

Krispy Kreme Inc. (NASDAQ: DNUT)

“Show-Me” Stock with Compelling New Hub & Spoke Business Model

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Price Target: \$22.13 (40.96% upside)

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Business Description:

Krispy Kreme is an American donut company chain originally founded in 1937 in North Carolina, which has since grown into an iconic American consumer brand with ~400 store location in US and Canada and 35 locations internationally. The company recently re-IPOd in July 2021 after previously being taken private by JAB in 2016. Since being taken private, the company has significantly changed their operating model by defranchising their store locations in both the US and International markets (respectively +85% and 100% of US/CAN and International locations are now company owned) and converting their distribution model to that of a Hub and Spoke strategy. Under this new model, the Company uses their legacy store infrastructure as miniature factories and distributes their donuts daily to nearby company owned and branded cabinets in convenience and grocery stores. As of Q3’21, DNUT has 238 of these hubs (referred to as Hot Light Theatres) and 5,220 spokes (referred to as DFD cabinets) in the US/CAN market (and 30 hubs and 2,415 spokes in the International market). The company’s segments are grouped as US/CAN Market Revenues (reflecting company owned store revenues in the US/CAN market), International Market Revenues (reflecting company owned store revenues primarily in the EMEA market), and Market Development Revenues (reflecting the royalties collected from all global franchisees). In FY2020, 70%, 21%, and 9% of total revenues came from these three segments respectively. Additionally, in the US market the Company owns the growthy Insomnia Cookies brand (with 206 shops primarily on US college campuses as of Q3’21), which generated ~10.5% of total company revenues in FY2020.

Company History (pre-2016):

- Aggressive Growth Strategy:** Krispy Kreme first went public under the ticker KKD in 2000, riding the wave of the dot-com bubble for its early success. At the time, the Company primarily viewed itself as a QSR business, and sought to expand extremely quickly by heavily rely on new franchised locations (~80%+ of locations were franchised). The advantage of such a strategy was to grow top-line revenues quickly while increasing EBITDA margins due to the strategy’s asset light approach. The franchisee contracts were structured such that Krispy Kreme Inc. would collect 4.5% of on-premise sales and 1.5% of off-premise CPG sales as royalties. The Company grew mostly in the Southern California market, as well as the US South-East region to much fanfare.
- Disappointing ROIC and Organic Growth:** However, after quickly growing following their first IPO, the Company began to run into significant headwinds. Firstly, the actual store locations were (and still are) very costly to build, making it very unattractive to new franchisees. An average location costs ~\$1.5M to build, with 1/3 of the cost coming from just the industrial grade donut machine on each location (~\$500K). This high startup cost heavily reduced each location’s ROIC to <20%, implying a repayment period of 5.5 – 6.5 years. Secondly, while the total number of stores grew quickly across the country, the demand for donuts appeared flat – at least to the market at the time. So, while it was true that during the first 3-6 months of a new Krispy Kreme Store opening, demand and fanfare would be high (with each location generating ~\$100K in sales per week) sales would shortly thereafter fall off by ~60%+.
- Acquired by JAB in 2016:** The result of this obviously disappointing performance caused the public market valuation of the Company to plummet from ~\$50 per share in 2003 to ~\$10 in 2004, with the valuation only slightly recovering to ~\$17 per share in 2016, at which point JAB Holding Company stepped in buy it out at \$21 per share (reflecting a ~\$1.35B Enterprise Valuation). The timing of this acquisition coincided with JAB’s recent involvement in the US Coffee Market. Around the same time as their KKD acquisition, JAB acquired Peets Coffee, Caribou Coffee, Keurig, Panera, and many other coffee brands, seemingly in an attempt to corner the coffee market.

