Wingstop Inc (WING)

SELL: US$62.17 (-52.17%)

Equity Research Department – Consumer Discretionary

16 November 2020

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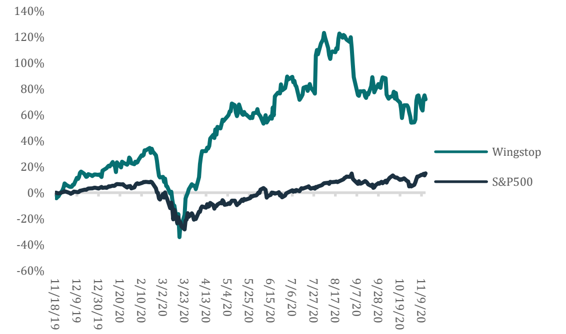
Basic Information

Last Closed Price:	US$129.98
12M Target Price:	US$62.17
+/-Potential:	52.2%
Bloomberg Ticker:	WING US
GICS Sector:	Consumer Discretionary
GICS Sub-Industry:	Consumer Discretionary

1Y Price v NASDAQ



Company Description

Wingstop Inc. franchises and owns restaurants globally and primarily offers an array of eleven distinct flavours for their chicken wing and chicken tender products. Wingstop possesses locations in the US, UK, Colombia, France, Indonesia, Malaysia, Mexico, Panama, United Arab Emirates, and Singapore

Key Financials

Market Cap	US$3.86B
Basic Shares O/S	US$29.6M
Free Float	99.6%
52-Wk High-Low	US$170.00-US$44.27
Fiscal Year End	31-Dec-2020

(US$'000)	FY18A	FY19A	FY20E	FY21E
Revenue	153,181	199,676	248,012	297,373
Gr Rate (%)	*15%*	*30%*	*24%*	*20%*
EBITDA	42,840	48,385	66,316	79,514
Gr Rate (%)	*15%*	*13%*	*37%*	*20%*
Net Income	21,719	20,476	33,035	43,019
Gr Rate (%)	*(9%)*	*(6%)*	*61%*	*30%*
ROA	0.155	0.123	0.129	0.149
ROE	(0.097)	(0.098)	(0.121)	(0.175)
EV/EBITDA	87.09	77.08	57.24	47.41
D/E	(1.387)	(1.484)	(1.651)	(1.790)

Key Executives

Charles Robert Morrison	Chairman, President & Chief Executive Officer

We are initiating a coverage of **Wingstop Inc., ("Wingstop" or the "Company")** with a **SELL** rating and a **$62.17** 12M price target.

2Q20 Earnings Highlight

System-wide sales increased 37.0% to $509.0m from last year
Domestic same store sales increased by 31.9% from Q22019
Domestic restaurant AUV increased to $1.4m from $1.2m the preceding year

Investment Thesis

- **Poor capital utilization gives rise to a shaky foundation** for their company's financial structure going forward, highlighting management's unvested interest in the long-term success of the company
- **Inherent weaknesses in Wingstop's business model** makes it highly susceptible to **macro headwinds**, which will slow down its same-store sales growth and compress its margins
- **Excessive optimism surrounding franchise model** as the employment of a franchise model limits financial gains, while Wingstop's fortressing real estate strategy runs the risk of cannibalisation

Catalyst

- **Increasing competition from plant-based competitors** will enable brands to acquire market share away from Wingstop due to its limited product offerings in comparison as it solely offers conventional chicken wings and other chicken based products
- **Continuous drought** in the US is expected to exacerbate farming conditions which translates to increased difficulties surrounding US chicken feed production and a subsequent rise in both chicken feed and chicken prices

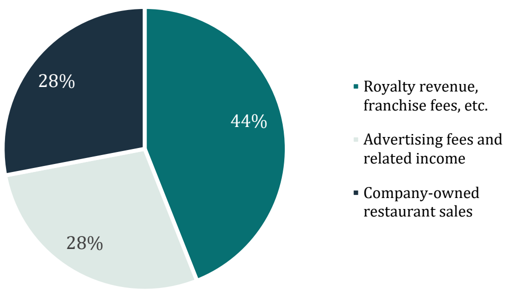
Valuation

Our 12M target price from the date of coverage is US$62.17. The valuation was obtained through a weighted average price blend from discounted cash flow valuations and relative valuations.

Investment Risks

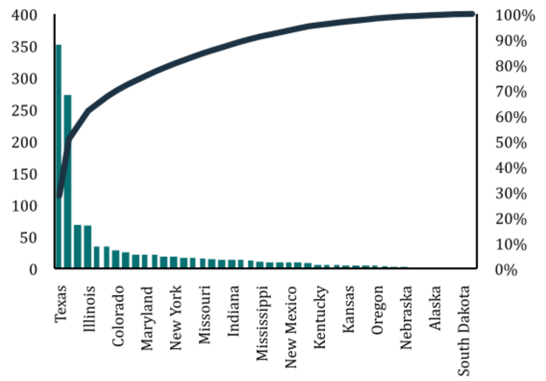
- **A pork shortage** caused by the African Swine Fever will erode pork supply and will drastically increase pork prices, causing consumers to switch to chicken meat consumption as it is a cheaper and more affordable economic substitute for pork
- **Wingstop may be well-poised to adopt ghost kitchens** which bolsters its business model and focuses on off-premises dining, given its increasing prevalence in quick service restaurants
- **Definite end to COVID-19 is hard to reasonably forecast** in the US due to the constant escalation of COVID-19 cases which will continue to strengthen Wingstop's growth, allowing it to capitalise on the conditions set by the pandemic through its exclusive delivery partnership with DoorDash
- **Successful international expansion into China** through the establishment of 1000 additional franchise locations will permit international growth and brand recognition

Figure 1: Wingstop Revenue by Business Segment



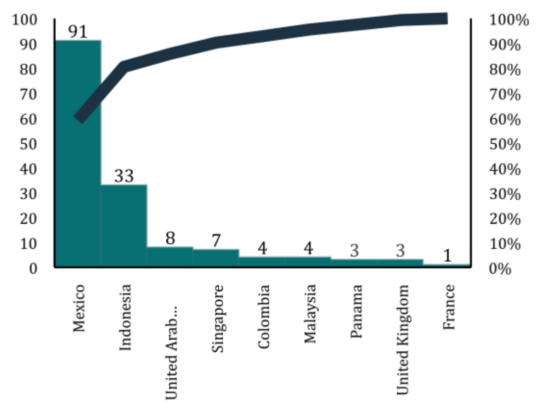
Source: Wingstop 10-K

Figure 2: Domestic Restaurants by Region



Source: Wingstop 10-K

Figure 3: International Restaurants by Country



Source: Wingstop 10-K

Company Overview

Founded in 1994 and headquartered in Dallas, Texas, Wingstop Inc ("Wingstop" or "The Company") operates and franchises over 1,450 locations worldwide. Wingstop operates through two segments: Franchise and The Company. The Franchise segment consists of domestic and international franchise restaurants. The Company segment comprises company-owned restaurants. Wingstop operates in a rapidly growing fast casual segment of the restaurant industry, competing primarily with fast casual establishments and quick service restaurants, local and regional sports bars, and casual dining restaurants.

They specialize in cooked-to order, hand-sauced and tossed chicken wings with a diverse variety of 11 flavours. The menu provides bone-in and boneless chicken wings paired with hand-cut, seasoned fries, and other sides which includes beer and wine where legally permitted. It is a fast casual chicken wings-focused restaurant chain that offers various order methods such as eat-in, to go, delivery with portion options of individual and combo meals together with family packs.

Franchise-based revenue

As of October 2020, there were 1,479 Wingstop restaurants system-wide with 1,308 restaurants in the United States, of which 1,277 were franchised and 31 were company-owned. The other 171 international franchised restaurants span across nine countries. Its franchise system is made up of independent franchisees, or brand partners, who account for more than 98% of Wingstop's total restaurant count currently. The typical length of the initial franchise term lasts for 10 years from the actual date the restaurant opens for business. Wingstop does not offer direct or indirect financing for its franchisees, leaving them with the sole option of using capital financed sourced based on the franchisees' discretion.

Wingstop primarily earns its revenue from royalty fees from its franchisees, where it collects 6% of gross sales from them. Other fees such as Training, Auditing and Renewal fees are charged to their franchisees as part of the operational costs Wingstop spends on, for their franchisees to set up their restaurant successfully. This also contributes to the revenue Wingstop earns from its franchisees, apart from royalty revenue. Wingstop currently earns 44% of its total revenue from its franchise-based revenue.

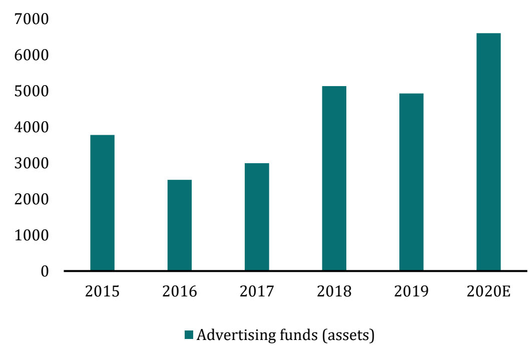
Advertising-based revenue

Wingstop charges its franchisees an advertising fee at 4% of their gross sales. This fee contributes to a Wingstop Restaurant Advertising Fund, a not-for-profit "Ad Fund" that consolidates the fees from franchisees to engage in marketing and advertising on a national scale via an extensive range of social media and digital marketing tools, inclusive of national television campaigns. It also constitutes marketing for Wingstop's products, services and restaurants, conducted on digital and physical platforms to reach out to consumers. However, this 28% contribution to total revenue does not directly translate to a significant increase in net income, as Wingstop spends quite a large percentage of the revenue they earn via this source on their advertising scheme.

Company-owned operating sales-based revenue

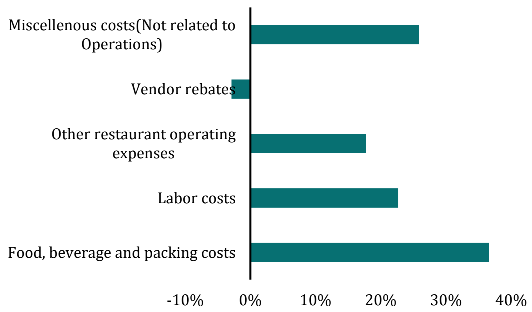
Company-owned operating ("COO") sales-based revenue stood at 28% of total revenue. This figure is derived from 31 COO domestic restaurants as of 2Q2020. The number of COO stores are being dwarfed by the other 1,448 franchised restaurants, and yet COO sales-based revenue contributes a substantial portion to Wingstop's' total revenue. What this signifies is that if Wingstop were able to keep operating expenses low and stable as they venture into opening more COO stores, they would be able to materially improve the amount of total revenue and ultimately net income. However, Wingstop currently

Figure 4: Wingstop's Growing National Advertising Fund



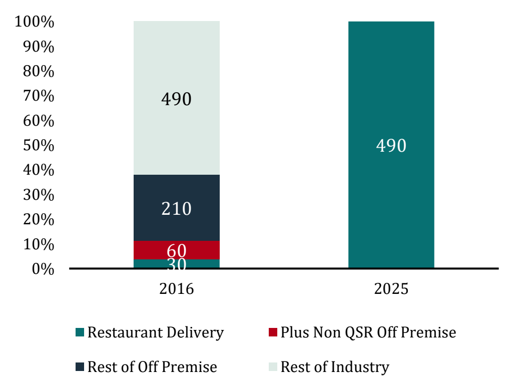
Source: Wingstop Investor Presentation

Figure 5: Cost of Company-Owned Restaurant Sales Breakdown



Source: Wingstop 10-K

Figure 6: 2025 Food Delivery Market Projection



Source: Morgan Stanley

has no plans to do so and is solely focused on garnering more franchisees to open domestically and internationally.

2Q2020(YoY) Earnings Review:

- System-wide sales increased 37.0% to US$509.0m
- 23 net openings in the fiscal second quarter 2020
- Domestic same store sales increased by 31.9%
- Total revenue increased 36.1% to $66.1m. An increase in advertising fees and related income by 47.4% to US$19.9m while company-owned restaurant sales increased by 31.6% to US$18.3m.
- Net income increased 134.6% to US$11.5m, or US$0.39 per diluted share, compared to US$4.9 million, or US$0.17 per diluted share, in the prior fiscal second quarter

COVID19-Development:

Wingstop has thrived amidst the pandemic as it smoothly transitioned into a fast-casual restaurant that adopts technology at its forefront with a strong focus on digitalization of orders. When the pandemic hit hard in March, the chain closed all 1,413 of its dining rooms, with the pre-COVID19 digital focus facilitating its shift to a takeout and delivery-only model domestically during COVID-19. The pandemic has also allowed for Wingstop to accelerate its plans of digitizing every transaction in the future. Online sales have increased from 40% of gross sales to 65% with deliveries being the main driver of growth. Wingstop is not pressed to and faces barely any pressure to re-open any of its domestic dining rooms given the success of its digital model during the pandemic in FY2020. Instead, it is going to keep them closed for an extended period of time for the safety of its consumers and employees, showing its confidence in extending the growth in sales it experienced so far during the pandemic.

