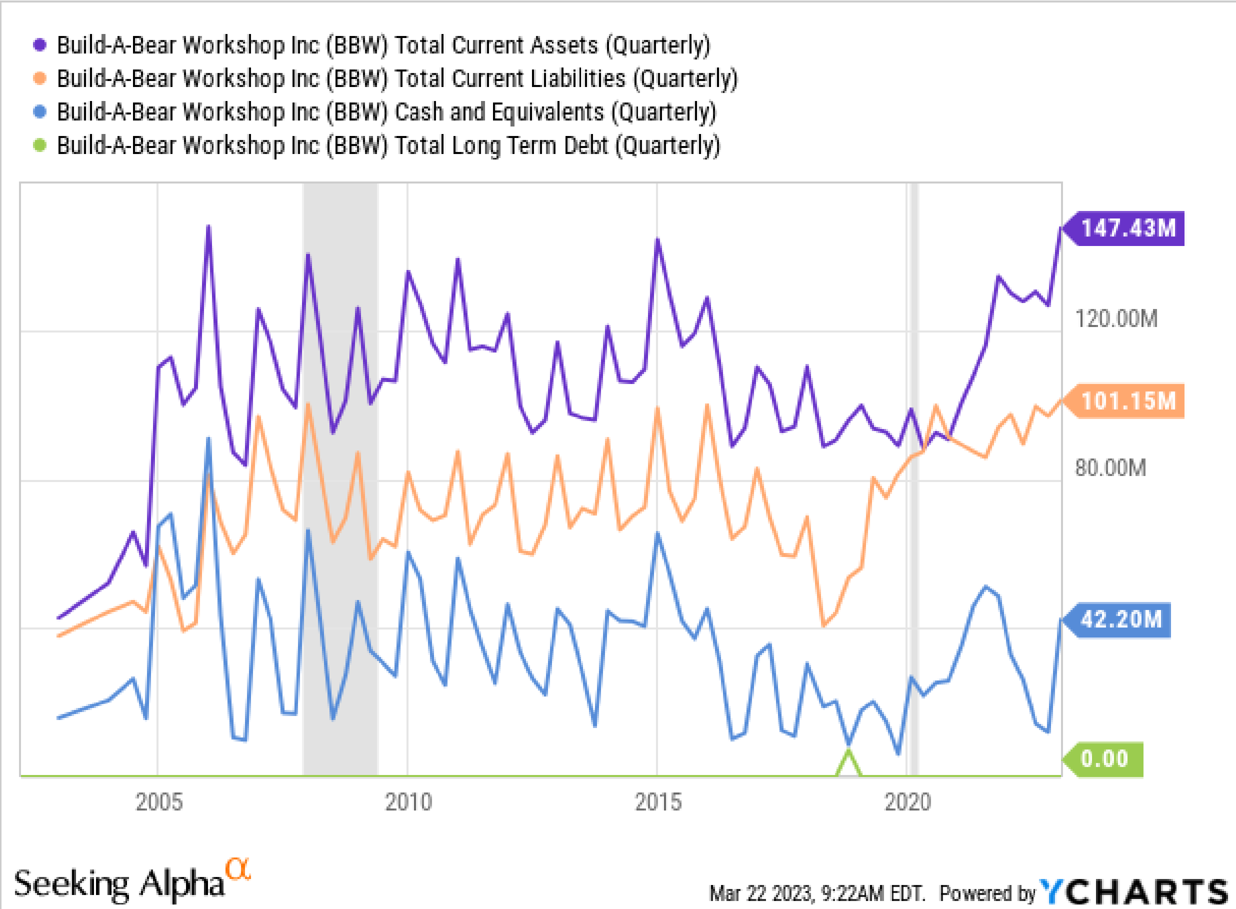


Build-A-Bear Workshop Inc (BBW) Inventories (Quarterly)
80.00M
70.48M
60.00M
40.00M
20.00M
2005
2010
2015
2020
Seeking Alpha α
Mar 22 2023, 9:19AM EDT. Powered by YCHARTS

