

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

Price Target: \$63 | Rating: **Buy**

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*Note: This report is an independent, personal project and not affiliated with any financial institution.*

### Executive Summary

Build-A-Bear Workshop, Inc. (NYSE: BBW) has consistently outperformed expectations across revenue, margins, and earnings—yet remains underappreciated by the market. With a unique experiential retail model, strong gross margins, and a highly efficient asset-light business, the company generates robust free cash flow and maintains healthy capital returns.

Despite this strength, the market still applies a discounted valuation multiple—likely due to perceived risks around mall exposure and broader retail pessimism. However, I believe this disconnect represents a compelling opportunity.

### Investment Thesis

- BBW is structurally undervalued despite consistent earnings beats, industry-leading gross margins, and a growing omnichannel DTC model.
- The business benefits from high brand loyalty, low CAPEX, and an ability to monetize licensed IPs.
- Key industry tailwinds include rising demand for screen-free, tactile toys and a resurgence in nostalgia-driven plush collectibles among young adults.

### Valuation

Using both a relative multiple approach and a conservative DCF (7.68% WACC, 2.0% terminal growth), I arrive at a 12-month price target of \$63, implying ~26% upside from the current price of ~\$49.89.

### Catalysts

- Transition away from malls and into standalone or lifestyle-format stores.
- Expansion into international markets (Asia, LATAM) via low-CAPEX models.
- Broadened licensing into untapped IPs (e.g., Stardew Valley, Pusheen, Genshin Impact).
- Increased institutional coverage or index inclusion could improve visibility and valuation.

### Rating: Buy

## Investment Thesis

Build-A-Bear Workshop, Inc. (NYSE: BBW) has consistently outperformed earnings expectations and demonstrated solid financial performance across key metrics. However, despite this operational strength, the company's valuation remains modest, potentially due to persistent market skepticism toward mall-based and brick-and-mortar retail models. This report investigates whether this disconnect between fundamental performance and market perception represents a compelling buying opportunity for investors.

## Business Overview

Build-A-Bear Workshop, Inc. (NYSE: BBW) is a specialty retailer primarily engaged in the sale of customizable stuffed animals and related products through a retail-driven model that emphasizes personalization and in-store experiential engagement. The company complements its physical store presence with e-commerce platforms, enhancing accessibility and customer reach.

BBW operates under two key business segments:

### 1. Direct-to-Consumer (DTC)

This segment includes corporately managed retail locations across the United States, Canada, the United Kingdom, and Ireland, as well as e-commerce websites and seasonal pop-up stores. The DTC segment is the company's core revenue driver, contributing approximately 93% of total revenue in FY2025. The model relies heavily on customer interaction and brand experience, which has helped differentiate BBW in a competitive retail environment.

### 2. Commercial

The Commercial segment encompasses business-to-business operations such as wholesale distribution, intellectual property (IP) licensing, and entertainment partnerships. Although it accounts for a smaller share of revenue roughly, 6.3% in FY2025 it has demonstrated strong year-over-year contribution margin growth, highlighting its expanding strategic value and profitability potential.

Operations are primarily concentrated in North America and Western Europe via the DTC segment, while international presence is sustained through franchise agreements in both developed and emerging markets. This approach supports global brand recognition while maintaining an asset-light and low-capex structure, particularly across the Commercial and international business lines.

BBW's revenue model is predominantly transactional but exhibits recurring elements, supported by customer loyalty programs and repeat visits. Sales are also highly seasonal, peaking around major holidays such as Valentine's Day, Christmas, birthdays, and the back-to-school season.

## Industry Overview

The global toy industry continues to evolve in response to shifting consumer preferences, technological trends, and cultural dynamics. Build-A-Bear Workshop, Inc. operates at the intersection of two significant trends: the growing demand for screen-free play experiences among young children and a rising nostalgia-driven interest in plush toys among young adults and parents.

