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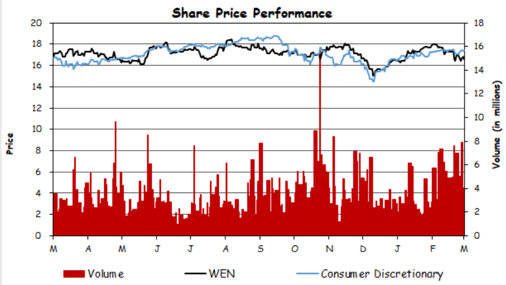
The Wendy's Company	Symbol: WEN
Analyst	Michael Bove
Buy below	$16.58
Sell above	$22.45
Probability of Price Increase	85%
Last Price	$16.63
Intrinsic Value	$18.31
Target Dividends	$0.35
Target Price	$20.38



Description

The Wendy's Company, together its subsidiaries, operates as a quick-service restaurant company.

Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	December 11, 2018
Next earnings date	May 8, 2019

People

Penegor, Todd, President, CEO & Director
Plosch, Gunther, Chief Financial Officer
Wright, Robert, Executive VP & COO
Wunsch, E., Chief Legal Officer & Secretary
Kane, Kurt, Executive VP and Chief Concept & Marketing Offi
Burnside, Leigh, Chief Accounting Officer

Top Competitors

Dunkin' Brands Group, Inc.	McDonald's Corporation
Jack in the Box Inc.	YUM! Brands, Inc.
Chipotle Mexican Grill, Inc.	Texas Roadhouse, Inc.
Shake Shack Inc.	--
Domino's Pizza, Inc.	--

Market Statistics

Market Capitalization (mil)	$3,867.87
Last Price per share	$16.63
52 week high	$18.69
52-week low	$14.96
Volatility	22.89%
Daily volume (mil)	4.06
Short interest	6.68%
Days to cover short interest	4.06
Beta	0.90

Investment Thesis

A Solid Fast Food Company with Strong, Sustained Growth.

I am initiating coverage of The Wendy's Company with a BUY below $16.58 and a $20.38 price target. WEN has displayed an impressive ability to innovate their menu and sustain years of same restaurant sales growth. Despite being in the fast food industry, WEN has successfully marketed itself as a more premium option. Their more premium model and innovation has proven iteslf in their financials as they have turned around declining revenue growth into positive revenue growth, stable profitability, and growing free cash flow. The Wendy's Company is well positioned within the fast food industry and is presently, undervalued. As an additional bonus for the stock, the company pays a dividend yield of roughly 2.38%.

For the long:

1. Ability to Innovate their Menu Options:
WEN has shown that they can refresh and innovate their product offerings. The "4 for $4" promotion has been successful in driving sales and their "$5 Giant Jr. Bacon Cheeseburger" promotion is showing good returns as well. In fact, these promotions have been able to drive sales for other, higher priced menu options.

2. Investment in Mobile Ordering and Delivery Partnerships is exceeding expectations:
WEN is at the forefront of investing in new technology that allows more people to access their product. Their partnership with DoorDash and SkipTheDishes is exceeding their expectations. Their delivery footprint covers 60% of North America and expected to be at 80% by the end of 2019. Furthemore, Wendy's is continuing to place an emphasis on investing in these partnerships.

3. Strong Growth Based on a Variety of Factors:
The company is growing consistently based on a variety of metrics. WEN has experienced 8 years of same restaurant sales growth in North America. As mentioned previously, revenue has been growing after a period of declines. EBITDA, net income, and EPS are also showing similar growth patterns. Free cash flow is a priority for the company and due to a flexible capital structure and fixed rates on their debt, they are expected to continue a period of very strong free cash flow growth.

For the short:

1. Speed of Service Slowdown:
WEN has experienced a slowdown in their speed of service for their drive through. This is concerning and while management is aware of this situation, they have generic statements on their plans to remedy the problem. They mention additional training and simplification of their restaurants.

2. Crowded Field of Competitors:
As a fast-food restaurant in the United States, they face a lot of competition. Their competitors include well known names like McDonalds, Burger King, Taco Bell, KFC, etc. If they are unable to fix their slowdown in service, their customers will be more inclined to buy food at competing fast food restaurants. I believe this could be partially offset by their more premium offering line.

Key Catalysts for price change

- Menu Innovation
- partnership with Food Delivery Partners
- Continued Growth in Free Cash Flow

Valuation

My $20.38 price target is derived from Discounted Unlevered Free Cash Flow estimates, along with EV/Revenue and EV/EBITDA multiples.

