

# Trade Idea - Wingstop

## Quantitative Analysis (Annual) - LONG

Shares Outstanding = 29583

WING NASDAQ US	2017	2018	2019	2020 (Q1)	2021
Stock Price \$	34.19	63.65	86.04	133.47	
Market Cap \$M			2.23bn	3.94 m	
EPS	0.82	0.74	0.70	0.73	INCORRECT
Earnings Growth %		-10.25	-5.55	4.19	
Price/Earnings	41.69	86.01	122.87	182.83	
PEG		0.65	175.52	178.96	
Sales \$M	133319	153181	199676	55436	INCORRECT
Sales Growth %		13.86	26.35	10.47(est Q1)	
EBITDA (adj)	39100	48986	56989	16537	
Sales Multiple			19.07		
Net Income (GAAP) \$	23940	21719	20476	8096	
Price to Book				-13.20	

### Comments on Annual Quantitative Analysis

Estimated Sales percentage of 10.47% on 4x multiple of Q1 results

Revenue predictions higher than 2019 and do not appear to have been impacted negatively. CEO noted in Q1 earnings announcement on May 6<sup>th</sup> that first four weeks of April sales stronger than Q1.

Quick Ratio 0.92

Current Ratio 0.92

Book value per share a- 7.11.

## Quantitative Analysis (Sector Comps)

WING US	Market Cap'	EG1(2019)	EG2(2020)	PE1	PEG1	Rest Margins%
Dominos Pizza	14.7	20.68	5.81	33.35	1.61	24.3
Rest Brands Intl	16.5	-27.78	35.90	28.24	-1.02	
Yum Brands	24.4	-23.50	31.07	31.39	-1.34	19.8
Chipotle	28.9	-40.17	114.75	124.67	-3.10	20.8
McDonalds	137	40.21	40.21	32.91	0.81	18.6
Papa Johns	2.6	32.43	32.43	55.99	1.72	19
Averages						
WING	3.94	34.21	19.61		3.83	25.8
			131.11			

### Comments on Quantitative Analysis Sector Comparison

Wingstop has the best restaurant margins amongst its competitors. The PEG1 ratio is very high compared to its peers but I believe this is due to the company's exponential growth rate.

## Comments on Business

Wingstop Inc. franchises and operates restaurants. It is a casual chain which offers a simple menu of cooked-to-order, hand-sauced and tossed chicken wings as a main meal rather than appetizer. It is built around delivery, carry out with an aim to become fully digitalized.

722 employees rest franchisees

Currently 1413 Restaurants worldwide grown from total of 745 in 2015:

1253 are USA domestic (Franchised 1221 & Co owned 32) & 160 International Franchises:

Mexico, Indonesia, Colombia, Panama, France, Singapore, UAE, Malaysia & UK to date

90 percent of new restaurants are opened by existing franchisees

CEO Charlie Morrison forward thinking, innovative, proactive with clear objectives.

**Would like to have seen how a WING franchise works here.. the basics.**

## KPI's driving Revenue and Earnings

40 percent of restaurants are now digital second only to pizza delivery

Less than 1 percent closure rate in last five years.

Best in category of IPO 2015 performers.

133 new restaurants in 2019 translating to 10.6 % Unit Development Growth

16 consecutive years same domestic store sales growth (11.1% last year)

8 consecutive years international sales growth.

20.1% system wide sales growth in 2019

406% Shareholder return since IPO

20%Adjusted EBITDA Growth (non GAAP)

Invested \$1.6 million in Q4 in connection with management consulting engagement and incurred \$1.1 million in organizational related changes.

Simple menu, reasonable price – lean labour with minimal changes in staffing during peak times

Focus on metro areas to create scale with low fixed costs focusing on 'B' real estate with low sq footage

Partnered with DoorDash to provide delivery.

## Catalysts Excluding Earnings

### **Expansion of Franchises**

Aim to 100 percent digitize every transaction making it accessible from everywhere.

Aim 3000 domestic restaurants and 3000 global restaurants Shift strategy towards purchase of whole grain fed chicken rather than individual parts then finding market for unused parts.

What sets it apart is its room for growth. It is a relatively young business with a unique product and growing at a much faster rate than competitors such as Dominos, KFC and McDonalds. .

It offered free delivery during March April during Coronavirus enabling it to adopt and mitigate any downside.

### **Earnings Announcements**

Q1 End March 28<sup>th</sup> 2020 – Announced May 6

Revenue increased to 55.4 million from 48.1 quarter on quarter.

Net income was 8.1 million compared to 6.6 million quarter on quarter

8.9 percent increase in domestic sales

Advertising Fees and related income increased by 2.8 million quarter on Quarter.

Cost of sales increased to \$11.2 million from \$9.7 million driven primarily by increased labour costs associated with COVID

During COVID when USA restaurants were closed on March 16 100% of sales were off premises and digital orders increased to 65% of sales

Digital sales as a whole increased to 47 percent.

CO borrowed \$16 million to improve its cash position due to uncertainty with COVID events and withdrew restaurant opening targets pending COVID uncertainty.

However, CEO noted in Q1 earnings announcement on May 6<sup>th</sup> that first four weeks of April sales stronger than Q1.

Historical volatility is 48 %

SMA three month is \$133.23

Three month RSI I is 54

52 week low is \$44.16 High is \$138.90

**What is your choice of trade structure and why? Include time horizon for trade**

I would place the stock on the watchlist looking to entry at \$130.13 based upon the ATR Low.

Concerns are the high PEG1 ratio at the stock has already had significant growth albeit the company is expanding but the \$16 million borrowed need further investigation.

As regards trade structure, due to my trading experience I cannot comment on options plays at this time.

