

European Wax Center

Core customer is resilient; Reiterate Buy

Reiterate Rating: BUY | PO: 23.00 USD | Price: 19.02 USD

Reaffirmed F23 guide; return to MSD comps in 2H

We reiterate our Buy rating as we think EWCZ's less discretionary service offering, recurring revenue model, and strong pipeline of center openings make it a compelling stock. EWCZ reported 2Q revenue of \$59.1mn (+10.7% y/y), driven by comps of 2.6% and 25 net new centers. Mgmt expects a return to MSD comps in 2H as several traffic & ticket driving initiatives support re-engagement with episodic guests and increased spend from the core customer. The company reaffirmed all F23 guidance. We are maintaining our F23E adj. EBITDA est of \$77.9mn and we maintain our PO of \$23, still based on 20x our F24E EV/EBITDA, a premium to franchise peers (12x) given EWCZ's strong pipeline of new centers and resilient core customer base.

Episodic guest is recovering

The company noted a recent recovery in the subset of episodic guests (3-5% of SWS) who had shown weakness in 1Q. Targeted emails and incentives drove re-engagement, and we expect these initiatives will drive further recovery through 2H. WP holders and routine guests (over 75% of SWS) showed resiliency, and WP sales during the semi-annual promo period increased 10% y/y. The company rolled out service & product bundling to over 100 centers which we think will drive greater attachment and SPT.

New center pipeline remains healthy

Mgmt reaffirmed plans to open 95-100 net new centers this year (+10% y/y), and all centers are already open or under construction. The company is confident in its pipeline (400+ licenses) and noted no impact on demand from rising interest rates or construction costs. The upfront cost is relatively modest (\$250k) vs other franchise concepts, and the company works with suppliers to value engineer fixture costs.

Testing laser in a handful of NY centers

The company will test laser hair removal in 6 centers in New York over the coming months. We think this is an interesting growth opportunity as it may attract new guests and appeal to existing customers who may use laser instead of waxing for certain parts of the body. We do not expect it to be scaled across the network given higher upfront costs and certain regulatory hurdles related to labor.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.44	1.13	0.36	0.48	0.58
GAAP EPS	0.06	0.21	0.24	0.35	0.45
EPS Change (YoY)	NM	156.8%	-68.1%	33.3%	20.8%
Consensus EPS (Bloomberg)			0.37	0.53	0.73
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	43.2x	16.8x	52.8x	39.6x	32.8x
GAAP P/E	317.0x	90.6x	79.3x	54.3x	42.3x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	26.8x	24.0x	22.0x	19.5x	17.8x
Free Cash Flow Yield*	3.4%	3.7%	3.8%	3.9%	4.4%

* For full definitions of *IQmethod*SM measures, see page 7.

09 August 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	227.0	228.0
2024E Rev (m)	241.8	240.7
2025E Rev (m)	259.7	258.4
2024E EPS	0.46	0.48
2025E EPS	0.56	0.58

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Stock Data

Price	19.02 USD
Price Objective	23.00 USD
Date Established	4-Nov-2022
Investment Opinion	C-1-9
52-Week Range	12.02 USD - 23.52 USD
Mkt Val (mn) / Shares Out	1,207 USD / 63.5 (mn)
Average Daily Value (mn)	5.41 USD
BofA Ticker / Exchange	EW CZ / NAS
Bloomberg / Reuters	EW CZ US / EW CZ OQ
ROE (2023E)	15.7%
Net Dbt to Eqty (Dec-2022A)	258.5%
ESGMeter™	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

SPT: services per transaction

MSD: mid single digit

SWS: system wide sales

WP: Wax Pass

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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iQprofileSM European Wax Center

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.4%	7.0%	6.2%	6.7%	7.0%
Return on Equity	8.5%	30.3%	15.7%	16.2%	15.1%
Operating Margin	23.5%	23.9%	25.0%	27.3%	28.5%
Free Cash Flow	41	44	46	47	53

