

KONA GRILL Inc.

[KONA.OQ]

Kona Grill is seeking expansion opportunities in the North American restaurant market in order to strengthen its brand as a provider of diverse American dishes within a certain context of restaurant ambiance



Valuation & Research Specialists (VRS)

Value Invest - www.valueinvest.gr

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INITIAL STATEMENT

by VALUATION & RESEARCH SPECIALISTS (VRS)

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Kona Grill Inc.

Sector : Restaurants – Consumer Cyclical

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Company Description:

Kona Grill owns and operates 23 upscale casual restaurants in 16 U.S. states. The Company's restaurants offer freshly prepared food, attentive service, and an upscale contemporary ambiance. The Company's restaurants feature a diverse selection of American dishes, as well as appetizers and entrees with an international influence, including a selection of sushi. Menu items also incorporate over 40 signature sauces and dressings that Kona Grill prepares from scratch. Its menu offerings are complemented by a full service bar offering a broad assortment of wines, specialty drinks and beers.

In million \$	2010	2011	2012
Sales	82.73	93.66	96.02
EBIT	-1.14	2.38	5.35
Margin %	-1.37%	2.54%	5.57%
Net Income	-1.57	2.02	4.78
Margin %	-1.9%	2.16%	4.98%

Price (2 April 2013)	\$ 8.97
Shares Outst. (million)	8.62
MktCap (in \$ mil.)	77.32

Beta (Reuters)	1.21
Dividend	\$ 0
Div. Yield	0%

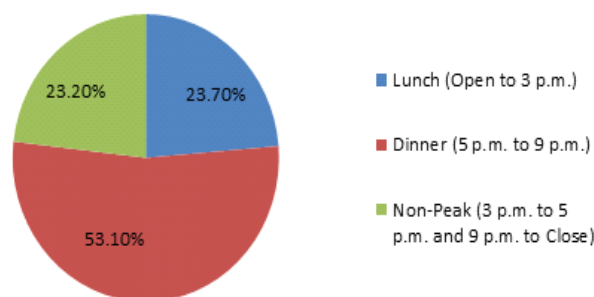
	2012 (beg.)	2013
P/E	29.86x	16.11x
P/BV	3.32x	4.18x

Source: Company data & VRS Projections

Key Investment Points

- ⊙ Kona Grill's restaurants seat an average of 295 guests and are comprised of multiple dining areas with modern design elements. The Company's restaurants include a main dining area, a full-service bar, an outdoor patio and a sushi bar. **The Company's strategy is to locate its restaurants in high-activity areas such as retail centers, shopping malls, urban entertainment districts and lifestyle centers that are situated near commercial office space and residential housing to attract guests throughout the day.**
- ⊙ According to the Company's financial reports, Kona Grill's primary growth objective is to strategically expand its concept in selected markets over the next several years. **The Management estimates that this concept has the potential for over 100 restaurants nationwide.**

2012 Sales by Daypart



Source: The Company

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Comparables Valuation

We will employ the comparables valuation approach in order to value the Company today. The universe of comparable companies includes BJ's Restaurants, Buffalo Wild Wings, Famous Dive's of America Inc. and Darden Restaurants.

Top Competitors			
Name	Symbol	Price	Reuters Symbol
Kona Grill	KONA	\$8.97	KONA.OQ
BJ's Restaurants	BJRI	\$32.09	BJRI.OQ
Buffalo Wild Wings	BWLD	\$86.49	BWLD.OQ
Famous Dave's of America, Inc.	DAVE	\$10.91	DAVE.OQ
Darden Restaurants	DRI	\$51.33	DRI.OQ

