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The ONE Group Hospitality Inc. ("STKS") Long Idea

Executive Summary

The ONE Group Hospitality Inc. (STKS) is an owner, manager, and franchisor of high-end steakhouse chains and rooftop bars with good unit economics, a long growth runway for new stores, rapidly accelerating FCF, and a wide discount to peers. This opportunity exists because for most of the company's history, the company's brand value was not realized due to poor execution and strategy by the company's founder. He stepped down as CEO in October of 2017 to allow Manny Hilario, a successful and widely respected restaurateur to become CEO. Hilario immediately accelerated SSS, cut costs, and shifted the company towards an asset-light growth strategy which will grow EBITDA ~30% this year and ~20% in the foreseeable future. Today, investors have the opportunity to buy into STKS at ~7x my base case estimate of 2019 EBITDA and a nearly 10% 2019 FCFE yield. We think shares can easily trade to 9.5x 2020 EBITDA, a slight discount to RUTH, resulting in a \$5.85/share price and an 85% return from the current price.

Business Overview

The ONE Group Hospitality Inc. ("the company") has several assets, but by far the most important and the focus of this write-up is their STK brand, an upscale, high-energy steakhouse concept. Combining the atmosphere of a high-end club/lounge with the menu and pricing of a high-end steakhouse, STK is a first mover in the steakhouse space to break out of the stuffy, male-dominated, hushed non-social atmosphere of traditional steakhouses. Female mix is over 50% of the customer base and liquor sales tend to be 40-45% of their yearly sales mix (higher than the average steakhouse of ~30%). The average check size in 2018 was ~\$106. The company has 19 high-end STK steakhouses in major cities around the world (11 of them domestic). STK owns 10 of them with the balance being a split of franchised or managed (in a managed agreement an investor puts down capital to open a STK restaurant, but has the parent company run the business). As a testament to the company's abilities to run operations, The ONE Group Hospitality also runs the restaurants, room service, and catering of 13 different hotels around the world. The tables below show STK's differentiation and unit economics vs peers.

STK vs. The Competition


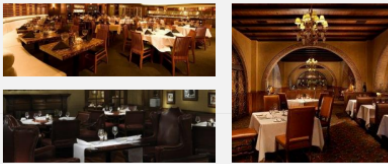
	STK	Traditional Steakhouse
Atmosphere	<ul style="list-style-type: none"> Female-friendly DJ music creates energetic, social vibe 	<ul style="list-style-type: none"> Male-centric Hushed, reserved environment
Primary Occasion	<ul style="list-style-type: none"> Active social hour ("Happy Hour"), dinner and late night 	<ul style="list-style-type: none"> Typically just dinner
Service	<ul style="list-style-type: none"> High-energy, personable service Teamwork-focused and engaging 	<ul style="list-style-type: none"> Formal service Traditional and conservative
Food	<ul style="list-style-type: none"> Diverse, innovative menu Multiple portion sizes 	<ul style="list-style-type: none"> Predictable menu Large and extra-large portion sizes
Bar	<ul style="list-style-type: none"> Dynamic, centralized bar scene Lounge fuels restaurants' energy level 	<ul style="list-style-type: none"> Smaller, quiet, off to the side Little emphasis on social aspect
Decor	<ul style="list-style-type: none"> Blend of edgy, modern, chic designs Bright, open floor plans 	<ul style="list-style-type: none"> Dark wood, white tablecloths Dim lighting
Aesthetic		