## Screen-Free Play and Child Development Trends

There is a growing preference among new parents for traditional, tactile toys over screen-based alternatives. Pediatric experts have increasingly emphasized the developmental benefits of screen-free play, citing improvements in language acquisition, attention span, and social interaction among toddlers who engage with physical toys. In response to these concerns, 65% of parents now actively avoid screen-based toys, contributing to a 22% year-over-year increase in screen-free toy sales in 2023. Plush toys, such as those offered by Build-A-Bear, directly align with these preferences, positioning the company favorably within this trend.

## Nostalgia and the “Kawaii” Culture

Simultaneously, a parallel trend has emerged among young adults driven by nostalgia and the global appeal of “kawaii” (cute) aesthetics. Popular franchises such as Sanrio's Hello Kitty, Pokemon, and Animal Crossing have expanded beyond their traditional child demographics, becoming cultural staples for Gen Z and millennial consumers. Social media platforms like TikTok have amplified this trend, fueling a resurgence in demand for retro and character-themed plush toys. This cultural shift provides an opportunity for BBW to diversify its IP partnerships and broaden its target demographic beyond children.

## Challenges and Competitive Landscape

Despite these favorable tailwinds, Build-A-Bear faces several structural and competitive challenges:

- Declining Mall Traffic: The company's retail footprint remains heavily mall dependent. As mall visitation decline globally, particularly among families with children, BBW must find alternative strategies to sustain foot traffic and spontaneous purchases.
- E-commerce Pressure: Convenience-focused parents are increasingly turning to online channels for toy purchases. BBW's continued investment in omnichannel capabilities and e-commerce differentiation will be crucial to remain competitive.
- Global Competition and Cost Pressures: The company also faces indirect competition from global toy conglomerates and e-commerce platforms, as well as direct competition from smaller niche plush brands like The Bear Factory, The Buddy Factory, and Snuggle Bugz. Additionally, low-cost manufacturing from China and regulatory uncertainty related to Chinese imports pose further margin and supply chain risks.

## Strategic Opportunities

To mitigate these challenges and capitalize on emerging opportunities, BBW could consider:

- Expanding Beyond Malls: Establishing standalone stores or integrating into lifestyle centers could enhance visibility and reinforce the experiential nature of its brand.
- International Growth: Targeting underpenetrated international markets, particularly in Asia and South America, where plush toys aligned with local cultural characters could see strong demand.
- Broader Character Licensing: While BBW currently partners with Pokemon, expanding into other popular video game franchises and anime IPs could attract new customer segments and drive incremental revenue.

## Historical Financial Performance

Metric	FY2022	FY2023	FY2024	FY2025	CAGR
<b>Gross Margin</b>	52.96%	52.54%	54.39%	54.90%	1.20%
<b>Operating Margin</b>	12.32%	13.24%	13.45%	13.35%	2.71%

- Gross Margin: BBW's gross margin has steadily improved, reaching 54.90% in FY2025, reflecting strong pricing power and disciplined cost management. This trend suggests that the company can defend margins even in a competitive retail environment.
- Operating Margin: Operating margin has grown from 12.32% in FY2022 to 13.35% in FY2025, highlighting effective management of SG&A expenses and leveraging of fixed costs as revenue has grown.

Metric	FY2022	FY2023	FY2024	FY2025	CAGR
<b>Return on Assets (ROA)</b>	17.75%	17.09%	19.39%	17.86%	0.21%
<b>Return on Equity (ROE)</b>	50.45%	40.28%	40.73%	37.23%	-9.63%

- **ROA:** Build-A-Bear maintains a high ROA in the range of 17-19%, underscoring efficient asset utilization, likely due to its low-capex, asset-light business model.
- **ROE:** Although ROE has gradually declined from an elevated peak of 50.45% in FY2022, it remains strong at 37.23%, driven in part by continued share buybacks and effective capital allocation.

## Valuation

Build-A-Bear Workshop, Inc. appears modestly valued relative to both its specialty retail peers and its intrinsic cash-generating ability.

