

## Restaurants Industry

## 2/15 4Q Earnings Recap: SHAK, WEN, TXRH

Price Objective Change

**SHAK: EBITDA beat flows through F24; PO to \$99**

SHAK's 4Q results beat consensus expectations on SSSG and EBITDA (see link to [Shake Shack 4Q Quick Take](#)) on BTE (positive) traffic growth and better cost leverage. While SHAK provided F24 guidance roughly in line with our expectations on SSSG (and lower on RLM) G&A ex-SBC was substantially lower. We raise our F24 EBITDA to \$159 mm (vs \$145 mm). Our EPS moves higher on higher other income and lower tax expenses. We increase our terminal EV/EBITDA multiple to 13.8x (from 12x previously) to reflect a higher valuation premium for the higher op margins/returns. We set our PO based on steady state earnings power. We assume SHAK grows its store base at 14% to reach 860 domestic stores in 9 years, and that average volumes grow at 3.5%. At \$7.6bb in sales, assuming stable RLM expansion from 18% to 22% and 9% G&A, SHAK would generate \$726mm in EBITDA. Applying a 13.8x terminal multiple and discounting back equates to a \$99 PO (vs \$84 prior). We reiterate our Neutral rating as we expect long term constraints – lower AUVs in new store cohorts – to persist.

**WEN: F24 EBITDA lower as investments weigh; PO to \$20**

WEN's F24 guidance came in below expectations (see link to [Wendy's 4Q Quick Take](#)) as the company plans to increase advertising expenses and other investments (i.e., digital menu boards, customer data platforms, Wendy's fresh AI) to gain traffic share, particularly in the breakfast daypart. We lower our F24 EBITDA to \$544mm (vs \$572mm previously) and our F24 EPS to \$1.01 (vs \$1.08 previously) as we expect competitive intensity, ongoing commodities and wage inflation, and higher incremental ad expenses to pressure profitability. Relative to the S&P 500, WEN's P/E multiple is 0.7x, a discount to its 5-year average (1.3x). We reiterate our Underperform rating as we expect continued challenges for WEN to sustain system sales growth over the longer term. Applying a 0.9x relative P/E multiple (lower vs 1.1x prior owing to slower growth, implies a 17.9x absolute multiple) to our downwardly revised 12 months forward EPS (\$1.15) results in a \$20 PO (vs \$21 prior).

**TXRH: F24 EPS unch.; PO \$160 on higher market multiple**

TXRH reported a strong 4Q highlighted by better-than-expected SSSG (9.9% vs BofAE / VA consensus of 9.1% / 8.6%), with impressive traffic growth of 5.1%. While TXRH noted poor weather in January had a negative impact on SSSG, demand recovered in February, translating into an impressive 10% SSSG for the latter part of the current quarter. We expect TXRH's industry leading traffic to continue its momentum; coupled with higher pricing, our increased traffic estimates bring our F24 SSSG estimate to 7.5% (vs 6.1% prior). Offsetting our higher SSSG are increased estimates for labor inflation (up 30 bps), other operating expenses, and G&A. Overall, our F24 estimates for restaurant-level margins (15.8%) and EPS (\$5.48) are unchanged. Relative to the S&P 500, TXRH's P/E multiple is trading in line with its 5-year average (1.3x, excluding COVID spike). Applying a 1.3x relative P/E multiple (implies 24.4x, higher vs 23.2x previously owing to higher market multiples), to our 12 month forward EPS (\$6.54) results in a \$160 PO (vs \$146 prior). Reiterate Buy.

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Equity  
United States  
Restaurants

**Sara Senatore**  
Research Analyst  
BofAS  
+1 646 743 2110  
[sara.senatore@bofa.com](mailto:sara.senatore@bofa.com)

**Katherine Griffin**  
Research Analyst  
BofAS  
+1 646 855 2849  
[katherine.griffin@bofa.com](mailto:katherine.griffin@bofa.com)

**Jessica Owusu Afari**  
Research Analyst  
BofAS  
+1 646 617 9040  
[jessica.owusu-afari@bofa.com](mailto:jessica.owusu-afari@bofa.com)

**Stock symbol key:**

WEN: Wendy's  
SHAK: Shake Shack  
TXRH: Texas Roadhouse

**Glossary:**

SSSG: same-store sales growth, also known as comparable sales or "comps"  
BTE: better-than-expected  
RLM: restaurant-level margin  
G&A: general & administrative expenses  
SBC: stock-based compensation  
AUV: average unit volumes