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	0.6x	2.1x	1.6x	1.5x
Asset Replacement Ratio	0x	0x	0.1x	0.1x	0.1x
Tax Rate	0.4%	NM	21.1%	20.0%	20.0%
Net Debt-to-Equity Ratio	39.6%	258.5%	181.2%	115.0%	70.7%
Interest Cover	3.0x	2.3x	2.0x	2.4x	2.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	179	207	228	241	258
% Change	72.8%	16.0%	9.9%	5.6%	7.4%
Gross Profit	132	148	161	171	184
% Change	94.2%	12.4%	8.7%	6.4%	7.5%
EBITDA	64	72	78	88	96
% Change	220.6%	11.7%	8.8%	13.3%	9.0%
Net Interest & Other Income	(14)	(22)	(28)	(28)	(28)
Net Income (Adjusted)	28	71	23	30	36
% Change	NM	155.7%	-68.1%	32.6%	20.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	28	71	23	30	36
Depreciation & Amortization	20	20	21	21	21
Change in Working Capital	(3)	(7)	(4)	(5)	(5)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(4)	(41)	8	2	2
Capital Expenditure	(1)	0	(1)	(1)	(1)
Free Cash Flow	41	44	46	47	53
% Change	NM	8.1%	5.1%	0.5%	13.7%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	43	44	87	134	187
Trade Receivables	7	7	8	9	11
Other Current Assets	25	35	35	40	45
Property, Plant & Equipment	4	3	3	3	3
Other Non-Current Assets	534	627	651	651	651
Total Assets	613	716	784	836	896
Short-Term Debt	6	10	7	7	7
Other Current Liabilities	26	23	25	26	27
Long-Term Debt	173	371	371	371	371
Other Non-Current Liabilities	68	182	220	220	221
Total Liabilities	272	586	623	624	626
Total Equity	341	130	161	212	271
Total Equity & Liabilities	613	716	784	836	896

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Retailing-Specialty

Company Description

European Wax Center is a franchisor of out-of home (OOH) wax-based hair removal centers. We view EWC as an industry disrupter in the OOH hair removal category with a focus on professionalization and high-quality waxing experiences. EWC's expert line-up of services and products are more effective, timely, cleaner, and less painful than at-home solutions and often less expensive, more effective, and less of a safety risk than other OOH services.

Investment Rationale

Our rating on European Wax Center (EWCZ) is Buy. Its large, underpenetrated total addressable market, high customer loyalty, and predictable revenue stream make this model compelling. Strong franchisee profitability and returns increase our confidence that EWC can grow its network of centers and its high margins and asset-light model translate to strong FCF.

Stock Data

Average Daily Volume 284,574

Quarterly Earnings Estimates

	2022	2023
Q1	0.13A	0.05A
Q2	0.12A	0.09A
Q3	0.11A	0.10E
Q4	0.77A	0.12E



Exhibit 1: EWCZ Income Statement

EWCZ reported 2Q revenue of \$59.1mn (+10.7% y/y), driven by comps of 2.6% and 25 net new centers.

