

Wingstop Inc.
NASDAQ:WING

Analyst: Brandon Casey
Sector: Consumer Disc.

SHORT

Price Target: \$16.11

Key Statistics as of 10/26/2016

Market Price: \$26.99
Industry: Hotels, Restaurants and Leisure
Market Cap: \$775.38M
52-Week Range: \$20.31-33.10
Beta: N/A

Catalysts:

- Short run: Q3 Earnings Nov. 1st
- Mid run: Efficiency of expansion
- Long run: Oversupply of restaurants (industry outlook)

Company Description:

Wingstop Inc. (WING) is a fast-casual restaurant that specializes in serving wings as a main course. They offer 11 flavors of bone-in and boneless wings. WING is headquartered in Dallas, Texas and their store locations are mainly south and west North America, with 33% of all stores located in Texas and 22% of all stores located in California. Food sales generate approximately 90% of revenues. The CEO Charles R. Morrison has been in charge since June 2012, and the CFO Michael F. Mravle has been with the company since 2014. Both had positions at other companies prior to joining Wingstop Inc.



Thesis

Wingstop Inc. is a small player in a dying industry. In one recent week alone three restaurants filed for chapter 11 bankruptcy. Those companies were: Cosi Inc., Rita Restaurant Corp., and Garden Fresh Corp. All these companies are small players and contributors to the restaurant industry. Compared to larger companies in the same industry, WING has similar margins. WING has an EBITDA margin of 28.7% while a larger company such as Dave & Buster's Inc. has an EBITDA margin of 24.8%. Wingstop Inc. has been operating as efficiently as competitors, but for how long? In addition, in August 2016 Roark Capital Group lowered their position in WING by 6 million shares. This creates less capital for WING to operate with, and also may lower its efficiency. With the combination of being in an increasingly competitive and dying industry, and losing capital from their main investors, I would consider WING a SHORT. A target price of \$16.11 and a potential of approximately 34% can be realized.

Industry Outlook

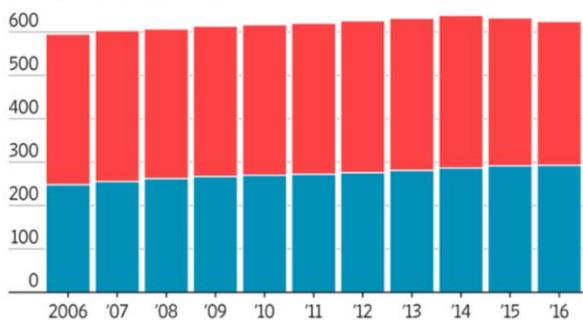
As stated before, the restaurant industry is slowly dying. This is because there is an oversupply of restaurants throughout the United States.

Satiated

Restaurant openings have outpaced demand in the past decade. Independents have been closing in the past two years while chains have continued to grow.

Total restaurants in the U.S., in thousands

■ Independents ■ Chains



Source: NPD Group Inc.

THE WALL STREET JOURNAL

As seen in the picture above, from 2006 to the peak in 2014 restaurants grew at 7.3%. In that same time span, the United States population only grew 6.9%. Since the

industry peak in 2014 the amount of restaurants in the United States decreased by about 624,000.

Experts believe that the decrease is not only explained by oversupply, but by customers being drawn away from traditional restaurants. Meal-kit delivery services and prepared meals are what have been taking away these customers. According to government data, in grocery stores food is at its cheapest point relative to restaurants since the 1980s. Americans are realizing that it is not only easier to shop for meals but also cheaper. Overall the restaurant industry is showing its instability. In one recent week three companies; Cosi Inc., Rita Restaurant Corp., and Garden Fresh Corp., filed for bankruptcy. Some restaurants are closing store locations. In August 2016, Ruby Tuesday announced it had plans to close around 100 stores, and Bob Evans Farms Inc. closed 27 restaurants. Management for restaurants are also being shaken up. Famous Dave's of America Inc. has had four CEOs in the last four years, and it has been closing many stores of late. Wingstop could be compared to the industry through its management. CEO Charles R. Morrison was introduced to the company in June 2012, while CFO Michael F. Mravle has only been with the company since 2014. Since both have been at different companies prior to Wingstop Inc., they have realistically only worked together for two years.

