**Good Times Restaurants Inc (Ticker: GTIM)**

***My current stance on GTIM is neutral. While there is potential for upside if management successfully stabilizes same-store sales trends and executes a strategic turnaround, the company’s persistent operational inefficiencies and competitive pressures leave its long-term prospects uncertain. With valuation sensitivities tied closely to upcoming results and institutional behavior, I believe the risk-reward balance remains evenly poised at this time.***

**Key Bullets**

* **GTIM’s 2021 tender offer, priced at $4.50 per share, implies a market capitalization of $44.7M using today’s shares outstanding.**With the current market cap at only $28.5M, this reflects a destruction of ~$16M in shareholder value, underscoring the failure of management’s capital allocation strategy.
* **The $6.5M earmarked for the tender offer represented a significant opportunity cost**, as these funds could have been used to expand Bad Daddy’s Burger Bar, invest in automation, or rebrand Good Times Burgers. Instead, management prioritized a short-term boost to the stock price, which ultimately failed, leading to a **50% decline in market cap** and eroding shareholder trust.
* **GTIM's turnaround strategy should focus on divesting all Good Times Burgers units,** allowing the company to allocate resources to Bad Daddy’s Burger Bar, the clear driver of growth and profitability.
* **Management’s poor capital allocation and operational** inefficiencies have resulted in significant investor losses, requiring $3.20 of shareholder capital to generate $1 in operating losses.
* **Bad Daddy’s Burger Bar offers a path forward**, with a proven record of growth and unit-level profitability, but success hinges on strategic expansion and operational optimization.
* **Institutional holder concentration poses significant risks**, with 8.8% of outstanding shares held by institutions. Any major liquidation could trigger a 20–40% price decline due to GTIM's illiquidity and low trading volume (~9.8K shares/day).
* **Without decisive action,** GTIM risks further stagnation and potential declines below $2 per share as institutional ownership erodes and operational inefficiencies persist.
* **GTIM must act decisively to avoid stagnation and further market cap decline.** Management should either divest Good Times Burgers and focus resources on Bad Daddy’s Burger Bar, the clear growth driver, or explore strategic alternatives, including a potential sale of the entire company to maximize shareholder value.

**Introduction: A Tale of Two Sheep**

There was once a shepherd with two sheep. One was spotted, drawing curious glances with its bold and unpredictable nature. The other was solid-colored, steady and reliable, grazing the same patch of grass each day. Together, they balanced each other—one brought intrigue, the other stability.

Bad Daddy’s Burger Bar is the spotted sheep, daring and eye-catching with its eclectic menu and trendy vibes. Good Times Burgers, however, is the solid sheep, offering consistency and dependability. While this balance has worked in the past, the spotted sheep now stands out as the true asset for growth, while the solid one struggles to find its place in a changing market. As the shepherd evaluates these two sheep, GTIM must decide whether it can continue to support both brands or focus its resources on the one with the greatest growth potential.

***Punchline: GTIM faces stagnation, with limited upside of ±10% and a significant risk of falling below $2 per share if management fails to address operational inefficiencies and institutional ownership erosion.***

**Quick Overview**

GTIM is a Nevada corporation (est. October 6, 1996) that owns and operates two restaurant concepts:

* **Good Times Burgers & Frozen Custard**: A quick-service restaurant (QSR) focused on convenience, offering drive-thru and walk-up service. The menu emphasizes 100% all-natural burgers and chicken, catering to customers seeking quality with speed. Despite its historical reliability, this brand has struggled to compete in an increasingly saturated and discount-driven QSR market.
* **Bad Daddy’s Burger Bar**: A casual dining concept emphasizing dine-in experiences, hospitality, and an eclectic menu. Its trendy, high-quality concept has allowed it to achieve consistent growth and strong unit-level profitability, positioning it as GTIM’s primary driver of value.

**Management: From Growth to Retrenchment**

Under former CEO Boyd Hoback, GTIM pursued aggressive growth. The company established a $9M credit facility with Cadence Bank (2016), later expanding it to $12M (2017). However, this bullish strategy faltered, leading to Hoback’s resignation (2019). CFO-turned-CEO Ryan Zink shifted focus to financial discipline, reducing the credit facility to $11M in 2021 and planning to lower it further to $8M.

In 2021, management initiated a tender offer to repurchase 1.4M shares at $4.60 per share. However, this action fell short, with only 333,241 shares tendered (~2.6% of outstanding shares) at a cost of $1.5M. With GTIM’s share price now at $2.65, the tender offer looks like a strategic misstep, prioritizing short-term optics over long-term value creation.