EWCZ	1Q 22	2Q 22	3Q 22	4Q 22	FY 2022	1Q 23	2Q 23	3Q 23E	4Q 23E	FY 2023E	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E
Income Statement (\$ in thousands)	Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec	
Total System-Wide Sales	206,969	231,061	235,162	225,405	898,597	218,441	254,189	253,844	252,915	979,389	237,232	272,023	271,779	269,348	1,050,382	256,088	292,149	291,695	288,791	1,128,722
Product Sales	24,778	30,502	31,565	30,900	117,745	27,842	33,725	33,216	34,040	128,822	30,373	34,849	34,598	33,948	133,768	32,787	37,427	37,133	36,398	143,746
Royalty Fees	11,385	12,769	13,086	12,493	49,733	12,351	14,147	14,473	14,656	55,626	13,037	15,330	15,571	15,683	59,621	14,065	16,455	16,702	16,805	64,026
Marketing Fees	6,450	7,175	7,339	7,077	28,041	6,902	7,915	8,202	8,172	31,190	7,283	8,605	8,852	8,773	33,513	7,876	9,258	9,516	9,422	36,072
Other Revenue	2,813	2,912	3,054	3,053	11,832	2,797	3,303	3,212	3,003	12,315	3,114	3,645	3,398	3,171	13,328	3,292	3,850	3,586	3,338	14,067
Total Revenue	45,426	53,358	55,044	53,523	207,351	49,892	59,090	59,102	59,870	227,954	53,807	62,430	62,419	61,574	240,229	58,020	66,990	66,937	65,964	257,911
COGS	11,991	14,864	16,313	16,059	59,227	14,457	16,900	17,498	18,133	66,988	15,695	17,376	18,140	18,016	69,228	16,877	18,587	19,395	19,244	74,103
Gross Profit	33,435	38,494	38,731	37,464	148,124	35,435	42,190	41,603	41,737	160,965	38,111	45,053	44,279	43,558	171,001	41,143	48,403	47,543	46,719	183,808
Selling, General, & Administrative	11,722	13,227	11,545	12,607	49,101	11,332	12,308	14,051	14,192	51,883	11,683	12,379	14,215	13,980	52,258	12,308	12,949	14,910	14,647	54,813
Advertising	6,556	8,049	8,398	5,656	28,659	7,809	8,684	8,840	6,177	31,510	8,180	9,019	9,180	6,199	32,577	8,820	9,678	9,844	6,641	34,983
Depreciation & amortization	5,060	5,055	5,059	5,057	20,231	5,063	5,045	4,900	5,657	20,665	5,063	5,045	4,900	5,657	20,665	5,063	5,045	4,900	5,657	20,665
Loss on Disposal of Assets, Contracts, & Property	0	0	0	2	2	0	0	0	2	2	0	0	0	2	2	0	0	0	2	2