### Relative Valuation

Compared to a basket of similar companies—including specialty toy makers (e.g., Funko), children's retailers (e.g., Children's Place), and experiential or lifestyle-oriented retailers (e.g., Bath & Body Works, Five Below) BBW trades at conservative multiples across several metrics:

- EV/EBITDA of 9.01x, despite outperforming many peers on margins and growth.
- A P/E of 13.13x, which appears inexpensive given BBW's consistent profitability, high return on equity, and relatively low leverage.
- EV/Revenue of 1.47x is in line with or below more mature or larger retailers, despite BBW's niche positioning and brand equity.

Valuation Multiples	FNKO	FIVE	PLCE	CRCT	BBWI	<b>BBW</b>
EV / Revenue	0.41	2.10	0.48	1.42	1.29	<b>1.47</b>
EV / EBITDA	5.87	16.61	25.57	8.53	5.81	<b>9.01</b>
EV / EBIT	42.37	25.20	-48.62	11.30	7.04	<b>11.02</b>
P/E	-18.32	26.48	-0.88	20.23	6.98	<b>13.13</b>

Notably, BBW posts one of the highest gross margins in the group (54.9%- see Table 1) and maintains a top-tier EBITDA margin (16.33%), signaling strong operational efficiency relative to peers with much higher valuations.

This suggests the market may be undervaluing BBW's business model-possibly due to lingering negative sentiment toward mall-based retail rather than its actual financial performance.

### **Discounted Cash Flow (DCF) Analysis**

A DCF sensitivity analysis shows that BBW's intrinsic value varies meaningfully depending on assumptions around discount rate and terminal growth.

At the midpoint (WACC of 7.68% and terminal growth of 2.0%), the implied share price is \$63.15, which is ~26% above the current share price of \$49.89, indicating potential upside even under conservative assumptions.

WACC / Terminal Growth	1.50%	2.00%	2.50%
7.18%	\$64.26	\$69.59	\$76.07
7.68%	\$58.76	\$63.15	\$68.39
8.18%	\$54.10	\$57.76	\$62.07

## **Potential Catalysts**

Several catalysts may help close the gap between Build-A-Bear's strong fundamentals and its undervalued stock price:

### **1. Store Format Diversification**

Build-A-Bear's dependence on mall-based retail remains a key investor concern. A clear pivot toward non-mall store formats—such as lifestyle centers, standalone experiential locations, or tourist-driven venues like airports and theme parks—could drive increased foot traffic and reduce exposure to mall traffic decline. Expansion of pop-up experiences in high-density urban centers or seasonal events may also reinforce the brand's experiential value proposition and broaden its reach.

### **2. Expansion of Licensed IP Portfolio**

The company has had success with licensed partnerships like Pokemon and Nintendo, but it has untapped potential in additional high-demand gaming and entertainment franchises. Expanding into popular “kawaii” or nostalgia-heavy IPs not yet in the portfolio—such as: Strawdew Valley, Pusheen, Genshin Impact, Neopets, Animal Jam or Rilakumma.

### **3. Increased Institutional Visibility**

BBW currently receives limited institutional research coverage, despite its strong margins, cash flow, and capital discipline. Broader sell-side coverage or ETF inclusion (e.g., consumer discretionary, specialty retail) could expand the investor base, drive trading volume, and lead to a valuation re-rating more in line with peers that operate in adjacent experiential and lifestyle categories.

## Recommendation

Rating: Buy

12-Month Price Target: \$63

Implied Upside: ~26% from current price of \$49.89

Build-A-Bear Workshop, Inc. presents a compelling investment opportunity supported by strong fundamentals, consistent financial performance, and a meaningful disconnect between operating execution and market valuation.

The target price of \$63 reflects the midpoint of our DCF valuation (7.68% WACC, 2.0% terminal growth), aligning with conservative assumptions and supported by the company's solid free cash flow profile, low capital intensity, and healthy balance sheet. This price implies a forward P/E of ~16.5x and EV/EBITDA of ~11x, which are still at or below peer averages and reasonable for a branded, high-margin, niche consumer retailer.