Investors

Wingstop Inc. has a relatively small market cap of \$775.38 Million compared to competitors. In other words, they thrive off of investors since they need capital to compete efficiently with competitors. One of their main investors recently in August lowered their position in WING by 6 million.

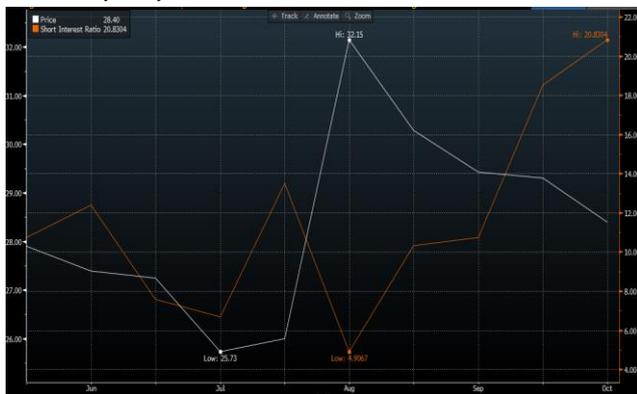
Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg
1 ROARK CAPITAL GROUP INC		Form 4		6,765,858	23.55	-6,000,000
2 STATE STREET GLOBAL ADV UK	SPDR RUSSELL 2000 U.S. SM ETF			2,259	0.01	0
1 BLACKSTONE GROUP LP	BLACKSTONE ALTERNATIVE MF-USA			200	0.00	0

Roark Capital Group is considered to be the parent company of Wingstop Inc. because of how heavily Roark invested in WING. Roark Capital Group is headquartered in Atlanta, GA. They have raised about \$6 billion in equity capital. Their portfolio consists of food and restaurants, specialty retail, health and wellness, healthcare, and education. However their largest sector of ownership is the food and restaurant sector, in which they have invested in 19 companies.

Based on Roark's history of ownership, it is fair to say they have a lot of experience in the restaurant industry. Since Q4 2015 Roark Capital Group had 19 million invested in WING. As of late, they are down to about 7 million. Roark must have lost some faith in the once promising fast-casual restaurant. It may be because of the deteriorating industry. Or they may have disagreements with management's operation ideologies. Nonetheless, if a parent company decreases its position from 19 million to 7 million, it speaks volumes to how they forecast the company's future.

Short Interest

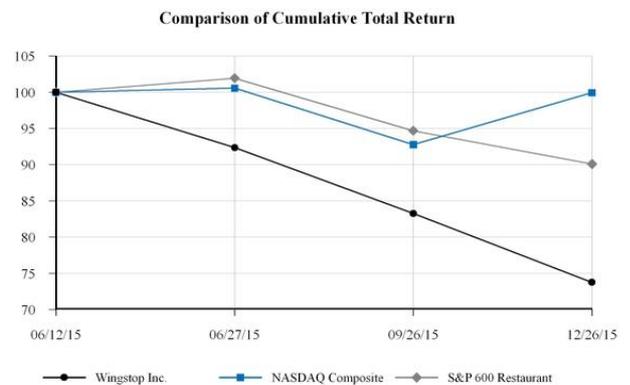
There is another shocking parameter as why I consider WING a short. Before Roark Capital Group decreased their position in Wingstop Inc. the short interest ratio was at a yearly low of about 4.9%.



Once August came, the short interest ratio of WING doubled in one month and has been increasing ever since. Now the short interest ratio is about four times more than what it was in August, to be exact it is at 20.8%. Ironically, the increase in short interest occurred at about the same time Roark Capital Group lowered their position by 6 million shares. Many investors now understand that the lack of support from Wingstop Inc.'s parent company means that in the long run they will not be able to grow as planned, thus limiting efficiency.