Key Ratios and Statistics:

Recommendation	Buy/Long
Price Target	\$22.13 – 30.16
Implied Return	41.0% – 92.1%
Share Price (12/3/2021)	\$15.70
Market Cap	\$2.63 B
52-Week Low	\$12.63
52-Week High	\$21.69

Figure 1 – (DNUT) Performance Since IPO

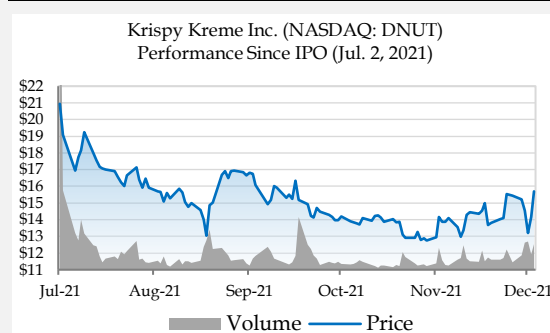


Figure 2 – Previous KKD Performance

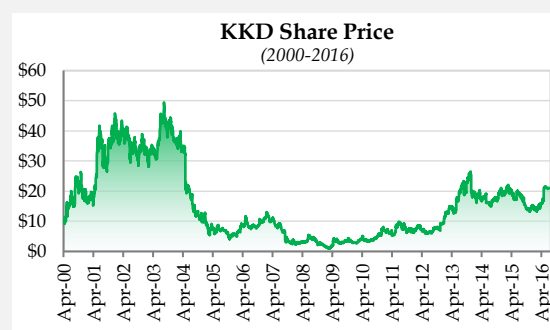
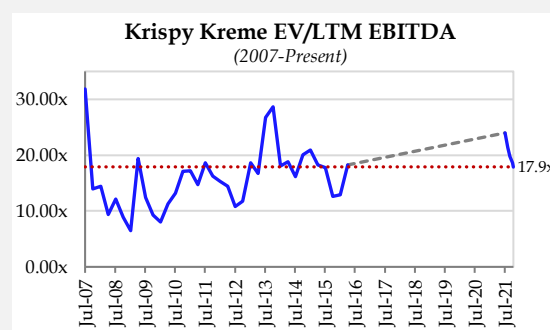


Figure 3 – Krispy Kreme EBITDA Multiple



Investment Thesis:

- **New Defranchising and Hub & Spoke Strategy will Significantly Improve ROIC and EBITDA Margin in the Still Many Underpenetrated US/CAN Markets:** We believe the market improperly compare’s DNUT’s ROIC and EBITDA margin and multiple to that of various QSR names (namely Dunkin Donuts, SBUX, Tim Hortons, WEN, and TXRH). Under the new H&S model, DNUT’s legacy store locations aren’t as much restaurants as they are miniature factories. Because of this, the incremental ROIC is exceptionally high (see figure 6), as future CAPEX spend will primarily come from new DFD cabinets (costing only ~\$5K in new spend). In this way, the new H&S model is essentially a way to better monetize legacy infrastructure that has largely already been built out, meaning heavy debt and CAPEX spend fears are misplaced.

Additionally, we believe the key issue with legacy Krispy Kreme locations was not that demand was flat/declining – as the market seemed to believe pre-2016 – but rather that consumers were (and still are) not willing to go out of their way for the product, making this a distribution rather than a demand issue. Wherever Krispy Kreme would improve the mobility factor in purchasing, revenues would pick up right away. For example, simply adding a drive-through to a location would increase weekly store revenues by 11%, and >50% of a Krispy Kreme location’s revenues were generated from sales to CPG markets (i.e., where they ship the donuts to other local stores). As such, we believe that this new distribution model will significantly improve this mobility constraint, while also spreading the high fixed cost per location (from the machine) across greater volumes.

And finally, while the model is set-up to work in denser urban areas, the Company is still largely under-penetrated in the large US markets (see figure 7). In the top 10 US cities, DNUT’s model is only fully rolled out in Atlanta and (to a lesser extent) Los Angeles. However, in the handful of smaller cities where the new H&S model has been more fully implemented (namely London, Tampa, Atlanta, and Denver), we have seen impressive EBITDA margin expansion from ~11% to ~30%.

- **Recent Artificially Low EBITDA Margins Weighing on the Valuation are Transitory:** Shortly after going public, the initial reaction to DNUT’s private reorganization was negative, as investors saw revenues double (increasing from \$518M in 2016 to \$1,122M in 2020) but EBITDA margin nearly halve (from 14.1% in 2016 to 8.1% in 2020) (see figure 8). The consensus – among bears at least – was that JAB sacrificed profitability for top-line growth, and had made the Company less attractive, as it no longer had the more stable, high margin Franchisee royalty payments. We believe that simply looking at the GAAP reported EBITDA margins is misleading, as there were many one-time expenses relating to the IPO and expenses resulting from the defranchising strategy. When adjusting for these expenses (see figure 9) the margin compression argument is not seen. Additionally, in terms of the defranchising strategy, we believe JAB and DNUT were very successful in their acquisition of such assets. While the Company was private, they threatened to cancel each franchisee’s CPG distribution contracts, and as such were able to buy out their franchisees at a very cheap discount of just 6-7x EBITDA.