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**Exhibit 1: We forecast F24 EBITDA of \$159mm and F25 EBITDA of \$182mm**

SHAK Income Statement, F23-F25E

(\$ in mm; FYE December)	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Revenue:							
Shack sales	1,046.8	281.4	299.0	305.2	313.8	1,199.6	1,359.4
Licensing revenue	40.7	9.4	11.5	12.0	13.4	46.3	59.5
Total Revenue	\$1,087.5	\$290.9	\$310.5	\$317.3	\$327.2	\$1,245.9	\$1,418.9
y/y growth %	21%	15%	14%	15%	14%	15%	14%
Costs & Expenses:							
Food and paper costs	305.0	83.4	86.0	88.3	90.7	348.4	394.9
Labor and related expenses	304.3	83.7	85.2	86.8	88.9	344.5	392.8
Other operating expenses	149.4	39.1	40.5	41.9	46.1	167.7	192.8
Occupancy and related expenses	79.8	20.8	22.2	22.8	23.8	89.6	103.9
Total restaurant operating costs	\$838.6	\$227.0	\$233.9	\$239.8	\$249.5	\$950.2	\$1,084.4
Restaurant-level margin %	19.9%	19.3%	21.8%	21.4%	20.5%	20.8%	20.2%
General & administrative expenses	129.5	34.1	34.3	33.7	39.0	141.2	153.9
Depreciation expense	91.2	24.2	25.0	26.1	27.6	102.8	117.1
Pre-opening costs	19.2	3.7	4.6	4.2	4.6	17.1	18.1
Impairment and loss on disposal of assets	3.0	0.7	0.9	0.5	0.9	3.0	3.0
Operating income	\$5.9	\$1.2	\$11.8	\$12.9	\$5.6	\$31.6	\$42.4
Operating income margin %	0.5%	0.4%	3.8%	4.1%	1.7%	2.5%	3.0%
Adjusted Operating income	\$40.6	\$7.3	\$18.2	\$18.9	\$12.0	\$56.4	\$65.2
Adjusted Operating income margin %	3.7%	2.5%	5.9%	5.9%	3.7%	4.5%	4.6%
EBITDA	\$97.2	\$25.4	\$36.8	\$39.0	\$33.2	\$134.4	\$159.5
EBITDA margin %	8.9%	8.7%	11.9%	12.3%	10.1%	10.8%	11.2%
Adjusted EBITDA	\$131.8	\$31.5	\$43.1	\$45.0	\$39.6	\$159.2	\$182.3
Adjusted EBITDA margin %	12.1%	10.8%	13.9%	14.2%	12.1%	12.8%	12.8%
Interest expense	(1.7)	(0.5)	(0.5)	(0.5)	(0.5)	(1.9)	(1.9)
Other income, net	12.8	2.8	3.2	3.4	3.3	12.8	11.3
Pretax income	17.0	3.5	14.6	15.9	8.4	42.5	51.9
Income taxes	(3.6)	0.9	3.7	4.0	2.1	10.6	15.1
Tax rate %	-20.9%	25.0%	25.0%	25.0%	25.0%	25.0%	29.0%
Net Income	20.5	2.6	11.0	11.9	6.3	31.8	36.8
Non-controlling interest	0.7	(0.1)	0.3	0.5	0.0	0.7	0.7
Net Income attributable to Shake Shack	19.8	2.7	10.7	11.4	6.3	31.1	36.1
Adjusted Net Income	16.2	7.3	15.7	16.4	11.1	50.4	53.0
EPS - Diluted	\$0.45	\$0.06	\$0.24	\$0.26	\$0.14	\$0.70	\$0.81
Adjusted EPS - Diluted	\$0.37	\$0.16	\$0.35	\$0.37	\$0.25	\$1.14	\$1.20

Source: Company filings, BofA Global Research estimates

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**Exhibit 2: We raise our F24 EBITDA to reflect better cost leverage; our EPS moves increases on higher other income and lower tax rate assumptions**

Shake Shack BofA Estimates – Prior vs New

	Prior 1Q24E	New 1Q24E	% Change	Prior 2Q24E	New 2Q24E	% Change	Prior 2025E	New 2025E	% Change
Total Revenue	\$297.9	\$290.9	-2%	\$1,263.1	\$1,245.9	-1%	\$1,457.7	\$1,418.9	-3%
Adj. EBITDA	\$30.9	\$31.5	2%	\$144.8	\$159.2	10%	\$170.2	\$182.3	7%
Adjusted Diluted EPS	\$0.07	\$0.16	132%	\$0.48	\$1.14	135%	\$0.79	\$1.20	51%

