

Krispy Kreme

4Q23 Quick Take: Small Adj. EBITDA beat as better revenue, G&A offset higher opex

Maintain Rating: BUY | PO: 19.00 USD | Price: 13.83 USD

DNUT posts a rare international beat among restaurants

DNUT's revenue beat (\$450.9mm versus consensus \$439.2mm) was broad based, with upside across the US (\$296mm versus \$292.5 mm consensus), International (\$107.1mm versus \$104.9 mm consensus), and Market Development (\$47.8mm versus \$41.7mm consensus) segments. While the US and International segment revenues were driven by higher-than-expected points of access (US: 7,372 POA versus 7,127 consensus; Int'l 4,157 POA versus 3,937 cons), Market Development appears to have benefitted from both higher POA count (2,618 versus 2,480 consensus) and higher revenues per POA as the 15% revenue beat was higher than the 6% point of access beat. Amid a backdrop of weak international results reported by US brands, DNUT's international strength is a pleasant surprise.

Lower SG&A offsets higher product costs and opex

The better-than-expected topline translated into modest an adj. EBITDA beat (\$64.1mm versus \$63.8mm consensus) as higher product and distribution costs (\$113mm versus \$109.3mm consensus) and higher operating expenses (\$200.3mm versus \$194.6mm consensus) mostly offset the revenue beat and lower G&A (\$74.5mm versus \$77.3 consensus).

F24 guide below consensus; view as conservative

DNUT introduced FY 2024 guidance for net revenue growth (5-7% versus consensus of 8.5%) and EBITDA growth (8-11%, consensus 14%). Adj. EPS guidance of \$0.27-0.31 is below consensus of \$0.39 on the lower EBITDA guide and higher-than-consensus interest expense (\$55-65mm versus consensus of \$48mm). While we expect shares to come under pressure in response to the guide, we think that conference call commentary – including signals about the extent to which guidance embeds conservatism, as it has in the past, as well as the prospects of growth in the Quick Service Restaurant channel – will be important to determining the ultimate reaction. We maintain our Buy rating.

Exhibit 1: DNUT's F24 guide is below consensus; DNUT has a recent history of conservatism

DNUT F24 Guidance versus Consensus

	Guidance Range		Average	Consensus	vs Cons
Net Revenue Growth	5%	7%	6%	8.5%	-2.5ppt
Organic Revenue Growth	6%	8%	7%	N/A	N/A
Adjusted EBITDA Growth	8%	11%	10%	14%	-4.8ppt
Adj. EPS	\$0.27	\$0.31	\$0.29	\$0.39	-25%
Income Tax Rate	26%	28%	27%	27%	0.4ppt
CapEx % of Revenue	7%	8%	8%	7%	0.6ppt
Interest Expense (mm)	\$55	\$65	\$60	\$48	24%

Source: Company reports, Visible Alpha

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13 February 2024

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Stock Data

Price	13.83 USD
Price Objective	19.00 USD
Date Established	11-Aug-2023
Investment Opinion	C-1-7
52-Week Range	11.52 USD - 16.22 USD
Mrkt Val (mn) / Shares Out (mn)	2,332 USD / 168.6
Free Float	47.7%
Average Daily Value (mn)	9.31 USD
BofA Ticker / Exchange	DNUT / NAS
Bloomberg / Reuters	DNUT US / DNUT.OQ
ROE (2023E)	4.5%
Net Dbt to Eqty (Dec-2022A)	57.2%
ESGMeter™	NLA

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DNUT – Krispy Kreme

opex: operating expense

POA: points of access

SG&A – selling, general and administrative expenses

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Timestamp: 13 February 2024 09:02AM EST



