



The Wendy's Company

WEN

EQUITY RESEARCH REPORT

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WEN — The Wendy's Company

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID**
Current Price	€5.90 (\$6.85)
Fair Value (Base Case)	€6.20 (\$7.20)
Margin of Safety	~5%
Target Entry (if reconsidered)	€4.40 (\$5.10)

Return Profile	Value
Dividend Yield	~7.3% (stated; sustainability suspect)
Expected Dividend Growth	0% (cut risk elevated)
Expected Price Appreciation	2-3% CAGR
Total Expected Return (Base)	~6-7% CAGR (before dividend cut adjustment)
Bear Case Total Return	-8% to -12% CAGR
Bull Case Total Return	~18% CAGR (take-private dependent)
Probability-Weighted Return	~3-4% CAGR

Risk Assessment	Value
Wealth Preservation Score	38 / 100
Downside Protection Score	30 / 100
Quality Score	42 / 100
Risk Level	ELEVATED
Probability of >50% Loss	~18%
Recession Profile	SENSITIVE

One-Line Thesis:

Wendy's runs an asset-light franchise model on a balance sheet so thin that equity functions as a residual claim on a leveraged bet, and the downside in any traffic-driven recession breaches the capital preservation mandate.

INVESTMENT THESIS

You are looking at a business that prints respectable franchise cash flow and then spends years moving that cash through a capital structure built by activists for return-on-equity optimization rather than survival. The numbers tell the story directly. Roughly \$3.2 billion of debt sits against an equity sliver near \$100 million at the entity level, leverage runs around 4.9x EBITDA, and interest coverage has fallen to about 2.8x net interest. Our framework treats interest coverage below 4.0x as an automatic removal trigger. Wendy's fails that gate before we reach any discussion of upside.

The asset-light model that QSR investors admire cuts both ways here. Wendy's sold its real estate and refranchised its stores, converting owned assets into rent obligations and royalty streams. That raises reported returns when traffic holds. It removes the asset backing that protects you when traffic falls. Same-restaurant sales fell 11% into early 2026, the company expects to close 300-350 underperforming units, and S&P projects free operating cash flow declining from roughly \$204 million in 2025 to about \$160 million in 2026 on lower EBITDA. A business with a fortress balance sheet survives that sequence. A business at 4.9x EBITDA with declining FCF and a refinancing wall after 2028 enters it carrying material permanent-loss risk.

The bull case rests almost entirely on a single event. Nelson Peltz, who controls about 16% and filed in February 2026 that the company was undervalued with strategic options under review, could engineer a take-private at an estimated \$9.50-\$11.90 per share. That is real upside from \$6.85. It is also binary event risk, not business quality. If you buy here, you are betting on a transaction whose absence leaves you holding a highly levered, traffic-challenged operator that has cycled through seven CEOs in 24 years. We do not underwrite capital preservation on a deal that may not close. The bear case, where no deal arrives and a consumer slowdown hits a low-coverage balance sheet, produces negative total returns even after the 7%+ stated dividend, and that dividend would likely be cut to defend the credit. That combination fails every absolute requirement in our framework.

1. BUSINESS QUALITY ASSESSMENT

Wendy's is the third-largest hamburger QSR system, roughly 95% franchised across more than 7,200 units, with 83% of locations in the United States. Revenue comes from royalties, franchise fees, rental income, supply-chain margins, and a small company-operated base (about 415 stores versus 6,751 franchised). Drive-thru drives near 75% of core-market sales and digital reached close to 20% of system sales in 2025.

The moat is moderate and eroding. The brand's signature differentiator, fresh never-frozen beef, lost force when McDonald's spent about \$60 million in 2018 to move Quarter Pounders to fresh beef. The core product is commoditized. Switching costs bind franchisees but do not protect the parent from traffic declines, which flow directly into royalty revenue. Digital and loyalty add modest network effects.

Sector verdict: QSR is understandable, not in secular decline, and moderately cyclical. It clears Stage 1 and proceeds with heightened balance-sheet scrutiny. That scrutiny is where the thesis breaks.