- **Insomnia Cookies and the New CPG Product Line are Hidden Gems:** We believe the market is not fully appreciating or valuing the smaller assets which DNUT was able to acquire while being private. We are namely referring to the Insomnia Cookies and the new CPG Product line businesses. Insomnia Cookies is a very attractive growth asset with a long runway for TAM (currently there are only 206 locations across ~100 colleges, with there being +4,000 college campuses in the US alone) while also possessing attractive unit economics (27% contribution margin, <\$200K CAPEX, ~1yr payback period). Additionally, this asset is not just a small portion of DNUT’s revenues (the business made up ~10% of FY2020 revenues). As for the new CPG product line, the Company was able to cheaply repurpose their legacy wholesale production factory infrastructure into a new vertical with accretive LT EBITDA margins of ~20-25%. As of Q3’21 the new business will only require an additional \$2M in CAPEX to fully convert said factories and is expected to be profitable by EOY 2021. Despite these two attractive assets, most sell-side coverage of the company do not model out the two businesses, and the market assigns roughly the same multiple valuation to the company as it did pre-2016 (despite the company not having said assets).

Figure 4 – DNUT Ownership Summary

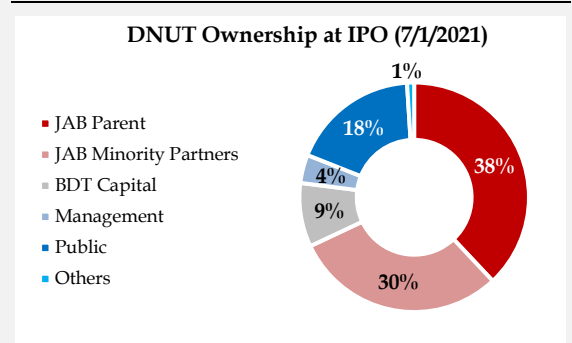


Figure 5 – Krispy Kreme Location Types

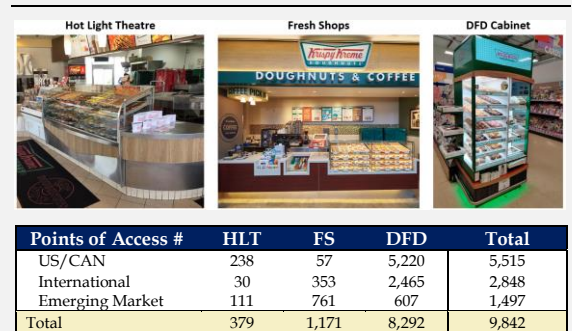
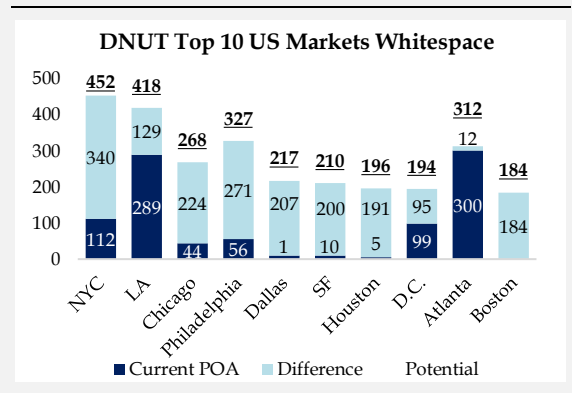


Figure 6 – H&S Model Market Case Studies

Hub & Spoke - Southern CA (i.e., LA)	2018	2019	2020	2021	2022e
Total Points of Access	17	28	143	219	289
Hot Light Theater Shops (Hubs)	14	15	16	16	16
Fresh Shops	3	3	3	3	3
DFD Shops	0	10	124	200	270
Sales (\$M)	\$3.8	\$4.2	\$4.7	\$5.0	\$5.3
Sales Per Hub (\$000s)	\$271.4	\$280.0	\$293.8	\$312.5	\$331.3
Total Hub EBITDA	\$17.1	\$19.2	\$24.6	\$26.2	\$27.8
EBITDA Margin (All-in)	32%	31%	33%	33%	34%
Cumulative CAPEX		\$1.0	\$2.5	\$4.3	\$6.1
ROIC		210%	360%	89%	88%