Impairment of Internally Developed Software	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain on Sale of Centers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	673	0	673	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	23,338	26,331	25,675	23,322	98,666	24,204	26,037	27,791	26,028	104,059	24,926	26,443	28,295	25,838	105,502	26,191	27,671	29,654	26,947	110,463
Operating (Loss) Income	10,097	12,163	13,056	14,142	49,458	11,231	16,153	13,813	15,709	56,906	13,186	18,610	15,984	17,720	65,500	14,952	20,732	17,888	19,773	73,345
Interest Expense	1,507	6,123	6,804	7,235	21,669	6,862	6,762	7,145	7,245	28,014	7,045	6,762	7,045	7,045	27,897	7,045	6,762	7,045	7,045	27,897
Other expense (income)	0	-1,373	-516	0	-1,889	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pre-tax Income	8,590	7,413	6,768	6,907	29,678	4,369	9,391	6,668	8,464	28,892	6,141	11,848	8,939	10,675	37,603	7,907	13,970	10,843	12,728	45,448
Taxes	27	-14	37	-41,823	-41,773	963	3,626	667	846	6,102	1,228	2,370	1,788	2,135	7,521	1,581	2,794	2,169	2,546	9,090
Tax rate	0%	0%	1%	n/a	-141%	22%	39%	10%	10%	21%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Net Income	8,563	7,427	6,731	48,730	71,451	3,406	5,765	6,001	7,618	22,790	4,913	9,479	7,151	8,540	30,082	6,326	11,176	8,675	10,182	36,358
Adj Earnings per Share	\$0.13	\$0.12	\$0.11	\$0.77	\$1.13	\$0.05	\$0.09	\$0.10	\$0.12	\$0.36	\$0.078	\$0.151	\$0.114	\$0.136	\$0.48	\$0.10	\$0.18	\$0.14	\$0.16	\$0.58
Weighted average diluted shares																				
Share Count	63,472	63,448	63,527	63,453	63,453	62,684	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694	62,694
Adjusted EBITDA	15,157	18,624	18,631	19,199	71,611	16,294	21,198	18,857	21,594	77,943	18,754	24,156	21,380	23,867	88,157	20,548	26,307	23,316	25,955	96,127
Y/Y Growth:																				
Total System-Wide Sales	31.9%	5.7%	7.3%	11.6%	12.8%	5.5%	10.0%	7.9%	12.2%	9.0%	8.6%	7.0%	7.1%	6.5%	7.2%	7.9%	7.4%	7.3%	7.2%	7.5%
Product Sales	20.2%	15.0%	14.3%	23.7%	18.1%	12.4%	10.6%	5.2%	10.2%	9.4%	9.1%	3.3%	4.2%	-0.3%	3.8%	7.9%	7.4%	7.3%	7.2%	7.5%
Royalty Fees	28.6%	6.1%	9.6%	15.4%	13.9%	8.5%	10.8%	10.6%	17.3%	11.9%	5.6%	8.4%	7.6%	7.0%	7.2%	7.9%	7.3%	7.3%	7.2%	7.4%
Marketing Fees	30.7%	8.2%	8.6%	12.6%	13.9%	7.0%	10.3%	11.8%	15.5%	11.2%	5.5%	8.7%	7.9%	7.4%	7.4%	8.1%	7.6%	7.5%	7.4%	7.6%