Ownership		Change in Ownership (one month)
Shares outstanding (mil)	230.23	
Diluted shares outstanding (mil)	244.96	
Options and Warrants (Shares equivalent)	0.00	
% shares held by institutions	101%	**1.72%**
% shares held by investments Managers	50%	**4.95%**
% shares held by hedge funds	16.28%	**-5.94%**
% shares held by VC/PE firms	0.047%	**NA**
% shares held by insiders	3.63%	-119.07%
Poison Pill Type	NONE	

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Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
12/31/2017	-1.83%
4/1/2018	-20.53%
7/1/2018	-20.19%
9/30/2018	-21.51%
12/30/2018	-20.73%
Mean (Standard Error)	**-16.96% (0.89%)**
EBITDA	
12/31/2017	-23.47%
4/1/2018	-27.46%
7/1/2018	-37.53%
9/30/2018	-120.20%
12/30/2018	-54.51%
Mean (Standard Error)	**-16.96% (2.23%)**

Financials

Profitability	**WEN (LTM)**	**WEN Historical**	**Peers' Median (LTM)**
Return on Capital	0.8%	3.69%	15.05%
Adjusted EBITDA Margin	13.2%	10.54%	17.48%
Return on Equity	77.8%	7.1%	-16.8%
Adjusted Net margin	36.8%	8.1%	13.4%
Invested Funds	**WEN (LTM)**	**WEN Historical**	**Peers' Median (LTM)**
Cash/Capital	13.0%	8.4%	14.4%
NWC/Capital	-0.6%	-1.5%	-5.9%
Operating Assets/Capital	65.8%	70.7%	88.8%
Goodwill/Capital	21.9%	21.3%	7.7%
Capital Structure	**WEN (LTM)**	**WEN Historical**	**Peers' Median (LTM)**
Total Debt/Market Cap.	0.74	0.72	0.32
Reported Cost of Borrowing	5.3%		5.5%
Cash Interest/Total Debt	4.9%		9.8%
CGFS Credit Rating	D		CCC
Credit Model Rating	bb-		bb to bb+
Probability of Default	4.50%		0.24%
Cost of Capital			
	CGFS Credit Rating	**Credit Model Rating**	**Probability of Default**
Implied Cost of Borrowing (WEN)	9.6%	7.0%	9.6%
Implied Cost of Borrowing (Peers)	6.4%	6.5%	6.9%
Cost of New Debt Estimate	6.0%		
Market Risk Premium Estimate	5.9%		
Cost of Equity Estimate	11.9%		
WACC Estimate	9.1%		

Valuation

DCF Valuation						
	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	$1,263.92	13%	$162.26	8.20%	0.82%	$14.57
year 1	$1,665.30	27%	$71.84	9.05%	6.58%	$17.72
year 2	$1,742.84	28%	$117.55	9.23%	6.47%	$20.91
year 3	$1,794.09	29%	$179.36	9.38%	6.42%	$24.17
year 4	$1,880.00	29%	$232.55	9.52%	6.36%	$27.47
year 5	$2,068.00	30%	$351.79	9.67%	8.59%	$30.79
year 6	$2,260.70	30%	$412.18	9.79%	8.35%	$34.10
year 7	$2,455.94	29%	$470.44	9.90%	8.15%	$37.40
year 8	$2,651.30	29%	$526.00	9.99%	7.96%	$40.67
year 9	$2,844.12	28%	$578.35	10.06%	7.79%	$43.90
year 10	$3,031.58	27%	$614.13	10.12%	7.53%	$47.09
year 11	$3,210.72	27%	$623.58	10.17%	7.28%	$50.23
year 12	$3,378.55	26%	$628.47	10.21%	7.02%	$53.34
year 13	$3,532.12	26%	$629.33	10.24%	6.76%	$56.43
year 14	$3,668.59	25%	$626.11	10.26%	6.50%	$59.51
year 15	$3,785.31	24%	$601.52	10.27%	6.08%	$66.61
Continuing Period	$3,879.95	24%	$876.45	10.27%	10.27%	
Relative Valuation					**Asset Based Valuation**	
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%
Median (Peers)	3.7x	17.6x	6.5x	25.9x	Capital	$6,000.88
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	$2,042.04
WEN	$1,681.23	$449.73	$754.91	$602.71	Claims	$2,634.65
Implied EV	$6,242.08	$7,918.73				
Total Net Claims	$1,866.93	$1,866.93				
Implied EQ	$4,375.16	$6,051.80	$4,937.87	$15,634.54		$1,324.19

Valuation Summary			
Model	Intrinsic Value	Target Price	Weight
DCF Valuation	$14.57	$17.72	33.00%
EV/Rev (FW)	$17.86	$19.10	34.00%
EV/EBITDA (FW)	$24.70	$26.56	33.00%
P/BV (TTM)	$20.16	$21.60	0.00%
P/E (FW)	$63.82	$69.22	0.00%
Asset Based Valuation	$5.41	$5.51	0.00%
Price per Share	$19.03	$21.10	100%