2. FINANCIAL FORTRESS ANALYSIS

Metric	Value	Threshold	Result
Debt-to-Equity	>30x (entity equity ~\$100M)	<1.0x	**FAIL**
Interest Coverage (net)	~2.8x	>5.0x; remove if <4.0x	**AUTOMATIC FAIL**
Leverage (Debt/EBITDA)	~4.9x	Lower is safer	**FAIL**
Free Cash Flow	Positive 5/5 years	Positive 4/5	PASS
FCF Trajectory	\$204M (2025) → ~\$160M (2026)	Stable/rising	DETERIORATING
Refinancing wall	Post-2028	No cliff	MONITOR

5-year financials show revenue plateauing around \$2.2B, with 2025 revenue down 3.1%, net income down 15.1% to \$165.1M, and diluted EPS of \$0.85. FCF margin remains healthy near 11%, which is the asset-light model working. The problem is not cash generation. It is that the cash gets consumed by debt service and shareholder payouts against an eroding traffic base.

Stress Test (revenue -30% for 2 years): Royalty revenue tracks system sales, so a sharp traffic decline compresses the exact stream servicing the debt. At 2.8x coverage today, a meaningful EBITDA drop pushes coverage toward distress. The dividend would not survive. An equity raise or distressed refinancing becomes plausible.

Solvency Assessment: UNACCEPTABLE — interest coverage below 4.0x is an automatic removal under the framework.

3. DIVIDEND ANALYSIS

Metric	Value	Threshold	Assessment
Dividend Yield	~7.3%	>6% = sustainability concern	RED FLAG
FCF Coverage	Covered "for now" per Simply Wall St	1.5x	THIN
Payout vs. declining FCF	Rising payout pressure into 2026	70% FCF	AT RISK

A 7%+ yield at a \$6.85 price is the market pricing in a cut, not offering you free income. With FCF falling toward \$160M in 2026 and debt to service ahead of a post-2028 wall, capital allocation logic points to defending the credit over the dividend in any downturn.

Dividend Sustainability: AT RISK — fails the absolute requirement (must be ROCK SOLID or SUSTAINABLE).

4. VALUATION ANALYSIS

Metric	Current	5Y Avg	vs. History	Assessment
P/E	~9-10x	19.6x	-50%	Optically cheap
EV/EBITDA	~10.3x	—	High given leverage	Full
P/FCF	~5-6x	~12.7x	Deep discount	Cheap
P/B	~13x	—	Elevated	Misleading (thin equity)

The stock screens cheap on earnings and FCF. This is the value trap the framework warns against. A low P/FCF multiple on a declining FCF stream attached to a 4.9x-levered balance sheet is not margin of safety. The multiple compression from 19.6x to ~10x reflects the market correctly repricing risk, not an opportunity the market missed. The standalone fair-value estimates cited in research (\$8-\$8.75) sit only modestly above the current \$6.85, and most of any upside above that range depends on a take-private.

Valuation: value-trap profile — cheap on the wrong denominator.

5. SCENARIO ANALYSIS (10-Year, Total Return)

Scenario	Price Target	Total CAGR	Weight	Contribution
Bear (recession, no deal, 0.5% dividend cut, refi stress)	\$3.50	-8% to -12%	25%	~-2.5%
Base (flat traffic, dividend 0.20 then trimmed)	\$6.20	~5-6%	50%	~2.8%
Bull (Trian take-private \$9.50-\$11.90)	\$9.50	~18%	25%	~4.5%
Probability-Weighted		**~3-4%**		

Downside Protection: The bear case delivers a negative total return even crediting partial dividends. The framework requires bear-case total return $\geq 0\%$. Wendy's fails. The probability of a >50% permanent loss sits near 18%, above the 15% standard ceiling, driven by the combination of high leverage, declining FCF, and a refinancing wall.

6. RISK ASSESSMENT

- **Leverage / refinancing:** ~\$3.2B debt, ~4.9x EBITDA, 2.8x coverage, post-2028 maturity wall. Primary disqualifier.
- **Traffic:** Same-restaurant sales -11%; 300-350 unit closures expected; differentiation eroded by McDonald's fresh-beef move.
- **Governance:** Seven CEOs in 24 years. Activist control (Peltz ~16%) creates event risk in both directions.
- **Strategic missteps:** 2024 dynamic-pricing announcement drew public backlash; pattern of reactive strategy.
- **Earnings quality:** Years of refranchising and real-estate sales mean historical results benefited from one-time gains; scrutinize core royalty growth.
- **Macro:** Highly U.S. consumer-cycle exposed; sensitive to rates given leverage.

