

Restaurants Industry

ICR Quick Takes: PZZA, BROS, FWRG pre-announce prelim 4Q; BROS F24 unit guide

Earnings Review

PZZA NA SSSG in-line, Int'l misses; Back to Better 2.0

PZZA announced preliminary 4Q SSSG and new unit openings. For 4Q, NA system SSSG was +2%, with transaction and ticket growth delivering 2% SSSG for both NA company-owned restaurants and NA franchised restaurants. 4Q NA comps were slightly ahead of consensus expectations (VA Consensus: 1.7%). 4Q Int'l comps were light vs expectations (-6% vs VA Consensus: -0.8%), though perhaps closer to internal expectations as PZZA had guided Int'l comps to remain under pressure in 4Q (citing sales headwinds in Asia markets and geopolitical uncertainty). F23 net new restaurant openings (NROs) of 210 were light versus guidance (245-260) owing to higher-than expected Int'l store closures. Pizza also announced strategic initiatives for NA Growth – enhanced marketing, accelerated unit growth, evolved commissary – and International Transformation. Given the outsized importance of the NA business (higher volumes, commissary), we believe stable results -- in-line SSSG – combined with new initiatives should support continued growth momentum. We reiterate our Buy rating and \$89 PO.

BROS 4Q NROs in-line; F24 NRO guide brackets consensus

BROS announced 4Q net new systemwide shop openings of 37, ahead of expectations (VA Consensus: 30). BROS also provided initial F24 new shop opening guidance of at least 150-165, bracketing consensus (VA Consensus: 159). In conjunction with pre-announced 4Q and F23 results, BROS announced several executive leadership changes including Joshua Guenser as incoming CFO (expected to transition into the role in February) and Sumitro Ghosh as incoming President of Operations (expected to transition in January). With new unit openings tracking in-line with expectations, we continue to see a long growth runway for BROS. We reiterate our Buy rating and \$48 PO. BROS CEO Christine Barone and CFO Charley Jemley will host a fireside chat at the ICR conference at 9:30am ET.

FWRG 4Q SSSG and NROs in-line

FWRG provided preliminary 4Q results; 4Q SSSG of +5.0% was in line with consensus expectations (VA Consensus: 5.4%) as were 4Q net new restaurant openings of 19 (17 company-owned and 2 franchised-owned vs VA Consensus: 19). F23 traffic (+0.2%) was in line with FWRG's guidance (for flat traffic growth). In addition to pre-announcing 4Q and F23 results, FWRG announced plans to acquire 21 franchised restaurants in North Carolina. FWRG noted it expects the 21 acquired restaurants will generate AUVs and restaurant-level margins in-line with those of its Company-owned restaurants. We note the announcement is consistent with FWRG's strategy; in F23 FWRG acquired 23 franchised restaurants in FL, SC, GA, and WI. With FWRG continuing to deliver on SSSG and unit opening expectations, we reiterate our Buy rating and \$28 PO. FWRG CEO Christ Tomasso and CFO Mel Hope will host a fireside chat at the ICR conference at 10:30am ET.

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Equity
United States
Restaurants

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Stock symbol key

PZZA: Papa John's
FWRG: First Watch
BROS: Dutch Bros

VA Consensus: Visible Alpha
consensus
AUV: average unit volume
NRO: Net Restaurant Openings
SSSG: same-store sales growth

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Timestamp: 08 January 2024 09:28AM EST

Stocks mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BROS	BROS US	Dutch Bros	US\$ 31.11	C-1-9
FWRG	FWRG US	First Watch	US\$ 18.65	C-1-9
PZZA	PZZA US	Papa Johns Int	US\$ 69.415	B-1-7

Source: BofA Global Research

Price objective basis & risk

Dutch Bros (BROS)

Our \$48 price objective denotes estimated fair value based on normalized earnings power for BROS. We estimate that at \$9.2 bb in sales, assuming stable RLMs and 8% G&A, BROS would generate \$1.5 bb in EBITDA. Applying a 14x multiple and discounting back equates to a \$48 fair value in one year. We believe a 14x multiple is justified by Dutch Bros' long growth runway and high returns, and we note it is comparable to other restaurants and retailers with similar growth profiles that have sustained elevated earnings multiples over time.