Source: BofA Global Research estimates

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**Exhibit 3: We forecast F24 EPS of \$1.01 and F25 EPS of \$1.15**

WEN Income Statement, F23-F25E

(\$ millions; FYE December)	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Revenues:							
Sales	930.1	232.8	246.4	241.5	237.7	958.4	993.3
Total retail sales							
Franchise royalties (includes fees before 2020)	512.2	129.1	140.9	138.9	128.9	537.8	570.2
Franchise fees	80.2	20.3	20.1	20.4	20.1	81.0	85.1
Franchise rental revenue	230.2	61.6	63.1	64.1	62.5	251.3	253.6
Total franchise revenues	822.5	211.0	224.1	223.4	211.5	870.1	908.9
Advertising fund revenues	429.0	106.3	116.0	115.3	106.3	443.9	563.3
Total Revenues	2,181.6	550.11	586.50	580.20	555.51	2,272.3	2,465.5
	4.1%	4.0%	4.4%	5.4%	2.7%	4.2%	8.5%
Costs & Expenses:							
Cost of Sales Breakdown							
Food and Paper (Wendy's)	296.0	73.1	75.3	74.3	73.1	295.8	308.1
Restaurant Labor (Wendy's)	295.9	75.8	77.6	77.1	74.2	304.7	313.9
Occupancy, advertising and other	199.2	50.1	50.9	51.1	51.1	203.2	207.2
Total cost of Wendy's sales	791.0	199.0	203.7	202.6	198.4	803.7	829.2
Cost of sales	794.5	199.0	203.7	202.6	198.4	803.7	829.2
Restaurant level margin	14.6%	14.5%	17.3%	16.1%	16.5%	16.1%	16.5%
Franchise support and other	57.2	14.2	14.8	15.8	16.5	61.3	62.5
Franchise rental expense	125.4	31.2	33.0	32.5	31.1	127.9	130.4
Advertising fund expense	428.0	111.6	121.8	121.0	111.7	466.1	580.2
G&A	250.0	67.9	68.4	64.6	71.6	272.5	280.6
D&A	135.8	34.8	35.0	36.1	35.6	141.5	145.3
Other operating expense (income)	(3.3)	(0.7)	(3.8)	0.7	0.5	(3.3)	(3.3)
Total Costs	1,799.6	458.0	472.9	473.4	465.3	1,869.6	2,025.0
Operating Income	382.0	92.1	113.6	106.8	90.2	402.7	440.5
Operating margin	17.5%	16.8%	19.4%	18.4%	16.2%	17.7%	17.9%
Reported EBITDA	517.8	126.9	148.6	142.9	125.9	544.2	585.8
Other Adjustments to EBITDA	8.0	-	-	-	-	-	-
Adjusted EBITDA	537.2	126.9	148.6	142.9	125.9	544.2	585.8
Y/Y growth	7.9%	1.0%	1.9%	2.6%	-0.6%	1.3%	7.6%
	47.4%						
Interest Income (Expense), net	(124.1)	(30.3)	(30.3)	(30.3)	(30.3)	(121.1)	(121.1)
Pretax income	279.5	61.9	83.3	76.5	60.0	281.7	319.4
Taxes	(75.1)	(15.5)	(20.8)	(19.1)	(15.0)	(70.4)	(79.9)
Tax rate	26.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Adjusted tax rate	27.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net income (loss)	204.4	46.4	62.5	57.4	45.0	211.3	239.6
Minority Interest	-	-	-	-	-	-	-
Net income (loss) attributable to Wendy's	204.4	46.4	62.5	57.4	45.0	211.3	239.6
GAAP EPS (total)	\$ 0.97	0.22	0.30	0.28	0.22	\$ 1.01	\$ 1.15
Diluted Average Shares Outstanding	211.5	213.0	210.9	208.6	205.6	209.5	207.5
Basic Shares Outstanding	209.5	211.4	209.3	207.0	203.9	207.9	205.9
Pro-Forma EPS	\$ 0.98	0.22	0.30	0.28	0.22	\$ 1.01	\$ 1.15

Source: Company filings, BofA Global Research estimates

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**Exhibit 4: We lower our F24 EPS to \$1.01 and our F25 EPS to \$1.15**