Hub & Spoke - UK	2016	2017	2018	2019	2020
Total Points of Access	29	63	80	77	86
Hot Light Theater Shops (Hubs)	1	1	1	1	1
Fresh Shops	2	4	4	5	5
DFD Shops	26	58	75	71	80
Sales (\$M)	\$2.3	\$4.1	\$5.4	\$6.0	\$4.5
Total Hub EBITDA	\$0.5	\$1.2	\$2.1	\$2.3	\$1.4
EBITDA Margin (All-in)	21%	31%	38%	27%	32%
Cumulative CAPEX	\$2.1	\$2.3	\$2.4	\$2.6	\$2.6
ROIC		350%	900%	100%	

Figure 7 – DNUT H&S Whitespace



Risks:

- JAB and Minority Partners Liquidation Risk:** The primary risk in this investment comes from DNUT’s previous owners JAB, who may begin aggressively selling their shares following the lockup period ending in 2022. In fact, one of the main bear thesis points on DNUT is that JAB is using the recent IPO as a way to liquidate their position in the company following a “failed” turnaround story. While we agree that it is a fair point to consider, we are ok accepting this risk, as we don’t agree with the view that JAB is simply looking to exit the company as soon as the lockup period ends. Firstly, JAB has been recently IPO-ing their coffee portfolio (which they had acquired from 2012-2018), which can be seen by their decision to take Keurig (via the KDP merger) and Panera Bread (which recently filed an S-1 on Nov. 8th, 2021) public. Because of this we don’t think JAB is necessarily selling off DNUT because of a failed turnaround story (i.e., that the defranchising and H&S model are unattractive), but rather because they weren’t able to incorporate coffee into DNUT’s model (while private JAB had apparently tried to roll-out a “coffee corner” in Krispy Kreme locations. This hasn’t worked with coffee only being ~1% of sales). Secondly, JAB and other company insiders have been buying up shares at the current valuation (see figure 10). And third, in other sold coffee assets (namely KDP) JAB did not sell off their large stakes in the business and have still remained as large shareholders in the business since it’s “re-IPO” in 2018.
- Mostly Unproven Management in a High Operating Risk Strategy:** While we believe the defranchising strategy and the rollout of the new H&S model for DNUT are attractive, we admit that it is one which bears high operating risk. Because of this, another primary risk we identify with the investment would be the largely unproved management team. The current CEO Mike Tattersfield was previously the CEO of Caribou Coffee (both before and after it was acquired by JAB in Jan. 2013) and does not necessarily have a lot of experience in operating the new H&S model. He has also largely built his career alongside JAB, meaning that he may not align himself as closely with the public equity shareholder if push came to shove between JAB. However, we would not necessarily consider him to be inexperienced or a bad manager, as he had a decent track record at Caribou Coffee, growing revenues faster than his predecessor while also turning the business EBIT positive (see figure 11). On the other hand, the current COO and CFO is Josh Charlesworth who – prior to DNUT – worked at Mars Inc. and does not have a “restaurant” business background. Because of this management risk we believe the market is treating – and valuing DNUT – as a “show me” stock, since we only have 2 quarters so far to go on. We believe that the market simply may need to see more quarters of a successful implementation of the new strategy, potentially providing us a good opportunity to get into the investment.
- High Inflationary Pressures in the Short Term:** A primary focus of sell-side equity research analysts and investors with a shorter-term horizon is the impact that higher input costs may have on the margin profile of the business. Since the new H&S model does require additional CAPEX spend (due to the installation of DFD cabinets) and the purchase of a fleet of delivery trucks, there is risk that higher labor input costs could compress EBITDA margins for the next several quarters. Again, while we believe this is a valid concern, we think the longer-term fundamentals of the business will continue to improve, regardless of the shorter-term transitory expenses they may incur.