Exhibit 6

Comparison of STK Unit-Level Economics vs. Fine Dining Peers

#	Fine Dining Company	Ticker	Average Check	Alcohol Mix	AUV	Sq Feet	Sales per SqFoot	EBITDA	EBITDAR	Buildout	+ Pre-op =	CIC	+ Land =	FCJ	EBITDA	EBITDAR	SJR
1	Capital Grille	DRI	\$79.50	29%	\$7,600	7,000	\$1,086	21.8%	26.2%	\$3,000	\$250	\$3,250	\$3,000	\$6,250	51%	32%	1.22
2	Del Frisco's Double Eagle Steak House	DFRG	\$116.00	34%	\$13,600	17,500	\$777	22.2%	29.0%	\$10,000	\$800	\$10,800	\$2,000	\$12,800	28%	31%	1.06
3	Del Frisco's Grille	DFRG	\$46.00	35%	\$4,900	7,500	\$653	22.2%	29.0%	\$4,000	\$750	\$4,750	\$1,000	\$5,750	23%	25%	0.85
4	Eddie V's	DRI	\$93.00	31%	\$6,800	8,000	\$850	21.8%	26.2%	\$3,001	\$350	\$3,351	\$3,000	\$6,351	44%	28%	1.07
5	Fleming's	BLMN	\$80.00	26%	\$4,436	7,100	\$625	18.9%	23.4%	\$2,500	\$300	\$2,800	\$1,500	\$4,300	30%	24%	1.03
6	Fogo De Chao	FOGO	\$58.05	16%	\$7,700	8,500	\$906	15.6%	23.3%	\$3,700	\$500	\$4,200	\$4,500	\$8,700	29%	21%	0.89
7	Maggiano's	EAT	\$27.89	16%	\$8,300	15,850	\$524	19.0%	23.0%	\$5,960	\$650	\$6,610	\$1,797	\$8,407	24%	23%	0.99
8	Ruth's Chris Steakhouse	RUTH	\$82.00	25%	\$5,465	9,500	\$575	22.7%	28.7%	\$3,000	\$500	\$3,500	\$1,500	\$5,000	35%	31%	1.09
9	Sullivan's Steakhouse	DFRG	\$65.00	33%	\$3,800	9,000	\$422	22.2%	29.0%	\$4,000	\$550	\$4,550	\$2,000	\$6,550	19%	17%	0.58
10	STK (Large Market)	STKS	\$115.00	34%	\$8,000	9,500	\$842	20.0%	na	na	na	\$3,734	na	na	43%	na	na
	Fine Dining Average Excluding STKS		\$71.94	27%	\$6,956	9,994	\$696	20.7%	26.4%	\$4,351	\$517	\$4,868	\$2,255	\$9,738	30%	19%	0.71
	Fine Dining Median Excluding STKS		\$79.50	29%	\$6,800	8,500	\$800	21.8%	26.2%	\$3,700	\$500	\$4,200	\$2,000	\$8,400	35%	21%	0.81

Source: Piper Jaffray & Co. estimates

Company History: From Founder to New CEO

STKS was founded in 2006 and got off to a strong start. The first few STK restaurants were novel and thrived in cities with strong nightlife communities like New York City. However, as restaurant locations expanded, stores faltered and were nowhere near as profitable as the premiere locations in NYC – some stores were unprofitable for years. The founder, ex-CEO, and current executive chairman of the board, Jonathan Segal, is an energetic, nightlife visionary, but was too focused on growth and had no expertise in running the actual restaurant operations. In trying to grow too fast through company owned stores, he entered bad leases and execution at the restaurant level suffered. Conversations with ex-employees echoed these points. Moreover, little capex was given to improve existing restaurants or even perform basic maintenance, the kitchen equipment was of low quality, and the food quality and service was not consistent across the restaurant footprint. By the end of 2016, SSS were down mid-single digits for the year, debt had grown to over \$16M versus <\$1M in cash balance, EBITDA was -\$1.9M, and FCF was -\$8.5M.

It took this crisis for the board to convince the founder, Jonathan Segal, that changes were needed. The board brought in Manny Hilario to join the Board of Director's in April of 2017. Hilario was appointed CEO in October later that same year. Hilario brought considerable and much needed restaurant management experience to the management suite of STKS having spent more than 3 decades managing various restaurant brands. Hilario was previously Chief Financial Officer (CFO) of Sizzling Platter, a restaurant platform focused on adding and scaling segment leading brands in outstanding demographic areas across the United States and select international markets. Before joining Sizzling Platter, Mr. Hilario served as Chief Operations Officer for Einstein Noah Restaurant Group, Inc. He previously has served as Chief Financial Officer for Einstein Noah Restaurant Group, Inc., McCormick & Schmick's Seafood Restaurants, Inc., and Angelo and Maxie's, Inc. Mr. Hilario began his career at McDonald's and held various financial roles within the company