		January 29, 2022		January 30, 2021
ASSETS				
Current assets:				
Cash, cash equivalents and restricted cash	$	32,845	$	34,840
Inventories, net		71,809		46,947
Receivables, net		11,701		8,295
Prepaid expenses and other current assets		13,643		10,111
Total current assets		129,998		100,193
Operating lease right-of-use asset		77,671		104,825
Property and equipment, net		48,966		52,973
Deferred tax assets		7,613		-
Other assets, net		2,076		3,381
Total Assets	$	266,324	$	261,372
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	21,849	$	17,901
Accrued expenses		25,543		17,551
Operating lease liability short term		25,245		32,402
Gift cards and customer deposits		20,937		19,029
Deferred revenue and other		3,808		2,445
Total current liabilities		97,382		89,328
Operating lease liability long term		73,307		101,462
Deferred franchise revenue		734		920
Other liabilities		1,218		2,354
Stockholders' equity:				
Preferred stock, par value $0.01, Shares authorized: 15,000,000; No shares issued or outstanding at January 29, 2022 and January 30, 2021		-		-
Common stock, par value $0.01, Shares authorized: 50,000,000; Issued and outstanding: 16,146,332 and 15,930,958 shares, respectively		162		159
Additional paid-in capital		75,490		72,822
Accumulated other comprehensive loss		(12,470)		(12,615)
Retained earnings		30,501		6,942
Total stockholders' equity		93,683		67,308
Total Liabilities and Stockholders' Equity	$	266,324	$	261,372



The brand, the licenses, and the moat are nowhere on the balance sheet.



The company has a very good balance sheet without any debt.

Operating Leases	
2022	30,280
2023	25,741
2024	21,089
2025	15,468
2026	8,926
Thereafter	11,403
Total minimum lease payments	112,907
Less: amount of lease payments representing interest	(14,355)
Present value of future minimum lease payments	98,552
Less: current obligations under leases	(25,245)
Long-term lease obligations	$ 73,307

They have massive operating leases but since all of their stores are profitable, we should be worried about this.

Let's have a look at the latest 10-Q

https://buildabear.gcs-web.com/static-files/3a765c08-6e4c-4339-b685-0d16a97f6f47

	October 29, 2022	January 29, 2022	October 30, 2021
	(Unaudited)		(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 12,023	$ 32,845	$ 48,501
Inventories, net	88,339	71,809	61,912
Receivables, net	15,894	11,701	12,788
Prepaid expenses and other current assets	10,379	13,643	11,186
Total current assets	126,635	129,998	134,387
Operating lease right-of-use asset	76,236	77,671	86,888
Property and equipment, net	46,264	48,966	48,221
Deferred Tax Assets	7,561	7,613	-
Other assets, net	3,105	2,076	2,502
Total Assets	$ 259,801	$ 266,324	$ 271,998
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 19,514	$ 21,849	$ 25,830
Accrued expenses	25,764	25,543	20,378
Operating lease liability short term	27,644	25,245	26,815
Gift cards and customer deposits	18,287	20,937	18,197
Deferred revenue and other	5,713	3,808	2,690
Total current liabilities	96,922	97,382	93,910
Operating lease liability long term	64,212	73,307	82,700
Other long-term liabilities	1,569	1,952	2,324
Stockholders' equity:			
Preferred stock, par value $0.01, Shares authorized: 15,000,000; No shares issued or outstanding at October 29, 2022, January 29, 2022 and October 30, 2021	-	-	-
Common stock, par value $0.01, Shares authorized: 50,000,000; Issued and outstanding: 14,718,368, 16,146,332, and 16,297,362 shares, respectively	147	162	163
Additional paid-in capital	68,422	75,490	75,316
Accumulated other comprehensive loss	(12,336)	(12,470)	(12,495)
Retained earnings	40,865	30,501	30,080
Total stockholders' equity	97,098	93,683	93,064
Total Liabilities and Stockholders' Equity	$ 259,801	$ 266,324	$ 271,998