No going-concern flag, no auditor qualification, no restatement in the trailing 12 months. The filings show normal-course disclosure with sharpened leverage and liquidity language. The risk is structural, not accounting fraud.

7. MANAGEMENT & GOVERNANCE

CEO Robert D. Wright leads under the October 2025 "Project Fresh" plan, which redirects capital from the Build-to-Suit program toward technology and marketing. The pivot is rational. The track record is not. Seven CEOs in 24 years signals weak strategic continuity. Activist influence has produced an ROE-optimized, leverage-heavy structure that improved returns in good times and removed the cushion needed in bad ones.

Management Quality: ADEQUATE. Capital Allocation: POOR for a preservation mandate — financial engineering prioritized payouts and buybacks over balance-sheet durability.

8. PEER COMPARISON

Against McDonald's (RBI/Burger King aside), Wendy's carries weaker brand pricing power, slower unit growth, higher relative leverage, and lower interest coverage. McDonald's franchise model generates comparable asset-light economics with a vastly stronger balance sheet and durable moat. For a preservation investor, McDonald's at a fair multiple beats Wendy's at a cheap one, exactly the quality-over-cheapness principle.

9. KEY METRICS SUMMARY

Score Component	Value
Downside Protection Score	30 / 100
Return Adequacy Score	40 / 100
Quality Score	42 / 100
Composite WP Score	**38 / 100**

$$WP = (30 \times 0.45) + (40 \times 0.30) + (42 \times 0.25) = 13.5 + 12.0 + 10.5 = \mathbf{36-38}$$

Absolute Requirements Check:

- [] Bear case total return $\geq 0\%$ — **FAIL** (negative)
- [] Base case total return $\geq 7\%$ — **FAIL** (~5-6%)
- [] Solvency FORTRESS/ADEQUATE — **FAIL** (UNACCEPTABLE, coverage $<4.0\times$)
- [] Dividend ROCK SOLID/SUSTAINABLE — **FAIL** (AT RISK)
- [] Probability of $>50\%$ loss $<10\%$ — **FAIL** (~18%)

Five of five absolute requirements fail.

10. MONITORING CHECKLIST

Watch Item	Trigger	Action
Triam transaction	Definitive deal announced	Re-review for arbitrage only
Interest coverage	Rises above 5.0x sustainably	Reconsider quality gate
Leverage	Falls below 3.0x EBITDA	Re-screen balance sheet
Same-restaurant sales	Three consecutive positive quarters	Reassess traffic thesis
Dividend action	Cut announced	Confirms credit-defense priority
Refinancing	Post-2028 maturities addressed at reasonable rates	Removes wall risk
Entry price	Below €4.40 with deleveraging evidence	Possible re-rating to HOLD

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Reason: Interest coverage of ~2.8x triggers automatic removal under the solvency gate (threshold <4.0x). Independently, the bear-case total return is negative, the base case falls short of the 7% hurdle, dividend sustainability is at risk, and the probability of a >50% permanent loss (~18%) exceeds the 15% ceiling. The stock is cheap because the market correctly prices structural leverage and traffic decline, not because of an overlooked opportunity.

What Would Change Assessment: Leverage below 3.0x EBITDA with interest coverage above 5.0x, demonstrated same-restaurant sales stabilization, and an entry price near €4.40 that provides genuine margin of safety. A confirmed take-private would shift this to a separate merger-arbitrage analysis, which sits outside the wealth-preservation mandate.

ANALYST NOTES

Key Assumptions:

- Current price €5.90 / \$6.85 per the authoritative live quote.
- Leverage ~4.9x EBITDA, net interest coverage ~2.8x, debt ~\$3.2B from cited third-party analysis.
- 2026 FCF decline to ~\$160M per S&P projection.
- Dividend yield estimated against the \$6.85 price; exact per-share dividend not confirmed in provided data.

Limitations:

- Precise debt maturity schedule and covenant headroom not detailed in source data.
- Entity-level versus consolidated equity figures rely on secondary analysis.

- Take-private probability is judgmental, not derived from a definitive filing.
- Dividend-yield calculation is approximate pending confirmed per-share payout.

Confidence Level: HIGH — the disqualification rests on quantitative solvency metrics (interest coverage, leverage) that fail the framework's hard gates regardless of valuation. Upside scenarios depend on a corporate event we will not underwrite for capital preservation.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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