Exhibit 2: DNUT reported 4Q revenues and EBITDA above consensus

DNUT Reported 4Q23 Results versus BofA and Consensus

\$ in millions (except per-share amounts)	Reported 4Q22	Reported 4Q23	y/y change	BofAE 4Q23E	Consensus 4Q23E	Variance (versus BofAE) 4Q23E	Variance (versus Consensus) 4Q23E
US Points of Access	6,272	7,372	18%	7,132	7,127	3%	3%
International Points of Access	3,471	4,157	20%	3,937	3,892	6%	7%
Market Development Points of Access	2,088	2,618	25%	2,567	2,480	2%	6%
Total Points of Access	11,831	14,147	20%	13,636	13,498	4%	5%
Total Revenues	\$404.6	\$450.9	11%	\$440.0	\$439.2	2%	3%
US Revenue	\$270.8	\$296.0	9%	\$291.1	\$292.5	2%	1%
International Revenue	\$92.9	\$107.1	15%	\$105.0	\$104.9	2%	2%
Market Development Revenue	\$40.8	\$47.8	17%	\$43.9	\$41.7	9%	15%
Product and distribution costs	\$106.7	\$113.0	6%	\$109.5	\$109.3	3%	3%
	26.4%	25.0%	-132 bps	24.9%	24.9%	16 bps	16 bps
Operating expenses	\$184.0	\$200.6	9%	\$191.4	\$194.6	5%	3%
	45.5%	44.5%	-99 bps	43.5%	44.3%	100 bps	18 bps
SG&A expense (plus marketing)	\$73.1	\$74.5	2%	\$77.8	\$77.3	-4%	-4%
	18.1%	16.5%	-155 bps	17.7%	17.6%	-116 bps	-108 bps
Depreciation and amortization	\$26.5	\$36.8	39%	\$29.9	\$30.4	23%	21%
Adjusted EBITDA	\$55.9	\$64.1	15%	\$62.5	\$63.8	3%	1%
Adjusted EBITDA Margin	13.8%	14.2%	40 bps	14.2%	11.6%	2 bps	262 bps
Interest expense, net	\$10.3	\$13.5	31%	\$12.0	\$12.3	13%	10%
Other non-operating expense/(income), net	\$1.0	\$0.8	-20%	\$1.0	\$0.1	NM	534%
Income tax expense / (benefit)	(\$5.1)	(\$21.5)	325%	\$3.7	\$4.0	-688%	-637%
GAAP Net Income	(\$2.7)	\$1.9	-169%	\$11.0	\$9.8	-83%	-81%
Adjusted Net Income	\$18.6	\$15.1	-19%	\$22.2	\$22.2	-32%	-32%
GAAP Diluted EPS	(\$0.02)	\$0.02	-223%	\$0.05	\$0.05	-64%	-62%
Adjusted Diluted EPS	\$0.11	\$0.09	-18%	\$0.13	\$0.12	-32%	-27%

Source: Visible Alpha, Company filings, BofA Global Research estimates

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Price objective basis & risk**Krispy Kreme (DNUT)**

We believe a premium valuation is justified owing to DNUT's robust double digit topline growth, extended growth runway, and higher incremental returns. We apply a 13x multiple (similar to high growth peers) to our forward estimate 12 months from now (4Q24-3Q25: \$299mm) to arrive at our \$19 price objective.

Downside risks: potential industry headwinds from higher-than-expected wages, logistics, and commodity cost inflation, competition from other indulgence and foodservice businesses, and failure to achieve targeted unit growth due to higher than expected costs or other factors.

Upside risks: faster-than-expected growth in global access points, organic growth above the company's stated long-term growth targets, higher-than-expected share gains in the global indulgence and foodservice markets.



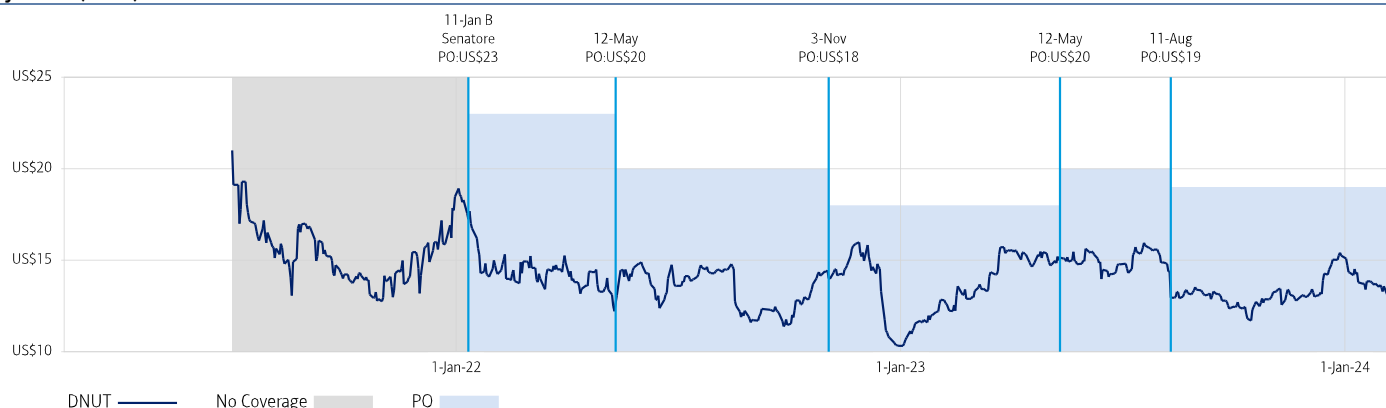
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Krispy Kreme (DNUT) Price Chart



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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)

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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