

**WINGSTOP:**

**LONG IDEA**



# Macro view

- Leading indicators:** Leading indicators are strong, particularly so in the US. Mixed comments with problems in the supply chain, labor shortage and **inflation** with **higher commodity prices and labor shortage** seem to be common themes across many industries as demand increases. Vaccination pace has been fast in the US and the economy is getting back to normal

ISM Non-Manuf	feb-21		mar-21		abr-21		mag-21		jun-21		jul-21	
Arts, Entertainment & Recreation	Growth	13	Growth	18	Growth	17	Growth	15	Growth	16	Growth	17
Wholesale Trade	Growth	16	Growth	17	Growth	16	Growth	17	Growth	13	Growth	16
Accommodation & Food Services	Growth	17	Growth	12	Growth	1	Growth	6	Growth	10	Growth	15
Management of Companies & Support Serv	Growth	6	Growth	15	Growth	15	Growth	10	Growth	11	Growth	14
Retail Trade	Growth	9	Growth	3	Growth	9	Growth	18	Growth	12	Growth	13
Real Estate, Rental & Leasing	Contraction	-1	Growth	11	Growth	13	Growth	13	Contraction	-2	Growth	12
Transportation & Warehousing	Growth	15	Growth	10	Growth	10	Growth	14	Growth	14	Growth	11
Information	Growth	5	Growth	4	Growth	2	Growth	7	Growth	4	Growth	10
Other Services	Growth	2	Growth	1	Growth	8	Growth	8	Growth	15	Growth	9
Public Administration	Growth	12	Growth	9	Growth	11	Growth	3	Growth	5	Growth	8
Construction	Growth	14	Growth	14	Growth	14	Growth	16	Growth	7	Growth	7
Health Care & Social Assistance	Growth	10	Growth	6	Growth	5	Growth	5	Growth	6	Growth	6
Utilities	Growth	11	Growth	7	Growth	12	Growth	9	Growth	9	Growth	5
Professional, Scientific & Technical Service	Growth	8	Growth	5	Growth	4	Growth	2	Growth	1	Growth	4
Educational Services	Growth	3	Growth	2	Growth	3	Growth	1	Growth	2	Growth	3
Finance & Insurance	Growth	7	Growth	8	Growth	7	Growth	11	Growth	3	Growth	2
Mining	Growth	1	Growth	16	Growth	6	Growth	12	Growth	8	Growth	1
Agriculture, Forestry, Fishing & Hunting	Growth	4	Growth	13	Contraction	-1	Growth	4	Contraction	-1	Neutral	0

# Macro view

- Things have started to improve for this sector since the reopening, but they share concerns with the rest of the market around supply chain issues and labor shortages

Accommodation & Food Services	jul-21	<u>"Peak demand while still facing challenges filling open positions."</u> [Accommodation & Food Services]
	jun-21	<u>"Our restaurants are quickly — maybe too quickly — returning to 2019 sales levels. Strong consumer demand for dining out is clearly evident as COVID-19 restrictions ease, but the challenges are supply chain outages, logistics delays and employee- and management-staffing constraints. Some locations cannot open for business or (have) limited hours, as we cannot staff the restaurant to meet consumer demand."</u> [Accommodation & Food Services]
	may-21	"Stimulus money, increased vaccinations, increased dining capacity and pent-up demand are driving a fast recovery for dine-in restaurants — and all consumer segments, it seems — resulting in labor shortages and supply chain gaps." [Accommodation & Food Services]
	abr-21	"Restaurant capacity is increasing quickly as restrictions are removed. Consumers have pent-up demand; sales are increasing, and the labor pool is tight. Supply chain is challenged at every level as businesses across the U.S. ramp up." (Accommodation & Food

# Macro view

- **Retail sales:** Last 3 readings were expansive in this industry even after the post-covid rebound

Date	Food Services and Drinking Places mil	% Change
may-21	69338.0	4.30%
jun-21	71001.0	2.40%
jul-21	72217.0	1.71%



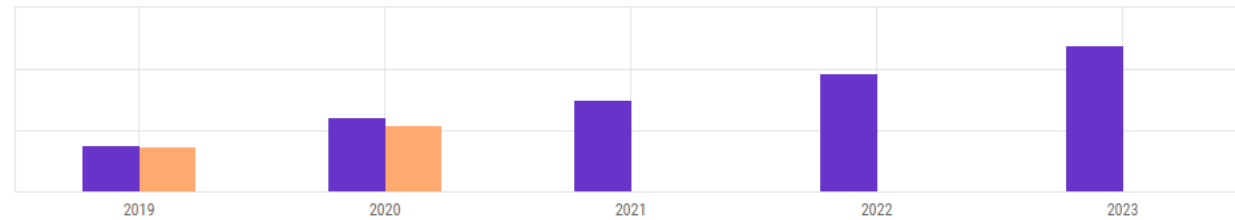
# Top-Down analysis

- It's trading at a premium P/E and PEG to the industry with very good above-average growth