Other Revenue	24.7%	7.2%	13.2%	1.5%	10.8%	-0.6%	13.4%	5.2%	-1.6%	4.1%	11.3%	10.3%	5.8%	5.6%	8.2%	5.7%	5.6%	5.5%	5.3%	5.5%
Total Revenue	23.9%	11.4%	12.3%	18.7%	16.0%	9.8%	10.7%	7.4%	11.9%	9.9%	7.8%	5.7%	5.6%	2.8%	5.4%	7.8%	7.3%	7.2%	7.1%	7.4%
Ratio analysis:																				
Gross Margin	73.6%	72.1%	70.4%	70.0%	71.4%	71.0%	71.4%	70.4%	69.7%	70.6%	70.8%	72.2%	70.9%	70.7%	71.2%	70.9%	72.3%	71.0%	70.8%	71.3%
bp change y/y	69	(377)	(347)	(219)	(235)	(258)	(74)	3	(28)	(82)	(19)	77	55	103	57	8	9	9	9	9
Product GM	51.6%	51.3%	48.3%	48.0%	49.7%	48.1%	49.9%	47.3%	46.7%	48.0%	48.3%	50.1%	47.6%	46.9%	48.2%	48.5%	50.3%	47.8%	47.1%	48.4%
bp change y/y	(23)	(522)	(523)	(177)	(334)	(353)	(138)	(100)	(130)	(170)	25	25	25	20	25	20	20	20	20	20
Total Operating Expenses	51.4%	49.3%	46.6%	43.6%	48%	48.5%	44.1%	47.0%	43.5%	46%	46.3%	42.4%	45.3%	42.0%	44%	45.1%	41.3%	44.3%	40.9%	43%
bp change y/y	(615)	376	(332)	(606)	(268)	(286)	(528)	38	(10)	(193)	(219)	(171)	(169)	(151)	(173)	(118)	(105)	(103)	(111)	(109)
Selling, General and Administrative	25.8%	24.8%	21.0%	23.6%	23.7%	22.7%	20.8%	23.8%	23.7%	22.8%	21.7%	19.8%	22.8%	22.7%	21.8%	21.2%	19.3%	22.3%	22.2%	21.3%
bp change y/y	(438)	381	(202)	(325)	(121)	(309)	(396)	280	15	(92)	(100)	(100)	(100)	(100)	(101)	(50)	(50)	(50)	(50)	(50)
Advertising	14.4%	15.1%	15.3%	10.6%	13.8%	15.7%	14.7%	15.0%	10.3%	13.8%	15.2%	14.4%	14.7%	10.1%	13.6%	15.2%	14.4%	14.7%	10.1%	13.6%
bp change y/y	111	148	(182)	(101)	(16)	122	(39)	(30)	(25)	0	(45)	(25)	(25)	(25)	(26)	0	0	0	0	0
Depreciation & Amortization	11%	9%	9%	9%	10%	10%	9%	8%	9%	9%	9%	8%	8%	9%	9%	9%	8%	7%	9%	8%
bp change y/y	(288)	(153)	(70)	(180)	(162)	(99)	(94)	(90)	0	(69)	(74)	(46)	(44)	(26)	(46)	(68)	(55)	(53)	(61)	(59)
Operating Income	22.2%	22.8%	23.7%	26.4%	23.9%	22.5%	27.3%	23.4%	26.2%	25.0%	24.5%	29.8%	25.6%	28.8%	27.3%	25.8%	30.9%	26.7%	30.0%	28.4%
bp change y/y	685	(753)	(14)	387	33	28	454	(35)	(18)	111	200	247	224	254	230	126	114	112	120	117
Adjusted EBITDA margin	33.4%	34.9%	33.8%	35.9%	34.5%	32.7%	35.9%	31.9%	36.1%	34.2%	34.9%	38.7%	34.3%	38.8%	36.7%	35.4%	39.3%	34.8%	39.3%	37.3%
bp change y/y	(83)	(642)	9	207	(135)	(71)	97	(194)	20	(34)	220	282	235	269	250	56	58	58	59	57