Wendy's BofA Estimates – Prior vs New

	Prior 1Q24E	New 1Q24E	% Change	Prior 2024E	New 2024E	% Change	Prior 2025E	New 2025E	% Change
Total Revenue	\$550.4	\$550.1	0%	\$2,276.1	\$2,272.3	0%	\$2,371.3	\$2,465.5	4%
Adjusted EBITDA	\$134.1	\$126.9	-5%	\$572.3	\$544.2	-5%	\$607.7	\$585.8	-4%
Adjusted Diluted EPS	\$0.24	\$0.22	-8%	\$1.08	\$1.01	-7%	\$1.21	\$1.15	-4%

Source: BofA Global Research estimates

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**Exhibit 5: We forecast F24 EPS of \$5.48 and F25 EPS of \$6.54**

TXRH Income Statement, F23-F25E

(\$ millions; FYE December)	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
<b>Revenues:</b>							
Restaurant Sales	4,604.6	1,322.3	1,317.4	1,270.8	1,298.8	5,209.2	5,750.2
Franchise royalties & fees	27.1	9.0	8.9	8.7	9.2	35.9	42.4
<b>Total Revenues</b>	<b>4,631.7</b>	<b>1,331.3</b>	<b>1,326.3</b>	<b>1,279.5</b>	<b>1,307.9</b>	<b>5,245.1</b>	<b>5,792.6</b>
% Growth	15.4%	13.4%	13.2%	14.1%	12.3%	13.2%	10.4%
<b>Expenses:</b>							
Cost of sales	1,593.9	463.5	452.1	444.9	454.3	1,814.8	2,015.8
Labor	1,539.1	433.7	442.8	428.4	430.8	1,735.7	1,902.7
Rent	72.8	21.2	21.1	20.3	20.8	83.3	92.0
Other Operating Costs	690.8	182.4	187.6	186.0	198.7	754.6	812.1
Total Store Level Expenses	3,896.6	1,100.8	1,103.5	1,079.6	1,104.6	4,388.5	4,822.7
<b>RLM as % of sales</b>	<b>15.4%</b>	<b>16.8%</b>	<b>16.2%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>15.8%</b>	<b>16.1%</b>
Pre-opening expenses	29.2	7.0	6.0	7.0	6.0	26.1	26.1
D&A	153.2	45.3	45.1	43.5	44.5	178.3	196.9
Impairment and closure	0.3	0.1	0.1	(0.0)	0.1	0.3	0.3
G&A	198.4	54.5	55.7	52.4	54.1	216.8	228.1
Gain on sale of Aspen Creek							
<b>Operating Income</b>	<b>354.0</b>	<b>123.7</b>	<b>115.8</b>	<b>97.0</b>	<b>98.6</b>	<b>435.1</b>	<b>518.6</b>
as % of Sales	7.6%	9.3%	8.7%	7.6%	7.5%	8.3%	9.0%
Interest Expense/(Income)	(3.0)	(0.3)	(0.3)	(0.3)	(0.3)	(1.0)	(1.0)
Equity income from unconsolidated affiliates	1.4	0.2	0.2	0.2	0.2	0.7	0.7
<b>Pretax Income</b>	<b>358.3</b>	<b>124.1</b>	<b>116.3</b>	<b>97.5</b>	<b>99.0</b>	<b>436.8</b>	<b>520.2</b>
Income Tax Provision (benefit)	44.6	17.4	16.3	13.6	13.9	61.2	72.8
Tax Rate	12.5%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
<b>Net Income, reported</b>	<b>313.7</b>	<b>106.7</b>	<b>100.0</b>	<b>83.8</b>	<b>85.2</b>	<b>375.7</b>	<b>447.4</b>
Nonrecurring items	-	-	-	-	-	-	-
Net income attributable to noncontrolling interests	8.8	2.3	2.4	1.6	1.7	8.0	8.0
<b>Net income attributable to Texas Roadhouse</b>	<b>304.9</b>	<b>104.4</b>	<b>97.5</b>	<b>82.2</b>	<b>83.5</b>	<b>367.6</b>	<b>439.4</b>
<b>Pro-Forma EPS</b>	<b>\$ 4.54</b>	<b>\$ 1.56</b>	<b>\$ 1.45</b>	<b>\$ 1.23</b>	<b>\$ 1.24</b>	<b>\$ 5.48</b>	<b>\$ 6.54</b>
% Growth	14.3%	21.3%	18.7%	28.7%	15.1%	20.7%	19.5%
Wtd. Avg. Dlt. Sh. Outstanding	67.2	67.1	67.2	67.1	67.2	67.1	67.1
Wtd. Avg. Basic Sh. Outstanding	66.8	66.7	66.8	66.7	66.8	66.8	66.8