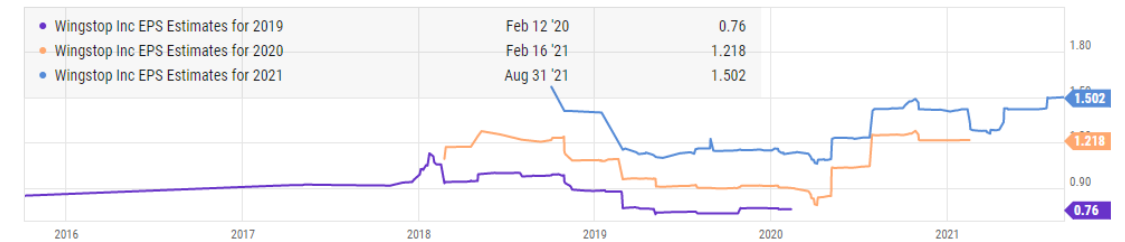
Ticker	Company Name	EG F1	EG F2	EG F3	PE FY1	PE FY2	PE FY3	PEG F1	PEG F2	PEG F3
WING	Wingstop Inc	91.84%	27.79%	24.09%	113.64	88.92	71.66	1.24	3.20	2.97
		235.24%	29.95%	14.18%	33.83	46.49	29.23	-0.66	1.57	46.49