Improvement and Strategic Changes Under New CEO, Manny Hilario

I was impressed after listening to Hilario's comments during his ICR presentation in 2018. I encourage interested investors to listen to that presentation to get a glimpse of how Hilario thinks (Bloomberg has the audio recording). Hilario details the steps taken to drive 9.4% comps in 2018 and 15% comps in Q4-18. He says the changes were not sexy, but simply blocking and tackling across many key initiatives to improve the guest experience and service. Some examples of changes include: pre-planning all of the music in 2018 that the DJ's play for specific nights and hours of the night. They now have a lot more thought going into what type of vibe they are trying to create at different periods of the night (as you shift from happy hour to prime dining hour to late night bar). Hilario put a lot of emphasis on event planning and reorganized that sales function to drive greater bookings and utilization of their unique venues for high-ticket events around holidays, sports events, and corporate parties. He added a happy hour to increase restaurant utilization pre-peak hours. Hilario increased the quality of STK's meat sourcing. They recreated their menu to make it more "instagrammable" by emphasizing a quality presentation of food and dessert. A good example would be their popular "cloud" dessert—a cotton candy that is lit up on fire before given to the guests. Part of manager's compensation is now even tied to their social media scores, further underlying management's commitment to this goal. In summary, Hilario has been hard at work to improve the on the ground operations that were neglected under the founder's watch.

The improvement in STK operations and profitability under Hilario has been both immediate and dramatic. Company owned same store sales improved from up 0.5% in 2017 (under previous leadership) to up 9.4% in 2018 under Hilario's leadership. Adjusted EBITDA increased from \$7.0M in 2017 (8.7% margin) to \$10.5M in 2018 (12.3% margin). All of the company's stores are now profitable. Importantly, the company has said they are still "early on in margin improvement" and that they expect margins to be at or exceed competitors' levels (RUTH) within 2-3 years. This would imply over 400 bps of EBITDA margin expansion from current levels. We believe this is realistic given the asset-light nature of future growth as well as STK's higher than average alcohol mix (which carries much higher margins than other restaurant items) compared to peers.

Growth Strategy and Fundamental Estimates

After going through a period of closing several stores the last 5 years, the company now has no plans to close any other stores, and all have become profitable. Adj. EBITDA grew over 50% from 2017-2018, and management has guided to a long-term EBITDA growth rate of 20%. As the STK brand prospers, more potential business partners will seek to open their own STK restaurants either through franchised or managed deals. STK receives 5% of revenues from franchise agreements, while receiving 5% of revenues and up to 40% of EBITDA from managed agreements. In exchange for the profit sharing in managed agreements, STK runs the restaurant themselves, but does not provide capital outside of the business operations so the business partner bears all the financial risk. As the company opens more of these types of restaurants relative to company owned restaurants, system-wide margins will scale dramatically over time, leading to lower risk for investors and earning the stock a much higher multiple. Another very attractive aspect of this model worth noting is that many of STK's licensed and managed partners are not solely focused on restaurant unit profitability, but instead are motivated by the ability of STK to bring in young, affluent traffic to their venues. For example, STKS manages several venues for hotels such as the Las Vegas location within the Cosmopolitan hotel. Casino locations are ideal for STK because even if the location was only breakeven from the Cosmopolitan's perspective, it could still be a worthwhile arrangement because STK can make a casino's rooms more desirable as well as attract foot traffic to their casinos.

Management has provided long-term guidance of 3-5 licensed STK store openings, 1-2 hotel food & beverage new operations, and potentially 1 new company owned store a year. It is clear from talking to the company that Hilario's improvements have led to the STK pipeline for new stores being stronger than ever with the pipeline ~8x the size it was when he took over (>25 new potential opportunities). That being said, Hilario plans on being much more selective with locations opened, relative to the old management that opened locations whenever an opportunity presented itself. Manny has also articulated that ~1/3 of pipeline opportunities should be executed upon in a given year, giving us reasonable confidence that the company should be able to open new franchised/managed stores towards the high-end of the guidance or above it for the foreseeable future. This will help in further accelerating the company's transition to a lower risk, higher margin company.

