

Wendy's Co

4Q Quick Take: SSSG miss and higher franchisee support drive adj EBITDA miss

Maintain Rating: UNDERPERFORM | PO: 21.00 USD | Price: 19.28 USD

SSSG miss as traffic turns negative again

Wendy's US SSSG miss (0.9% vs VA cons 1.7%/BofAE 1.9%) marks a return to negative traffic after 3Q exited with positive customer counts, and points to share losses to fast food hamburger peers McDonald's and Burger King amidst increasing emphasis on value. The international SSSG miss was perhaps less surprising given the trends reported by global limited-service peers, though WEN's geographic exposure – primarily to Canada and Latin America rather than the more challenged markets of China and the Middle East – should have insulated it. Lower topline and higher franchisee support (\$15.4 mm vs cons \$14.6 mm/BofAE \$14.4 mm) combined to drive the adj EBITDA miss (\$127 mm vs cons \$129 mm/BofAE \$129 mm).

Add'l ad investment to drive topline to weigh on F24E

Wendy's F24E guidance suggests that the company will increasingly trade profitability/cash flow for topline growth. Systemwide sales growth midpoint of 5.5% is ahead of consensus of 2.4%, but EBITDA is lower (\$540mm midpoint vs \$568mm cons) and Capex is higher (\$95 mm midpoint vs \$85 mm consensus) resulting in lower free cash flow expectations (\$285 mm midpoint vs \$314 mm consensus).

Maintain Underperform, \$21 PO

The stock has underperformed the market year to date on concerns about its ability to sustain growth over the longer term. We believe the 4Q results and F24E guide do little to alleviate this concern in our view. We maintain our Underperform rating.

Exhibit 1: Wendy's F24 guidance came in light of expectations

WEN 2024 Guidance vs Visible Alpha consensus

	Guidance Range		Average	Consensus
Global systemwide sales growth	5.0%	6.0%	5.5%	2.4%
Adj. EBITDA	\$535	\$545	\$540	\$568
Adj. earnings per share	\$0.98	\$1.02	\$1.00	\$1.11
Cash flows from operations	\$370	\$390	\$380	\$387
CapEx	\$90	\$100	\$95	\$85
Free cash flow	\$280	\$290	\$285	\$314

Source: Company filings, Visible Alpha consensus

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Stock Data

Price	19.28 USD
Price Objective	21.00 USD
Date Established	23-Oct-2023
Investment Opinion	B-3-7
52-Week Range	18.19 USD - 23.90 USD
Mrkt Val (mn) / Shares Out (mn)	3,977 USD / 206.3
Free Float	83.4%
Average Daily Value (mn)	51.52 USD
BofA Ticker / Exchange	WEN / NAS
Bloomberg / Reuters	WEN US / WEN.OQ
ROE (2023E)	55.9%
Net Dbt to Eqty (Dec-2022A)	452.1%
ESGMeter™	High

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WEN – Wendy's
Adj – adjusted
SSSG – same-store sales growth
G&A – general & administrative expense
VA – Visible Alpha

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Timestamp: 15 February 2024 08:35AM EST