Figure 8 – Post IPO Margin Compression

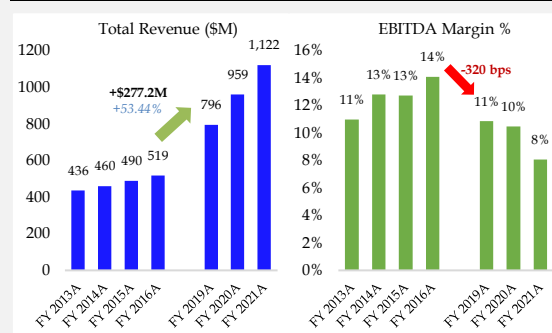


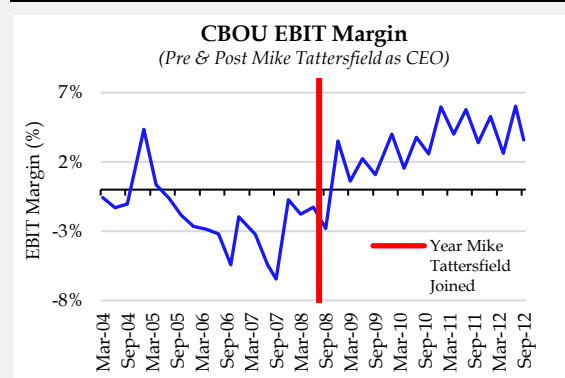
Figure 9 – Adjusted EBITDA Margins

Adjusted EBITDA Calculations ('000s)	FY 2019A	FY 2020A	FY 2021A	YTD Q3'21A
Revenue	\$795,883	\$959,408	\$1,122,036	\$1,013,794
GAAP EBITDA	\$78,473	\$102,375	\$85,779	\$99,013
Margin	9.86%	10.67%	7.64%	9.77%
Share-based compensation	9,449.0	10,680.0	11,619.0	16,973.0
Other non-operating expense	5,443.0	(609.0)	(1,101.0)	1,886.0
New York City Flagship Opening	0.0	3,784.0	6,513.0	0.0
Strategic initiatives	5,342.0	4,059.0	20,517.0	0.0
Acq. and integration expenses	9,972.0	20,433.0	12,679.0	3,663.0
Store closure expenses	3,396.0	629.0	6,269.0	0.0
Rx and severance expenses	5,703.0	583.0	0.0	1,393.0
Other (Asset impairments & Legal)	6,469.0	4,450.0	3,159.0	3,064.0
IPO Expense	0.0	0.0	0.0	14,221.0
Adjusted EBITDA	\$124,247	\$146,384	\$145,434	\$140,213
Margin	15.61%	15.26%	12.96%	13.83%
Adjusted EBITDA (incl SBC expense)	\$114,798	\$135,704	\$133,815	\$123,240
Margin	14.42%	14.14%	11.93%	12.16%

Figure 10 – DNUT Recent Insider Activity

INSIDER	LAST DATE	TRANSACTION	SHARES TRADED	PRICE	SHARES HELD
JAB INDULGENCE B.V.	11/22/2021	Buy	263,900	\$14.12	73,367,902
JAB INDULGENCE B.V.	11/19/2021	Buy	223,988	\$13.83	73,104,002
JAB INDULGENCE B.V.	11/18/2021	Buy	241,700	\$14.07	72,880,014
JAB INDULGENCE B.V.	11/17/2021	Buy	238,841	\$14.79	72,638,314
JAB INDULGENCE B.V.	11/16/2021	Buy	241,700	\$14.65	72,399,473
JAB INDULGENCE B.V.	11/15/2021	Buy	232,749	\$14.44	72,157,773
JAB INDULGENCE B.V.	11/12/2021	Buy	178,000	\$14.56	71,925,024
JAB INDULGENCE B.V.	11/11/2021	Buy	88,000	\$14.25	71,747,024
GOUDET OLIVIER	11/11/2021	Buy	50,000	\$13.86	734,853
TATTERSFIELD MICHAEL J.	11/11/2021	Buy	40,000	\$13.86	2,705,610

Figure 11 – CEO Track Record at Caribou Coffee



Summary Sheet - Base Case - \$ in MM

Fiscal Quarter/Year	FY 2018A	FY 2019A	FY 2020A	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Calander Period	12/30/2018	12/29/2019	1/3/2021	1/3/2022	1/3/2023	1/3/2024	1/3/2025	1/3/2026

