



## Which 2 Canadian Companies Are Bidding for Dave and Busters?

### Description

Rumbles have begun to come out of the U.S. that the restaurant and arcade chain Dave and Buster's may be up for sale. The chain is currently owned by private equity firm Oak Hill, which bought the chain from Wellspring Capital Management in 2012 for \$570 million. Now after years of losses it looks like it may be time to sell the 66-location (seven more to open in 2014) chain.

Oak Hill attempted an IPO offer in 2012 but was revoked due to what it called "market conditions" — translation, Dave and Buster's long-term debt was 10 times operating income. Now a front runner has emerged to purchase Dave and Busters, a joint venture between private equity firm **Onex Corp** (TSX: OCX) and theater operator **Cineplex** ([TSX: CGX](#)). The offer is in the neighborhood of \$1 billion.

There is already some history between Onex and Cineplex, as back in 2001 Onex controlled Loews Cineplex Entertainment Corp, a predecessor of the current incarnation of Cineplex (a.k.a. Cineplex Odeon, Galaxy, Famous Players, Colossus, Coliseum, SilverCity, Cinema City, and Scotiabank Theatres).

### The potential

Currently there is only one Dave and Buster's location in Canada, just outside of Toronto in Concord, Ontario, leaving plenty of room for northern expansion. Another potential expansion could come in the form of overhauling the current arcade structure in many Cineplex locations.

On the U.S. side, Dave and Buster's has been trying to recast its image as a sports bar with an arcade, with 25 locations primarily serving to sports fans. These changes were brought in order to make up for lackluster revenues over the past seven years. Now four years into this reimagining of its brand, the books have started to reflect the changes. Q3 2013 revenues increased by 12%, and profits in 2012 were \$18 million. If a more sports-bar themed restaurant were to come to Canada it would face steep competition from **Boston Pizza** ([TSX: BPF.UN](#)), but could fill a niche for adult gamers.

### A lone competitor

Onex and Cineplex are not alone in the bidding for Dave and Busters, as **Apollo Global Management**

([NYSE: APO](#)) has also shown an interest. Apollo recently purchased Chuck E. Cheese from CEC Entertainment for \$1.3 billion and Dave and Busters would fit nicely into its entertainment portfolio. It is also this \$1.3 billion price tag on Chuck E. Cheese that may be pushing up the value for Dave and Buster's.

### **Foolish bottom line**

If Cineplex and Onex can succeed in their bid it would give Cineplex a greater foothold in the entertainment industry and could drastically change its 163 theater locations, along with instant infrastructure in the U.S. On the other hand, current owner Oak Hill could turn this publicity into an opportunity to relaunch its IPO offer as an exit strategy.

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### **Date**

2025/08/26

### **Date Created**

2014/04/25

### **Author**

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