Source: Company filings and reports, BofA Global Research estimates

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Exhibit 2: EWCZ Balance Sheet

We reiterate our Buy rating as we think EWCZ's less discretionary service offering, recurring revenue model, and strong pipeline of center openings make it a compelling stock.

	1Q 22	2Q 22	3Q 22	4Q 22	FY 2022	1Q 23	2Q 23	3Q 23E	4Q 23E	FY 2023E	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E
	Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec	
Balance Sheet																				
Assets																				
Cash	44,204	31,190	41,593	44,219	44,219	45,912	54,367	66,038	87,168	87,168	94,026	109,768	110,554	133,592	133,592	145,116	164,670	159,795	186,438	186,438
Restricted cash	0	10,866	6,557	6,575	6,575	6,568	7,021	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts Receivable, Net	7,479	9,880	6,305	6,932	6,932	7,300	9,053	5,269	8,102	8,102	8,733	10,888	6,334	9,206	9,206	9,886	12,219	7,436	10,600	10,600
Inventory	21,007	22,979	23,087	23,017	23,017	25,247	23,534	29,444	28,582	28,582	28,005	23,830	35,242	33,284	33,284	29,640	23,382	41,970	38,541	38,541
<u>Other Current Assets</u>	<u>6,765</u>	<u>7,033</u>	<u>6,867</u>	<u>5,574</u>	<u>5,574</u>	<u>7,454</u>	<u>7,625</u>	<u>4,693</u>	<u>6,128</u>	<u>6,128</u>	<u>8,160</u>	<u>8,244</u>	<u>5,051</u>	<u>6,458</u>	<u>6,458</u>	<u>8,602</u>	<u>8,727</u>	<u>5,369</u>	<u>6,933</u>	<u>6,933</u>
Total Current Assets	79,455	81,948	84,409	86,317	86,317	92,481	101,600	105,444	129,980	129,980	138,924	152,730	157,180	182,540	182,540	193,244	208,999	214,569	242,512	242,512
Fixed Assets, Net	3,841	3,234	2,970	2,747	2,747	2,878	2,716	2,622	2,665	2,665	2,732	2,717	2,790	2,740	2,740	2,724	2,748	2,740	2,736	2,736
Intangible Assets and Goodwill	525,798	521,059	516,320	511,581	511,581	506,841	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102	502,102
<u>Other Long-Term Assets</u>	<u>10,185</u>	<u>10,889</u>	<u>10,051</u>	<u>11,538</u>	<u>11,538</u>	<u>147,846</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>	<u>148,759</u>
Total Long-Term Assets	539,824	535,182	529,341	629,715	629,715	657,565	653,577	653,483	653,526	653,526	653,593	653,578	653,651	653,601	653,601	653,585	653,609	653,601	653,597	653,597
Total Assets	619,279	617,130	613,750	716,032	716,032	750,046	755,177	758,927	783,506	783,506	792,517	806,308	810,831	836,141	836,141	846,828	862,608	868,171	896,109	896,109
Liabilities and Equity																				
Accounts Payable and Accrued Expenses	17,474	22,475	15,993	18,547	18,547	17,469	16,298	11,659	20,605	20,605	19,319	17,570	12,262	20,910	20,910	19,937	18,316	12,684	21,970	21,970
Deferred Revenue	2,991	3,783	3,381	4,084	4,084	4,017	4,719	2,311	4,490	4,490	4,397	5,102	2,487	4,732	4,732	4,636	5,401	2,643	5,080	5,080
<u>Term Loan Payable and Deferred Interest Rate Cap</u>	<u>7,491</u>	<u>5,628</u>	<u>6,284</u>	<u>10,179</u>	<u>10,179</u>	<u>9,929</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>	<u>6,693</u>
Total Current Liabilities	27,956	31,886	25,658	32,810	32,810	31,415	27,710	20,662	31,788	31,788	30,409	29,365	21,442	32,334	32,334	31,266	30,410	22,020	33,743	33,743
Revolver	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Term Loan	171,581	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax receivable agreement liability	60,299	64,399	65,384	167,293	167,293	203,029	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760	206,760
Senior secured notes	0	370,489	370,657	370,935	370,935	371,166	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400	371,400
Deferred revenue, net of current portion	6,701	6,429	6,699	6,901	6,901	6,898	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795	6,795
<u>Other Long-Term Liabilities</u>	<u>6,714</u>	<u>9,780</u>	<u>9,231</u>	<u>7,789</u>	<u>7,789</u>	<u>6,277</u>	<u>5,931</u>	<u>6,042</u>	<u>6,215</u>	<u>6,215</u>	<u>6,321</u>	<u>6,412</u>	<u>6,503</u>	<u>6,549</u>	<u>6,549</u>	<u>6,664</u>	<u>6,789</u>	<u>6,912</u>	<u>7,031</u>	<u>7,031</u>
Total Long-Term Liabilities	245,295	451,097	451,971	552,918	552,918	587,370	590,886	590,997	591,170	591,170	591,276	591,367	591,458	591,504	591,504	591,619	591,744	591,867	591,986	591,986
Total Shareholders Equity	346,028	134,147	136,121	130,304	130,304	131,261	136,581	147,268	160,548	160,548	170,831	185,575	197,931	212,303	212,303	223,943	240,454	254,284	270,379	270,379
Total Liabilities & Shareholders Equity	619,279	617,130	613,750	716,032	716,032	750,046	755,177	758,927	783,506	783,506	792,517	806,308	810,831	836,141	836,141	846,828	862,608	868,171	896,109	896,109