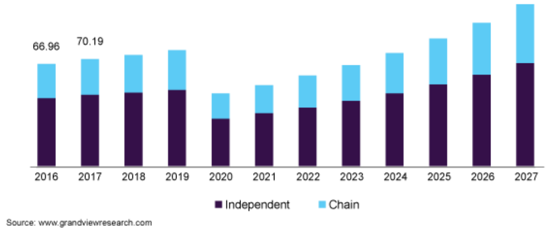
However, Wingstop's international business was hit relatively harder as compared to its domestic market. These 160 international restaurants rely more heavily on the ability to provide dining rooms for consumers to dine-in where its business has more of a casual-dining structure, causing an adverse impact on international sources of revenue.

2Q2020 was its strongest quarter ever since its IPO in 2015, and this can be credited to COVID-19, which implemented lockdowns and strict social distancing measures. As vaccines gain ground and make headways, consumers are increasingly looking forward to dine-out more often. Considering the rapid take-off of its takeaway and delivery model due to the pandemic, there is reasonable doubt as to whether any resemblance in growth will resurface in the future.

Industry Outlook

The fast-casual restaurant industry is extremely competitive due to the low barriers to entry and the lucrative prospects of high profits. The global fast-casual restaurant industry has accumulated US$125.6B in revenue 2019 and this is forecasted to reach US$209.1B by 2027 with a CAGR of 10.6% between 2021 and 2027. North America dominates the fast-casual industry as in 2019, it possessed almost half of the global fast-casual market. The fast-casual industry holds many similarities with fast-food restaurants. The main differentiating factor between the two industries is that fast-casual restaurants typically offer higher food quality than fast-food restaurants. As such, we will consider the fast-casual industry in conjunction with the fast-food industry.

Figure 7: U.S. Quick Service and Fast-Food Market Size by Type Between 2016-2027 (USD Billion)

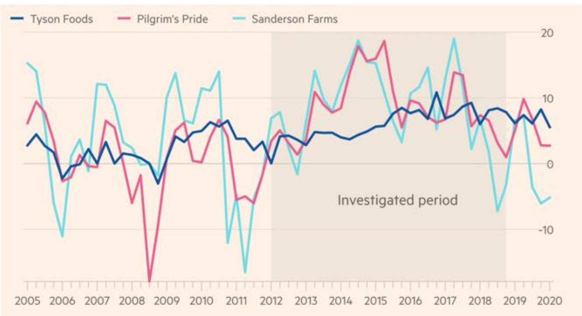


Source: Grand View Research

Figure 8: Chicken Concentrated Animal Feeding Operation

Source: CAFO

Figure 9: EBIT margin (%) of Tyson Foods, Pilgrim's Paradise , and Sanderson Farms between 2005 and 2020



Source: Sentieo, S&P Global, SEC filings

Chicken Supply

Increased farming regulations

Concentrated Animal Feeding Operation's ("CAFO") are prevalent in the US. 99.9% of chickens raised for meat are expected to have been raised from CAFOs. CAFOs are unethical and unsustainable industrial sized livestock operations wherein hundreds to millions of animals are confined for at least 45 days.

In 2020 The Farm System Reform Act ("FSRA") had been introduced. The FSRA prohibits the expansion and creation of CAFOs and enforces CAFOs to be completely phased out by 2040. This is due to the adverse risks posed by CAFOs to the environment and public health. CAFOs produce massive amounts of animal sewage and pollutants in varieties over 168 gases -- including ammonia, hydrogen sulfide, and methane -- are released. This will cause a shift in animal production practices -- animals will no longer be produced at such a massive scale. Additionally, the FSRA will impose limitations on the use of antibiotics on animals, animal cruelty and extreme animal confinement. This legislature will permit debt forgiveness to CAFO owners and will encourage CAFO owners to transition into growing specialty crops and organic commodity production. As such, the implementation of the FRSA will significantly decrease the production and supply of animals for consumption. Correspondingly, an increase in poultry prices will be expected. It should be noted that firms have not been preparing for this as of 2020, as while the FRSA has been introduced, it has not fully been passed into US legislature.

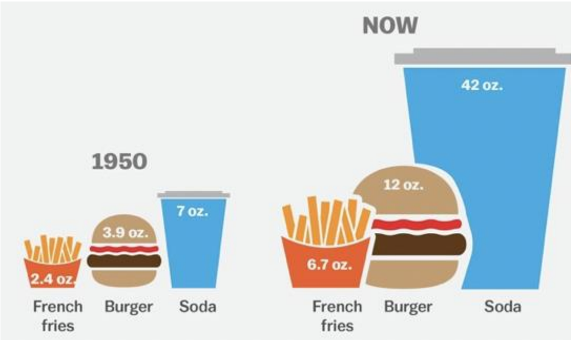
Rising poultry prices and poultry price fixing

Industry leaders from well-established poultry companies such as Pilgrim's Pride, Claxton Poultry, Tyson Foods, and Sanderson Farms have been found to be escalating poultry prices that have been sold to stores and restaurants. Through AgriStats, these companies have been accused of sharing detailed, non-public information concerning prices, capacity, sales volume and demand. This has enabled executives to coordinate and inflate prices to bolster their profits. This had an immense impact on the poultry industry due to the market share that these companies possess. For instance, Pilgrim's Pride has acquired over 17% of the US poultry market, making it one of the largest poultry producers in the US and the world. Approximately one out of every five chickens in the US come from Pilgrim's. Additionally, they provide over 133.0m daily servings of protein to retailers, restaurants, foodservice providers and consumers globally. Similarly, Claxton Poultry sells an estimate of 300.0m pounds of chicken to over 750 customers including retail grocers, distributors, and restaurants. The size and breadth of the multiple alleged companies involved in this scheme has enabled them to collude successfully, leading to escalating poultry prices and a decrease in free market competition. It can be implied that this increase in prices has led to an increase in expenses for a proportion of consumers. As seen in Figure 9, collusion between Tyson Foods, Pilgrim's Pride, and Sanderson Farms has possibly contributed to the increase in respective company EBIT margins between 2012 and 2019. Only Pilgrim's Pride has been charged and has agreed to pay a fine of US$110.5m. Given that Pilgrim's Pride has been the only company charged for this price fixing allegation, this does not eliminate the possibility of the other alleged companies from engaging in price fixing in the near future.

Demand for fast food

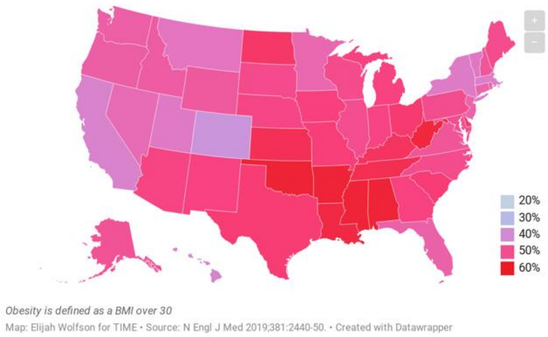
There is a strong base of consumer demand for fast food in the US. A study completed by the National Center for Health Statistics stated that 36.6% of adults in America eat fast food on any given day in a week, and this percentage is 44.9% for US adults between the ages of 20-39 and 24.0% for individuals above 60 years of age. In order to meet this demand for fast food, there are over 192,218 fast food restaurants in

Figure 10: The Average Restaurant Meal Today is Four Times Larger Than in the 1950s



Source: CDC, Vox

Figure 11: Projected Obesity Rates per US State, 2030



Source: TIME

Figure 12: Global Health and Wellness Food Market 2018-2022

Source: TechNavio

the US. Furthermore, the global fast food market is anticipated to grow at a CAGR of 4.2% between 2017 and 2022 and amount to US$690.0B in 2022. By 2027, the global fast food market is forecasted to amount to US$931.7B. Evidently, the demand for fast food is expected to experience long term growth.

Consumer demand for fast-food is partly due to the extreme convenience of the fast-food industry and its affordability. A variety of fast-food chains have numerous restaurants within a wide array of locations. KFC has over 23,000 branches in over 140 countries globally and there is approximately one KFC outlet per every 8.24 square kilometres in Singapore. Additionally, many competitors in the fast food industry offer the option of delivery at a small fee or for free. Furthermore, the price of a US a McDonald's Big Mac meal is 34% cheaper than the average price of a burger in New York, Los Angeles, and Chicago. Additionally, eating healthily may not be a sustainable option for certain consumers as over 34m Americans live in poverty as of 2019, and a US$550 increase in food cost is associated with the maintenance of a healthy diet.

<u>Shift in consumer preferences for healthy food</u>

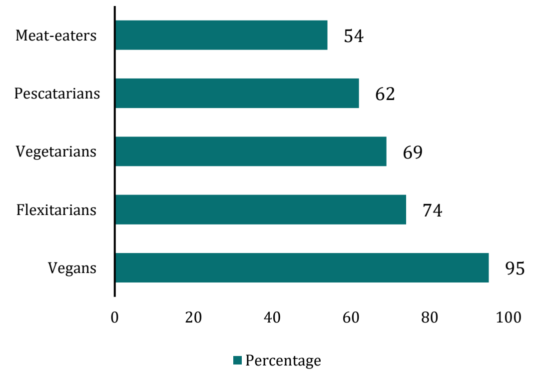
Trends in consumer preferences have indicated a shift towards healthy food consumption. The organic fruits and vegetables segment of the global organic food market is forecasted to grow at a CAGR of 9.0% between 2019 to 2024. Between 2020 and 2025, the global organic food and beverage market is expected to grow at a CAGR of 16.4% Consumers have become increasingly aware of the detrimental health effects that can be caused by the consistent consumption of fast food and poor diet choices. A survey found that 93% of consumers aim to eat healthy at least sometimes, whereas 63% of consumers attempt to eat healthy the majority or all the time.

Similarly, there has been a shift towards the adaptation of a plant-based diet. In 2015, approximately 290,000 individuals followed plant-based diets in the US, however this figure has increased significantly as 9.7m as of 2020 follow plant-based diets. The plant-based food market is anticipated to grow at a CAGR of 11.9% between 2020 and 2027 and is projected to amount to US$72.7B by 2027. Similarly, the global vegan food market is expected to grow at a CAGR of 9.6% from 2019 to 2025. Consumers have become increasingly concerned regarding animal welfare as globally, over 80.0B land animals are raised to be slaughtered for food annually. A survey conducted by YouGov in 2018 stated that 63% of participants denoted that they would be less likely to buy meat from a company that had a poor reputation regarding animal welfare. Similarly, a 2018 survey by the National Chicken Council indicated that two thirds of participants were concerned regarding the way in which chickens are raised for meat. Arguably, the adverse and unethical impacts of animal products have caused individuals to opt for plant-based meals instead. This is suggested by the 37% growth in alternative meat sales in North America between 2017 and 2019.

Highly competitive market

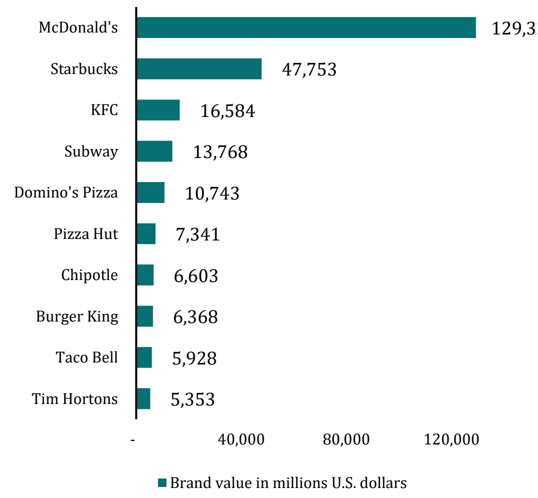
The fast food and fast casual segments within the restaurant industry are highly competitive and will continue to be due to the rapid expansion of many players. This is evidenced by the sheer number of fast food restaurants in the US which amounts to 192,218 restaurants. Wingstop competes based on the taste, quality, and price of the food, ambiance, location and overall dining experience. Competitors primarily include fast casual establishments and quick service restaurants, in addition to local and regional sports bars and casual dining restaurants. Many of these competitors are well-established restaurant chains that are present both nationally and regionally. Some examples include Pizza Hut and Dominos that include wings as a side item on their menu. Additionally, players such as Buffalo Wild

Figure 13: Percentage Agreeing with the Statement 'I consider myself to be a healthy eater'



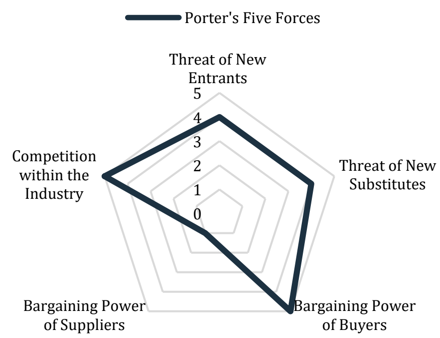
Source: YouGov

Figure 14: Brand Value of the Ten Most Valuable Quick Service Restaurant Brands Worldwide 2020 (in million USD)



Source: Kantar Milward Brown

Figure 15: Porter's Five Forces



Source: NUS Investment Society estimates

Wings and Wing Zone similarly focus on the distinct flavours that they offer consumers.