## Estimates vs. Actuals

● Annual EPS Estimates ● Annual Actual EPS

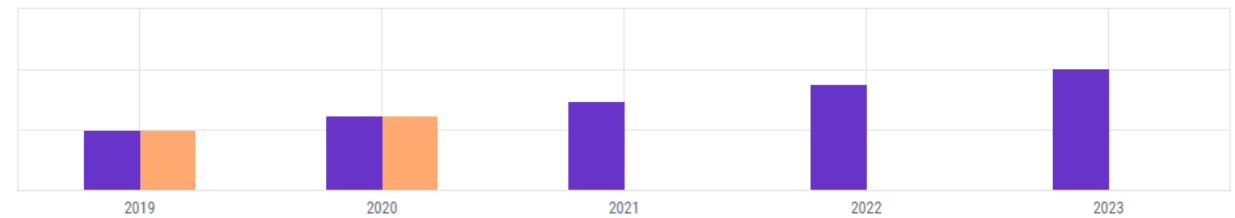


## Long Term Revision Trends

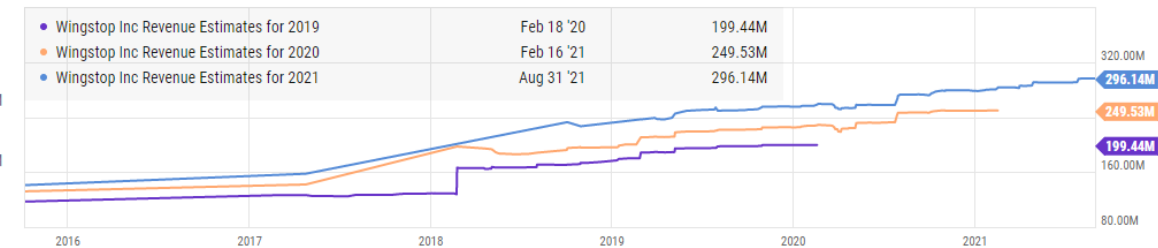


## Estimates vs. Actuals

● Annual Revenue Estimates ● Annual Actual Revenue



## Long Term Revision Trends



# Company Overview

Wingstop Inc. NasdaqGS

★ In My Watchlists My Notes Quotebox

**WING** 174.95 USD +0.53 (+0.30%)  
Last Updated • Thu Sep 02 9:41AM EDT

Fri Oct 29th 2021  
Next Earnings Date

Consumer Discretionary  
Sector

Hotels, Restaurants and Leisure  
Industry

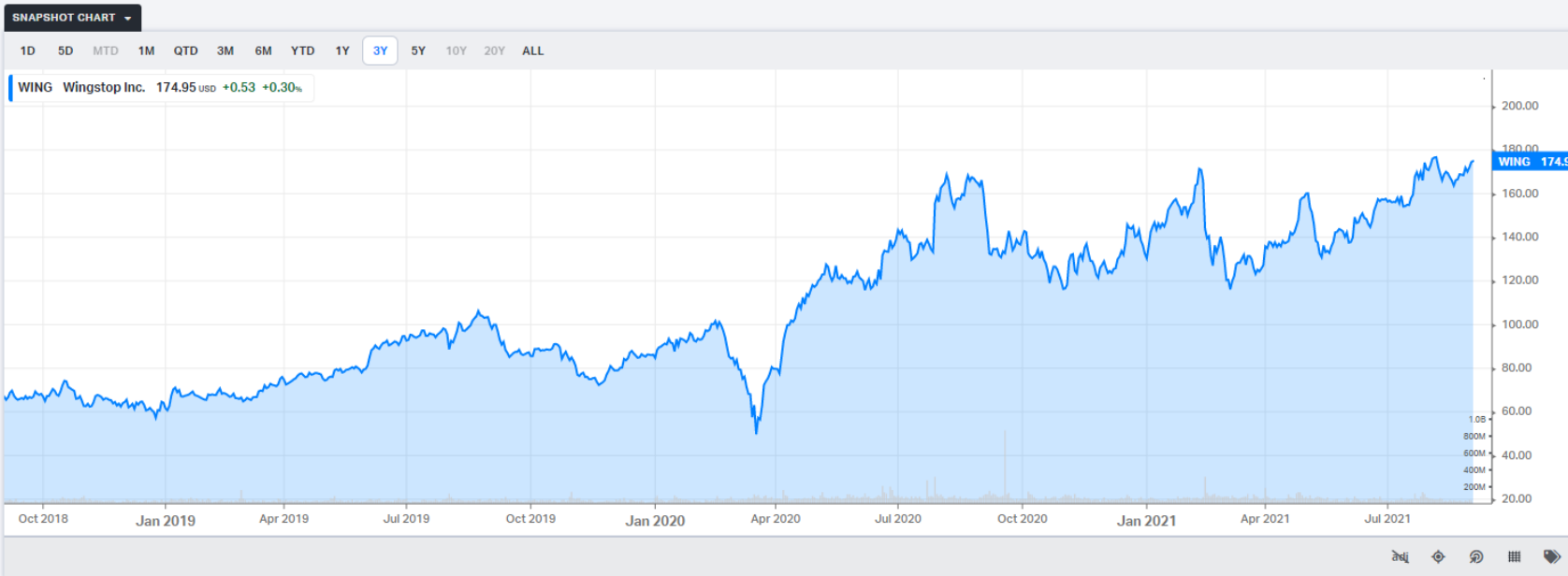
\$5.11B  
Market Cap

107.2x  
Forward P/E

0  
Volume

24.87%  
Total Return (3M)

9.86%  
Total Return (1Y)



KEY DATA			
Dividend Yield	0.39%	Avg Volume (10D)	-
Beta (5Y Monthly)	1.32	Volatility (1Y)	42.32
Shares Outstanding	29.75 M	Short Interest %	7.05%
Industry	Hotels, Restaurants and Leisure		
Competitors	CMG SHAK MCD DPZ WEN		

PERFORMANCE RETURNS				
	1M	3M	YTD	1Y
Price	2.12%	24.74%	31.99%	5.27%
Total	2.23%	24.87%	32.41%	9.86%

VALUATION		
	LTM	NTM
P/E	182.7 x	107.2 x
EV/Sales	20.4 x	17.4 x
EV/EBITDA	73.0 x	59.0 x
Price/Book	-	-

CAPITAL STRUCTURE	
Market Cap	\$5.11B
Total Debt	\$474.49M
Cash & Inv.	\$43.50M
Enterprise Value	\$5.55B

- NEWS
- As The Restaurant Industry Serves Up A Comeback, Will Vaccine Mandates Spoil Gains? Yahoo • Aug 25 21
  - Wingstop Announces New Growth and Technology Structure, Appoints Digital Marketing Lead Yahoo • Aug 17 21
  - Wingstop: Another Solid Quarter In Q2 SeekingAlpha • Aug 04 21
  - A Look at the Restaurant Industry Yahoo • Aug 02 21
  - 3 Stocks Insiders Are Buying Benzinga • Jul 30 21

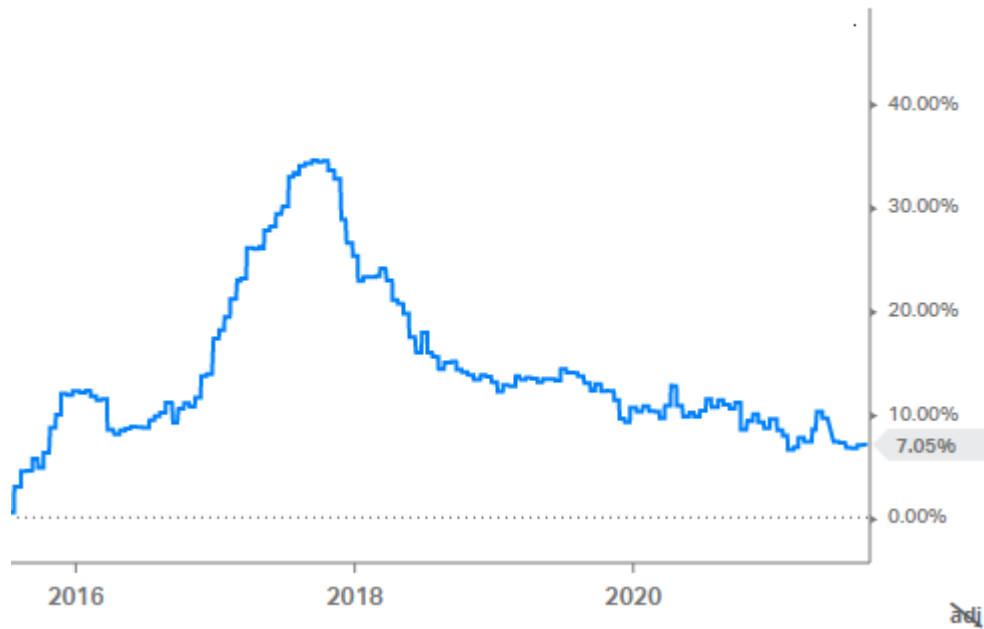
ANALYST ESTIMATES				
	FY 2021	FY 2022	FY 2023	
Sales	\$296.14 M	\$350.67 M	\$405.67 M	
YoY Chg	19.02%	18.41%	15.68%	
EPS	1.50	1.92	2.38	
YoY Chg	37.78%	28.17%	23.67%	