Source: Company filings, BofA Global Research estimates

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**Exhibit 6: We raise our 1Q24 EPS and maintain our F24 EPS**

Texas Roadhouse BofA Estimates – Prior vs New

	Prior 1Q24E	New 1Q24E	% Change	Prior 2024E	New 2024E	% Change	Prior 2025E	New 2025E	% Change
Total Revenues	\$1,314.5	\$1,331.3	1%	\$5,140.7	\$5,245.1	2%	\$5,632.3	\$5,792.6	3%
EBITDA	\$162.9	\$168.9	4%	\$604.4	\$613.5	2%	\$709.7	\$715.5	1%
Pro-Forma EPS	\$1.50	\$1.56	4%	\$5.48	\$5.48	0%	\$6.54	\$6.54	0%

Source: BofA Global Research estimates

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**Exhibit 7: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
SHAK	SHAK.US	Shake Shack	US\$ 98.4	C-2-9
TXRH	TXRH.US	Texas Roadhouse	US\$ 133.89	B-1-7
WEN	WEN.US	Wendy's Co	US\$ 18.99	B-3-7

Source: BofA Global Research

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**Price objective basis & risk****Shake Shack (SHAK)**

We set our \$99 PO based on steady state earnings power. We assume SHAK grows its store base at 14% to reach 860 domestic stores in 9 years, and that average volumes grow at 3.5%. At \$7.6bb in sales, assuming stable RLM expansion from 18% to 22% and 9% G&A, SHAK would generate \$726mm in EBITDA. Applying a 13.8x terminal multiple and discounting back equates to a \$99 PO.

Downside risks to our price objective are: 1) lower than expected consumer uptake of new product innovations or other sales drivers, 2) higher than expected food or labor costs that Shake Shack is unable to offset with increased pricing, 3) macroeconomic pressures that slow consumer income growth or otherwise dampen consumption.

Upside risks to our price objective are: 1) higher than expected consumer uptake of new product innovations or other sales drivers (digital, Kiosks), 2) higher than expected menu pricing, 3) higher than expected consumer income growth that exceeds our consumption expectations.

**Texas Roadhouse (TXRH)**

We view TXRH's 5-year average of 1.3x (excluding COVID spike) as the appropriate target multiple given TXRH's best-in-class traffic trends and topline growth and our expectations for further operating leverage. Our PO of \$160 is based on a relative multiple of 1.3x (vs the S&P 500 index, or a 24.4x absolute multiple) on our 12-month forward EPS (F25, \$6.54).

Downside risks are: i) lower-than-expected retail beef prices and as a result, decreased value proposition for steakhouses, ii) traffic growth deceleration in response to menu price increases, iii) greater than expected slowdown in consumer spending / macroeconomic risk pressuring discretionary income, iv) slower than expected unit growth at Texas Roadhouse.

**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 0.9x relative multiple (17.9x absolute multiple) to our EPS 12 months from now (F25: \$1.15) to arrive at our \$20 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.

## Analyst Certification

I, Sara Senatore, 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.

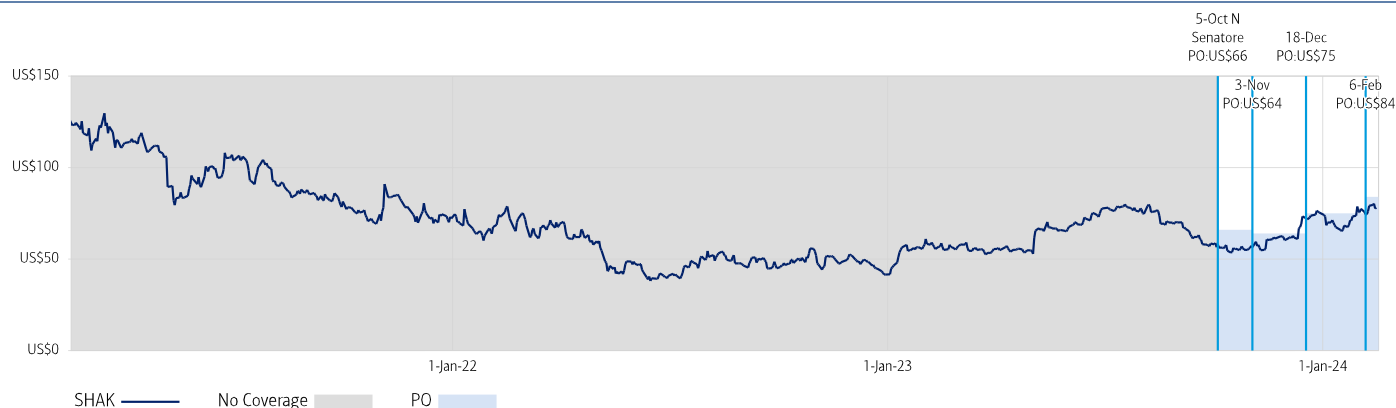
## US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## Disclosures