Porter's Five Forces

Competition within industry – Very high

Competition in the fast food and fast casual categories in the restaurant industry is extremely strong. Wingstop's competitors that similarly operate through a franchise operating model are rapidly expanding as well. Some examples include competitors such as Chick-fil-A, KFC, Bojangles, and Popeyes. Furthermore, Wingstop experiences immense competition regarding its menu offerings -- wings. Wingstop faces competition from establishments that specialise in wings such as Buffalo Wild Wings, Wing Zone, Hurricane Grill & Wings, Bojangles, and more. Wingstop likewise experiences competition from prominent establishments that offer wings in their menu such as Pizza Hut, Dominos, and KFC.

Threat of new entrants – High

The barriers to the restaurant industry are low, due to the low technical expertise required. While it may be expensive to purchase real estate to open a stall, more capital-light alternatives abound like renting a space or setting up a food truck. Consequently, it is extremely likely that new entrants will enter the market. There is also the threat of any of the many existing, established competitors adding new chicken wing items to their menu, which would not be costly at all.

Threat of substitutes – High

There has been increasing popularity in plant-based meat where players such as Beyond Meat used to offer plant-based chicken tenders, while Tyson Foods' Raised and Rooted offers plant-based chicken nuggets while Morning Star Farms offers plant-based Buffalo Wings. As such, the threat of substitutes in the fast food and fast casual category is high. This is due to the wide variety of restaurant chains that offer similar menu items at a similar cost.

Bargaining power of customers – Very high

There is a wide variety of substitutes in the fast food and fast casual dining category. This is supported by the fact that there are over 50,000 fast food chains in the US alone. This means that switching costs are low and buyer power is high. Additionally, the product offerings of Wingstop are common and similar products are offered by their competitors in the fast food and fast casual category. Due to this, buyers have the option to purchase wings from a multitude of options in the US which translates to a high bargaining power.

Bargaining power of suppliers - Low

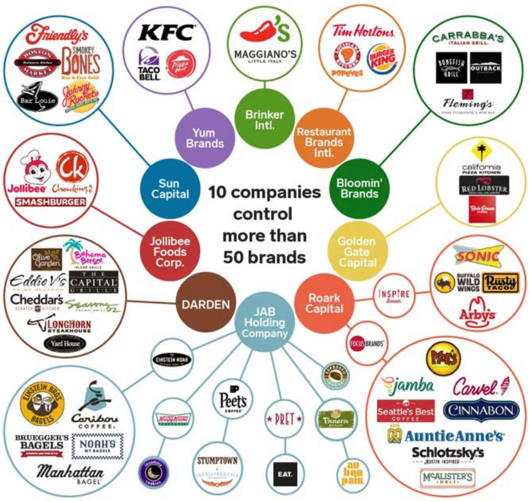
Within the US, Wingstop franchisees currently rely on only four suppliers for their bone-in and boneless chicken wings. However, if Wingstop is dissatisfied with the terms offered by these suppliers, they can easily look for new suppliers to forge relationships with – in the US, there are over 30 companies in the business of raising and processing chickens through a vertically integrated basis and over 25,500 family farms that supply chicken to companies.

Internationally, majority of Wingstop's franchisees are in Mexico (91 out of 154) and Indonesia (33 out of 154). In Mexico, the chicken supplier industry is fragmented, with 632 wholesale chicken dealers and more than 46,000 chicken outlets, which means that bargaining power of suppliers is again low in Mexico. In Indonesia, however, 2 main day-old chick production companies control most of the poultry supply industry, which would mean high bargaining power for suppliers there. Nonetheless, given that only 33 out of 1,354 of Wingstop's restaurants are in Indonesia, Wingstop on the whole has only limited exposure to suppliers with high bargaining power.

Figure 16: Morning Star Farms Plant-Based Buffalo Wings

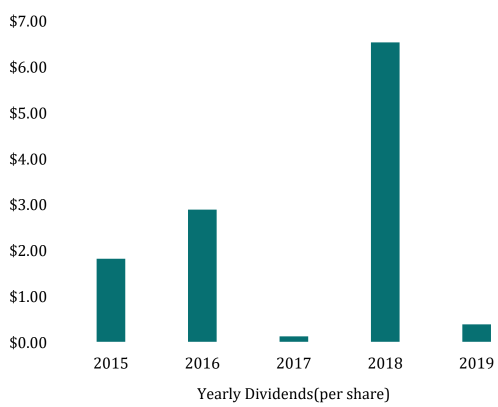
Source: Morning Star Farms

Figure 17: Large Variety of Quick Service Restaurants



Source: Business Insider

Figure 18: Wingstop Yearly Dividends (per share)



Source: Wingstop 10-K

Investment Thesis

1. Poor capital utilization gives rise to a shaky foundation for Wingstop's financial structure.

Going forward, this highlights the management's' unvested interest in the long-term success of the company. This is seen from how they are repeatedly overleveraging, coupled with the fact that some of its debt goes to rewarding shareholders excessively with special dividends.

<u>Imprudent overload on debt</u>
The constant profusion of new debt is a key reason behind Wingstop's weak strategies in capital management. Wingstop relies on a heavily leveraged structure to further its growth by continuously re-financing their debts. This has led to a situation whereby the repayment of pre-existing debt is contingent on taking on new debt to effectively do so. In 2020, they sought out additional debt once again to refinance its existing security financing facility. Each new secured credit facility Wingstop obtains essentially replaces the preceding securitized financing facility. At the end of FY19, long-term debt stood at $308.0m. They have repeated the same refinancing habits in 3Q2020, due to lower interest rates as they issued a new series of $480.0m of securitized notes to repay the existing US$317.0m principal amount outstanding on the notes issued in 2018, increasing their leverage exposure once again to US$480.0m coupled with a new US$50.0m revolving credit facility taken on to replace the previous one at US$20.0m.

Interest expense has increased five-fold from 2015 to 2019 in just four years. It is expected to take up an increasingly higher percentage of revenue moving forward - eroding net income if debt levels are sustained or due to increase over time. To avoid this predicament, Wingstop must improve its gross margins and earnings to a level where it can comfortably repay its debt without taking on any additional financing.

A notable concern here is how Wingstop took on extra debt, on top of its anteceding heavy leverage exposure to provide special dividend pay-outs at astronomical levels when compared to past amounts historically distributed to shareholders. They have done this in 2018 and has attempted it again in 2020, showing an inclination to likely repeat this in future recapitalizations.

<u>Unwarranted special dividends financed by taking on more debt</u>
Despite this, the management has still chosen to give out special dividends that may have pleased shareholders but was fundamentally unnecessary, especially in consideration of Wingstop's goals of pursuing an aggressive expansion plan.

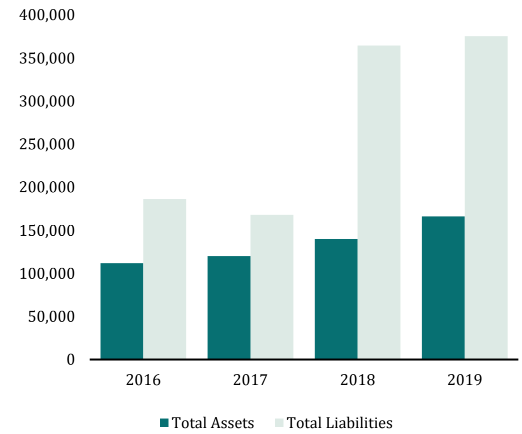
Comparing dividends per share for the past fiscal years since its IPO in 2015, they paid US$0.14 in FY17 and US$0.40 in FY19. However, what stood out was the special dividend given out in 2016 and 2018 which stands at $2.90 and $6.54 per share respectively, which was notably much higher than the average dividends per share given out since 2016. In addition, the company borrowed US$320.0m in FY18 to finance this special dividend and has repeated this refinancing in FY20 once again with the same purpose, giving a total dividend of US$5.50 per share. Taking on additional debt just to overreward shareholders instead of using it to reinvest in the company's growth is a strong cause for worry.

The decision made to give out quarterly dividends is beneficial for its shareholders, and duly reasonable, but such cases of special dividends at such a high amount per share is not beneficial for Wingstop's' growth considering its long-term pursuit of opening 6,000 stores worldwide. With that in mind, if this special dividend is a recurring

Figure 19: Wingstop Long Term Debt

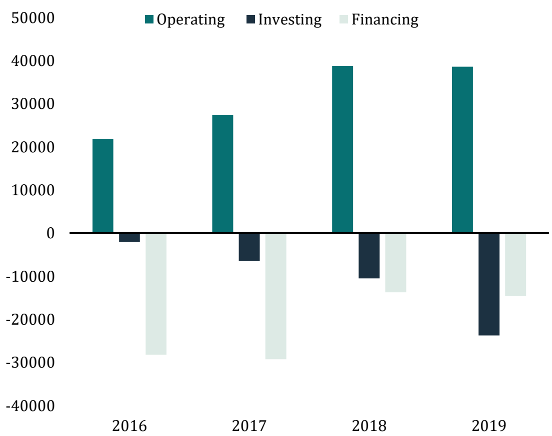
Source: Koyfin

Figure 20: Wingstop Annual Balance Sheet



Source: Wingstop 10-K

Figure 21: Wingstop Annual Cash Flow



Source: Wingstop 10-K

event, there is a plausible cause for doubt that the company might not be able to cope with its increasingly heavy debt overload, eventually resulting in insolvency.

Historically, when Wingstop has raised new debt by refinancing, they typically tend to issue special dividends and we expect that history will repeat going forward with the same approach taken. With regards to the yearly dividends given to shareholders, the amount calls for substantial doubts to be raised as they take up a hefty percentage of net income. When we factor in special dividends, dividends paid as a percentage of net income stands at an alarming level of 878% of net income for FY18. This calls attention to a pattern of management that panders to the short term wants of shareholders by rewarding them with hefty dividend sums, in exchange of potentially jeopardizing the long-term financial health of the company.

This is further highlighted by the low insider ownership standing at 0.40%, which shows that the management is unlikely to be vested in the long-term success of the company. This cause for concern is further highlighted when we notice that Wingstop has negative shareholder equity for the past few years since FY14 till date. The question imposed here is whether Wingstop's long-term vision is attainable with such poor corporate decisions made, or is it an unreasonably optimistic goal that is out of reach?

2. Inherent weaknesses in Wingstop's business model

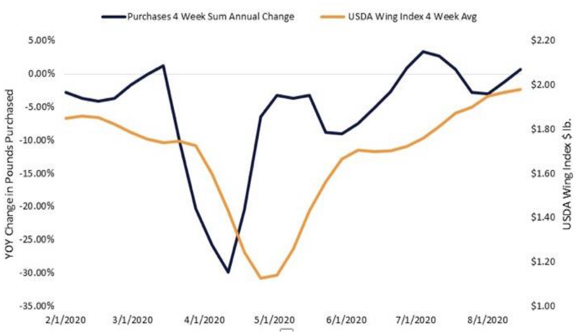
This causes Wingstop to be highly susceptible to macro headwinds, which will eventually slow down its same-store sales growth and compress its margins once the economic climate and trends are no longer in Wingstop's favour.

<u>Weak competitive advantage amidst intense competition</u>

Historically, Wingstop's key sources of competitive advantage has been its exclusive focus on chicken wings, which has allowed it to develop high quality recipes, and its high percentage of sales that are ordered on a takeout or delivery basis (80% pre COVID-19), which allows it to save greatly on rent payments and thereby spend more on marketing and promotional efforts. These sources of competitive advantage are being eroded as a result of the COVID-19 pandemic, which has forced restaurant operators to adapt by shifting more towards takeout and delivery models. In line with that, there has also been increased interest in chicken wings, which are convenient food items for delivery. For example, other restaurants like Fazoli, Brinker International and Smokey Bones have jumped on the chicken wing bandwagon, adopting the same service, and ordering model that has propelled Wingstop's sales during the pandemic – rolling out delivery-only operations serving chicken wings. What constitutes a bigger threat is that its strong competitor in the QSR industry, Domino's has recently unveiled the results of its three years of R&D done to upgrade its chicken wing products and make them available at a lower price point than most of the major restaurant operators in the industry. Collectively, these will result in more alternatives for consumers of chicken wings, some of which will be of great quality like Wingstop's, as well as competitors lowering their real estate costs as a percentage of revenues due to the adoption of different restaurant models. All these will erode Wingstop's competitive advantage in the near term.