# Company Overview

- There is a short interest rate of 7.05% and no anomalies in Institutional holdings

## Short Interest %

[Open Graph](#)



318 Institutional Holders

32,233,270 Total Shares Held

OWNER NAME	DATE	SHARES HELD	CHANGE (SHARES)	CHANGE (%)	VALUE (IN 1,000S) ▼
<a href="#">BLACKROCK INC.</a>	06/30/2021	3,793,122	4,341	0.115%	\$661,596
<a href="#">VANGUARD GROUP INC</a>	06/30/2021	2,922,764	-130,694	-4.28%	\$509,788
<a href="#">FRED ALGER MANAGEMENT, LLC</a>	06/30/2021	1,610,293	-145,696	-8.297%	\$280,867
<a href="#">AMERICAN CENTURY COMPANIES INC</a>	06/30/2021	1,443,717	-3,978	-0.275%	\$251,813
<a href="#">FEDERATED HERMES, INC.</a>	06/30/2021	1,394,872	19,738	1.435%	\$243,294
<a href="#">PRICE T ROWE ASSOCIATES INC /MD/</a>	06/30/2021	1,230,083	1,215,178	8152.821%	\$214,551
<a href="#">WELLINGTON MANAGEMENT GROUP LLP</a>	06/30/2021	1,042,961	-69,711	-6.265%	\$181,913
<a href="#">AMERIPRISE FINANCIAL INC</a>	06/30/2021	924,749	37,569	4.235%	\$161,295
<a href="#">STATE STREET CORP</a>	06/30/2021	891,469	8,588	0.973%	\$155,490
<a href="#">1832 ASSET MANAGEMENT L.P.</a>	06/30/2021	871,500	195,000	28.825%	\$152,007
<a href="#">INVESCO LTD.</a>	06/30/2021	852,150	-39,666	-4.448%	\$148,632
<a href="#">CHAMPLAIN INVESTMENT PARTNERS, LLC</a>	06/30/2021	770,700	62,215	8.781%	\$134,425
<a href="#">ARTISAN PARTNERS LIMITED PARTNERSHIP</a>	06/30/2021	745,080	-2,938	-0.393%	\$129,957
<a href="#">ALLIANCEBERNSTEIN L.P.</a>	06/30/2021	742,303	64,904	9.581%	\$129,472
<a href="#">STEPHENS INVESTMENT MANAGEMENT GROUP LLC</a>	06/30/2021	615,568	66,110	12.032%	\$107,367

# Company Overview

- **Description**

Wingstop Inc., together with its subsidiaries, franchises and operates restaurants under the Wingstop brand name. Its restaurants offer classic wings, boneless wings, and tenders that are cooked-to-order, and hand-sauced-and-tossed in various flavors. Wingstop Inc. was founded in 1994 and is based in Dallas, Texas.





# Quantitative analysis

## Revenue Growth

	SALES	EBITDA	EBIT	EPS	EPS GAAP
	FY 2020	FY 2021	FY 2022	FY 2023	
1Q Mar	\$55.44M	\$70.69M	\$80.68M	\$94.52M	
2Q Jun	\$66.11M	\$74.00M	\$85.89M	\$104.19M	
3Q Sep	\$63.99M	\$74.68M	\$86.34M	-	
4Q Dec	\$63.28M	\$76.74M	\$94.46M	-	
Year	\$248.81M	\$296.14M	\$350.67M	\$405.67M	
Growth	21.09%	19.02%	18.41%	15.68%	



# Quantitative analysis

## Earnings Growth

	SALES	EBITDA	EBIT	EPS	EPS GAAP		
				FY 2020	FY 2021	FY 2022	FY 2023
1Q Mar				0.27	0.44	0.45	0.53
2Q Jun				0.39	0.38	0.48	0.59
3Q Sep				0.34	0.35	0.47	-
4Q Dec				0.18	0.34	0.52	-
Year				1.09	1.50	1.92	2.38
Growth				34.00%	37.78%	28.17%	23.67%