Source: Company filings and reports, BofA Global Research estimates

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**Exhibit 3: EWCZ Cash Flow Statement**

We are maintaining our F23E adj. EBITDA est of \$77.9mn and we maintain our PO of \$23, still based on 20x our F24E EV/EBITDA.

	1Q 22	2Q 22	3Q 22	4Q 22	FY 2022	1Q 23	2Q 23	3Q 23E	4Q 23E	FY 2023E	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E
	Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec	
Cash Flow Statement																				
Cash from Operations																				
Net Income	4,026	2,031	5,287	2,269	13,613	-1,053	5,594	4,699	5,566	14,806	2,890	7,475	5,164	6,580	22,109	4,193	9,055	6,563	8,078	27,889
Depreciation & Amortization	5,060	5,055	5,058	5,058	20,231	5,063	5,045	4,900	5,657	20,665	5,063	5,045	4,900	5,657	20,665	5,063	5,045	4,900	5,657	20,665
Amortization of Deferred Financing Costs	120	1,109	1,254	1,369	3,852	1,318	1,321	0	0	2,639	0	0	0	0	0	0	0	0	0	0
Loss on Non-cancellable Contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity Compensation	3,335	2,000	2,117	1,581	9,033	5,931	1,826	1,447	2,280	11,483	2,528	2,505	2,483	2,450	9,966	2,665	2,652	2,639	2,630	10,587
Inventory Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain on Sale of Location	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Impairments & Disposals	-39	-86	104	-38	-59	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Adjustments to Net Income	589	1,990	-478	2,250	4,351	-467	1,908	0	0	1,441	0	0	0	0	0	0	0	0	0	0
Total Change in Net Working Capital	-7,618	36	-3,001	3,917	-6,666	-6,611	1,345	-6,131	7,893	-3,504	-3,358	982	-11,497	8,617	-5,256	-133	3,068	-18,713	10,543	-5,235
Operating Cash Flow	5,473	12,135	10,341	16,406	44,355	4,181	17,039	4,915	21,395	47,530	7,124	16,007	1,050	23,304	47,484	11,788	19,820	-4,611	26,908	53,905
Cash from Investing																				
Technology Purchases & Other Capex	-303	221	-61	-102	-245	-358	-265	-265	-265	-1,153	-265	-265	-265	-265	-1,060	-265	-265	-265	-265	-1,060
Reacquisition of Area Rep. Regions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Received for Sale of Location, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Used for Investing	-303	221	-61	-102	-245	-358	-265	-265	-265	-1,153	-265	-265	-265	-265	-1,060	-265	-265	-265	-265	-1,060
Cash from Financing																				
Proceeds/(Repayments) on Revolving Credit Facility	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds/(Principal Payments) on Long Term Debt	-1,125	205,376	-1,000	-1,000	202,251	-1,000	-1,000	0	0	-2,000	0	0	0	0	0	0	0	0	0	0
Contributions from/(Distributions to) Members, net	-2,272	-2,488	-2,520	-1,417	-8,697	-276	-938	0	0	-1,214	0	0	0	0	0	0	0	0	0	0
Other	-870	-12,419	-525	-1,030	-14,844	-126	-3,229	0	0	-3,355	0	0	0	0	0	0	0	0	0	0
Repurchase of Class A common stock	0	0	0	-10,080	-10,080	0	-819	0	0	-819	0	0	0	0	0	0	0	0	0	0
Dividends to holders of Class A common stock	0	-122,227	0	0	-122,227	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend equivalents to holders of EWC Ventures units	0	-82,746	-141	-133	-83,020	-735	-1,880	0	0	-2,615	0	0	0	0	0	0	0	0	0	0
Net Cash from Financing	-4,267	-14,504	-4,186	-13,660	-36,617	-2,137	-7,866	0	0	-10,003	0	0	0	0	0	0	0	0	0	0
Cash Beginning Period	43,301	44,204	42,056	48,150	43,301	50,794	52,480	61,388	66,038	50,794	87,168	94,026	109,768	110,554	87,168	133,592	145,116	164,670	159,795	133,593
Net Increase (Decrease) in Cash	903	-2,148	6,094	2,644	7,493	1,686	8,908	4,650	21,130	36,374	6,859	15,742	785	23,039	46,424	11,523	19,555	-4,876	26,643	52,845
Cash Ending Period	44,204	42,056	48,150	50,794	50,794	52,480	61,388	66,038	87,168	87,168	94,026	109,768	110,554	133,592	133,593	145,116	164,670	159,795	186,438	186,438
Free cash flow					71,366					76,790					87,097					95,067

Source: Company filings and reports, BofA Global Research estimates

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Price objective basis & risk

European Wax Center (EWCZ)

Our \$23 PO for European Wax Center is based on 20x EV/EBITDA multiple on our F24 estimates. This is a premium to the 12x EV/EBITDA average for a group of similar franchisors. We see this as warranted as its margins, sales growth and cash flow are superior.

Downside risks are any potential COVID-related shutdowns, a slowdown in the pace of franchisee openings, and share shift to other hair removal methods.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	a.k.a. Brands	AKA	AKA US	Alice Xiao
	Allbirds	BIRD	BIRD US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EWCZ	EWCZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Torrid Inc.	CURV	CURV US	Alice Xiao
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Lorraine Hutchinson, CFA
NEUTRAL				
	Capri Holdings Ltd	CPRI	CPRI US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Lulu's Fashion Lounge	LVLU	LVLU US	Alice Xiao
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	American Eagle	AEO	AEO US	Christopher Nardone
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Macy's	M	M US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Lorraine Hutchinson, CFA
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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Important Disclosures

European Wax Center (EWCZ) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	91	54.17%	Buy	37	40.66%
Hold	34	20.24%	Hold	14	41.18%
Sell	43	25.60%	Sell	22	51.16%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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