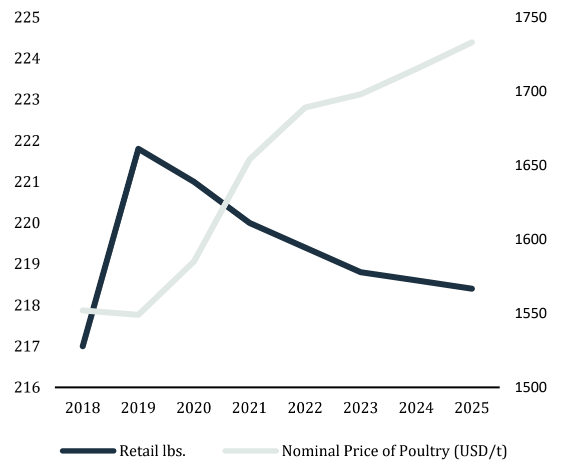
In the long term, Wingstop's competitive advantage of a takeout and delivery model will not just be eroded, but it will instead become a competitive disadvantage. The experience economy is rising - as millennials enter the labour force and inherit money from baby boomers, a greater proportion of consumer dollars will end up in the pockets of millennials, who are likely to spend a greater proportion of their money on experiences rather than tangible products as compared to baby boomers. According to a 2017 study by McKinsey,

Figure 22: ArrowStream Network Chicken Wings Purchases and Wing Wholesale Market



Source: ArrowStream

Figure 23: Coronavirus to Reduce U.S. per-capita Meat Consumption After Years of Gains



Source: Bloomberg, OECD iLibrary

Figure 24: Concentrated Animal Feeding Operation

Source:Puget Soundkeeper

82% of millennials spent on a variety of experiences like concerts, sports events, parties etc. In the year, as compared to 70% of older generations. Hence, in the long term, Wingstop's focus on takeout and delivery, which is essentially just supplying tangible products, over providing memorable dine-in experiences, will result in it losing its share of the growing millennial market segment to competitors like Buffalo Wild Wings, which places huge focus on creating a fun, party-like ambience where friends can hang out and watch sports together.

Collectively, these trends will result in Wingstop facing greater difficulties in capturing more market share, which cause its same-store sales growth to slow down.

<u>Heavy dependence on chicken wings makes Wingstop highly susceptible to a projected rise in chicken wing prices</u>

Wingstop is far more susceptible to projected rises in chicken wing prices as compared to its competitors as a result of its almost exclusive focus on chicken wings and lack of diversity in its menu. This results in costs of chicken wings taking up a disproportionately large percentage of Wingstop's cost of sales. In FY18 and FY19, the cost of bone-in chicken wings took up 25% and 28% of cost of sales respectively.

Those costs are likely to increase with the outburst of competitors and progressively stringent environmental regulations. This is considering how major restaurant players in the fast-food and fast-casual scene have realized the lucrativeness of the chicken wing business and are currently trying to "buy in", piling up in line to ride the trend on the surge in appeal of chicken wings. They have done so by including chicken wings on their menu and investing in developing their recipes, which is a clear indication that wings are here to stay as a part of many restaurants' food item list. This will ultimately result in a significant increase in chicken wing prices in the near future as restaurants purchase more wings and demand goes up.

Environmental/governmental regulations such as the implementation of the 2019 FSRA have called for the elimination of CAFOs. What this signifies is that poultry factory farms that typically cram animals in tight, confined spaces to efficiently produce the greatest supply of chicken will not be allowed to do so anymore. They will instead have to employ environmentally friendly and cautious methods to comply with the FSRA. These new methods would take more effort and steps in rearing chickens, resulting in it becoming more expensive to produce the same amount of poultry. Overall, there will be a decrease in supply of chicken wings due to the constraints that farms now face of not being able to factory farm and the increased costs of adopting alternative farming methods. This will result in chicken wing prices increasing.

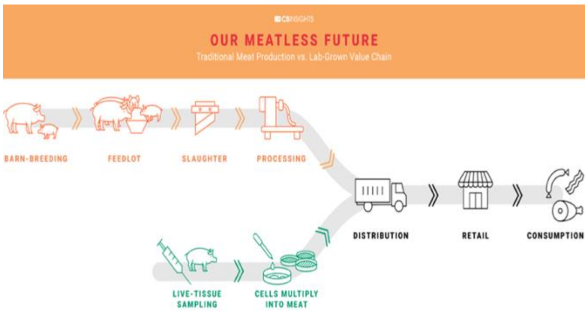
On the whole, Wingstop, with its heavy dependence on chicken wings, will be highly susceptible to margin compressions as a result of these macro demand and supply factors in the craw chicken wing market.

<u>Wingstop's fried chicken wings-focused menu will result in its same-store sales growth slowing down as consumers' tastes and preferences change</u>

Wingstop's menu which specialises in fried chicken wings as its primary item coupled with deep fried fries would result in the company's same-store sales growth slowing down amidst trends towards healthier eating and plant-based meats.

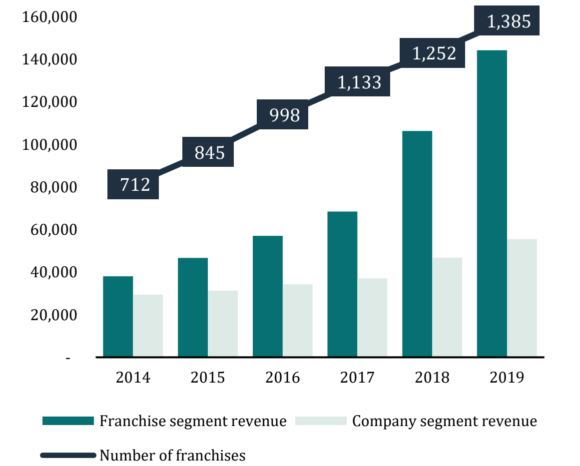
Research by TechNavio has shown that the health and wellness food market is expected to grow at a high 6% CAGR from 2020 to 2024. This points to the trend of more and more health-conscious consumers, which would probably result in Wingstop's same-store sales growth slowing down as it becomes more difficult to get consumers to consume its less than healthy items.

Figure 25: Traditional Meat Production vs. Lab Grown Value Chain



Source: CBInsights, Business Analytics and Global Data

Figure 26: Wingstop Franchise Segment Revenue, Company Segment Revenue, and Number of Franchises



Source: Wingstop 10-K

Figure 27: Wingstop Franchise

Source: CNN

Another unfavourable trend to Wingstop is the rise of plant-based meats. Owing to a confluence of factors including growing environmentalism, vegetarianism and veganism, as well as food technology advancements, the demand for alternative protein is growing rapidly. In fact, Meticulous Research projected a 9.5% CAGR for the market from 2019 to 2025. In line with this trend towards plant-based meats, competitors like Burger King and McDonalds have begun to adopt them in their menu. KFC has also partnered with Beyond Meat to produce plant-based fried chicken wings and nuggets which sold out almost immediately after their test launch. Unlike these larger competitors, Wingstop will have difficulty developing plant-based meat products due to the capital-intensive R&D required. Hence, as consumer tastes and preferences shift rapidly towards plant-based meats and larger competitors are able to cater to these new tastes and preferences, the attractiveness of Wingstop to consumers vis-a-vis competitors offering plant-based meats will decrease and result in a slowdown in their same-store-sales growth.

3. Excessive optimism surrounding franchise model

Wingstop predominantly operates through a franchise model. 98% of Wingstop's restaurants are currently owned and operated by independent franchisees. As of 28 December 2019, 1,354 restaurants were operated by Wingstop's franchisees in 44 US states and in 10 countries. Although Wingstop's adoption of a franchised operating model has provided it with the perceived advantage of rapid growth, and minimal capital used for investments, this is not an entirely accurate depiction.

<u>Risk of cannibalization</u>

The franchise model that Wingstop employs is easily replicable due to the lack of control through low barriers to entry. These low barriers to entry allowed for Wingstop's rapid growth which the company uses to drive its valuations. However, Wingstop's franchise model runs the risk of cannibalization due to their rapid growth. Wingstop has adopted a fortressing real estate strategy with the intention of fortressing its key domestic markets. These include Texas and California with a store-per-capita of 0.72 and 1.29 per 100,000, respectively. There is approximately one Wingstop location every 1.55km^2 in California and 1.92km^2 in Texas. Wingstop's goal is to establish restaurants within close proximity to one another in areas where they experience the strongest sales.

However, cannibalisation is a potential consequence of this fortressing strategy which has the potential to erode Wingstop's desired gains. In the top 25 markets of Wingstop restaurant locations, 40% of these restaurants have another location within three miles. 47% of Wingstop locations in the top five markets have a second location within a three-mile radius. Wingtop currently has plans to add an additional 130 new locations to build consumer awareness, unit volumes and to restrict and put pressure on potential competitors. However, this rapid expansion may have adverse consequences on unit volume over a prolonged period of time due to cannibalization. Rapid expansion would cause difficulties regarding the provision of adequate support towards individual franchises and may cause certain franchises to lose customers to another nearby franchise. This may be applicable to Wingstop locations in other states – all other states have less than 100 Wingstop locations -- where the company's brand recognition is not as strong. Overall, this possesses the potential to devastate Wingstop's bottom line.

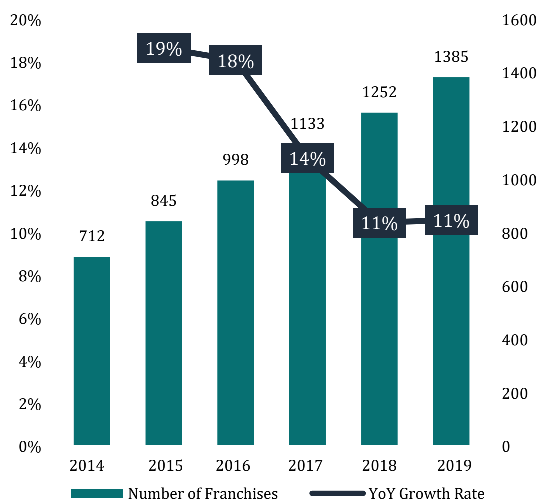
<u>Franchise model limits financial gains</u>

Each additional franchise location contributes an insubstantial amount of revenue to the company. The revenue that Wingstop earns through their individual franchises is significantly less than the

Figure 28: Wingstop Chicken Wing Flavours

Source: Wingstop

Figure 29: Number of Wingstop Franchises



Source: Wingstop 10-K

Figure 30: KFC's Plant-Based Chicken Collaboration with Beyond Meat

Source: The National News

revenue earned from individual company-owned locations. Wingstop's revenue increased by US$2.9m between 1Q19 and 1Q20 due to the establishment of 137 franchise locations since March 2019. Wingstop achieved a US$1.7m revenue increase in company-owned restaurants due to the acquisition of a one franchised restaurant and opening two company-owned restaurants. As such, Wingstop obtained an average of US$21,167 in revenue from each franchise location and US$566,667 from each company-owned location. Hence, Wingstop's franchise model results in meagre financial gains considering the number of stores required in order to establish this return. Furthermore, Wingstop's domestic average unit volume (AUV) is 2.18x less than its competitor Shake Shack and is 0.73x times less than Wendy's. Thereby, Wingstop's profitability per restaurant is notably lesser than its competitors. Wingstop's AUV growth is 2.1% greater than their system-wide domestic stores sales growth which reiterates that Wingstop's newer locations are less profitable than their existing locations.

Additionally, Wingstop's franchise model is inferior to some competitors evidenced by the comparatively minimal financial gains that they obtain from individual franchises and the low barriers to entry. Wingstop's competitor Chick-fil-A has employed a franchise operating model that enables it to expand at an even faster rate than Wingstop and obtain higher revenues from the franchises by acquiring a higher percentage of royalties. Chick-fil-A, established 129 stores in 2019 alongside a 16.7% growth in sales. This can be attributable to their comparatively low franchise fees that amount to $10,000 with no minimum net worth requirements. Chick-fil-A benefits from this as they charge high royalty fees, obtaining 15.0% of sales revenue earned and 50.0% of net profit generated from each franchise location. Comparatively, the cost of establishing a Wingstop franchise is approximately $20,000-30,000, a minimum net worth of $1,200,000 is required and Wingstop only obtains a sparse 6% royalties from its franchises. It is unlikely that Wingstop will be able to aggressively increase the royalties they charge due to the heavy competition in the quick service restaurant industry as doing so would deter potential franchisors. Moreover, Wingstop does not benefit from the real estate of franchise locations as the franchisee funds the acquisition of real estate. Unlike large chains such as McDonalds that obtain revenue from the purchasing and leasing physical properties, Wingstop is unable to collect rent from its franchisees. Evidently, Wingstop's franchise model is not entirely unique or superior to its competitors.

Overall, these factors coupled with the poor management of franchise stores and low franchisee switching costs could contribute to the deterioration of Wingstop's brand equity which is a crucial factor considering the expansive substitutes from prominent competitors such as KFC and Chick-fil-a.

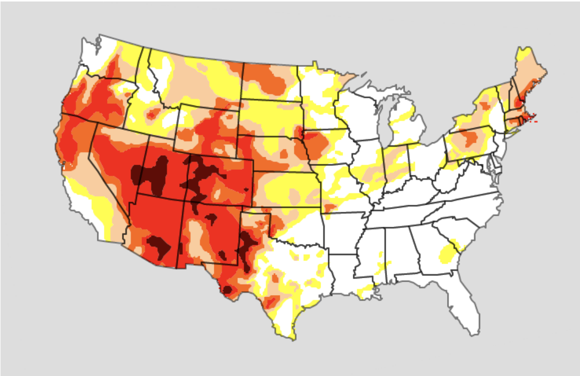
Catalysts

1. Rise in new plant-based chicken entrants into the market

If new entrants were to enter the market offering both traditional animal-based chicken wings alongside a version of plant-based wings, this would adversely impact Wingstop. This would be in line with emerging consumer preferences with the increase in flexitarians, vegans and vegetarians, evident by the rapid growth in the number of vegans from 4.0m in 2014 to 19.6m in 2017. Additionally, it was found that 37% of individuals that abandoned their 'pure' vegan or vegetarian diet continued to reduce their intake of meat and animal products. According to the EPIC-Oxford study, 85% of respondents that stated they were vegans or vegetarian at the beginning of the study stated they were still vegan or vegetarian in a survey completed 20 years later -- showing a low recidivism rate.