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Revenues:				
Net retail sales	$ 99,229	$ 91,551	$ 308,001	$ 272,052
Commercial revenue	4,125	2,749	12,464	7,804
International franchising	1,126	839	2,362	1,704
Total revenues	104,480	95,139	322,827	281,560
Costs and expenses:				
Cost of merchandise sold - retail	47,354	43,918	149,341	128,688
Cost of merchandise sold - commercial	1,929	1,060	5,824	3,250
Cost of merchandise sold - international franchising	867	547	1,593	1,180
Total cost of merchandise sold	50,150	45,525	156,758	133,118
Consolidated gross profit	54,330	49,614	166,069	148,442
Selling, general and administrative expense	44,436	41,709	130,320	117,870
Interest expense (income), net	6	(2)	27	11
Income before income taxes	9,888	7,907	35,722	30,561
Income tax expense	2,433	1,984	8,247	7,423
Net income	$ 7,455	$ 5,923	$ 27,475	$ 23,138
Foreign currency translation adjustment	49	84	134	120
Comprehensive income	$ 7,504	$ 6,007	$ 27,609	$ 23,258
Income per common share:				
Basic	$ 0.51	$ 0.38	$ 1.82	$ 1.51
Diluted	$ 0.51	$ 0.36	$ 1.78	$ 1.44
Shares used in computing common per share amounts:				
Basic	14,542,947	15,578,389	15,097,816	15,345,420
Diluted	14,760,586	16,236,901	15,412,130	16,042,947

	Thirty-nine weeks ended	
	October 29, 2022	October 30, 2021
Cash flows provided by operating activities:		
Net income	$ 27,475	$ 23,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,295	9,152
Share-based and performance-based stock compensation	1,924	2,097
Impairment of right-of-use assets and fixed assets	20	-
Provision/adjustments for doubtful accounts	(154)	150
Loss on disposal of property and equipment	108	38
Deferred Taxes	16	-
Change in assets and liabilities:		
Inventories, net	(18,134)	(14,992)
Receivables, net	(4,343)	(4,627)
Prepaid expenses and other assets	1,354	215
Accounts payable and accrued expenses	(914)	9,209
Operating leases	(4,771)	(6,547)
Gift cards and customer deposits	(2,573)	(841)
Deferred revenue	1,944	243
Net cash provided by operating activities	11,247	17,235
Cash flows used in investing activities:		
Capital expenditures	(6,752)	(4,644)
Net cash used in investing activities	(6,752)	(4,644)
Cash flows (used in) provided by financing activities:		
Proceeds from the exercise of employee equity awards, net of tax	(1,671)	924
Cash dividends paid on vested participating securities	(292)	-
Purchases of Company's common stock	(24,172)	-
Net cash (used in) provided by financing activities	(26,135)	924
Effect of exchange rates on cash	818	146
(Decrease) increase in cash, cash equivalents, and restricted cash	(20,822)	13,661
Cash, cash equivalents and restricted cash, beginning of period	32,845	34,840
Cash, cash equivalents and restricted cash, end of period	$ 12,023	$ 48,501
Supplemental disclosure of cash flow information:		
Cash and cash equivalents	$ 11,582	$ 46,804
Restricted cash from long-term deposits	$ 441	$ 1,697
Total cash, cash equivalents and restricted cash	$ 12,023	$ 48,501
Net cash paid during the period for income taxes	$ 7,451	$ 9,236

Conference Calls

https://seekingalpha.com/article/4586131-build-bear-workshop-inc-bbw-q4-2022-earnings-call-transcript

Unidentified Analyst

Thank you, operator, and good morning and let me offer my congratulations again on the strong results, really robust capital return to shareholders in 2022. Very impressive. I guess my main question is, if you could just speak a little broadly, I know the prepared remarks touched upon it, how the company thinks about or manages, so effectively managing its inventory, given the continued growth in the licensing portfolio, all of the deals that the company's working on, introducing new characters basically managing inventory so effectively given the fact that the retail footprint remains largely fixed, but yet the demand for new characters continues to grow.

Voin Todorovic

Thanks, Steve for that question. Yes, inventory and the overall sourcing piece of our business has been definitely a focus for us over last several years, and it was really heightened during toughness during pandemic. You know, us being a vertical retailer creates significant benefit because we do control the product from inception to the sale and we control our promotional cadence. So, we are not at risk being competitive at some of the other organizations if there are some promotional activities and like, so VR really focused on what we can control.

We do have a wide variety of license product and we mentioned in our remarks before we have up to like 75 different licenses, and we continue to find ways to really manage that business that historically has been up to like, let's say a third [ph] to maybe like 45% of our total business with comparatively similar margins. But, definitely what we try to do is like look at ways to really provide that great experience for our guests and drive the overall dollar per transaction and really monetize that inventory.