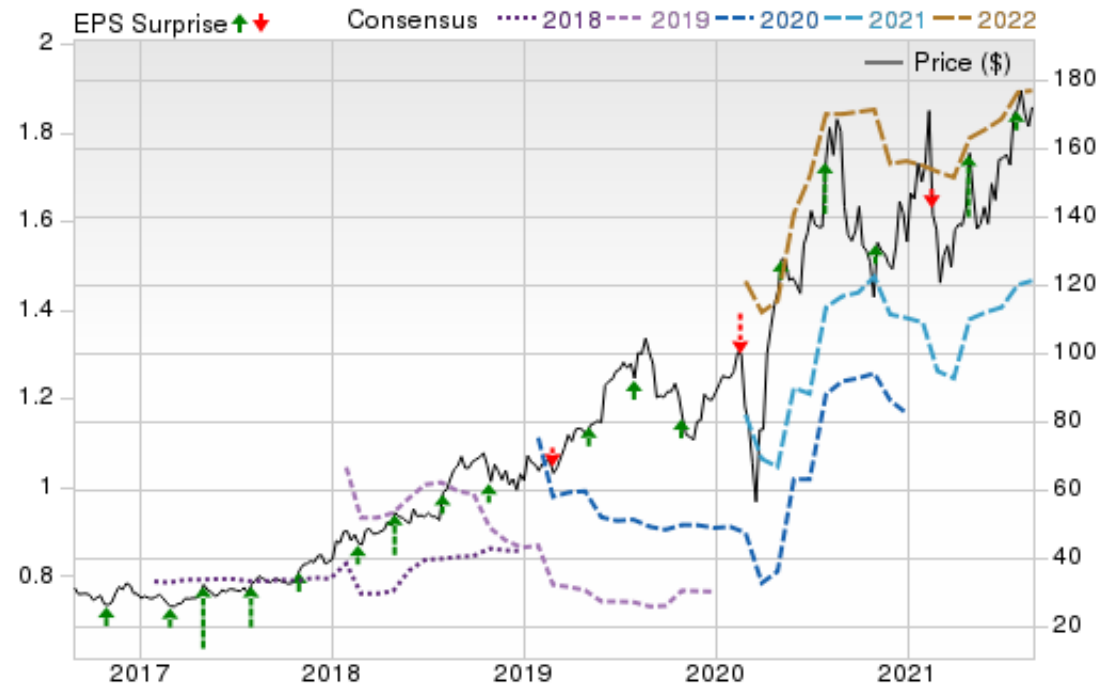
# Qualitative analysis: Revenue Segments

- The company reports its business under three segments: **Royalty and franchise fees** (44% of total revenues in last quarter), **Advertising fees** (30%) and **Company-owned restaurant sales** (26%).
- Royalty and franchise fees includes both royalties and fees from the **franchisee's revenue** (the **latter makes most** this segment)

	Thirteen Weeks Ended	
	June 26, 2021 (Unaudited)	June 27, 2020 (Unaudited)
Revenue:		
Royalty revenue, franchise fees and other	\$ 33,135	\$ 27,858
Advertising fees	22,577	19,923
Company-owned restaurant sales	18,288	18,324
Total revenue	74,000	66,105