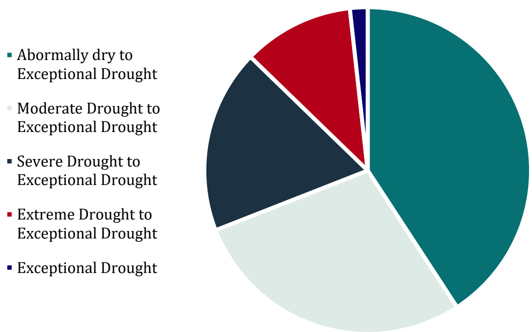
Therefore, increased product offerings of plant-based chicken by current and new competitors would make firms well suited to capture

Figure 31: U.S. Drought Monitor Map



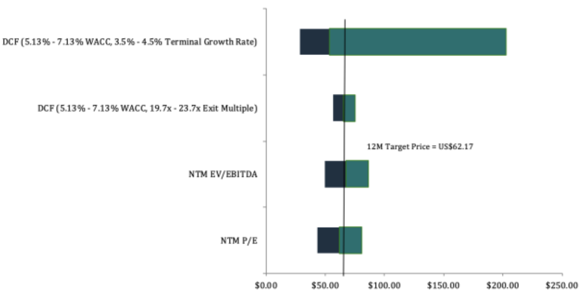
Source: Drought.gov

Figure 32: Percentage of Different Stages of Drought in the US



Source: Drought.gov

Figure 33: Football Field Analysis



Source: NUS Investment Society estimates

this demographic alongside traditional meat consumers, acquiring adequate market share away from competing brands such as Wingstop. This increase and success in plant-based chicken offerings is evident, as evidenced by KFC's release and rapid sell out of plant-based wings and nuggets. Due to this success, we can expect KFC to officially incorporate plant-based wings and nuggets within the near future. The global plant-based chicken market is forecasted to reach US$8.0B by 2030 and we expect quick service restaurants to follow to this trend. MacDonalds is another player buying into the plant-based meat industry through their announcement of the 'McPlant' burger which will be launched in 2021. Borden, McDonald's international president, announced that McPlant could expand to a line of plant-based product including chicken substitutes. Similarly, El Polo Loco, a chicken restaurant chain and another competitor of Wingstop, has recently become the first national chicken brand in the US to offer consumers plant-based chicken through its product 'Chickenless Pollo' which has received positive customer feedback. Furthermore, a US$10.0m partnership has recently taken place between Daring Foods, a plant-based chicken start-up in the UK, and Rastelli Foods Group. Rastelli Food Group is a large US food company that supplies hotels, restaurants, and retail markets and one can easily infer that this group will make plant-based chicken more widely available to a variety of future entrants.

2. Drought has led to poor farming conditions in the US

As of October 2020, 38.8% of the US, including Puerto Rico, is experiencing moderate to extreme drought levels with over 71.7 million people experiencing drought. The primary feed grain in the US is corn as it accounted for over 95% of the total feed grain production and use. As such, corn is planted in over 90.0m acres in the US. The largest corn producing US states are Iowa and Illinois which are responsible for producing approximately one third of the US corn. Other corn producing states include: South Dakota, Indiana, Nebraska, and Ohio. There are currently extreme and exceptional droughts in states such as Iowa, Nebraska, South Dakota, and more. Extreme levels of drought cause immense crop and pasture losses, alongside widespread water shortages and even water emergencies. The severity of this drought can be expected to worsen over the summer months of 2021 which will cause further feed shortages. This is due to the fact that evapotranspiration, dried soils, stressed crops and vegetation increase with hot temperatures. The hot climate, alongside the pre-existing drought, will make it increasingly more difficult for animal feed such as corn to grow sufficiently. As such, this will likely make it increasingly more expensive to raise chickens on a large scale for consumption due to the anticipated increase in feed prices. We can anticipate corn prices to increase up to 50% based on a Naïve forecasting model of a US drought in 2012. This could ultimately translate to a decrease in the supply of chicken which will simultaneously lead to an incline in chicken prices. We can expect chicken prices to increase by 4.5%. This will be detrimental for Wingstop whose primary product offering is chicken wings and other chicken-based products as this may decrease their profit margins or reduce supply.

Financial Analysis

(US$'000)	2018A	2019A	2020E	2021E
Revenue	153,181	199,676	248,012	297,373
Net Income	21,719	20,476	33,035	43,019
NI Gr Rate (%)	(9%)	(6%)	61%	30%
Profit Margin (%)	14.2%	10.3%	13.3%	14.5%
ROA	0.155	0.123	0.129	0.149
ROE	(0.10)	(0.10)	(0.12)	(0.18)
EV/EBITDA	87.09	77.08	57.24	47.41
D/E	(1.387)	(1.484)	(1.651)	(1.790)

Figure 34: WACC

Wingstop
WACC Build

WACC Calculation	
Total Debt (USD '000)	326,846
Market Capitalisation (USD '000,000,000)	3,860,000
Debt as proportion of current capital structure	7.8%
Equity as proportion of current capital structure	92.2%
WACC	6.15%
Cost of Equity	
Risk Free Rate	0.85%
Equity Risk Premium	5.23%
Beta	1.06
Cost of Equity	6.39%
Cost of Debt	
Pre-Tax Cost of Debt	4.20%
Tax Rate	21%
After-Tax Cost of Debt	3.32%

Source: NUS Investment Society estimates

Figure 35: Exit Multiple Method

Exit Multiple	
Exit EV/EBITDA Multiple	21.7
Terminal Year EBITDA	121,215
Terminal Value (EV)	2,630,356
Present Value of Terminal Value	1,951,354

Source: NUS Investment Society estimates

Figure 36: Gordon Growth Method

Gordon Growth Method	
Terminal Growth Rate	4.0%
Terminal Year FCFF	44,551
Terminal Value	2,151,168
Present Value of Terminal Value	1,595,864

Source: NUS Investment Society estimates

Valuation

12M Price Target: US$62.17

The target price was calculated as a blended average of 4 different target prices derived from (1) a NTM P/E multiple-based relative valuation, (2) a NTM EV/EBITDA multiple-based relative valuation, (3) a DCF valuation using the perpetuity growth method and (4) a DCF using the exit multiple method.

Relative Valuation

We picked comparable companies that operate in the fast casual restaurant space. We calculated their NTM P/E and NTM EV/EBITDA multiples. The mean NTM P/E multiple of the comparable companies is 46.4x, as compared to that of Wingstop, which is 97.7x. If Wingstop were trading at the average level of its competitors, its current price would mean that its NTM EPS is expected to be $2.80, which is more than double its LTM EPS of US$1.12. The mean NTM EV/EBITDA multiple of the comparable companies is 28.5x, as compared to that of Wingstop, which is 51.8x. Evidently, Wingstop is trading at a huge premium to other fast casual restaurant companies, which is indicative of the market's great optimism surrounding the company. Our theses illustrates why this optimism is unjustified and we believe that Wingstop should be trading at the mean NTM P/E and EV/EBITDA multiples of its peer companies. Based on these two ratios, Wingstop's implied share value is US$61.73 and US$67.69 respectively.

Intrinsic Valuation

A discounted cash flow (DCF) analysis was used to derive the intrinsic value of Wingstop. The DCF model is forecasted over a 5-year period and is most sensitive to the factors discussed below.

WACC

Beta was derived from Yahoo Finance and the market risk premium from Professor Damodaran's website. CAPM was then used to calculate the cost of equity, with the current yield on the 10-year US treasury as the risk-free rate. Pre-tax cost of debt was derived from historical interest rate paid on debt and historical tax rate was used to calculate the tax shield.

Revenue

A bottom-up approach was used to forecast Wingstop's revenues going forward. As mentioned previously, Wingstop's revenues come from three streams: (1) royalty revenue, franchise fees and other, where royalty revenue is about 6% of the franchisees' sales and a one-off franchise fee of $20,000 is charged to new franchisees, (2) advertising fees and related income, which are collected from franchisees as 4% of their sales and (3) company-owned restaurant sales.

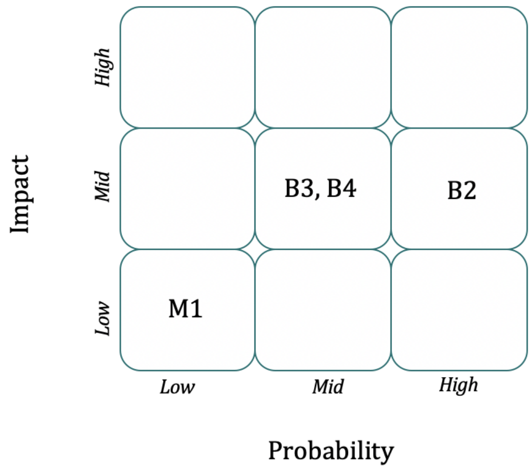
The underlying factors driving the above streams the number of stores opening and closing each year as well as same-store sale growth for both company-owned and franchisee-owned restaurants. Number of stores opening and closing for FY20 for both company-owned and franchisee-owned restaurants was extrapolated from the openings and closures in the first 6 months of the year. The number of openings was smaller than historical annual numbers of openings owing to the pessimism of potential franchisees about the COVID-19 situation and is expected to be small for the rest of the year. The number of closures was also smaller than historical closures perhaps owing to Wingstop's quick transition to digital transactions and deliveries amidst the COVID-19 pandemic, which resulted in system-wide sales actually being boosted rather than decreased. We expect the number of store closures to be only 6 for FY20. We based our FY21-FY24 projections of number of domestic company-owned and franchise-owned restaurants on management's ambitious commitment to open ,2500 stores in the US. However, even with these aggressive projections of

Figure 37: Exit Multiple and Gordon Growth Method Output

Model Output	Exit Multiple	Gordon Growth
Present Value of Cumulative FCFF	260,899	260,899
Present Value of Terminal Value	1,951,354	1,595,864
Implied Enterprise Value	2,212,254	1,856,763
Less: Debt	(326,846)	(326,846)
Plus: Cash	55,438	55,438
Implied Equity Value	1,940,846	1,585,355
Implied Share Price	65.63	53.61

Source: NUS Investment Society estimates

Figure 38: Risk Matrix



Source: NUS Investment Society estimates

Figure 39: China Average Pork Price (RMB/kg)

Source: Cofeed, Gro Intelligence

openings, the current market valuation of Wingstop is still too high to justify.

Moving on to same-store sales growth, we conservatively assumed that the COVID-19 situation will not be resolved this year. Hence, we projected 2020 same-store sales growth for both company-owned and franchisee-owned restaurants through extrapolating the growth in 1H2020, which exceeded historical levels due to the successful adaptation of Wingstop to a COVID-19 environment as detailed above. However, from FY21 to FY24, when the COVID-19 situation would likely have resolved, we projected gradual declines in same-store sales growth to a modest 4% for both company-owned stores and franchise restaurants. We believe that same-store sales growth will moderate over time as a result of shifting consumer preferences for healthier food, increasing competition in the fast casual space and even self-cannibalisation.

Cost of Sales

As outlined in our theses above, consumers are becoming increasingly conscious of environmental protection and animal welfare. To keep up with the milieu of increasing environmental and ethical consumerism, Wingstop will have to gradually rely more and more on organic, humanely-framed or freshly caught chicken for its raw bone-in chicken wing, which will be more expensive than relying on traditionally-farmed chicken. We expect the transition to be gradual and projected gradual increases in cost of sales over the next 5 years.

Terminal Value

For the perpetuity growth method, we used a terminal growth rate of 4.0%, which is higher than the US GDP long-term growth rate of 2.0% due to the status of Wingstop as a young, still very aggressively growing company. For the exit multiple method, we chose an exit EV/EBITDA multiple of 21.7x, which was the 25th percentile NTM EV/EBITDA multiple derived in our relative valuation. This is because we believe that Wingstop's moderating growth and poor corporate governance would eventually bring about a multiple compression. Target price of US$56.60 was calculated under the perpetuity growth method and US$66.00 under the exit multiple method.