The stock is further underpinned by:

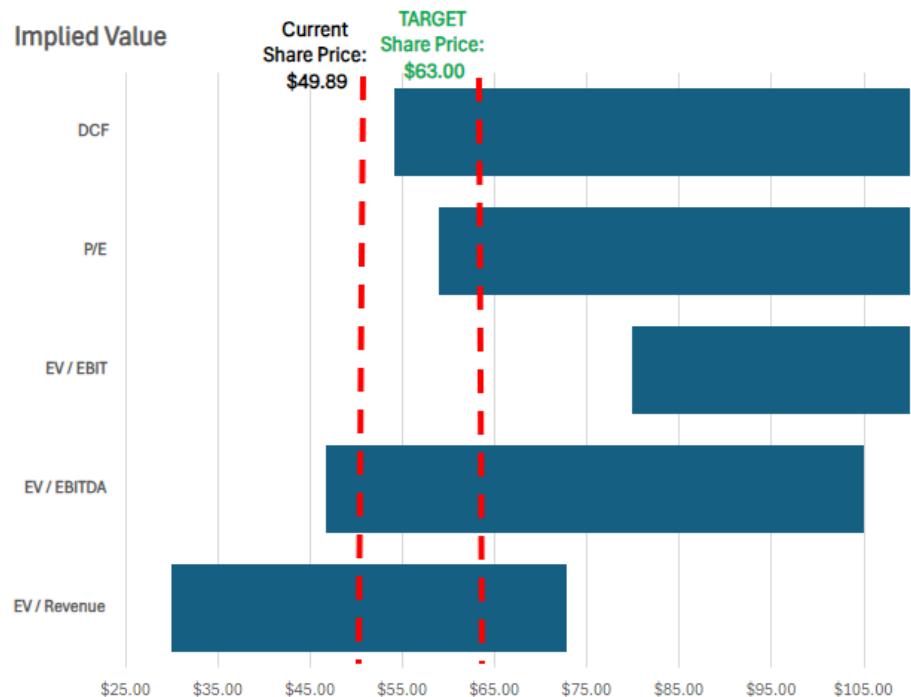
- Top-tier gross and EBITDA margins versus peers.
- Robust cash flow generation and active capital returns through buybacks.
- A resilient DTC model with omnichannel upside, and a scalable licensing and international opportunity.

Despite these strengths, the stock continues to trade at a discount—likely due to structural concerns around mall retail and limited institutional visibility. However, I believe catalysts such as store format expansion, global growth, and IP portfolio enhancements can help close this valuation gap over the next 12 months.

Risks—including e-commerce competition, foot traffic volatility, and licensing execution—are acknowledged but appear manageable given the company's strong brand equity, operational agility, and shareholder-friendly capital allocation.

**Bottom Line:** BBW's current valuation does not reflect the quality or momentum of its business.

With earnings stability, margin strength, and multiple upcoming catalysts, I believe the risk/reward profile is favorable and initiate a Buy rating with a \$63 price target.



## APPENDIX

Table 1:

Metric	FY2022	FY2023	FY2024	FY2025	CAGR
<b>Gross Margin</b>	52.96%	52.54%	54.39%	54.90%	1.20%
<b>Operating Margin</b>	12.32%	13.24%	13.45%	13.35%	2.71%

Table 2:

Metric	FY2022	FY2023	FY2024	FY2025	CAGR
<b>Return on Assets (ROA)</b>	17.75%	17.09%	19.39%	17.86%	0.21%
<b>Return on Equity (ROE)</b>	50.45%	40.28%	40.73%	37.23%	-9.63%

Table 3:

Ratio	Value	Commentary
<b>Current Ratio</b>	1.59	Indicates a strong liquidity position with the ability to cover short-term obligations.
<b>Debt-to-Equity</b>	1.02	Suggests balanced and healthy use of leverage.
<b>EBITDA Margin</b>	16%	Reflects robust cash generation capability.
<b>Inventory Turnover</b>	3.36	Healthy turnover rate, suggesting efficient inventory management.