# Quantitative analysis: Last quarter & Estimates

## Price, Consensus & Surprise

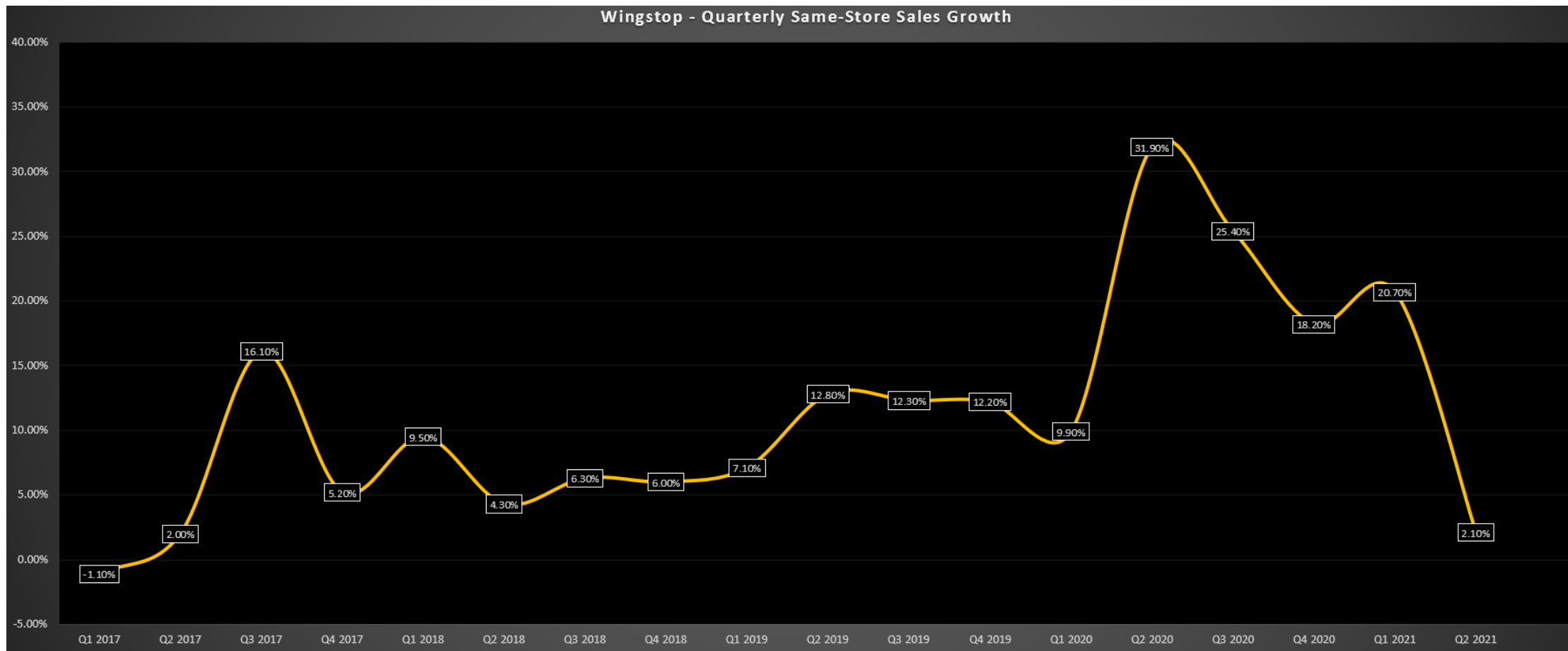


## LAST QUARTER:

- System-wide sales increased 15.8% to \$589.7 million
- 45 net new openings in the fiscal second quarter 2021, an increase of 13.1%
- Domestic same-store sales increased 2.1%
- Domestic restaurant AUV increased to approximately \$1.6 million, compared to \$1.4 million in the prior fiscal second quarter
- Digital sales increased to 64.5% of sales, compared to 63.7% in the prior fiscal second quarter
- Total revenue increased 11.9% to \$74.0 million
- Net income was \$11.3 million, or \$0.38 per diluted share, compared to net income of \$11.5 million, or \$0.39 per diluted share in the prior fiscal second quarter. Adjusted net income\* and adjusted earnings per diluted share\*, both non-GAAP measures, increased 13.1% to \$11.3 million and \$0.38 per diluted share, compared to \$10.0 million and \$0.34 per diluted share in the prior fiscal second quarter
- Adjusted EBITDA\*, a non-GAAP measure, increased 9.5% to \$22.9 million

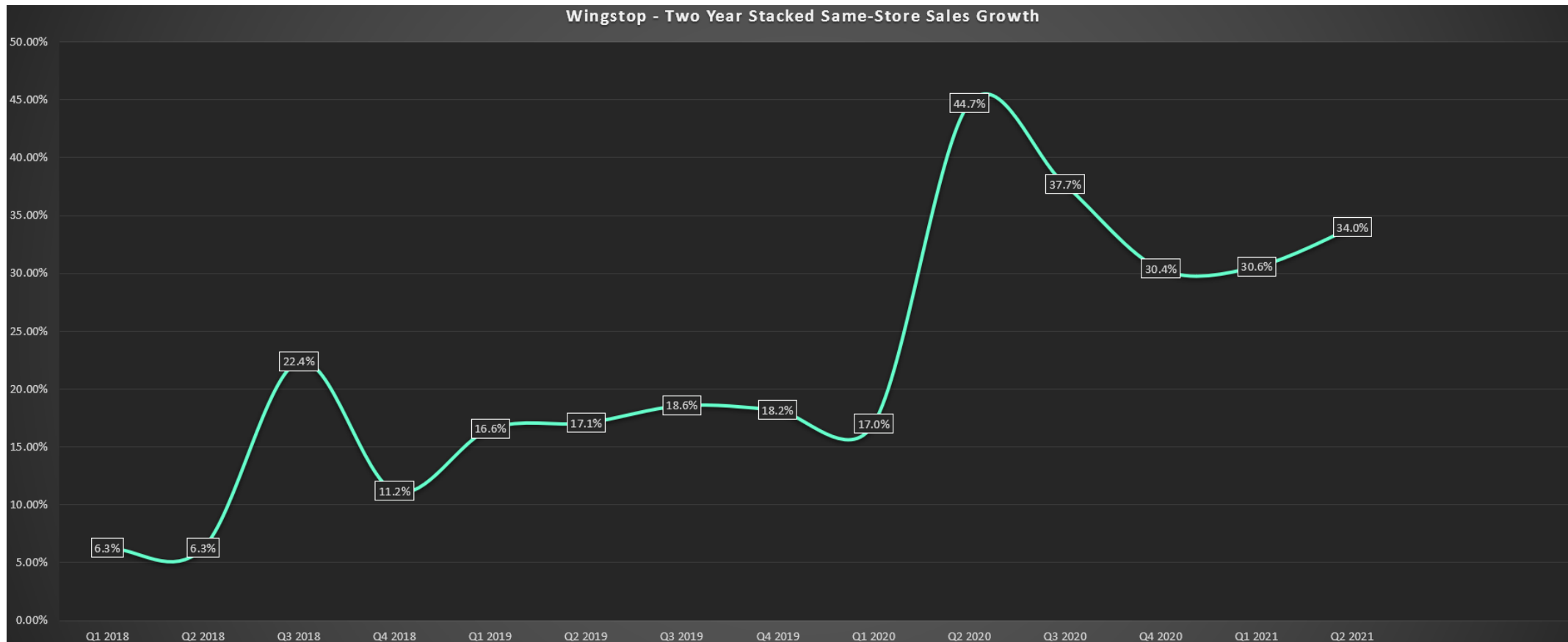
# Quantitative analysis: Same-store sales