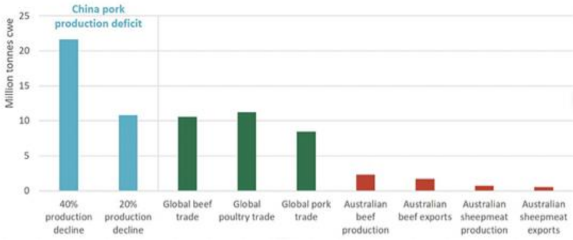
Investment Risks

Market Risk 1(M1)

Pork shortage due to the African Swine Fever

Wingstop has the potential to benefit from the current and future outbreak of the African Swine Fever ("ASF") and historical evidence of this can be seen through the increase in demand for chicken in China due to the impact of ASF. The ASF is a dangerous viral disease that adversely impacts pigs and can be easily transmissible between dead and living pigs. Furthermore, the ASF virus is highly environmentally resistant which means that it can easily transfer and contaminate items such as knives, equipment, and clothes. ASF has the potential to cause catastrophic impacts on the global supply of pork as historically, ASF had hit China in 2018 and which caused the nation to lose up to 60% of their herd. This decrease in pork supply, as a result of ASF, caused an increase in Chinese pork prices which was priced 5-6 times higher than pork prices in the US. This increase in price caused Chinese consumers to opt for cheaper alternatives such as chicken which is seen as an economic substitute for pork. This is corroborated by the fact that there is expected to be a 15.8m metric tons increase in chicken meat production in China in 2020 in order to meet the increased demand of lower priced chicken. This provides evidence to suggest that increasing ASF outbreaks in numerous countries may benefit Wingstop's international locations such as the UK, Russia, and more. This is because Wingstop's primary product offering is chicken wings and they will be able to offer these products to consumers at a price that is cheaper and more affordable than pork.

Figure 40: Decline in Pork Production in China vs Globally

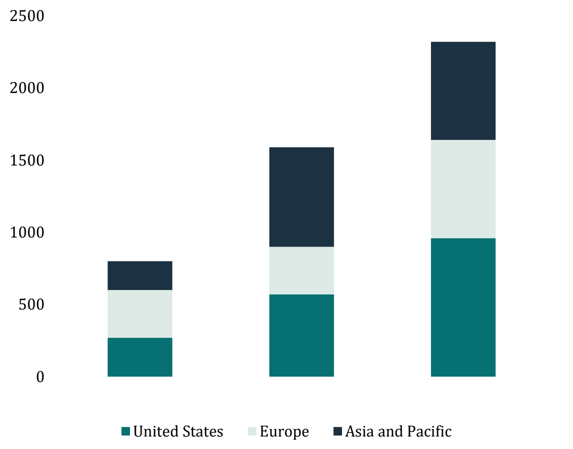


Source: MLA, ABS, USDA

Russia had recently announced traces of ASF in pork products. Similarly, there is an increasing number of European countries that have detected ASF cases such as Hungary, Poland, Germany, Romania, Bulgaria, Latvia, Slovakia, and the number of impacted countries continues to increase. This will have a detrimental impact on UK pork imports as 99% of UK pork imports are from various EU countries. According to the World Organisation for Animal Health, "No country is safe from African Swine Fever". This is reinforced by the fact that South Korea has recently culled over 1,500 pigs due to a similar ASF outbreak. One can infer that it is possible for ASF to further spread in Asia -- such as Malaysia and Singapore where Wingstop also holds restaurants -- which will devastate pork supply. Arguably, the impact of ASF in China will be comparable to the impact it can have on other countries that have similarly experienced ASF outbreaks. Overall, this will lead to a decrease in pork supply, increase in pork prices and increase demand for chicken as it is a lower priced economic substitute for pork which will in turn, benefit Wingstop whose main product offering is chicken.

However, it is important to consider that although ASF may benefit Wingstop's international locations, the majority of Wingstop's restaurants are located in the US -- a country that has never been impacted by ASF and is in a completely different continent from ASF outbreaks.

Figure 41: Market Size of Cloud/Dark Kitchen Industry from 2019 to 2026, by Region (USD B)



Source: precisesecurity.com

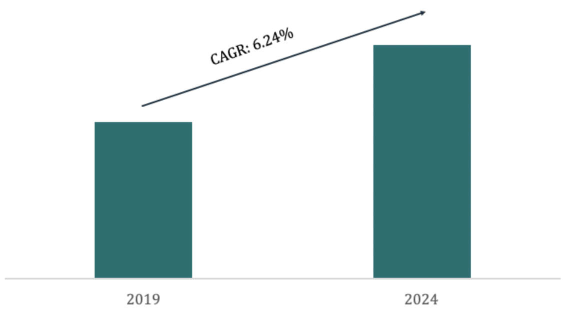
<u>Business Risk 2 (B2)</u>

Wingstop may be well-poised to adopt ghost kitchens that bolsters its business model that focuses on off-premises dining, given its increasing prevalence in quick service restaurants.

This rising phenomenon serves to supplement Wingstop's' economic moat surrounding the current consumer climate in the restaurant industry. A clear edge this virtual model provides is efficiency - ghost kitchens can fully utilize the space they have paid for when compared to a typical restaurant. They are also able to reach out to more consumers in areas that may be too far away to serve due to distance constraints or inconvenience for consumers to travel for dining in. Given that Wingstop's' current revenue structure is heavily reliant on takeout and delivery via digital orders, if Wingstop is able to capitalize on this opportunity successfully - it is likely able to grow in line with its expansion plans or exceed expectations provided that consumer demand does not wane over time.

Research firm Euromonitor suggested that the world's ghost kitchen could have up to $1 trillion worth of sales by 2030, at about ⅓ of the world's restaurant revenue projected that year. The coronavirus pandemic has accelerated a shift in off-premise eating, coupled with the fact that the global online food-delivery order market is projected to have a CAGR of 6.24% till 2024. Wingstop has plans to maintain and uplift off-premise sales via more ghost kitchens going forward, and it has already implemented one in the U.K. This move synergizes with Wingstop's plan to digitize on a large scale and switch to 100% online transactions via delivery. Ghost kitchens have higher profit margins due to higher average order profit and lower cost of sales, they also have lower financial barriers for entry.

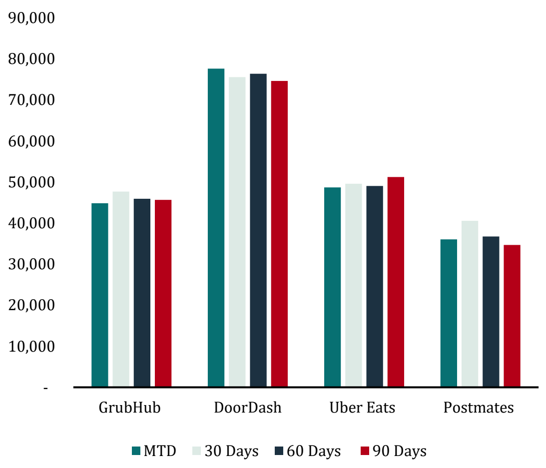
Figure 42: Global Online Food Delivery Market



Source: Mordor Intelligence

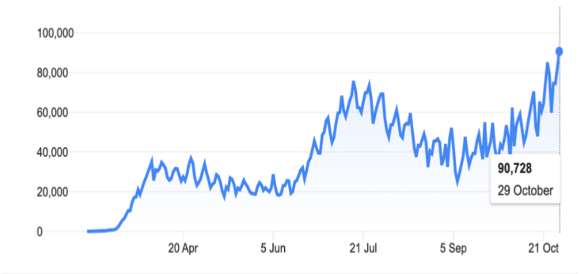
Given that Wingstop is already known for the success delivery digital model amidst the pandemic, it can potentially capitalize on this and make a quick transition to open more ghost kitchens if it finds success in its early stage of adoption. Without the constraints of a sit-down restaurant, in which profits depend on its geographic location and foot traffic and visits by consumers, ghost kitchens tackle this issue directly. However, in Wingstop's case, even though they are inclined to experiment and expand on this kitchen operating model, they must be careful given that they have such a large number of franchisees domestically in the U.S., such that they do not infringe on any

Figure 43: Third-Party Delivery Mobile App Downloads



Source: SimilarWeb and Gordon Haskett Research Advisors

Figure 44: Daily Number New of COVID-19 Cases in the US from the Beginning of the Pandemic to October 29



Source: The New York Times

franchisees' territory - which may prove to be counterproductive in terms of generating sales.

They also must carefully consider the commission fees for delivery that will possibly increase if Wingstop does implement more ghost kitchens by scaling larger in the future. Not shying away from exclusive delivery partnerships, Wingstop has committed to DoorDash which can potentially limit the outreach of Wingstop as their brand will only be solely available on DoorDash's digital platforms or their own proprietary ordering platforms.

Business Risk 3 (B3)

Definite end to COVID-19 is hard to reasonably forecast

Wingstop benefited greatly from the COVID-19 pandemic due to the quarantine and social distancing regulations that have been imposed in various states, which has made food delivery options increase in popularity. Other countries such as New Zealand, Singapore, and Vietnam are no longer seeing large influxes in cases, with the largest number of COVID-19 cases in a day over the last month being 25, 27, and 14 respectively. Alternatively, the number of COVID-19 cases in the US continue to increase, amounting to a total of 9 million cases thus far with an average of 75,000 COVID-19 cases a day throughout the week of October 19. Due to these massive influxes of cases, it is evident that there is no clear end to the pandemic. Furthermore, the unforeseeable end to the US pandemic is exacerbated by the fact that only 50% of Americans are certain that they will get COVID-19 vaccine when one is released, while the remaining 50% is either unsure or refuses to acquire the vaccine. This suggests that Wingstop may continue to benefit from the long-term pandemic conditions and will continue to experience growth via its focus on off-premises dining. This is corroborated by the Wingstop's partnership with DoorDash as their delivery partner. DoorDash possesses the largest market share of 27.6% in the food delivery market in the US. Wingstop will be able to capitalise from this due to the 20 million DoorDash users that will be able to conveniently order from Wingstop directly from the DoorDash app. Wingstop and DoorDash have been partners since 2018 and Wingstop has recently signed an updated 3-year exclusive contract that is concentrated on further development of delivery models, and technologies pickup lockers. This makes Wingstop and DoorDash well positioned to benefit and capitalise from this mutual agreement considering the climate of the pandemic. However, it is vital to consider that this delivery agreement will benefit Wingstop significantly less once COVID-19 restrictions are lifted.

Business Risk 4 (B4)

Successful international expansion into China

Currently, Wingstop is heavily focused on domestic expansion. However, the company has expansion plans to penetrate the fast-casual industry in China. Wingstop CEO Charlie Morrison stated that the potential of establishing 1,000 Wingstop locations in China will permit additional international growth and further brand recognition – proving to be a substantial risk. Wingstop is likely to benefit from consumer preferences as chicken meat consumption in China is forecasted to grow by 2% YoY, amounting to 15.7m metric tons. This growth is a result of the increase in pork prices, making poultry consumption an affordable meat substitute. Additionally, the population density in China is significantly greater than the US with approximately 148 people per square kilometre when compared to 36 people per square kilometre respectively. This will likely enable Wingstop to serve a higher number of customers per location which will potentially translate to increased AUVs, system wide sales and profit margins when executed in line with the company's growth expectations.

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Appendix:

Pro-Forma Financial Statements

Wingstop
Financial Statements

	Historical			Forecasted				
Figures in '000 USD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Advertising fees and related income	30,174	34,484	55,932	66,862	81,282	95,784	108,864	119,199
Company-owned restaurant sales	37,069	46,839	55,453	65,676	74,501	92,216	109,427	126,717
Total revenue	133,319	153,181	199,676	248,012	297,373	382,938	440,614	489,975
Costs and expenses:								
Cost of sales	28,745	32,063	41,105	52,083	62,448	84,246	96,935	112,694
Advertising expenses	32,427	33,699	52,891	60,193	72,173	92,940	106,938	118,918
Selling, general and administrative	34,898	44,579	57,295	69,421	83,237	107,188	123,331	137,148
Depreciation and amortization	3,376	4,313	5,484	6,692	8,023	10,332	11,888	13,220
Total costs and expenses	99,446	114,654	156,775	188,388	225,882	294,706	339,093	381,981
Operating income	33,873	38,527	42,901	59,624	71,491	88,232	101,521	107,994
Interest expense, net	5,131	10,123	17,136	18,911	18,474	17,911	17,264	16,544
Other expense, net	-	1,477	-	-	-	-	-	-
Income before income tax expense	28,742	26,927	25,765	40,713	53,017	70,321	84,257	91,450
Income tax expense	4,802	5,208	5,289	8,550	11,134	14,767	17,694	19,205
Net income	**23,940**	**21,719**	**20,476**	**32,164**	**41,883**	**55,553**	**66,563**	**72,246**