**The Missteps: Management’s Queen on g7**

Management’s 2021 tender offer is akin to moving a chess queen to g7 with an opponent’s knight on f4—reckless and self-destructive. The decision to repurchase shares at a ~100% premium diverted $1.5M that could have been used for:

1. Expanding Bad Daddy’s: Average unit revenue of $2.3M-$2.5M suggests that even one new location could deliver sustainable returns.
2. Investing in Technology: Enhancements in automation could reduce labor costs and improve operational efficiency.
3. Rebranding Good Times Burgers: Strategic marketing or menu innovation might have revitalized the struggling QSR concept.

By prioritizing short-term share buybacks, GTIM missed opportunities to build shareholder value. This misallocation of capital has exacerbated GTIM’s financial constraints, as outlined in the company’s capital structure.

**Capital Structure: Strains and Risks**

GTIM’s capital structure reflects modest liquidity but concerning inefficiencies:

* $4.8M cash reserve
* $1.1M in total debt
* $24.8M in Enterprise Value.
* GTIM has required $3.20 in investor funds to produce $1 in losses, a stark indicator of capital inefficiency.
* High borrowing costs (8.42% average interest) and limited credit availability further constrain GTIM’s ability to invest in growth.

A close-up of a calculator

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As of the company’s Q3-24 filing, GTIM’s market cap is $28.5M. Company has cash of $4.8M and total debt of $1.1M imputing an Enterprise Value of $24.8M.

**Credit Facility**

The $1.1M debt stems primarily from the Cadence Credit Facility, a loan agreement capped at $8M with a maturity date of 4/20/28. This facility includes a weighted average interest rate of 8.42% (as of 6/25/24) and a 0.25% fee on unused portions of the loan. Currently, GTIM has borrowed $750K and issued $10K in letters of credit, leaving $7.24M available. However, borrowing more than $4M (>50% of the facility) triggers stricter financial covenants, limiting the company’s ability to spend on growth or shareholder payouts. Additionally, GTIM has incurred $299K in origination fees, with $102K still unamortized as of 6/24/24. The facility is secured by a 1st priority lien on all company assets.

The Parker Promissory Note represents an additional unsecured liability related to the acquisition of Good Times Burgers. This loan is fully amortized over 10 years at a 5% annual interest rate, with an outstanding balance of $380K as of 6/25/24. Combined, these debts total **$1.13M.**

The high borrowing costs (8.42% average interest) and limited available credit leave GTIM with minimal financial flexibility. To navigate these constraints, the company must prioritize operational efficiency and disciplined capital allocation, focusing on initiatives that deliver measurable returns.

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Lastly, since its inception, GTIM has required $3.20 of investor capital to produce $1 in losses, reflecting significant inefficiencies in the company’s operations and capital allocation.

**Growth**

***Plans never materialize when you play Russian roulette with shareholder capital. What happened to the Good Times?***

Over the past 13 years, GTIM achieved 17% average revenue growth, driven primarily by **Bad Daddy’s Burger Bar** (22% average growth over 7 years). In contrast, **Good Times Burgers** stagnated with 0% growth, reflecting a decline in customer demand and operational relevance.

To sustain growth, GTIM must focus on expanding Bad Daddy’s while reevaluating Good Times Burgers’ future.

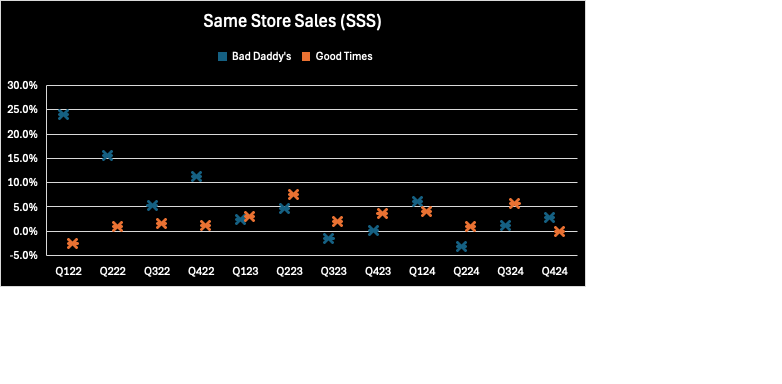
**SSS Trend**

The performance of Good Times Restaurants Inc. demonstrates the stark divergence between its two brands.