Base Case
Financial Statement Summary

Revenue from Hubs Without Spokes	156.8	170.0	205.4	282.2	331.2	387.4	462.5	542.5
# of Hubs Without Spokes:	83	104	118	121	145	169	201	233
Revenue from Hubs With Spokes	161.1	204.4	331.0	472.2	569.1	638.1	715.7	776.5
# of Hubs With Spokes:	53	76	113	127	139	151	159	167
# of Spokes per Hub:	2,606	2,288	4,137	5,565	6,499	7,673	8,735	9,715
Sweet Treats Branded Product Line Revenues	125.7	112.1	128.6	21.6	22.0	38.0	45.0	50.0
Insomnia Cookies Revenues	0.0	101.0	117.7	152.7	199.9	227.7	248.4	268.2
# of Insomnia Cookie Shops:	146	168	184	213	241	265	287	309
Total US/CAN Market Revenues	443.6	587.5	782.7	928.7	1,122.3	1,291.2	1,471.6	1,637.2
Growth		32.46%	33.22%	18.65%	20.85%	15.06%	13.97%	11.26%
Total International Market Revenues	185.8	223.1	230.2	324.0	334.5	337.8	344.0	352.5
Growth		20.06%	3.17%	40.76%	3.24%	0.97%	1.86%	2.46%
Total Market Development Revenues	166.5	148.8	109.1	122.3	131.5	140.4	149.0	155.1
Growth		(10.64%)	(26.64%)	12.07%	7.48%	6.82%	6.08%	4.14%
Total Revenues	795.9	959.4	1,122.0	1,375.0	1,588.2	1,769.4	1,964.6	2,144.8
Growth		20.55%	16.95%	22.55%	15.51%	11.41%	11.03%	9.18%
Gross Profit	253.5	306.5	323.1	394.7	469.2	544.1	607.0	658.3
Margin		31.95%	28.79%	28.71%	29.54%	30.75%	30.90%	30.69%
US & CAN - Segment Adj. EBITDA	54.5	71.6	91.6	100.4	162.5	223.6	273.8	313.6
Segment Margin		12.19%	11.70%	10.82%	14.48%	17.32%	18.60%	19.15%
International - Segment Adj. EBITDA	41.1	53.3	44.6	80.1	87.1	89.3	90.5	92.5
Segment Margin		23.87%	19.36%	24.73%	26.04%	26.44%	26.31%	26.25%
Market Development - Segment Adj. EBITDA	56.3	51.6	39.1	39.6	33.7	36.9	40.0	41.9
Segment Margin		34.67%	35.79%	32.38%	25.60%	26.29%	26.84%	27.04%
Corporate - Segment Adj. EBITDA	(27.6)	(30.1)	(29.8)	(37.3)	(54.2)	(67.2)	(66.5)	(67.0)
Margin		(3.13%)	(2.65%)	(2.71%)	(3.41%)	(3.80%)	(3.38%)	(3.12%)
EBITDA (non-GAAP)	124.2	146.4	145.4	182.9	229.0	282.6	337.8	381.1
Margin	15.61%	15.26%	12.96%	13.30%	14.42%	15.97%	17.19%	17.77%
EBIT (non-GAAP)	74.8	82.6	65.0	81.6	125.2	180.4	234.5	279.6
Margin		8.61%	5.80%	5.93%	7.88%	10.20%	11.94%	13.03%
Interest Income/(Expense)	(27.9)	(38.1)	(34.7)	(29.8)	(17.4)	(16.0)	(13.0)	(8.3)
Interest Expenses: Related Parties	(18.9)	(21.9)	(22.5)	(10.4)	0.0	0.0	0.0	0.0
Provision for Income Taxes Income/(Expense)	5.3	(12.6)	(9.1)	(10.6)	(22.6)	(34.5)	(46.5)	(57.0)
Net-Income (GAAP)	(12.4)	(34.0)	(60.9)	(17.6)	63.5	112.2	155.4	192.9
Minority Interest Income/(Expense)	(1.6)	(3.4)	(3.4)	(6.7)	2.5	4.5	6.2	7.7
Net Income (Loss) attributable to Krispy Kreme, Inc. (GAAP)	(14.1)	(37.4)	(64.3)	(24.3)	66.0	116.7	161.6	200.6
Margin		(3.90%)	(5.73%)	(1.77%)	4.16%	6.59%	8.23%	9.35%
Total Adjustments to Non-GAAP Net Income	62.0	73.8	103.3	85.2	52.9	47.1	46.0	44.8
Adjusted Net Income attributable to Krispy Kreme, Inc. (non-GAAP)	48.0	36.3	39.0	60.8	118.9	163.8	207.6	245.4
Margin		3.79%	3.47%	4.43%	7.49%	9.26%	10.57%	11.44%
EPS (non-GAAP) (Diluted)	\$0.38	\$0.29	\$0.31	\$0.37	\$0.72	\$0.99	\$1.25	\$1.48

