

European Wax Center

Resilient core customer base drives sales beat

Maintain Rating: BUY | PO: 19.00 USD | Price: 15.49 USD

4Q sales better than expected

EW CZ raised its F23 guidance, now expecting system-wide sales of \$952-955mn (vs \$945-955mn prior), total revenue of \$218-219mn (vs \$217-219mn prior), and comps of 2.5-2.8% (vs 1.5-2.5% prior). Net income and adj. EBITDA guidance is unchanged until the books are closed, but we see room for some upside on better revenue. The sales beat was driven by a combination of transaction and ticket. The company switched to a new media agency at the beginning of 4Q, and mgmt is pleased with the impact this has had on guest reservations.

Early results from laser pilot are encouraging

The company began testing laser with the intent to drive new guests to the brand and garner a greater share of wallet from existing guests. After 12 weeks of a pilot test in 6 NY centers, mgmt is encouraged by the results and is expanding the pilot to 10 more NY centers. We think this is an interesting growth opportunity as it may attract a new guest.

Core customer remains intact

Core customers maintained visit frequency throughout 2023 and remain the most valuable guests, comprising 75% of system-wide sales. These guests view waxing as a non-discretionary service and are committed to their routines. The company is focused on increasing share of wallet among this core customer base, specifically through adding on more services per ticket, which is also gross margin accretive. New guest acquisition is another main driver for comps; enhanced data analytics is proving successful in identifying and targeting the right customers. The company is not focused on chasing episodic guests who are strained due to the tougher macro.

New center pipeline is strong

The company reported preliminary net new center openings of 100, at the high end of guidance (98-100); this represented 11% y/y growth. Mgmt remains confident in the strength of the unit pipeline and is committed to high single digit annual unit growth. A new pre-opening playbook based on findings over the past year will be introduced to the network in 1Q, which will help ensure new centers open successfully. Reiterate Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.44	1.13	0.34	0.42	0.52
GAAP EPS	0.06	0.21	0.19	0.30	0.40
EPS Change (YoY)	NM	156.8%	-69.9%	23.5%	23.8%
Consensus EPS (Bloomberg)			0.33	0.45	0.60
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	35.2x	13.7x	45.6x	36.9x	29.8x
GAAP P/E	258.2x	73.8x	81.5x	51.6x	38.7x
EV / EBITDA*	23.4x	21.0x	20.1x	18.2x	16.6x
Free Cash Flow Yield*	4.1%	4.5%	4.7%	4.2%	5.0%

* For full definitions of *IQmethod*SM measures, see page 4.

09 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	218.3	218.8
2024E Rev (m)	223.1	223.6
2025E Rev (m)	240.9	241.4

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Stock Data

Price	15.49 USD
Price Objective	19.00 USD
Date Established	9-Nov-2023
Investment Opinion	C-1-9
52-Week Range	11.97 USD - 20.70 USD
Mrkt Val (mn) / Shares Out (mn)	983 USD / 63.5
Free Float	60.8%
Average Daily Value (mn)	10.34 USD
BofA Ticker / Exchange	EW CZ / NAS
Bloomberg / Reuters	EW CZ US / EW CZ OQ
ROE (2023E)	15.5%
Net Dbt to Eqty (Dec-2022A)	258.5%
ESGMeter™	NLA

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Timestamp: 09 January 2024 12:01AM EST

iQprofileSM European Wax Center

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.4%	7.0%	6.0%	6.3%	6.7%
Return on Equity	8.5%	30.3%	15.5%	15.7%	14.9%
Operating Margin	23.5%	23.9%	24.8%	27.0%	28.2%
Free Cash Flow	41	44	46	42	49

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	0.6x	2.2x	1.6x	1.5x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	0.4%	NM	20.5%	20.0%	20.0%
Net Debt-to-Equity Ratio	39.6%	258.5%	207.7%	134.7%	85.3%
Interest Cover	3.0x	2.3x	2.0x	2.2x	2.5x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	179	207	219	224	241
% Change	72.8%	16.0%	5.5%	2.2%	8.0%
Gross Profit	132	148	154	159	172
% Change	94.2%	12.4%	4.3%	3.2%	8.1%
EBITDA	64	72	75	82	90
% Change	220.6%	11.7%	4.3%	10.4%	9.7%
Net Interest & Other Income	(14)	(22)	(27)	(27)	(27)
Net Income (Adjusted)	28	71	21	26	33
% Change	NM	155.7%	-70.1%	23.7%	23.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	28	71	21	26	33
Depreciation & Amortization	20	20	20	20	20
Change in Working Capital	(3)	(7)	(4)	(6)	(5)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(4)	(41)	9	2	2
Capital Expenditure	(1)	0	(1)	(1)	(1)
Free Cash Flow	41	44	46	42	49
% Change	NM	8.1%	4.1%	-9.1%	17.7%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(91)	202	(3)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	43	44	78	120	169
Trade Receivables	7	7	8	9	10
Other Current Assets	25	35	34	40	45
Property, Plant & Equipment	4	3	3	2	2
Other Non-Current Assets	534	627	645	645	645
Total Assets	613	716	768	815	871
Short-Term Debt	6	10	8	8	8
Other Current Liabilities	26	23	24	24	25
Long-Term Debt	173	371	372	372	372
Other Non-Current Liabilities	68	182	219	219	220
Total Liabilities	272	586	623	623	624
Total Equity	341	130	145	193	246
Total Equity & Liabilities	613	716	768	815	871

* For full definitions of iQmethodSM measures, see page 4.

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 667,284

Quarterly Earnings Estimates

	2022	2023
Q1	0.13A	0.05A
Q2	0.12A	0.11A
Q3	0.11A	0.10A
Q4	0.77A	0.08E

Price objective basis & risk

European Wax Center (EWCZ)

Our \$19 PO for European Wax Center is based on 18x 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

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US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	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
	Oddity Tech	ODD	ODD 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
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK 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
	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				
	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
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	VF 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

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

Denominator

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

Quality of Earnings

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

Numerator

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

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

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

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

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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European Wax Center (EWCZ) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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%

^{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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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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