Exhibit 2: Wendy's reported adjusted EBITDA was below consensus

WEN reported 4Q23 results vs BofAE and Visible Alpha consensus

\$ in millions (except per share amounts)	Reported 4Q22	Reported 4Q23	y/y change	BofAE 4Q23E	Consensus 4Q23E	Variance (vs BofAE) 4Q23E	Variance (vs Consensus) 4Q23E
US SSSG	5.9%	0.9%	-5 ppt	1.9%	1.7%	-1 ppt	-1 ppt
4-yr stack	24.3%	19.9%	-4 ppt	21.2%	20.8%	-1 ppt	-1 ppt
International SSSG	9.9%	4.3%	-6 ppt	6.5%	5.2%	-2 ppt	-1 ppt
Global SSSG	6.5%	1.3%	-5 ppt	2.5%	2.2%	-1 ppt	-1 ppt
Global Net Restaurant Openings	12	74	517%	58	67	28%	11%
Total Revenues	\$536.5	\$540.7	1%	\$553.7	\$547.2	-2%	-1%
Sales	\$227.7	\$226.7	0%	\$230.7	\$232.1	-2%	-2%
Total franchise revenues	\$203.6	\$205.2	1%	\$213.5	\$207.0	-4%	-1%
Advertising fund revenues	\$105.2	\$108.9	3%	\$109.5	\$108.2	-1%	1%
Cost of Sales	\$194.7	\$197.4	1%	\$195.3	\$198.1	1%	0%
Restaurant Margin (%)	14.5%	12.9%	-157 bps	15.4%	14.7%	-244 bps	-176 bps
Advertising expenses	\$113.7	\$108.8	-4%	\$114.9	\$109.1	-5%	0%
Franchise support	\$12.3	\$15.4	25%	\$14.4	\$14.6	7%	6%
Franchise rental expense	\$31.4	\$30.5	-3%	\$32.5	\$32.5	-6%	-6%
G&A	\$68.5	\$65.7	-4%	\$67.8	\$66.3	-3%	-1%
G&A as % of Total Revenues	12.8%	12.1%	-62 bps	12.2%	12.1%	-10 bps	3 bps
Tax rate	29.0%	30.2%	122 bps	26.5%	25.4%	374 bps	487 bps
Adjusted tax rate	26.4%	31.5%	514 bps	27%	25.4%	501 bps	609 bps
Adj. EBITDA	\$123.5	\$126.6	3%	\$128.8	\$129.3	-2%	-2%
Adj. EBITDA margin	23.0%	23.4%	41 bps	23.3%	23.6%	16 bps	-20 bps
Adj. Dil. EPS	\$0.22	\$0.21	-3%	\$0.24	\$0.23	-11%	-11%

Source: Company filings, Visible Alpha consensus

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Price objective basis & risk

Wendy's Co (WEN)

Relative to the S&P 500, Wendy's valuation is currently trading below its 5-year average (1.3x). Despite efforts to bolster the new unit pipeline, we see risks to the unit growth target. We apply a 1.1x relative multiple (17.8x absolute multiple) to our EPS 12 months from now (4Q24-3Q25: \$1.17) to arrive at our \$21 PO.

Upside risks: higher than expected incremental tailwinds / higher sales mix from breakfast or other menu innovation, faster than expected international unit growth, greater than expected market share gains as a result of strategic initiatives or competitive advantages.

Downside risks: comps could disappoint if consumers resume pre-COVID behavior faster than expected, Wendy's could miss international unit growth targets if licensees fail to open new units at the expected pace.

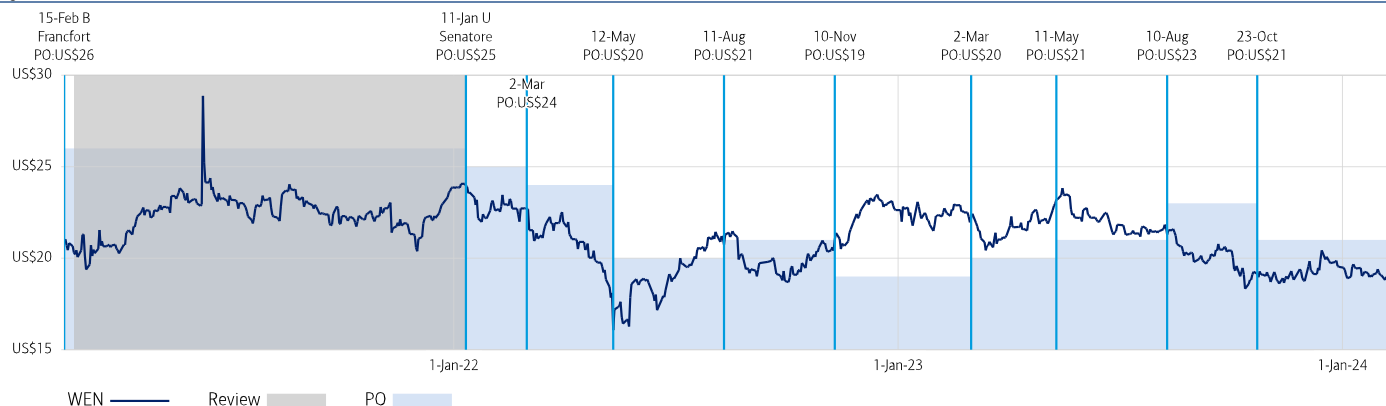
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Wendy's Co (WEN) Price Chart



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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)

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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%
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Underperform	N/A	≥ 20%

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