Balance Sheet

Assets								
Current assets								
Cash and cash equivalents	4,063	12,493	12,849					
Restricted cash	-	4,462	4,790					
Restricted cash in advertising fund assets, restricted	2,329	3,985	3,536					
Cash, cash equivalents and restricted cash	6,392	20,940	21,175	173,438	187,898	202,816	222,885	231,894
Rest of advertising fund assets, restricted	615	1,146	1,391	1,576	1,889	2,433	2,799	3,113
Accounts receivable, net	4,567	5,764	5,175	9982	8192	15211	11716	18228
Prepaid expenses and other current assets	4,334	2,056	2,449	4,811	5,769	7,428	8,547	9,505
Total current assets	15,908	29,906	30,190	189,806	203,748	227,889	245,948	262,740
Property and equipment, net	5,826	8,338	27,842	34,181	41,782	51,570	62,832	75,355
Goodwill	46,557	49,655	50,188	50,188	50,188	50,188	50,188	50,188
Goodwill, property and equipment from acquisitions				6,481	14,252	24,258	35,772	48,576
Trademarks	32,700	32,700	32,700	32,700	32,700	32,700	32,700	32,700
Customer relationships, net	15,567	14,233	12,910	12,910	12,910	12,910	12,910	12,910
Other non-current assets	3,278	4,917	12,283	9,772	11,717	15,088	17,360	19,305
Total assets	**119,836**	**139,749**	**166,113**	**336,038**	**367,296**	**414,603**	**457,710**	**501,774**
Liabilities and stockholders' deficit								
Current liabilities								
Accounts payable	1,752	2,750	3,348	4,084	4,827	6,648	6,555	8,127
Other current liabilities	10,929	16,201	21,454	24,403	29,260	37,679	43,354	48,211
Current portion of debt	3,500	2,400	3,200					
Advertising fund liabilities	2,944	5,131	4,927	6,635	8,418	10,178	11,990	13,409
Total current liabilities	19,125	26,482	32,929					
Long-term debt, net	129,841	309,374	307,669					
Deferred revenues, net of current	21,226	21,885	22,343	34,224	41,035	52,843	60,802	67,613
Deferred income tax liabilities, net	5,920	4,866	4,485	4,485	4,485	4,485	4,485	4,485
Other non-current liabilities	2,142	1,972	8,115	5,752	6,897	8,882	10,219	11,364
Total debt	133,341	311,774	310,869	450,000	439,604	426,217	410,813	393,684
Total liabilities	178,254	364,579	375,541	529,583	534,526	546,931	548,219	546,893
Stockholders' deficit								
Common stock	291	293	295	295	295	295	295	295
Additional paid-in-capital	262	1,036	552	552	552	552	552	552
Accumulated deficit	(58,971)	(226,159)	(210,275)	(194,391)	(168,077)	(133,175)	(91,355)	(45,966)
Total stockholders' deficit	(58,418)	(224,830)	(209,428)	(193,544)	(167,230)	(132,328)	(90,508)	(45,119)
Total liabilities and stockholders' deficit	**119,836**	**139,749**	**166,113**	**336,038**	**367,296**	**414,603**	**457,710**	**501,774**
Balance Check	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*

Statement of Cashflows

Operating activities								
Net income	23,940	21,719	20,476	32,164	41,883	55,553	66,563	72,246
Adjustments to reconcile net income to cash provided by operating activities:								
Depreciation and amortization	3,376	4,313	5,484	6,692	8,023	10,332	11,888	13,220
Deferred income taxes	(2,548)	(1,054)	(426)	-	-	-	-	-
Stock-based compensation expense	1,851	3,725	6,974	-	-	-	-	-
Amortization of debt issuance costs	292	1,983	1,586	1,129	1,353	1,743	2,005	2,230
Changes in operating assets and liabilities:								
Accounts receivable	(1,368)	(1,197)	496	(4,807)	1,790	(7,020)	3,495	(6,511)
Prepaid expenses and other assets	(503)	(178)	323	3,603	(4,180)	(6,676)	(5,284)	(5,007)
Advertising fund assets and liabilities, net	386	1,657	(449)	1,523	1,470	1,216	1,446	1,105
Accounts payable and other current liabilities	(876)	6,996	3,086	3,685	5,600	10,240	5,583	6,428
Deferred revenue	3,052	977	881	11,881	6,811	11,807	7,959	6,811
Other non-current liabilities	(167)	(171)	152	(2,363)	1,145	1,985	1,338	1,145
Cash provided by operating activities	**27,435**	**38,770**	**38,583**	**53,506**	**63,897**	**79,180**	**94,992**	**91,666**
Investing activities								
Purchases of property and equipment	(2,535)	(3,982)	(22,486)	(13,031)	(15,624)	(20,120)	(23,150)	(25,744)
Acquisition of restaurant from franchisees	(3,949)	(6,516)	(1,245)	(6,481)	(7,771)	(10,007)	(11,514)	(12,804)
Cash used in investing activities	**(6,484)**	**(10,498)**	**(23,731)**	**(19,512)**	**(23,395)**	**(30,127)**	**(34,664)**	**(38,547)**
Financing activities								
Proceeds from exercise of stock options	1,318	517	689	-	-	-	-	-
Borrowings of long-term debt	3,500	551,108	5,000	450,000	7,446	9,589	11,033	12,269
Repayments of long-term debt	(21,000)	(364,858)	(7,400)	(310,869)	(17,842)	(22,976)	(26,437)	(29,399)
Payment of deferred financing costs	-	(9,571)	(15)	(4,583)	(76)	(98)	(112)	(125)
Tax payments for restricted stock upon vesting	-	(183)	(1,149)	-	-	-	-	-
Dividends paid	(4,070)	(190,737)	(11,742)	(16,280)	(15,569)	(20,651)	(24,743)	(26,856)
Cash used in financing activities	**(20,252)**	**(13,724)**	**(14,617)**	**118,268**	**(26,041)**	**(34,136)**	**(40,259)**	**(44,110)**
Net change in cash, cash equivalents and restricted cash	699	14,548	235	152,263	14,461	14,918	20,069	9,009
Cash, cash equivalents and restricted cash at beginning of period	5,693	6,392	20,940	21,175	173,438	187,898	202,816	222,885
Cash, cash equivalents and restricted cash at end of period	6,392	20,940	21,175	173,438	187,898	202,816	222,885	231,894

Revenue Projections

Wingstop
Revenue Model

Bottom Up Approach

	Historical			Forecasted				
Figures in '000 USD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Total revenue	133,319	153,181	199,676	248,012	297,373	382,938	440,614	489,975
Number of company-owned restaurants								
Beginning of period	21	23	29	31	29	35	41	48
Openings	-	-	1	2	3	3	4	4
Acquired from franchisees / (Refranchised to franchisees)	2	6	1	(4)	3	3	3	3
Closures	-	-	-	-	-	-	-	-
Restaurants end of period	23	29	31	29	35	41	48	55
Number of franchise restaurants								
Beginning of period	977	1,110	1,223	1,354	1,458	1,592	1,736	1,890
Openings	147	139	145	106	152	162	172	182
Closures	(12)	(20)	(13)	(6)	(15)	(15)	(15)	(15)
Refranchised by Company / (Acquired by Company)	(2)	(6)	(1)	4	(3)	(3)	(3)	(3)
Restaurants end of period	1,110	1,223	1,354	1,458	1,592	1,736	1,890	2,054
Number of domestic franchise restaurants								
Beginning of period	901	1,004	1,095	1,200	1,288	1,396	1,514	1,642
Openings	115	105	114	90	120	130	140	150
Closures	(10)	(8)	(8)	(6)	(9)	(9)	(9)	(9)
(Refranchised by Company) / Acquired by Company	(2)	(6)	(1)	4	(3)	(3)	(3)	(3)
Restaurants end of period	1,004	1,095	1,200	1,288	1,396	1,514	1,642	1,780
Numer of international franchise restaurants								
Beginning of period	76	106	128	154	170	196	222	248
Openings	32	34	31	16	32	32	32	32
Closures	(2)	(12)	(5)	-	(6)	(6)	(6)	(6)
Refranchised by Company / (Acquired by Company)	-	-	-	-	-	-	-	-
Restaurants end of period	106	128	154	170	196	222	248	274
Company-owned restaurant sales								
Company-owned restaurant sales	37,069	46,839	55,453	65,676	74,501	92,216	109,427	126,717
Company-owned AUV	1,712	1,723	1,874	2,189	2,328	2,427	2,459	2,461
Company-owned same store sales growth	1.6%	6.2%	9.8%	15.0%	12.0%	9.0%	6.0%	4.0%
Estimated AUV of existing company-owned restaurants		1818	1892	2155	2452	2538	2572	2557
Estimated revenue from existing company-owned restaurants		41,817	54,864	66,808	71,105	88,820	105,465	122,755
Estimated loss of revenue from closure of existing company-owned restaurants		-	-	-	-	-	-	-
Estimated revenue from new company-owned restaurants		5,022	589	(1,132)	3,396	3,396	3,962	3,962
Estimated revenue per new company-owned restaurant		837	295	566	566	566	566	566
Royalty revenue, franchise fees and other								
Royalty revenue, franchise fees and other	66,076	71,858	88,291	115,474	141,589	194,939	222,323	244,058
System-wide sales	1,087,434	1,261,025	1,514,590					
Franchise restaurant sales	1,050,365	1,214,186	1,459,137	1,889,234	2,309,151	2,738,558	3,126,896	3,434,550
Estimated franchise AUV	1,007	1,041	1,132	1,344	1,514	1,646	1,725	1,742
System-wide same stores sales growth	2.6%	6.5%	11.1%	21.0%	16.0%	12.0%	8.0%	4.0%
Estimated AUV of existing franchise restaurants		1072	1156	1370	1559	1696	1777	1794
Estimated revenue from existing franchise restaurants		1,189,927	1,414,298	1,855,307	2,272,563	2,699,875	3,085,617	3,390,087
Estimated loss of revenue from closed and acquired franchise restaurants		(13,936)	(8,095)	(1,370)	(14,028)	(15,263)	(15,997)	(16,143)
Estimated revenue from new franchise restaurants		38,195	52,934	35,298	50,616	53,946	57,276	60,606
Estimated revenue per new franchise restaurant		275	365	333	333	333	333	333
Royalty				6%	6%	7%	7%	7%
Royalty revenue				113,354	138,549	191,699	218,883	240,418
Franchise fee per new restaurant				20	20	20	20	20
Franchise fees				2,120	3,040	3,240	3,440	3,640
Advertising fees and related income								
Advertising fees and related income	30,174	34,484	55,932	66,862	81,282	95,784	108,864	119,199
Estimated domestic franchise restaurant sales				1,671,556	2,032,053	2,394,592	2,721,590	2,979,977
Advertising fee contribution from domestic franchise restaurants				4.0%	4.0%	4.0%	4.0%	4.0%