Competitors

Since their IPO, Wingstop Inc.'s cumulative returns on their stock has been steadily decreasing. In comparison, NASDAQ has remained somewhat constant (despite some fluctuations) and the S&P 600 Restaurant has also declined.



This shows us two things. Since the S&P 600 Restaurant is declining, we can see that the market is outperforming the restaurant industry as a whole. In addition, WING is actually being outperformed by the industry. So this graph shows us that WING is not only in a deteriorating industry, it is also not keeping up with the industry. In the future, Wingstop Inc. has realized that there is opportunity for them to acquire a total of 2,500 stores in the United States. They have a lot of expanding to do since they only own 786 American stores to date. In order to become a country-wide brand name like they hope, they will need to take on a lot of debt. Since they've recently lost an immense portion of their capital from Roark Capital Group, expansion will only be more difficult and less efficient.

Conclusion

At a price of \$26.99 I would strongly consider a SHORT on Wingstop Inc. The restaurant industry is going to get increasingly competitive. Smaller restaurants will only be able to compete with bigger brand names for so long. WING has lost a significant amount of capital from their main investor Roark Capital Group. This loss of capital may urge many current owners to sell off the stock. In addition, WING now has significantly less capital to operate and expand with. Since their long run goal is to obtain around 2,500 stores in the United States, they will have a tough time expanding as efficiently as they have. Margins may start to decrease, competitors will start to outperform, and in the long run I believe Wingstop Inc. will fall victim to the deteriorating restaurant industry.

Wingstop Inc. (WING)

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BEARISH

Analysis by Brandon Casey
10/26/2016

Current Price: **\$26.99**
Divident Yield: **6.2%**

Intrinsic Value: **\$16.47**
Target Price: **\$16.11**

Target 1 year Return: **-34.07%**
Probability of Price Increase: **0%**



Description	
Wingstop Inc., together with its subsidiaries, franchises and operates restaurants under the Wingstop brand name.	
General Information	
Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	November 3, 2015
Next earnings date	November 1, 2016
Estimated Country Risk Premium	5.98%
Effective Tax rate	39%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	\$775.38
Daily volume (mil)	0.38
Shares outstanding (mil)	28.73
Diluted shares outstanding (mil)	28.95
% shares held by institutions	67%
% shares held by investments Managers	60%
% shares held by hedge funds	14%
% shares held by insiders	1.11%
Short interest	10.70%
Days to cover short interest	10.94
52 week high	\$33.10
52-week low	\$20.31
Levered Beta	1.00
Volatility	0.00%

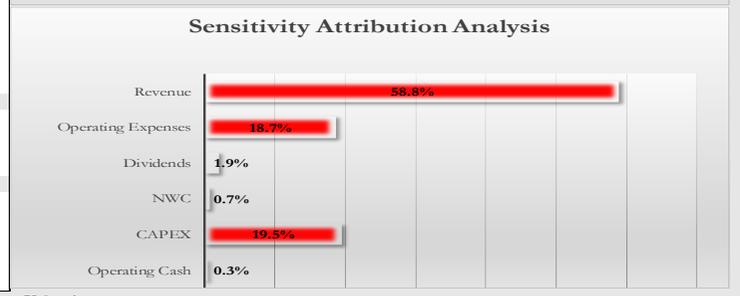
Past Earning Surprises		
Quarter ending	Revenue	EBITDA
6/27/2015	4.52%	13.95%
9/26/2015	-0.19%	6.99%
12/26/2015	0.74%	-29.62%
3/26/2016	-0.49%	4.49%
6/25/2016	0.99%	0.12%
Mean	1.12%	-0.81%
Standard error	0.9%	7.5%

Peers	
Buffalo Wild Wings Inc.	
The Cheesecake Factory Incorporated	
Flanigan's Enterprises Inc.	
Famous Dave's of America Inc.	
Jamba, Inc.	
Darden Restaurants, Inc.	
BJ's Restaurants, Inc.	
Texas Roadhouse, Inc.	