Table 4:

Valuation Multiples	FNKO	FIVE	PLCE	CRCT	BBWI	BBW
EV / Revenue	0.41	2.10	0.48	1.42	1.29	<b>1.47</b>
EV / EBITDA	5.87	16.61	25.57	8.53	5.81	<b>9.01</b>
EV / EBIT	42.37	25.20	-48.62	11.30	7.04	<b>11.02</b>
P/E	-18.32	26.48	-0.88	20.23	6.98	<b>13.13</b>

Table 5:

<b>Operating Metrics (\$M USD)</b>	<b>FNKO</b>	<b>FIVE</b>	<b>PLCE</b>	<b>CRCT</b>	<b>BBWI</b>	<b>BBW</b>
Revenue	1,049.85	3,876.53	1,386.27	712.54	7,307.00	<b>496.40</b>
EBITDA	72.65	491.26	25.96	118.21	1,622.00	<b>81.05</b>
EBIT	10.07	323.82	-13.65	89.20	1,340.00	<b>66.28</b>
Net Income	-14.72	253.61	-57.82	62.83	798.00	<b>51.79</b>
Gross Margin %	41.39%	34.89%	33.14%	49.51%	44.26%	<b>54.90%</b>
EBITDA Margin %	6.92%	12.67%	1.87%	16.59%	22.20%	<b>16.33%</b>
Revenue Growth YoY	-4.22%	8.91%	-13.49%	-6.88%	-1.64%	<b>2.12%</b>
Market Cap	278.49	6,707.00	88.23	1,330.00	5,335.00	<b>658.85</b>
Net Debt (lease-adjusted)	148.16	1,452.78	575.63	-321.71	4,093.00	<b>71.48</b>
Diluted EPS	-0.28	4.60	-4.53	0.31	3.61	<b>3.80</b>
Price per share	\$5.13	\$121.82	\$3.98	\$6.27	\$25.21	<b>\$49.89</b>

Table 6:

<b>WACC / Terminal Growth</b>	<b>1.00%</b>	<b>1.50%</b>	<b>2.00%</b>	<b>2.50%</b>	<b>3.00%</b>
<b>6.68%</b>	\$65.39	\$70.82	\$77.42	\$85.60	\$96.00
<b>7.18%</b>	\$59.79	\$64.26	\$69.59	\$76.07	\$84.10
<b>7.68%</b>	\$55.03	\$58.76	\$63.15	\$68.39	\$74.75
<b>8.18%</b>	\$50.95	\$54.10	\$57.76	\$62.07	\$67.22
<b>8.68%</b>	\$47.40	\$50.09	\$53.19	\$56.79	\$61.02

DCF Assumptions:

Revenue Growth Rate	~2.11% (slowing from prior years)
EBITDA Margin	~16.32% (2025 margin, stable)
Depreciation % of Revenue	~2.97% (based on historicals)
CapEx % of Revenue	~4.28% (assumed steady reinvestment)
Tax Rate	22.4% (based on 2025: 16,098 / 71,743)
Discount Rate (WACC)	7.68% (Using a lease-adjusted WACC)
Terminal Growth Rate (g)	2.00% (conservative)
Starting Revenue (2025)	496,404

## WACC Calculation:

WACC Calculation:	Amount	Percentage	Notes
Debt	71,480	34%	Lease Obligation (no real debt)
Equity	139,082	66%	
Cost of Debt	7.20%		As of February 1, 2025, the weighted-average discount rate was 7.2% for operating leases recognized on the consolidated balance sheet.
Cost of Equity	9.02%		Rf = 4.4% at time of calculation per <a href="https://www.cnbc.com/quotes/US10Y">https://www.cnbc.com/quotes/US10Y</a> Required rate of return = 11% (~5-year average return on S&P500) Beta = 0.7 per <a href="https://finance.yahoo.com/quote/BBW/key-statistics/">https://finance.yahoo.com/quote/BBW/key-statistics/</a>

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