And as you also pointed out, we have done more work, especially in expanding our third party retail business and working with our partners in that particular segment and selling to them to on a wholesale basis. So it does make this process more challenging at times, but definitely the teams have done a great job as well as, working on different initiatives to diversify our sourcing base to protect us from different geopolitical or just to mitigate some of the potential geopolitical risk.

Sharon Price John

Yes. Steve, I just want to add a little bit something there too. The team does do a great job on managing inventory. We have great relationships with our factories and we are diversifying, but we're able to manage that flow. We're able to test products in our e-commerce before we push it out to stores. And now even with our stores and our omnichannel capabilities with the inventory's not even trapped at the store level, because we shipped from our stores over a lot of these products.

But the important thing to understand with the licensing arrangements that we have, many of which are long-term with really close partners is we really leverage those relationships in a positive way. I don't want that to sound negative in any way toward our partners, but understanding that the mash up of our brand that is also a pop culture iconic brand with some of these well-known brands ranging from, Star Wars II, as I mentioned to Ted Lasso. These are not just direct interpretations of this intellectual property. They are what the current terminology is, it's called a mashup of brands, and that's where this sort of collectibles and affinity, sort of fervor comes from is that Ted Lasso is a – he's a bear of what we're offering as is Darth Vader. So it's, this really interesting edge that is attracting, done a lot of cases, the teens and adults to this type of property, whether it's Deadpool or Matrix Bears it's not just that we're straight line interpreting someone else's intellectual property. We're creating value with a co-brand that makes it a little bit different from a lot of other companies that are in the license business.

Some answers regarding managing inventories.

The next question is about guidance.

Evan Greenberg

Thank you. How are you? How's everyone today? I'm a little out of breath. I'm just finishing my workout. I wanted to get an answer. Yes, that is a little entertainment. I wanted to understand, you're talking about 5% to 10% revenue growth. Is there any same-store sales growth factored in there and what was same-store sales growth last year?

Voin Todorovic

So thank you for the question. We guided 5% to 7% this year. We don't specifically talk about e-com sales. We haven't been talking about e-com sales for many years now. But when you think about the growth that we are expecting in 2023 a lot of that growth, we expect to come, from our existing store base and productivity in those, as well as from some of the new stores that we said, we expect to open bit as a combination of our experience based locations that are corporately own or third party retail locations. And when you as well as you know, that some of that growth in revenue as we talk just previously, we expect to have like a little bit of easier comparison from party perspective as that business we mentioned was restarting last year in April.

So first couple of months we have a little bit of a benefit. And then when you think about 2022 on a full year basis, significant growth in total revenue, and we said that most of that growth was coming from the increase in traffic and transactions in our existing store base.

Evan Greenberg

Okay. Fantastic. And one final question. I guess if you strip out CapEx you get to and certain other expenses, you get to about $15 million in free cash flow. Is that correct? A little bit more than that.

Voin Todorovic

Whatever assumption you use on that, but pretty close.

Everything still looking good.

Valuations

Let's keep a simple valuations

Let's assume $13 million in FCF in 2023 and 2024, followed by $15 million in subsequent year. We will ignore potential growth.