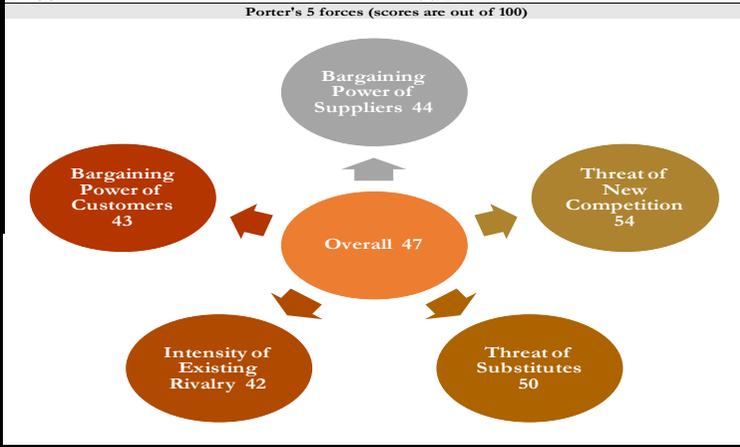
Management		Position	
Morrison, Charles	Chief Executive Officer, Pre		
Mravle, Michael	Chief Financial Officer		
Kruger, Lawrence	President of International		
Peterson, Stacy	Chief Information Officer		
Marsch, Darryl	Senior Vice President, Gener		
Vernon, David	Chief Development Officer		

Total compensations growth		Total return to shareholders	
56.22% per annum over 1y	N/M		
-41.06% per annum over 1y	N/M		
N/M	0% per annum over 0y		
N/M	N/M		
N/M	N/M		
N/M	N/M		



Profitability		WING (LTM)		WING (4 years historical average)		Industry (LTM)	
ROIC	56.8%	314.94%	20.24%	#DIV/0!	12.0%	1.69	
NOPAT Margin	22%	277.46%	26.73%	#DIV/0!	9.7%	2.77	
Revenue/Invested Capital	2.54	20%	9.7%	#DIV/0!	2.77		
ROE	-23.2%	-1.17	2.77				
Adjusted net margin	20%						
Revenue/Adjusted Book Value	-1.17						

Invested Funds		WING (LTM)		WING (4 years historical average)		Industry (LTM)	
Total Cash/Total Capital	7.4%	6.4%	21%				
Estimated Operating Cash/Total Capital	5.8%	4.5%	N/A				
Non-cash working Capital/Total Capital	-2.5%	-2.7%	-29%				
Invested Capital/Total Capital	27.4%	24.2%	87%				



Capital Structure		WING (LTM)		WING (4 years historical average)		Industry (LTM)	
Total Debt/Common Equity (LTM)	0.13	0.04	0.36				
Cost of Existing Debt	3.34%	6.23%	3.98%				
Estimated Cost of new Borrowing	4.17%	4.23%	3.98%				
CGFS Risk Rating	B	B	C.C.C				
Unlevered Beta (LTM)	0.91	1.00	0.80				
WACC	8.89%	10.04%	8.01%				

Valuation		ROIC/WACC	
Base Year	22.3%		6.39
6/25/2017	21.5%		6.07
6/25/2018	22.8%		8.55
6/25/2019	22.5%		8.05
6/25/2020	22.5%		8.47
6/25/2021	22.3%		8.19
6/25/2022	22.1%		7.90
6/25/2023	21.9%		7.61
6/25/2024	21.7%		7.32
6/25/2025	21.5%		7.04
6/25/2026	21.3%		6.76
Continuing Period	21.0%		6.01

Net Claims		Price per share	
Base Year	\$123.52		\$16.77
6/25/2017	\$151.25		\$16.83
6/25/2018	\$186.65		\$16.93
6/25/2019	\$264.43		\$17.08
6/25/2020	\$33.21		\$17.30
6/25/2021	\$36.82		\$17.64
6/25/2022	\$31.59		\$18.15
6/25/2023	\$37.01		\$18.87
6/25/2024	\$39.21		\$20.72
6/25/2025	\$44.63		\$21.99
6/25/2026	\$50.44		\$23.62
Continuing Period			