Risks to our price objective: Dutch Bros could face execution risks to sustain a mid-teens store growth rate which would impede the implied sales growth of our saturation analysis. Margins and returns could also be lower-than-expected if Dutch Bros faces greater margin pressures than anticipated.

First Watch (FWRG)

We believe FWRG should trade a premium consistent with its faster growth and higher returns. FWRG currently trades in line with its peer group of restaurants and retailers with similar above-market growth rates. We believe a valuation in line with other high growth peers is justified owing to FWRG's faster than average topline growth, extended growth runway, as the brand goes national, and higher incremental returns, with restaurant level ROIs of about 40% or 2x other full service restaurants. We apply a 14x multiple to our forward EBITDA estimates (4Q24-3Q25, \$22mm) to arrive at our \$28 PO. This target multiple is in line with high growth peers' average of 14x.

Downside risks: higher-than-expected cannibalization of existing restaurants due to new store openings, staffing challenges and/or higher-than-expected wage inflation, higher-than-expected occupancy costs as First Watch ramps-up new stores at a faster rate.

Upside risks: higher-than-expected AUVs of new units, faster-than-expected SSS growth, lower labor and G&A costs.

Papa Johns International (PZZA)

Our \$89 PO is based on 4Q24-3Q25 EPS (\$3.73) and a 1.5x multiple relative to the S&P (23.9x absolute multiple), in line with its 10-year historical average.

Downside risks: slower-than-expected consumer growth, increased competition in response to slower consumer spending driving promotional intensity, higher-than-expected inflationary pressures, labor shortages.

Analyst Certification

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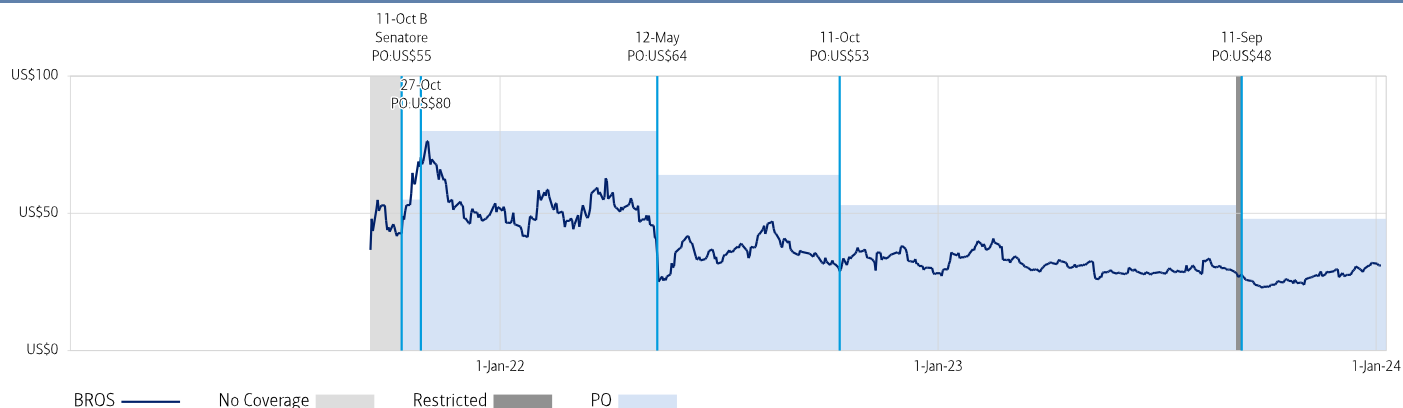
US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa John's International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