	Ent Value Current (\$ mil.)	Revenue Growth			EBITDA Margin			EBIT Margin			Enterprise Value Multiples			Price Multiples		
		-1yr	-5yr	+5yr	-1yr	-5yr	+5yr	-1yr	-5yr	+5yr	Rev	EBITDA	EBIT	Earnings	Book	Sales
Kona Grill	90	3%	6%	4%	9%	-1%	10%	3%	-9%	3%	0.9 x	6.4 x	9.0 x	16.2 x	4.1 x	0.8 x
BJ's Restaurants	1,039	14%	17%	10%	12%	11%	10%	7%	5%	5%	1.5 x	12.6 x	25.4 x	28.8 x	2.5 x	1.3 x
Buffalo Wild Wings	1,134	33%	25%	20%	16%	15%	13%	9%	9%	8%	1.1 x	7.6 x	13.7 x	28.1 x	4.2 x	1.6 x
Famous Dave's of America, Inc.	40	0%	3%	3%	10%	9%	8%	6%	5%	5%	0.3 x	3.3 x	6.5 x	18.8 x	2.4 x	0.5 x
Darden Restaurants	4,032	7%	5%	4%	14%	13%	13%	10%	9%	9%	0.5 x	3.7 x	5.5 x	14.0 x	3.5 x	0.8 x
Low Value	40	0%	3%	3%	10%	9%	8%	6%	5%	5%	0.3 x	3.3 x	5.5 x	14.0 x	2.4 x	0.5 x
High Value	4,032	33%	25%	20%	16%	15%	13%	10%	9%	9%	1.5 x	12.6 x	25.4 x	28.8 x	4.2 x	1.6 x
Average Value	1,561	13%	13%	9%	13%	12%	11%	8%	7%	7%	0.8 x	6.8 x	12.8 x	22.4 x	3.2 x	1.1 x
Median Value	1,087	10%	11%	7%	13%	12%	12%	8%	7%	7%	0.8 x	5.6 x	10.1 x	23.5 x	3.0 x	1.1 x

Taking the average of the Median and Average values for each multiple of the 4 comparable companies (EV/Sales, EV/EBITDA, EV/EBIT, P/E, P/B and P/Sales), we conclude that Kona Grill's price has a potential upside of 5% from the \$8.97 level.

Concluded Range					
Enterprise Value Multiples			Price Multiples		
Rev	EBITDA	EBIT	Earnings	Book	Sales
0.8 x	5.6 x	10.1 x	22.9 x	3.1 x	1.1 x
Potential per Multiple					
-15%	-13%	15%	42%	-25%	30%
Conclusion		5%			

KONA Grill				Price Ratios		
Enterprise Value Calculation	Rev	EBITDA	EBIT	Earnings	BV	Sales
Current Financial Results (in mil. USD)	96.02	14.10	9.99	4.79	18.87	96.02
Multiple x	0.8 x	5.6 x	10.1 x	22.9 x	3.1 x	1.1 x
Multiple Calculation	78	79	101	110	58	101
Enterprise Value						
Less: Total Debt	20	20	20			
Plus: Excess Cash	8	8	8			
= Stock Holder's Equity Capital	66	67	89			
Divide: Shares Outstanding	8.62	8.62	8.62	8.62	8.62	8.62
= Fair Value per Share	7.64	7.82	10.33	12.74	6.73	11.70
Current Stock Price	8.97	8.97	8.97	8.97	8.97	8.97
Potential Stock Increase	-15%	-13%	15%	42%	-25%	30%

Company Profile

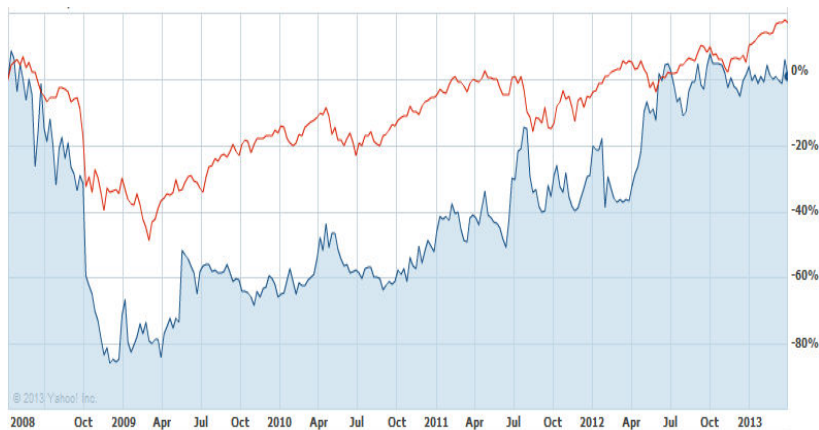
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The Company's restaurants seat an average of 295 guests and are comprised of multiple dining areas with modern design elements. Kona Grill's restaurants include a main dining area, a full-service bar, an outdoor patio and a sushi bar. The Company's strategy is to locate its restaurants in high-activity areas such as retail centers, shopping malls, urban entertainment districts and lifestyle centers that are situated near commercial office space and residential housing to attract guests throughout the day.