STK has guided to \$13M in Adj. EBITDA and \$9-\$10M in FCFE for 2019. This is based on SSS of 3%-4%, 1 owned store opening (Nashville), and ~8 new managed/licensed venues. We think these numbers are very beatable and that Hilario is committed to underpromising and overdelivering as he is cognizant that the opposite was true under the founder's tenure. We would also note that the company already took up SSS guidance from 2-3% to 3-4% very early in the year, which we believe indicates a likely strong Q1.

Even on management's guidance, the stock is trading at prices that seem too cheap given the growth profile of the business (note my FCFE deducts SBC of ~\$1.2M/year, so it is more conservative than management's estimate of FCFE). As seen in the below table, STKS is trading at a nearly 10% FCFE yield on 2019E numbers despite estimated revenue and EBITDA growth of 13.6% and 27%, respectively.

Model Sheet Currency : USD		FY2018	FY2019	FY2020	FY2021	FY2022
Fwd Multiples						
Current Market Cap	\$86.6					
Current EV	\$95.8					
EV/fwd EBITDA		9.1x	7.2x	6.0x	5.0x	4.2x
Fwd FCFE Yield		1.9%	9.6%	10.8%	13.5%	17.1%
Total Revenue		85.6	97.3	108.8	124.7	141.0
Adj. EBITDA		10.5	13.3	16.0	19.2	23.0
Adj. EBITDA Margin %		12.3%	13.7%	14.7%	15.4%	16.3%
FCFE (CFO - capex - SBC)		1.7	8.3	9.4	11.7	14.8

This is too cheap and should re-rate soon given the strong growth and FCF generation. RUTH, which is probably the best comp, trades north of 10.5x EBITDA despite much slower growth (rev growing 3.5%, EBITDA growing ~10% on 2019 consensus #'s) and is a much less differentiated concept.

If we apply a 9.5x fwd EBITDA multiple on 2020 #'s (assumes management hits \$13.3M in EBITDA in 2019 and then grows EBITDA another 20% to 2020 to \$16.0M, in-line with guidance) and account for the cash build (substantial given the company's recent financing and current NOL shell), we get to a target share price of \$5.65, an 85% return from current levels.

Model Sheet Currency : USD		FY2018	FY2019	FY2020	FY2021	FY2022
Key Valuation Outputs						
Total Revenue		85.6	97.3	108.8	124.7	141.0
y/y % growth		7.5%	13.6%	11.9%	14.6%	13.1%
Adj. EBITDA for Valuation		10.5	13.3	16.0	19.2	23.0
y/y % growth		51.1%	26.6%	20.0%	20.0%	20.0%
Implied Adj. EBITDA Margin %		12.3%	13.7%	14.7%	15.4%	16.3%
Fwd EBITDA Multiple			9.5x	9.5x	9.5x	9.5x
Target EV			\$145	\$162	\$200	\$238
(+) cash			11.1	21.7	34.6	50.6
(-) debt			10.3	10.3	10.3	10.3
Implied Market Cap			\$146	\$174	\$224	\$278
Diluted Shares Outstanding			29.3	30.7	32.3	33.9
Implied Share Price			\$4.97	\$5.65	\$6.95	\$8.20
% Change from Current Price			62%	85%	127%	168%
Implied IRR			105%	44%	36%	31%

None of these estimates strike me as aggressive. We think management is clearly sandbagging their guidance and is likely to outperform by a reasonable margin. The implied EBITDA margin even in my outyears is still below RUTH levels currently. There is a strong case that STKS should eventually surpass RUTH given their higher alcohol mix. The 9.5x EBITDA multiple is also a reasonable discount to RUTH despite growing much faster. The multiple also should expand as a higher % of revenue and profit is derived from their asset-light managing/licensing business (most growing asset-light restaurant concepts trade at 15x+ fwd EBITDA).