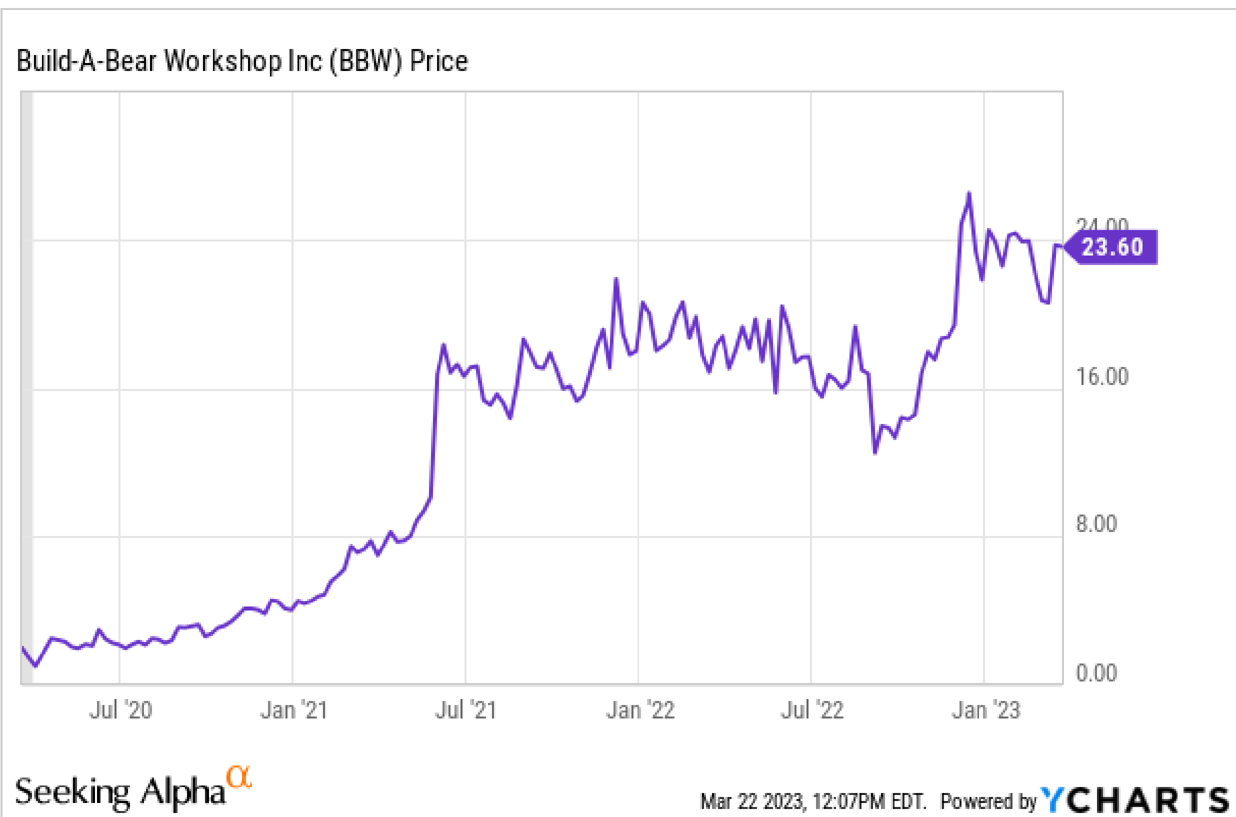
We will use a discount rate of 12%, considering the great balance sheet.

The terminal growth rate is 2%.