- As can be seen from the chart, Wingstop's domestic same-store sales fell off a cliff on a quarterly basis in Q2, but this **is noise in the bigger picture**.



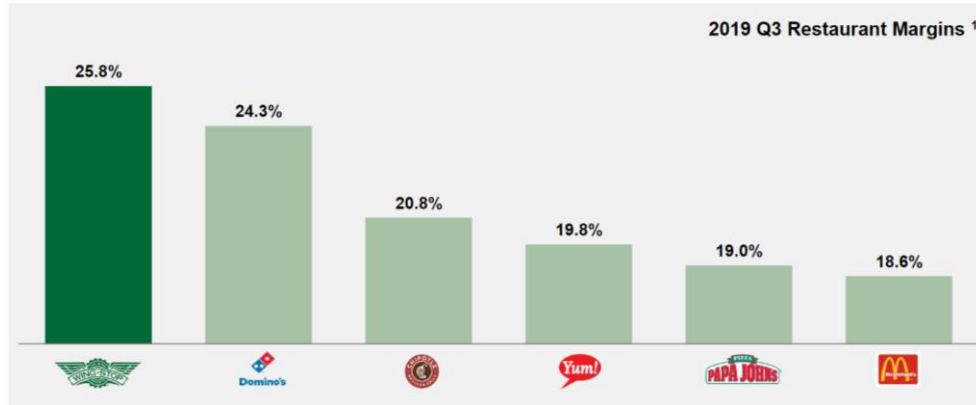
# Quantitative analysis: Same-store sales

- Actually, they were lapping **31.9% growth in the year-ago period**. So, while the 2.1% growth was the lowest quarter of growth since Q2 2017, it translated to **a two-year stacked growth rate of 34.0%, a 340-basis point acceleration sequentially**, and double pre-pandemic levels (Q1 2020: 17.0%)

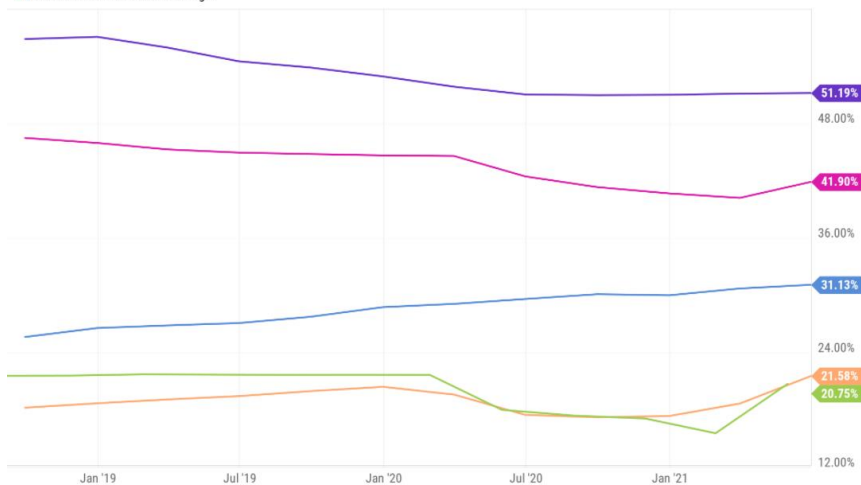


# Quantitative analysis: Restaurant margins

- They have been able to maintain **industry-leading margins** and **are managing cost increases effectively**.



• Wingstop Inc Gross Profit Margin  
• Chipotle Mexican Grill Inc Gross Profit Margin  
• Papa John's International Inc Gross Profit Margin  
• Darden Restaurants Inc Gross Profit Margin  
• Shake Shack Inc Gross Profit Margin



- Bone-in chicken wing prices continue to be an issue, with labor shortages translating to much higher prices.
- Since the brief deflation in bone-in wing prices last year, prices are up more than 120% in the spot market. Fortunately, **Wingstop has only seen its prices increase by 65%** due to price mitigation strategies with its largest poultry suppliers.