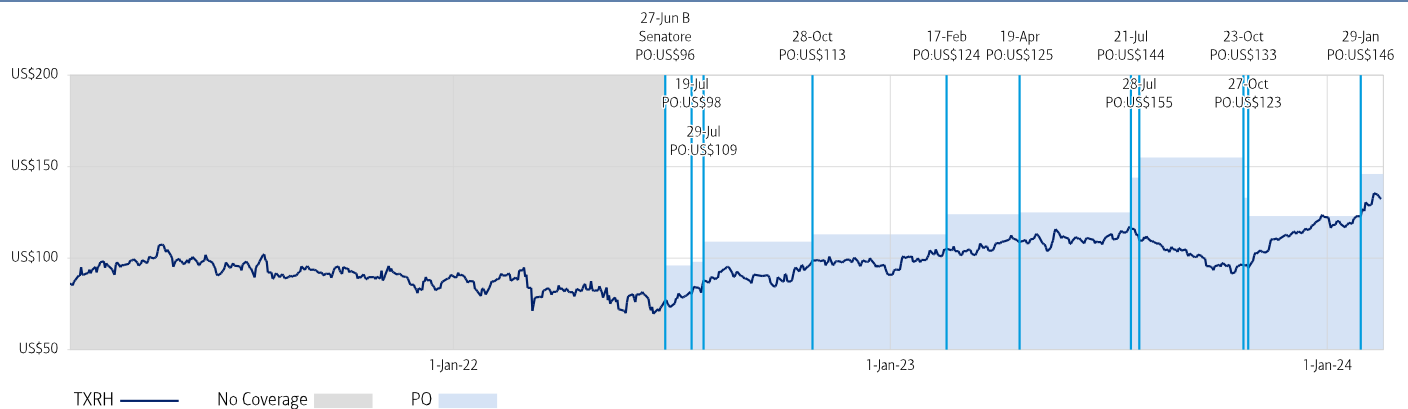
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## Shake Shack (SHAK) Price Chart



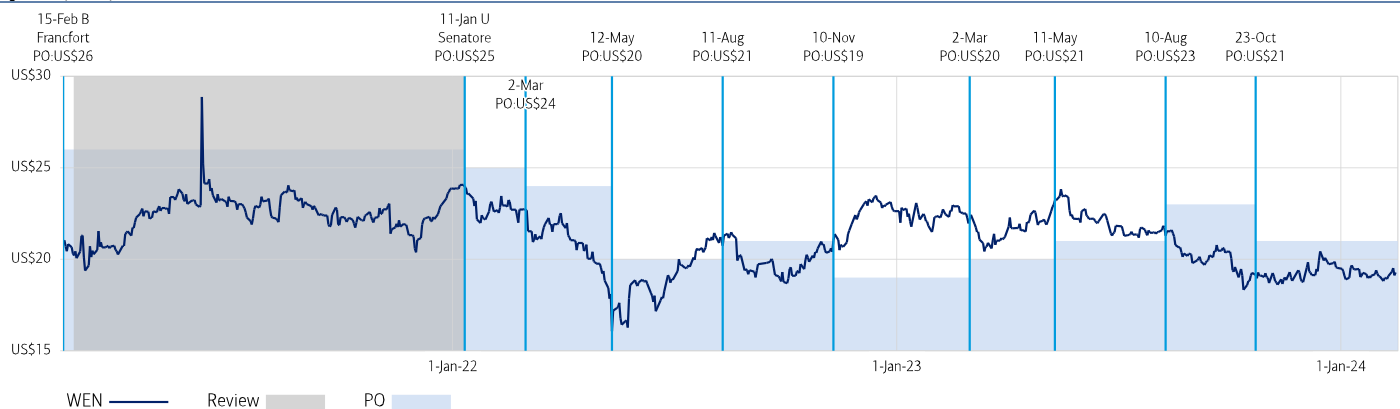
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

**Texas Roadhouse (TXRH) Price Chart**

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**Wendy's Co (WEN) Price Chart**

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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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