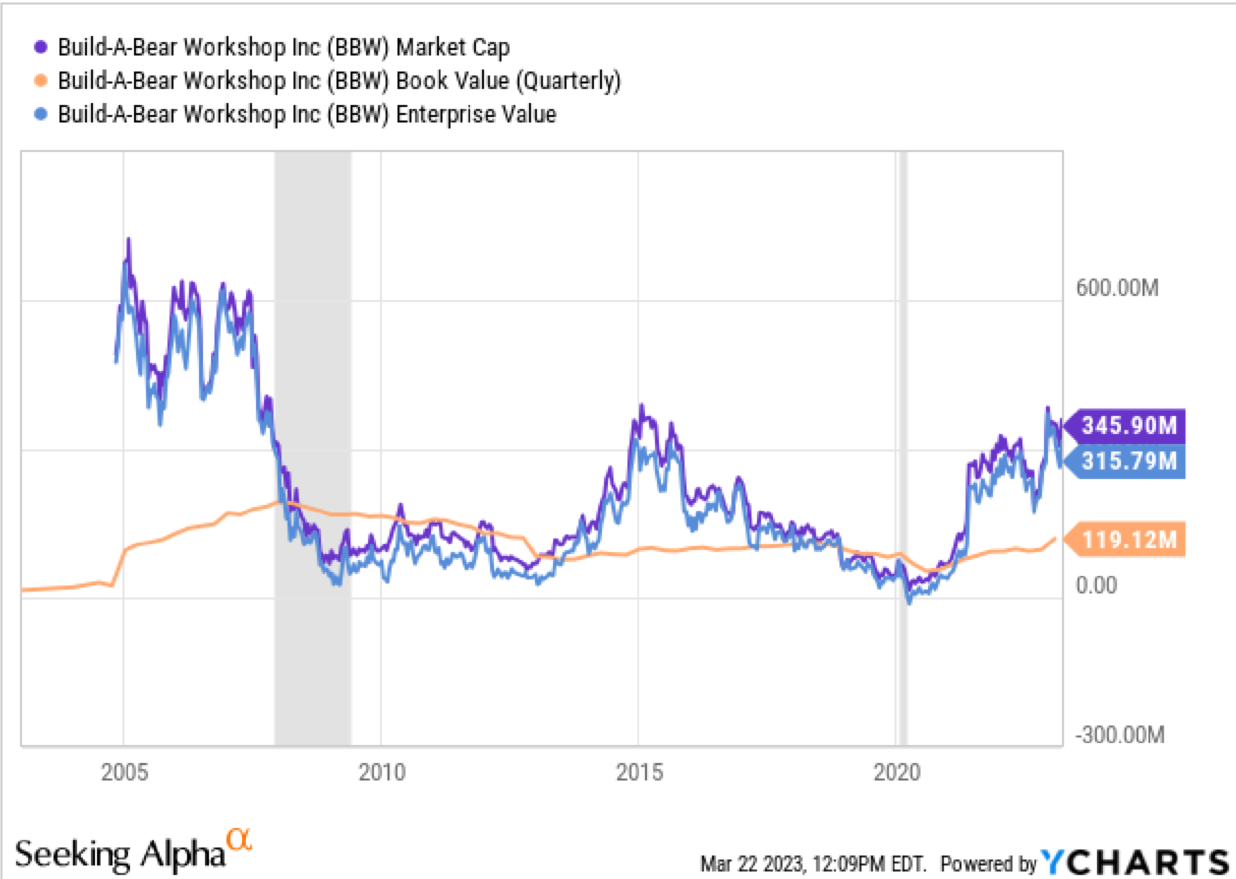
Year	FCF	Discounted FCF
TTM	$ 11.85	
2023	$ 13.00	$ 11.61
2024	$ 13.00	$ 10.36
2025	$ 15.00	$ 10.68
2026	$ 15.00	$ 9.53
2027	$ 15.00	$ 8.51
Terminal Value		$ 85.10
Intrinsic Value		**$ 135.79**
Per share		**$ 9.21**

Unfortunately, it seems that we missed the train.


Build-A-Bear Workshop Inc (BBW) Price
30.00
23.60
20.00
10.00
0.00
2005
2010
2015
2020
Seeking Alpha α
Mar 22 2023, 12:07PM EDT. Powered by YCHARTS


Build-A-Bear Workshop Inc (BBW) Price
24.00
23.60
16.00
8.00
0.00
Jul '20
Jan '21
Jul '21
Jan '22
Jul '22
Jan '23
Seeking Alpha α
Mar 22 2023, 12:07PM EDT. Powered by YCHARTS

The stock gained 2000% in the last three years. It has good valuations but still too expensive for me.



Exit Multiples

Let's look at P/FCF ratio

It has been very volatile in recent years as the company has not been consistently profitable.

Let's assume the company buys back 10% of its shares by 2027.

		2027 Price to FCF Ratio				
2027 FCF/share		**10**	**13**	**16**	**19**	**22**
Bull	**$ 1.24**	$ 12.43	$ 16.16	$ 19.89	$ 23.62	$ 27.35
Base	**$ 1.13**	$ 11.30	$ 14.69	$ 18.08	$ 21.47	$ 24.86
Bear	**$ 1.02**	$ 10.17	$ 13.22	$ 16.27	$ 19.32	$ 22.37
Returns @	**$ 24.00**	-58%	-39%	-25%	-11%	14%
CAGR		-16%	-9%	-6%	-2%	3%
Probability		20%	20%	20%	20%	20%
Expectation	**-6%**	-3%	-2%	-1%	0%	1%

It is attractive only in the best case scenario

Conclusion

BBW is a great company with an amazing turn around story in recent years. This has been translated into the stock price and we missed the train. However, The company will still face issues to maintain growth. At current price, it is not that attractive. I will give it a HOLD rating and will put it on my watchlist.

Sources

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