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Share Price Performance versus Market Index (base=100)

	Ticker
Bloomberg	KONA.US
Reuters	KONA.OQ



Red: S&P 500, Blue: KONA

	AVG Sales growth (-5Y)	EBITDA margin (-5Y)	EBIT Margin (-5Y)	Est. Sales growth (+5Y)	EBITDA margin (+5Y)	EBIT margin (+5Y)
5 April 2013						

Price	\$ 8.97
Shares	8,540,000
Market Cap	\$ 76,603,800

Kona Grill	6.1%	-0.5%	-9.28%	4%	10%	3%
BJ's Restaurants	17.35%	10.7%	5.2%	10%	10%	5%
Buffalo Wild Wings	25.48%	14.78%	8.6%	20%	13%	8%
Famous Dave's of America, Inc.	2.6%	9.26%	5.47%	2.5%	8%	5%
Darden Restaurants	4.89%	13.26%	9.16%	3.5%	13%	8.9%

Source: Historical data, VRS Estimates

Multiple Stats	Competitors	KONA
EV / Revenue (x)	0.8 x	0.9 x
EV / EBITDA (x)	6.8 x	6.4 x
EV / EBIT (x)	12.8 x	9.0 x
P / Book Value (x)	3.2 x	4.1 x
P / Earnings (x)	22.4 x	16.2 x
P / Revenue (x)	1.1 x	0.8 x

	Strengths - Opportunities	Weaknesses - Threats
1	A restaurant atmosphere that incorporates freshly prepared food with a diverse selection of mainstream American dishes and award-winning sushi.	History of underperformance in terms of profitability and growth. The company reported net losses during the period 2005-2010.
2	The Company has a strong brand name in the North American market.	The Company closed a restaurant in Naples, Florida in September 2008, a restaurant in West Palm Beach, Florida in July 2011, and a restaurant in Sugar Land, Texas in September 2011 due to lower-than-expected sales volume.
3	Attractive unit economics (average unit volume of restaurants was \$579 per square foot)	The Company has large exposure to the North American market.
4	The Company may leverage its distinctive upscale dining ambiance by building a stronger brand over the next 5 years.	The Company's expansion plans do not involve any franchised restaurant operations. This may pose some burden in terms of rapid brand expansion.
5	Significant expansion opportunities to key areas. The company has already expanded in the Idaho market, expecting to open its restaurant in the fourth quarter of 2013. One more restaurant is expected to open in 2013.	The restaurant industry is highly-competitive and a lot of Kona Grill's competitors are many times the Company's size in terms of sales, market capitalization and assets.
6	Opportunities in terms of food innovations are also apparent, since the Company may grow its sales by adopting new recipes that offer advantages in terms of cost efficiency and price/value considerations.	The Company's variable costs may skyrocket, posing significant pressures to margins.
7	Expansion of wine offerings may increase significantly profit margins, given that restaurants have in general ample room for wine-pricing. Wine offerings with specialized personnel (e.g. sommeliers) may increase further wine sales and wine-related dishes.	A possible economic slowdown may put further pressure to the solvency of retail operators and shopping malls, operations on which Kona Grill is significantly dependent, given that the Company opens its restaurants in high-traffic places.

Source: Valuation & Research Specialists.

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The real estate market is to a large extent cyclical and faces risks at a number of levels. Among others, the following factors tend to affect the demand and the ability of tenants to pay rent:

- Macroeconomic environment
- Level of supply
- Interest rates

Furthermore, the following factors are mainly, but not exclusively, accountable for the course of property values:

- Macroeconomic environment
- Corporate Earnings
- Interest rates
- Financing mechanisms offered
- Returns on other types of assets
- Legal and tax legislation

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DISCLOSURE CHECKLIST

Covered Company	Reuters	Price Close	Date of Price Close	Disclosure
KONA GRILL INC.	KONA.OQ	\$ 8.97	2 April 2013	2, 3

1. VRS has acted as financial consultant for the covered company within the past 24 months.
2. VRS has sent the research report to the covered company, prior to publication or dissemination, for factual verification.
3. VRS has changed the contents of the initially sent report, with respect to: no change has been made.
4. VRS has received compensation from the covered company for the preparation of this research report.
5. VRS produces research reports for this company on systematic basis.
6. VRS produces research reports for this company on demand basis.
7. VRS has produced a research report for this company within the past 12 months.

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