



# The Wendy's Company (WEN)

Updated November 6<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$20	<b>5 Year CAGR Estimate:</b>	16.9%	<b>Market Cap:</b>	\$4.0 B
<b>Fair Value Price:</b>	\$22	<b>5 Year Growth Estimate:</b>	12.0%	<b>Ex-Dividend Date:</b>	12/02/2024
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.5%	<b>Dividend Payment Date:</b>	12/16/2024
<b>Dividend Yield:</b>	4.9%	<b>5 Year Price Target</b>	\$39	<b>Years of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## Overview & Current Events

Wendy's is the second largest hamburger quick-service restaurant chain in the U.S. (up from #3 prior to 2020), with over 7,000 restaurant locations globally and a market capitalization of \$4.0 billion. The company was founded in 1969 in Columbus, Ohio. More than 90% of the company's locations are in the United States.

On January 13<sup>th</sup>, 2023, Wendy's announced a 100% increase of its quarterly dividend to \$0.25 per share.

On October 31<sup>st</sup>, 2024, Wendy's reported third quarter 2024 results for the period ending September 29<sup>th</sup>, 2024. The company's global systemwide sales growth equaled 1.8% compared to growth of 4.8% in third quarter 2023. Global same-restaurant sales growth of 0.2% compared unfavorably to 2.8% in the same prior year period. Systemwide sales of \$3.64 billion compared to \$3.58 billion earned in Q3 2023.

Out of the 64 total new restaurant openings in the third quarter, the company had 31 net new restaurants, which compares unfavorably to last year's 51 net new restaurants on 72 total new restaurants. The U.S. saw 2 net new restaurants closed, while 33 net new restaurants openings were international. The global reimaging of Wendy's was reported to be 89% complete as of 3Q 2024 compared to 83% one year ago.

Adjusted revenues of \$444 million for the quarter was up just 0.5% year-over-year, driven by an increases in franchise royalty revenue and advertising funds revenue, and franchise fees. Adjusted earnings per share for Q3 2024 dipped 7.4% year-over-year to \$0.25.

The company repurchased 1.5 million shares for \$25.2 million in Q3 2024. Wendy's has \$248 million remaining under its share repurchase authorization.

Management updated its 2024 outlook for systemwide sales growth of 3% (from 3% to 5% previously). Adjusted EPS is forecasted to be \$0.99 to \$1.01. Additionally, the company expects free cash flow of around \$280 million and capex of \$95 million.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$0.33	\$0.32	\$0.40	\$0.43	\$0.59	\$0.59	\$0.57	\$0.82	\$0.86	\$0.97	<b>\$1.00</b>	<b>\$1.76</b>
<b>DPS</b>	\$0.21	\$0.23	\$0.25	\$0.28	\$0.34	\$0.42	\$0.29	\$0.43	\$0.50	\$1.00	<b>\$1.00</b>	<b>\$1.28</b>
<b>Shares<sup>1</sup></b>	366	272	247	250	241	233.0	223.0	220.4	215.3	207.6	<b>204.0</b>	<b>180.0</b>

Wendy's has aggressively repurchased its shares in recent years. In the last five years, it has reduced its share count by 14%, and in the last nine years it has reduced it by 43%. However, as Wendy's has greatly increased its leverage in recent years, its share repurchases are likely to decelerate. Given the double-digit net store count growth, medium-single digit same-store sales growth in the upcoming years, share repurchases, growing the digital business, building its breakfast daypart, and expanding its global footprint, Wendy's can be expected to grow its earnings-per-share at a 12% average annual rate in the next five years. While we have been concerned about the pace of store closures year after year in the

<sup>1</sup> In thousands

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past, in the trailing three years, Wendy's performed well on this front. In 2021, 2022, and 2023, out of the total new store openings, 57%, 53% and 58% were net new restaurants.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	25.9	32.2	26.6	33.6	28.9	35.6	37.0	32.9	24.1	22.9	20.4	22.0
Avg. Yld.	2.5%	2.2%	2.3%	1.9%	2.0%	1.9%	1.9%	1.5%	2.2%	3.5%	4.9%	3.3%

While Wendy's has traded at an average price-to-earnings ratio of 30 over the last decade, we believe that a fair ratio for the stock is around 22 times earnings given the economic environment. The stock is currently trading at a price-to-earnings ratio of 20.4 based on forecasted 2024 adjusted EPS. Indeed, the stock today trades at a discount compared to its historical averages.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64%	72%	63%	65%	58%	71%	51%	52%	58%	103%	100%	72%