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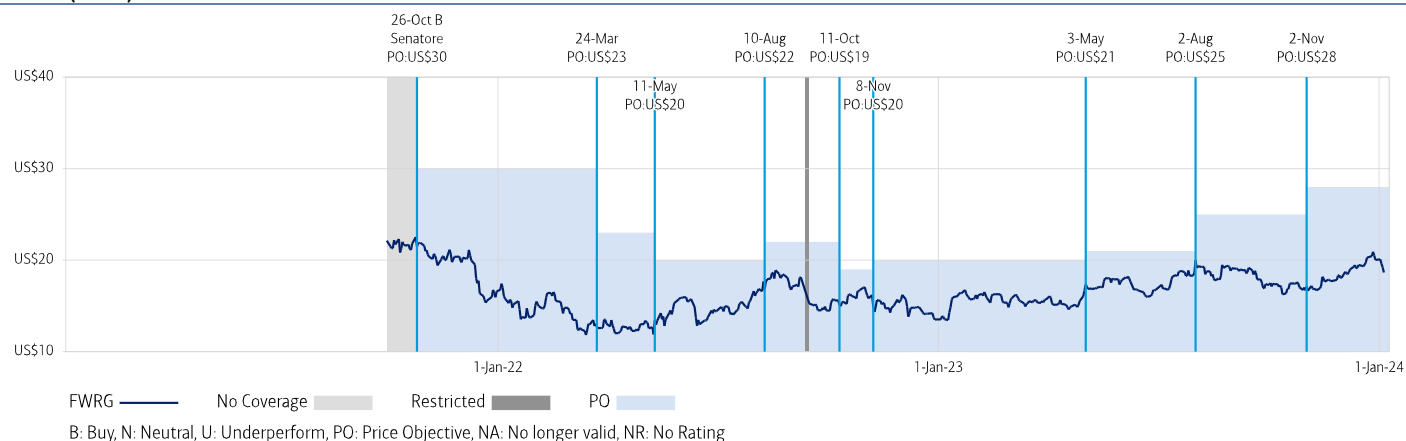
Dutch Bros (BROS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

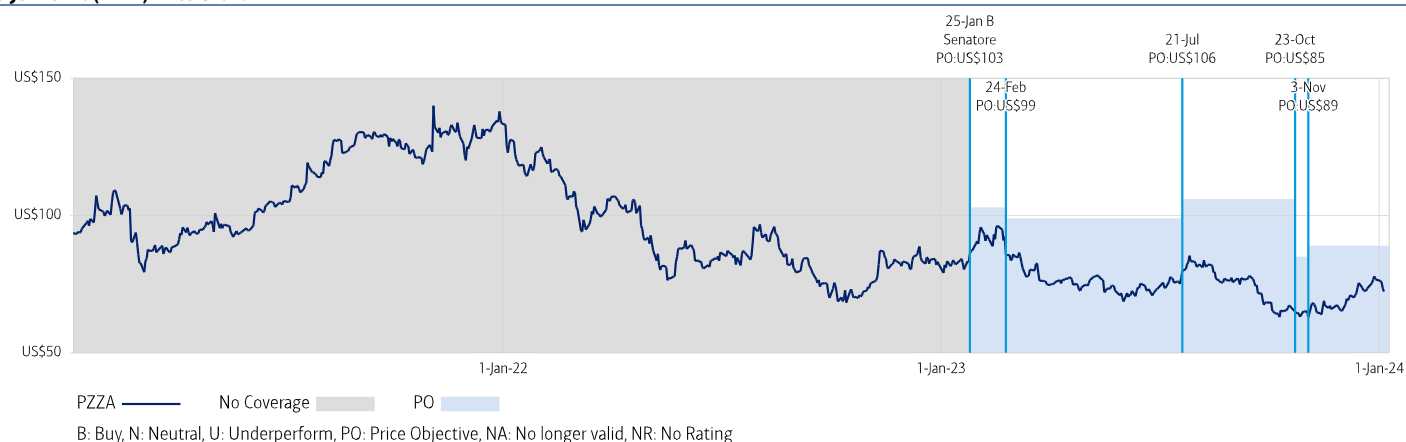
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First Watch (FWRG) Price Chart



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Papa Johns Int (PZZA) Price Chart



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Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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