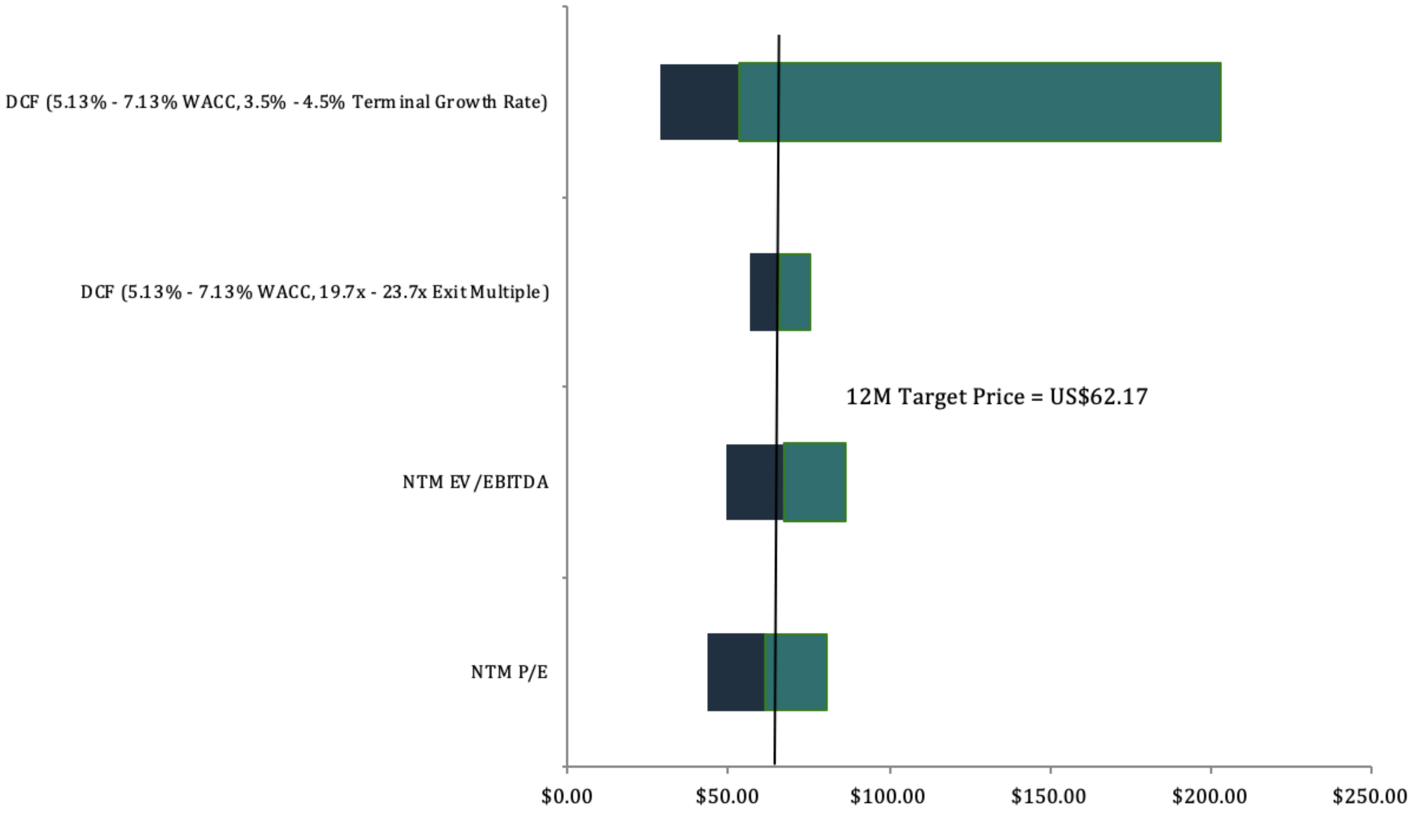
Financial Projections

Wingstop
Financial Projections

Figures in '000 USD	Historical 2017A	2018A	2019A	Forecasted 2020E	2021E	2022E	2023E	2024E
Income Statement								
Total revenue	133,319	153,181	199,676	248,012	297,373	382,938	440,614	489,975
% growth		15%	30%	24%	20%	29%	15%	11%
Cost and expenses:								
Cost of sales	28,745	32,063	41,105	52,083	62,448	84,246	96,935	112,694
As % of revenue	22%	21%	21%	21%	21%	22%	22%	23%
Advertising expenses	32,427	33,699	52,891	60,193	72,173	92,940	106,938	118,918
As % of revenue	24%	22%	26%	24%	24%	24%	24%	24%
Selling, general and administrative	34,898	44,579	57,295	69,421	83,237	107,188	123,331	137,148
As % of revenue	26%	29%	29%	28%	28%	28%	28%	28%
Depreciation and amortization	3,376	4,313	5,484	6,692	8,023	10,332	11,888	13,220
As % of revenue	3%	3%	3%	3%	3%	3%	3%	3%
Total costs and expenses	99,446	114,654	156,775	188,388	225,882	294,706	339,093	381,981
Interest expense, net	5,131	10,123	17,136	18,911	18,474	17,911	17,264	16,544
As % of debt	4%	3%	6%	4%	4%	4%	4%	4%
Other expense, net	-	1,477	-	-	-	-	-	-
Income tax expense	4802	5208	5289	8550	11134	14767	17694	19205
Effective tax rate	17%	19%	21%	21%	21%	21%	21%	21%
Balance Sheet								
Assets								
Current assets								
Cash, cash equivalents and restricted cash	6,392	20,940	21,175	173,438	187,898	202,816	222,885	231,894
Rest of advertising fund assets, restricted	615	1,146	1,391	1,576	1,889	2,433	2,799	3,113
As % of revenue	0.5%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%
Accounts receivable, net	4,567	5,764	5,175	9,982	8,192	15,211	11,716	18,228
Days sales outstanding		12	10	11	11	11	11	11
Prepaid expenses and other current assets	4,334	2,056	2,449	4,811	5,769	7,428	8,547	9,505
As % of revenue	3%	1%	1%	2%	2%	2%	2%	2%
Non-Current Assets								
Property and equipment, net	5,826	8,338	27,842	34,181	41,782	51,570	62,832	75,355
Goodwill	46,557	49,655	50,188	50,188	50,188	50,188	50,188	50,188
Goodwill, property and equipment from acquisitions				6,481	14,252	24,258	35,772	48,576
Trademarks	32,700	32,700	32,700	32,700	32,700	32,700	32,700	32,700
Customer relationships, net	15,567	14,233	12,910	12,910	12,910	12,910	12,910	12,910
Other non-current assets	3,278	4,917	12,283	9,772	11,717	15,088	17,360	19,305
As % of revenue	2%	3%	6%	4%	4%	4%	4%	4%
Liabilities								
Current liabilities								
Accounts payable	1,752	2,750	3,348	4,084	4,827	6,648	6,555	8,127
Days payable outstanding		5	6	5	5	5	5	5
Other current liabilities	10,929	16,201	21,454	24,403	29,260	37,679	43,354	48,211
As % of revenue	8%	11%	11%	10%	10%	10%	10%	10%
Advertising fund liabilities	2,944	5,131	4,927	6,635	8,418	10,178	11,990	13,409
As % of revenue	2%	3%	2%	3%	3%	3%	3%	3%
Non-Current liabilities								
Deferred revenues, net of current	21,226	21,885	22,343	34,224	41,035	52,843	60,802	67,613
As % of revenue	16%	14%	11%	14%	14%	14%	14%	14%
Deferred income tax liabilities, net	5,920	4,866	4,485	4,485	4,485	4,485	4,485	4,485
Other non-current liabilities	2,142	1,972	8,115	5,752	6,897	8,882	10,219	11,364
As % of revenue	2%	1%	4%	2%	2%	2%	2%	2%
Total debt	133,341	311,774	310,869	450,000	439,604	426,217	410,813	393,684
Stockholders' deficit								
Common stock	291	293	295	295	295	295	295	295
Additional paid-in-capital	262	1,036	552	552	552	552	552	552
Accumulated deficit	(58,971)	(226,159)	(210,275)	(194,391)	(168,077)	(133,175)	(91,355)	(45,966)
Statement of Cashflows								
Operating activities								
Net income	23,940	21,719	20,476	32164	41883	55553	66563	72246
Adjustments to reconcile net income to cash provided by operating activities:								
Depreciation and amortization	3,376	4,313	5,484	6,692	8,023	10,332	11,888	13,220
Deferred income taxes	(2,548)	(1,054)	(426)	-	-	-	-	-
Stock-based compensation expense	1,851	3,725	6,974	-	-	-	-	-
Amortization of debt issuance costs	292	1,983	1,586	1,129	1,353	1,743	2,005	2,230
As % of debt	0.2%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Changes in operating assets and liabilities:								
Accounts receivable	(1,368)	(1,197)	496	(4,807)	1,790	(7,020)	3,495	(6,511)
Prepaid expenses and other assets	(503)	(178)	323	3,603	(4,180)	(6,676)	(5,284)	(5,007)
Advertising fund assets and liabilities, net	386	1,657	(449)	1,523	1,470	1,216	1,446	1,105
Accounts payable and other current liabilities	(876)	6,996	3,086	3,685	5,600	10,240	5,583	6,428
Deferred revenue	3,052	977	881	11,881	6,811	11,807	7,959	6,811
Other non-current liabilities	(167)	(171)	152	(2,363)	1,145	1,985	1,338	1,145
Investing activities								
Purchases of property and equipment	(2,535)	(3,982)	(22,486)	(13,031)	(15,624)	(20,120)	(23,150)	(25,744)
As % of revenue	(2%)	(3%)	(11%)	(5%)	(5%)	(5%)	(5%)	(5%)
Acquisition of restaurant from franchisees	(3,949)	(6,516)	(1,245)	(6,481)	(7,771)	(10,007)	(11,514)	(12,804)
As % of revenue	(3%)	(4%)	(1%)	(3%)	(3%)	(3%)	(3%)	(3%)
Financing activities								
Proceeds from exercise of stock options	1,318	517	689	-	-	-	-	-
Borrowings of long-term debt	3,500	551,108	5,000	450,000	7,446	9,589	11,033	12,269
As % of revenue	3%	360%	3%	181%	3%	3%	3%	3%
Repayments of long-term debt	(21,000)	(364,858)	(7,400)	(310,869)	(17,842)	(22,976)	(26,437)	(29,399)
As % of revenue	(16%)	(238%)	(4%)	(125%)	(6%)	(6%)	(6%)	(6%)
Payment of deferred financing costs	-	(9,571)	(15)	(4,583)	(76)	(98)	(112)	(125)
As % of debt issued	0%	(2%)	(0%)	(1%)	(1%)	(1%)	(1%)	(1%)
Tax payments for restricted stock upon vesting	-	(183)	(1,149)	-	-	-	-	-
Dividends paid	(4,070)	(190,737)	(11,742)	(16,280)	(15,569)	(20,651)	(24,743)	(26,856)
As % of net income	(17%)	(878%)	(57%)	(51%)	(37%)	(37%)	(37%)	(37%)

Valuation

Football Field Analysis



Discounted Cash Flow Model

Wingstop
WACC Build

WACC Calculation	
Total Debt (USD '000)	326,846
Market Capitalisation (USD '000,000,000)	3,860,000
Debt as proportion of current capital structure	7.8%
Equity as proportion of current capital structure	92.2%
WACC	6.15%
Cost of Equity	
Risk Free Rate	0.85%
Equity Risk Premium	5.23%
Beta	1.06
Cost of Equity	6.39%
Cost of Debt	
Pre-Tax Cost of Debt	4.20%
Tax Rate	21%
After-Tax Cost of Debt	3.32%

Wingstop
DCF

Model Assumptions

Terminal Growth Rate	4.0%
Effective Tax Rate	21%
Discount Rate	6.15%
Valuation date	20/11/20
Current Share Price	129.98
Basic Shares Outstanding ('000)	29,571

Model Output

	Exit Multiple	Gordon Growth
Present Value of Cumulative FCFF	260,899	260,899
Present Value of Terminal Value	1,951,354	1,595,864
Implied Enterprise Value	2,212,254	1,856,763
Less: Debt	(326,846)	(326,846)
Plus: Cash	55,438	55,438
Implied Equity Value	1,940,846	1,585,355
Implied Share Price	65.63	53.61
% Upside/Downside		

Free Cash Flow Calculation

	Forecasted				
Figures in '000 USD	2020E	2021E	2022E	2023E	2024E
EBIT	59,624	71,491	88,232	101,521	107,994
Tax-Adjusted EBIT	47,103	56,478	69,703	80,202	85,316
Add: Depreciation and Amortisation	6,692	8,023	10,332	11,888	13,220
Less: CAPEX	(19,512)	(23,395)	(30,127)	(34,664)	(38,547)
Less: Change in Net Working Capital	(1,961)	7,903	2,777	9,405	64
Unlevered FCFF	32,322	49,009	52,685	66,830	60,053
Period	2020	2021	2022	2023	2024
Discount Factor	0.94	0.89	0.84	0.79	0.74
Present Value of Unlevered FCFF	30,448	43,491	44,044	52,630	44,551

Terminal Value Calculation

Exit Multiple

Exit EV/EBITDA Multiple	21.7
Terminal Year EBITDA	121,215
Terminal Value (EV)	2,630,356
Present Value of Terminal Value	1,951,354

Gordon Growth Method

Terminal Growth Rate	4.0%
Terminal Year FCFF	44,551
Terminal Value	2,151,168
Present Value of Terminal Value	1,595,864

Sensitivity Analysis

Implied Share Price

		Exit EV/EBITDA Multiple				
		19.7x	20.7x	21.7x	22.7x	23.7x
WACC	5.13%	62.53	65.72	68.91	72.10	75.29
	5.53%	61.34	64.48	67.61	70.74	73.87
	6.13%	59.62	62.66	65.71	68.75	71.80
	6.63%	58.23	61.20	64.17	67.15	70.12
	7.13%	56.87	59.78	62.68	65.59	68.49

Implied Share Price

		Terminal Growth Rate				
		3.5%	3.75%	4.0%	4.25%	4.5%
WACC	5.13%	78.21	92.45	112.98	145.17	202.92
	5.53%	60.38	68.91	80.23	95.97	119.35
	6.13%	43.94	48.59	54.34	61.61	71.12
	6.63%	35.16	38.24	41.91	46.35	51.83
	7.13%	28.86	31.03	33.53	36.47	39.97

Wingstop
Relative Valuation (Comparable Company Analysis)

Company Name	Market Cap USDb	NTM P/E	NTM EV/EBITDA
Target Company			
Wingstop Inc	3.86	97.7	51.8
Comparable Companies			
Potbelly Corp	0.09	60.3	34.8
The Wendy's Company	4.89	33.4	19.0
Chipotle Mexican Grill, Inc	33.62	61.9	37.6
Domino's Pizza, Inc	14.91	30.0	22.6

Screening Criteria: Fast casual restaurants

	NTM P/E	NTM EV/EBITDA
Mean	46.4	28.5
25th Percentile	32.6	21.7
Median	46.9	28.7
75th Percentile	60.7	35.5

Relative Valuation (P/E)	
Mean NTM P/E	46.4
NTM EPS	1.33
Implied Share Value	**61.73**
Lower End of Range	
25th Percentile NTM P/E	32.6
Implied Share Value	**43.30**
Higher End of Range	
75th Percentile NTM P/E	60.70
Implied Share Value	**80.76**

Relative Valuation (EV/EBITDA)	
Mean NTM EV/EBITDA	28.5
EV (USD'000)	4,131,408
NTM EBITDA (USD'000)	79,757
Implied EV (USD'000)	2,273,072
Less: Debt	(326,846)
Plus: Cash	55,438
Implied Market Cap (USD'000)	2,001,664
Implied Share Value	**67.69**
Lower End of Range	
25th Percentile NTM EV/EBITDA	21.7
Implied EV (USD'000)	1,730,725
Implied Market Cap (USD'000)	1,459,317
Implied Share Value	**49.35**
Higher End of Range	
75th Percentile NTM EV/EBITDA	35.5
Implied EV (USD'000)	2,831,370
Implied Market Cap (USD'000)	2,559,962
Implied Share Value	**86.57**