Finally, all of this dismisses the "uber bull" in which STKS' management team is able to realize their stated TAM potential. There are only 19 STK venues globally (this ignores their F&B locations for hotels). The company believes there is a global TAM of 200+ locations. Conversations with ex-employees suggest that STK can easily get to ~80 locations globally, mostly through international growth. Growth beyond

that may require tweaking the model (rooftop bars for example in certain cities). At the current valuation, the market is not pricing in much unit growth at all.

Conclusion

STKS is an attractive long at current prices. It is a valuable brand that has historically been mismanaged. It has recently transitioned from a “D-” CEO to an “A” CEO. Results are already evident with four straight quarters of accelerated same store sales and an increased pipeline of potential openings. Investors can buy into an asset-light 20%+ near-term sustainable organic EBITDA grower at a nearly 10% 2019 FCFE yield. Shares could roughly double over the next two years without any heroic assumptions.

Risks

- Company tries to expand too quickly, copying the mistakes of previous management
 - Mitigant: Hilario is very experienced in the restaurant space and has explicitly stated that he is rejecting more opportunities than ever. As the pipeline grows, Hilario and his team can be more selective about which financial partners to choose for new openings.
- The founder and previous CEO, Jonathan Segal, owns ~25% of the float. If he were to try and sell his stake, it could be an overhang on the stock.
 - Mitigant: Segal has not sold shares since 2014. We think the most likely liquidation event would be an outright sale of the company for a substantial premium to where it is currently trading.
- General recession—the average ticket is high at over \$100, so if the economy turns, high-end discretionary venues like STK would be hit.
 - This risk is similar to many other high-end restaurant concepts, but the discount is too wide on STK so the market is mispricing this risk.
 - Furthermore, STK will have a net cash balance roughly one year from now with significant free cash flow growth. This mitigates the macro risk, particularly given the company’s asset-light growth strategy and minimal capex requirements. The company’s primary use for cash generation is to pay down their existing debt.
- Lack of liquidity
 - STKS trades ~\$75,000 in average daily value traded per day. This makes it off limits to most large investors.

Appendix: Unit Economics on Mature Stores and New Stores by Concept



Superior Economics

US STK Brand Owned, Managed and Licensed Restaurants Open at least 18 Months

		Full Service Average ⁽¹⁾	 Advantage
Average Unit Volume	\$11.0mm	\$5.9mm	\$5.1mm Higher
Sales/Sq. Ft.	\$889	\$683	30% Higher
Food & Beverage Costs	26.2%	28.8%	260bps Lower
Labor Costs ⁽²⁾	24.4%	26.5%	210bps Lower
Restaurant Contribution Margin	\$2.1mm	\$1.2mm	75% Higher
Cash-On-Cash Returns	42.9%	31.8%	1.35x Higher

Notes:

- (1) Based on data publicly available in the SEC filings of BBRG, BJRI, BLMN, CAKE, CHUY, DFRG, DRI, FOGO, KONA, RUTH and TXRH.
 (2) Based on data publicly available in the SEC filings of the entities in Note (1), excluding DFRG and RUTH labor costs as they are not reported separately.



Target New Unit Economics

	Owned Restaurants		Capital-Light Businesses		
	STK Large Market	STK Mid-Sized Market	STK Licensed	STK Managed	F&B Hospitality
Revenue	\$8.0mm	\$5.5mm	\$5.0 - \$8.0mm	\$6.0 - \$10.0mm	\$5.0 - \$20.0mm
EBITDA	\$1.6mm	\$1.0mm	--	--	--
Cash Investment	\$3.8mm ⁽¹⁾	\$2.8mm ⁽¹⁾	--	<\$500,000	<\$500,000
ROI	42%	36%	--	--	--
License Fee %	--	--	5.0% to 6.5%	--	--
Management Fees %	--	--	--	5.0% to 6.5%	5.0% to 6.5%
Incentive Fees %	--	--	--	>15%	>15%
Total Fee Revenue \$	--	--	>\$250,000	>\$500,000	>\$750,000
Average Check	\$115	\$90	N/A	N/A	N/A

(1) Excludes preopening expenses and net of tenant improvement allowances.

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