**Bad Daddy’s** experienced strong growth post-COVID, peaking at 24.0% in Q122. However, growth declined to 15.5% in Q222 and further to 5.3% by Q322, reflecting normalization in demand and possibly macroeconomic pressures. Growth briefly turned negative in Q323 (-1.4%) before stabilizing at low single-digit levels by Q424 (2.9%). This indicates resilience but also highlights challenges in sustaining momentum.

**Good Times Burgers**, by contrast, showed more erratic performance. From negative growth (-2.5%) in Q122, it briefly improved to 7.6% in Q223 before returning to volatile, flat, or negative growth, ending Q424 at -0.1%. This pattern underscores operational challenges, including difficulty attracting traffic and maintaining pricing power in a highly competitive QSR environment.

The convergence of SSS growth rates in Q424 reflects broader operational inefficiencies across both brands, signaling the need for targeted strategies. Bad Daddy’s must focus on expanding into high-growth markets and improving customer retention. Meanwhile, Good Times must undergo a deeper transformation to revitalize its relevance in the quick-service market.



**Operations**

The **"Restaurant Expenses as % of Total Revenue" chart** highlights the stability of GTIM's major expense categories over the past decade, with total operating costs largely unchanged as a percentage of revenue. **Food/Packaging Costs** and **Payroll/Other Costs** consistently account for the largest shares of expenses, at **31%-34%** and **30%-35%**, respectively.

While expense ratios have remained steady, the company has failed to achieve meaningful reductions in its largest cost drivers:

* **Food/Packaging Costs**: Minimal fluctuation suggests limited success in renegotiating supplier contracts or reducing waste.
* **Payroll Costs**: Remaining flat at ~32% highlights inefficiencies in labor management, particularly as the broader industry embraces automation and flexible staffing solutions.

From 2020 onward, the slight increase in total costs reflects external economic pressures, such as inflation and rising wages, rather than internal inefficiencies. However, GTIM must act proactively to address these challenges:

1. **Labor Optimization**: Implement workforce analytics and flexible scheduling to reduce Payroll/Other costs.
2. **Automation Investments**: Adopt kitchen automation technology to reduce reliance on labor, especially for repetitive tasks.
3. **Food Cost Management**: Use data analytics to reduce food waste and renegotiate supplier agreements to counteract inflationary pressures.

Despite achieving some cost stability, the company must tackle these opportunities to improve margins and build resilience against external economic pressures.

**Revenue Growth vs. Restaurant Margins**

The **Y/Y Revenue Growth vs. Restaurant Margins chart** highlights the company's dependence on revenue growth to maintain profitability. Margins consistently improve during periods of high revenue growth, as seen in 2015 and 2016, where growth exceeded 50% and margins approached 20%. However, when revenue growth stagnates or declines, as in 2020 and 2023, margins contract sharply, reflecting the company's inability to adjust its cost structure to lower sales volumes.

This trend underscores the company’s operational inefficiency and reliance on external growth factors, such as market recovery or expansion, to sustain profitability. Despite periods of robust growth, margins have remained capped below 20%, suggesting limited progress in improving cost controls or operational scalability.

To address these issues, GTIM must:

* Focus on Margin Expansion: Invest in operational improvements, such as kitchen automation and supply chain optimization, to reduce fixed costs and increase efficiency.
* Reduce Volatility in Revenue Growth: Develop a more consistent growth strategy that minimizes reliance on external factors and ensures steady revenue performance.
* Build Resilience: Explore flexible cost structures to better weather downturns and protect margins during periods of flat or negative growth.

**Margin Specific**

Over the past 13 years, restaurant margins have mostly ranged between 14%-18% in 7 out of 13 years, with only 3 years achieving margins between 18%-22%. Margins in this higher range were driven primarily by extraordinary revenue growth, such as the 57% spike in 2015 and 46% in 2016. Without such growth, margins tend to fall below 18%, as expenses often grow in tandem with or outpace revenue, as illustrated in the **"Distribution of Restaurant Margins" chart**.

This reliance on exceptional revenue growth highlights the need for GTIM to address structural inefficiencies. To improve margins, the company must:

* **Control Costs**: Optimize supply chain agreements, reduce food waste, and improve labor scheduling to address rising Food/Packaging and Payroll costs.
* **Drive Operational Efficiency**: Invest in technology and data analytics to better monitor expenses and improve unit-level profitability.
* **Focus on Scalable Growth**: Expand Bad Daddy’s locations strategically to benefit from economies of scale, which could help offset rising costs.