# Qualitative analysis: Product Quality

- Wingstop is **leading or almost leading every review** that can be found on the internet about wing restaurant chains' quality, which says a lot about the brand recognition and customer retention capabilities of this franchise (*have not tried them myself unfortunately*). These are just 2 examples.

**RESTAURANT**  
BUSINESS

<https://www.restaurantbusinessonline.com/food/10-most-craveable-chicken-wings-chains#page=10>

## 1. Wingstop

Topping the list is Wingstop, with 60.7% of consumers deeming this chain's wings the most craveable of all. Gen X and boomer respondents gave Wingstop the highest scores—65% and 64%, respectively. One Gen X consumer praised “the perfectly cooked wings and specialty sauces,” while another called out “the excellent wing flavor varieties.” As with BWB, consumers also like the fact that Wingstop has a laser focus on wings, and offers affordable, well-prepared food with enticing flavors.

Explore: [Restaurant Business](#), [Technomic](#), [Menu](#)

**FOODBEAST**

## 2. Wingstop

*“What sets Wingstop above all of the others so far on this list is its consistency. Regardless of what flavor wings you're ordering here, they're going to perfectly crispy and juicy every single time. Wingstop is also the most dedicated wing joint on here, outside of Buffalo Wild Wings, but far exceeds it in terms of flavor, variety, and satisfaction. The slightly sweet fries served alongside give that extra bit of balance to the heat of the wings, meaning you can keep going back for more. Wingstop is definitely the best US-based chain we've got, but there's one international superstar whose wings have spread out here and taken the top position.”* <https://www.foodbeast.com/news/best-chain-restaurant-wings/>



# Qualitative analysis: Digital exposure - Ghost Kitchens

## PERSONALIZED CRM TO DRIVE CONSUMER ENGAGEMENT AND BEHAVIOR

The image consists of three vertical panels. The first panel, titled 'Industry-Leading Partnerships', features logos for Salesforce, HATHWAY, and session. The second panel, titled 'Personalized CRM Journeys', shows a network of user avatars and a circular diagram with three segments labeled 'PRIME', 'TRIGGER', and 'REFINE'. The third panel, titled 'Campaign Application', displays a smartphone screen with a promotional message for '2 New Flavor Remixes... Get em while they last' and images of 'BAYOU BBQ' and 'MANGO VOLCANO' items.

- The goal is to **digitize every transaction long term**, and with more than **60% digital**, the company has made incredible progress, up from just over **30% in Q1 2019**.
- This supports the company's plans to continue opening tuck-in **Ghost Kitchens**, with **more than 13 opened already**. These Ghost Kitchens require roughly **one-fourth the square footage of typical restaurants** (400 square feet vs. 1,750 square feet), but with a full menu like traditional Wingstop locations.



# Catalysts

- Next earnings (Nov 1<sup>st</sup>) will be the first in which we see the results of several of these **Ghost Kitchens**.
- If **inflation proves transitory** and eases during the quarter, a lot of pressure will come off margins and we will see further margin expansion on top of an already industry-leading margin.
- The progress towards **100% digital transactions** is likely to accelerate during the quarter thanks to the Ghost Kitchens.
- The company is planning on opening **several new stores** every quarter to maintain revenue growth .
- If **Covid restrictions ease**, restaurant sales are likely to rise

# Risks

- **Valuation** is clearly high even though it is high growth.
- **Delta Variant** might bring further restrictions.
- If **inflation** persists it could affect margins.

# Trade Structure

- We can do a Calendar Spread, selling 1 October 185 (5% OTM) call and buying 2 December 185 calls, you get a credit of 4.35 for every sold call and a cost of 9.9 for the December ones.
- Target price is \$225

	Strategy	Calendar	Calendar
	Expiry	Oct and Dec	Oct and Dec
	strikes	4.35 and 9.9	4.35 and 9.9
	prices	1.38 and 3.30	1.38 and 3.30
	contracts	1 and 2	1 and 2
	Calc Date	15th Oct	17th Dec
	cost	\$ (1,545.00)	\$ (1,545.00)
	\$ 130.00	\$ (1,530.00)	\$ (1,545.00)
	\$ 170.00	\$ (600.00)	\$ (1,545.00)
Price Points	\$ 175.00	\$ (253.00)	\$ (1,545.00)
Profit and Loss	\$ 180.00	\$ 166.00	\$ (1,545.00)
	\$ 185.00	\$ 660.00	\$ (1,545.00)
	\$ 190.00	\$ 725.00	\$ (545.00)
	\$ 200.00	\$ 1,054.00	\$ 1,455.00
	\$ 210.00	\$ 1,605.00	\$ 3,455.00
	\$ 215.00	\$ 1,947.00	\$ 4,455.00
	\$ 220.00	\$ 2,323.00	\$ 5,455.00
	\$ 225.00	\$ 2,727.00	\$ 6,455.00
	\$ 230.00	\$ 3,155.00	\$ 7,455.00
	\$ 235.00	\$ 3,601.00	\$ 8,455.00

If price goes up 30% before December expiration, we make a 4:1 ratio