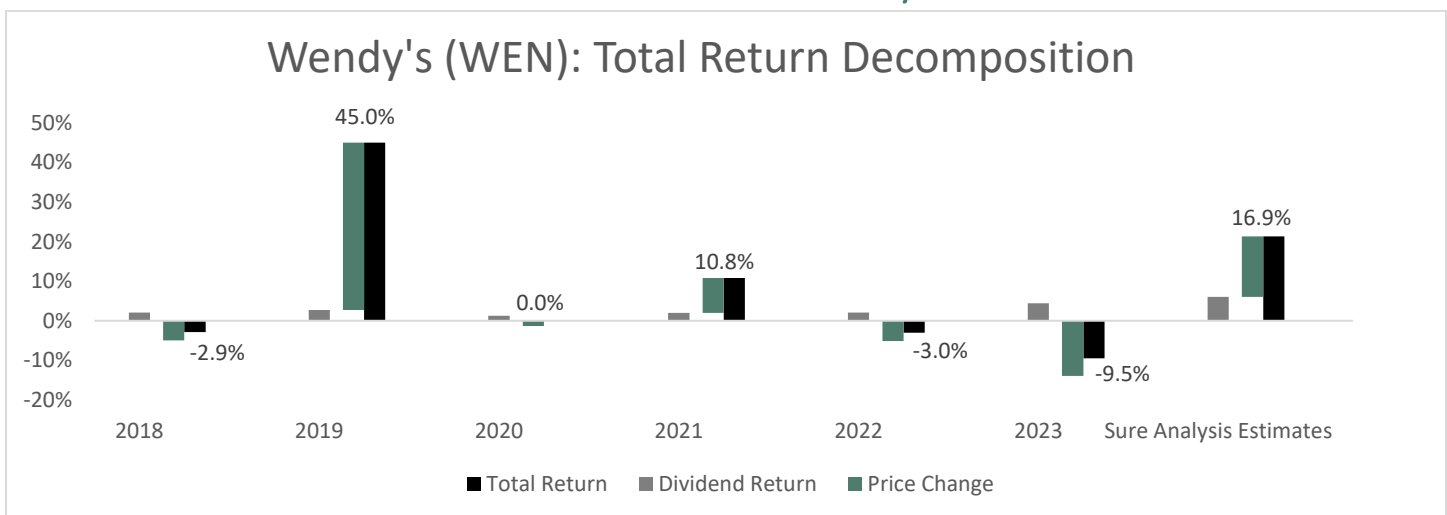
Wendy's management has been remarkably shareholder friendly. It has drastically reduced its share count in the last decade and had raised the dividend for ten years before the coronavirus pandemic ended the streak. The aggressive share repurchases have taken their toll on Wendy's balance sheet, which has become quite leveraged. The company is currently leveraged at 5.1X long term debt / trailing adjusted EBITDA. Management last mentioned its leverage target to be in the range of 4.5 – 5.5X, which it is within. The company's interest expense consumed about 32% of operating profit in 2023, which hurts its bottom line and renders the company vulnerable to any unforeseen headwind. Long-term debt, as of the latest quarterly report, stood at \$2.7 billion.

As competition has only grown fiercer in the fast-food business in recent years, we believe the company has only a weak brand-based competitive advantage. The company has a weaker brand than its primary competitor, McDonald's.

## Final Thoughts & Recommendation

The share price of Wendy's has increased by 20% since we rated it a buy in our last research report, in August. Wendy's offers a 4.9% dividend yield, and we estimate it can grow earnings-per-share at a 12.0% average annual rate over the next five years due to its multiple growth drivers. The stock is currently trading at 93% of our fair value estimate. Overall, we forecast 16.9% average annual return over the next five years. Given the potential, we reiterate Wendy's buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	1,999	1,870	1,435	1,223	1,590	1,709	1,734	1,897	2,096	2182
<b>Gross Profit</b>	606	638	609	601	603	606	621	698	721	776
<b>Gross Margin</b>	30.3%	34.1%	42.4%	49.1%	37.9%	35.4%	35.8%	36.8%	34.4%	35.6%
<b>SG&amp;A Exp.</b>	261	257	237	204	217	200	207	243	255	250
<b>D&amp;A Exp.</b>	160	154	124	126	129	132	133	126	136	149
<b>Operating Profit</b>	203	247	269	281	263	285	290	344	356	392
<b>Operating Margin</b>	10.1%	13.2%	18.8%	22.9%	16.6%	16.7%	16.7%	18.1%	17.0%	18.0%
<b>Net Profit</b>	121	161	130	194	460	137	118	200	177	204
<b>Net Margin</b>	6.1%	8.6%	9.0%	15.9%	28.9%	8.0%	6.8%	10.6%	8.5%	9.3%
<b>Free Cash Flow</b>	-44	23	44	157	154	214	215	268	174	260
<b>Income Tax</b>	76	94	72	-93	115	35	35	40	66	75

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,138	4,109	3,939	4,097	4,292	4,995	5,040	5,101	5,499	5183
<b>Cash &amp; Equivalents</b>	267	327	198	171	431	300	307	249	746	516
<b>Accounts Receivable</b>	66	106	100	116	112	101	94	102	99	105
<b>Inventories</b>	7	4	3	3	4	4	5	6	7	7
<b>Goodwill &amp; Int. Ass.</b>	2,174	2,110	2,064	2,065	2,042	2,003	1,976	2,056	2,022	1993
<b>Total Liabilities</b>	2,420	3,356	3,412	3,524	3,644	4,478	4,490	4,665	5,034	4873
<b>Accounts Payable</b>	77	54	28	23	22	23	31	41	44	27
<b>Long-Term Debt</b>	1,438	2,426	2,512	2,754	2,329	2,280	2,247	2,381	2,851	2762
<b>Shareholder's Equity</b>	1,718	753	528	573	648	516	550	436	466	310
<b>LTD/E Ratio</b>	0.84	3.22	4.76	4.81	3.59	4.42	4.09	5.46	6.12	8.92

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.9%	3.9%	3.2%	4.8%	11.0%	2.9%	2.3%	4.0%	3.3%	3.8%
<b>Return on Equity</b>	6.7%	13.0%	20.2%	35.2%	75.3%	23.5%	22.1%	40.6%	39.3%	52.7%
<b>ROIC</b>	3.7%	5.1%	4.2%	6.1%	14.6%	4.7%	4.2%	7.1%	5.8%	6.4%
<b>Shares Out.</b>	366	272	247	250	241	233.0	223.0	221.4	215.8	211.5
<b>Revenue/Share</b>	5.31	5.69	5.38	4.85	6.49	7.27	7.60	8.45	9.71	10.31
<b>FCF/Share</b>	-0.12	0.07	0.16	0.62	0.63	0.91	0.94	1.19	0.81	1.23

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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