**Recent News: SSS took a hit**

[**8-K filed 10/15/24:**](https://www.sec.gov/Archives/edgar/data/825324/000121465924017548/ex99_1.htm) SSS decreased -0.1% for Good Times and increased and 3.2% for Bad Daddy’s. Prior year SSS increased 2.9% and decreased 1.2% for Good Times and bad Daddy’s respectively. The CEO Ryan Zink has stated that the business **cannot** compete with competition.

*Ryan Zink, President and CEO, said “Our Good Times brand has been negatively impacted by the return of deep discounting in the quick-service environment. We remain committed to our quality position and cannot match the low-price points of the mass market competition.*

**Free Cash Flow**

While recent improvements in Free Cash Flow (FCF) are promising, the historical challenges raise questions about GTIM’s ability to sustain growth. Positive FCF since 2020 reflects operational discipline, but modest levels in 2022-2023 suggest a fragile recovery. Monitoring Capex and operational efficiency will be key to long-term stability. A sustained improvement in FCF will be critical to funding strategic initiatives such as automation, rebranding, and expansion of Bad Daddy’s.

**Key Assumptions and Methodology**

* Revenue Growth:
  + The upper bound ($2.70) assumes a 9% average annual revenue growth over the next 10 years, reflecting potential success from strategic initiatives, particularly if Bad Daddy’s Burger Bar becomes a larger driver of growth.
  + The lower bound ($2.11) assumes a more conservative 5% annual growth rate, aligned with current SSS struggles and heightened competition.
* Expense Trends:
  + GTIM's current expense structure is projected using historical data, maintaining restaurant expenses (including advertising) as a percentage of revenue. This reflects the company’s ongoing inefficiency in scaling operations.
* Interest Income/Expense:
  + Interest income is calculated by applying a net return assumption of at least 1% above interest expense on GTIM’s growing net cash balance (ending net cash plus annual net income). This approach accounts for management's ability to manage surplus cash effectively.
* Depreciation and Amortization (D&A):
  + D&A is treated as a real expense due to GTIM's lack of operational scale and its need for continuous reinvestment to sustain operations or execute a turnaround strategy.
* Terminal Value:
  + A -1% terminal growth rate reflects expectations of long-term contraction if current inefficiencies persist and strategic improvements fail to materialize.
* Discount Rate:
  + Future cash flows are discounted at approximately 9%, in line with GTIM's weighted average borrowing cost under its credit facility. This reflects the company’s risk profile and financial structure.

**Sensitivities**

The valuation is highly sensitive to two key factors:

1. Q4 FY25 Results:
   * A significant miss in revenue, margins, or SSS trends could erode institutional confidence, prompting sell-offs in a stock with already limited liquidity.
2. Institutional Behavior Post-Results:
   * If major holders reduce their stakes, GTIM’s stock could face additional downward pressure, with insufficient retail demand to stabilize its valuation.

Conclusion

GTIM's current valuation is precarious, heavily reliant on management's ability to drive strategic improvements and stabilize SSS trends. While an upper valuation of $2.70 per share assumes aggressive revenue growth and disciplined cost management, the lower bound of $2.11 reflects the risk of continued stagnation and shrinking market relevance.

Unless management implements a compelling turnaround strategy or explores a strategic sale, GTIM remains vulnerable to downside risks.

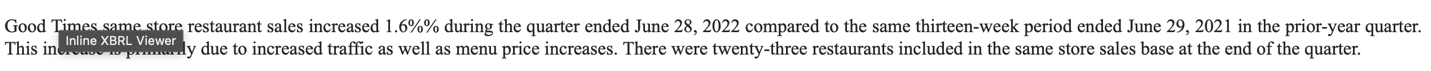
**Additional Material Below**

**Typos Identified**

In the company's quarterly filing (Report Date: 6/28/22), a typographical error was observed: '1.66%%'. While such minor errors may seem trivial, they can suggest broader lapses in the review process and raise concerns about the company’s attention to detail in financial reporting.

Even small mistakes in filings can undermine confidence among investors and stakeholders, particularly when accuracy is essential for decision-making and regulatory compliance. Such issues may reflect broader inefficiencies or insufficient quality control measures within the organization.

Recommendation: To prevent future errors, the company should implement a more rigorous review process for financial filings, ensuring accuracy and consistency in all reports. Strengthening internal controls in this area could bolster investor trust and improve overall reporting quality.



Link: <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000825324/000121465922009903/gtim-20220628.htm>

**Institutional Risks**

Low average trading volume (9.8K shares/day) and concentrated institutional ownership (~8.8%) create risks of significant stock price declines if major shareholders exit. For example, Renaissance Technologies holds 271,083 shares (~2.51%), requiring 28 trading days to exit, potentially causing a 5-12.5% price impact. This concentration of ownership creates vulnerability. Should any of these institutions decide to liquidate their positions, GTIM’s limited liquidity could trigger significant downward pressure on the stock price. For example:

* **Renaissance Technologies LLC**, holding **271,083 shares (~2.51% of outstanding shares)**, would require approximately **28 trading days** to fully exit its position. Using a rule of thumb, this could result in a share price decline of **5-12.5%**:
* **2.51% x 2% = ~5% price impact (lower bound)**
* **2.51% x 5% = ~12.5% price impact (upper bound)**

If all four institutions liquidated simultaneously (~8.8% of outstanding shares), the stock could face a **20-40% decline** due to the imbalance of supply and demand in the market.

This risk is exacerbated by GTIM’s illiquidity, with its average trading volume unable to absorb large sell-offs. Retail investors and smaller institutions are particularly vulnerable, as price volatility could erode confidence and deter future investment.

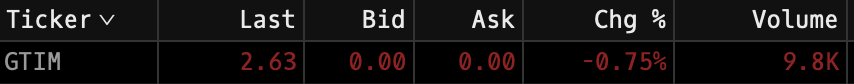
**Recommendation: Addressing Institutional Ownership and Liquidity Risks**

While GTIM’s 2021 tender offer misallocated $1.5M in shareholder capital by repurchasing shares at a significant premium ($4.50/share), future buybacks could still be a viable strategy under the right circumstances. The previous tender offer was poorly timed, prioritizing short-term optics over long-term growth, and occurred when management should have been focused on operational improvements and expansion.

However, at the current share price of $2.63—significantly below the tender offer price—a carefully executed buyback could provide value to shareholders by:

* Reducing institutional concentration, thereby mitigating risks associated with low liquidity.
* Improving share price stability and signaling confidence in the company’s future.

Such a move should only be considered if the company has excess cash after funding critical growth initiatives and addressing operational inefficiencies. Unlike the prior tender offer, a future buyback must align with the company’s broader strategic goals, focusing on long-term value creation rather than short-term appeasement.



This analysis underscores the importance of monitoring institutional ownership changes closely, as any significant selloffs could disproportionately impact the company’s stock price and market perception.

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Recommendations

* 1. Divest Good Times Burgers: Free up resources to focus on Bad Daddy’s Burger Bar, the company’s proven growth driver. If a singular focus on Bad Daddy’s is not feasible, management should explore a strategic sale of the entire company to maximize shareholder value.
  2. Double Down on Bad Daddy’s: Optimize operations, expand strategically, and refresh branding to strengthen the brand's positioning in the competitive casual dining market. Focus resources on high-performing locations and leverage Bad Daddy’s proven unit-level profitability.
  3. Invest in Technology: Reduce costs and improve efficiency through automation and data analytics. Enhancements in Point-of-Sale systems and kitchen automation can streamline operations, improve customer experience, and drive margin expansion.
  4. Focus on Financial Discipline: Use proceeds from divestitures or a potential sale to pay down debt, strengthen the balance sheet, and fund strategic growth initiatives. A disciplined approach to capital allocation is critical for long-term value creation.

**Supplementary Analysis: Options and Market Activity**

**Option Analysis**

Currently, 385 put contracts have been traded at a $2.50 strike price (expiration: Dec 20, 2024), reflecting a significant level of activity on the bearish side. This could indicate that investors suspect the stock price may fall below $2.50, making these options profitable. If institutional investors exit their positions, this could pressure the stock price downward, potentially validating this bearish outlook. However, if the business remains stable and the stock price stays above $2.50, these options will likely expire worthless.

On the bullish side, only 15 call contracts have been traded at the $2.50 strike price. This relatively low volume suggests limited interest or optimism in the stock’s upward potential at this level, especially when compared to the notable activity on the put side. While these call options are currently in the money with the stock price at $2.65, whether they can be sold at a profit depends on the premium originally paid for the options. If the premium exceeds the intrinsic value of $0.15 per share, the holder may not yet realize a profit.

Punchline: This imbalance in options activity highlights bearish sentiment driven by GTIM’s operational inefficiencies and institutional risks—an urgent call for management to address these issues.

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Year over Year growth in revenue and restaurant expenses.