Liquidity Statistics

Days Inventory Outstanding (DIO)		12.6	17.6	13.5	12.5	12.5	12.5	12.5
Days Sales Outstanding (DSO)		18.4	24.2	17.0	19.0	19.0	19.0	19.0
Operating Cycle (DIO + DSO)		31.0	41.8	30.5	31.5	31.5	31.5	31.5
Days Payable Outstanding (DPO)		77.6	67.9	65.0	65.0	65.0	65.0	65.0
Cash Conversion Cycle (DIO + DSO + DPO)		108.6	109.7	95.5	96.5	96.5	96.5	96.5

Solvency Statistics

Total Debt		1,170.2	1,309.0	817.7	721.3	580.0	397.3	177.0
EBITDA (non-GAAP)		146.4	145.4	182.9	229.0	282.6	337.8	381.1
Adjusted Cash Flow From Operating Activities (Adjusted CFO)								
Cash Flow From Operations			28.7	147.0	234.4	270.1	320.3	357.7
Provision for Income Taxes Income (Expense)		12.6	9.1	10.6	22.6	34.5	46.5	57.0
Total Interest Expense		38.1	34.7	29.8	17.4	16.0	13.0	8.3
Adjusted CFO		50.7	72.5	187.4	274.4	320.6	379.8	422.9

Leverage Ratios

Total Debt / TTM EBITDA		7.99x	9.00x	4.47x	3.15x	2.05x	1.18x	0.46x
Total Debt / TTM Adjusted CFO			18.05x	4.36x	2.63x	1.81x	1.05x	0.42x

Revenue Build - Base Case - \$ in MM												
Fiscal Quarter/Year	FY 2018A	FY 2019A	FY 2020A	Q1'21A	Q2'21A	Q3'21A	Q4'21E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Calendar Period	12/30/2018	12/29/2019	1/3/2021	4/3/2021	7/4/2021	10/3/2021	1/3/2022	1/3/2022	1/3/2023	1/3/2024	1/3/2025	1/3/2026
Base Case												
Revenue Build:												
US/CAN Market Segment												
# of Hubs Without Spokes:												
Beginning Amount		83	104	118	124	124	117	118	121	145	169	201
Net Openings (Closings) (incl. de-franchise)		44	51	6	1	0	10	17	36	36	40	40
Conversions		(23)	(37)	(7)	(1)	(7)	(6)	(14)	(12)	(12)	(8)	(8)
Ending Period Count	83	104	118	124	124	117	121	121	145	169	201	233
# of Hubs With Spokes:												
Beginning Amount		53	76	113	113	114	121	113	127	139	151	159
Conversions		23	37	0	1	7	6	14	12	12	8	8
Q4'21E Hubs		0	0	0	0	0	6	6	6	6	6	6
Q1'22E Hubs		0	0	0	0	0	0	0	3	3	3	3
Q2'22E Hubs		0	0	0	0	0	0	0	3	3	3	3
Q3'22E Hubs		0	0	0	0	0	0	0	3	3	3	3
Q4'22E Hubs		0	0	0	0	0	0	0	3	3	3	3
Q1'23E Hubs		0	0	0	0	0	0	0	0	3	3	3
Q2'23E Hubs		0	0	0	0	0	0	0	0	3	3	3
Q3'23E Hubs		0	0	0	0	0	0	0	0	3	3	3
Q4'23E Hubs		0	0	0	0	0	0	0	0	3	3	3
FY 2024E Hubs		0	0	0	0	0	0	0	0	0	8	8
FY 2025E Hubs		0	0	0	0	0	0	0	0	0	0	8
Closings		0	0	0	0	0	0	0	0	0	0	0
Ending Period Count	53	76	113	113	114	121	127.0	127.0	139.0	151.0	159.0	167.0
# of Spokes per Hub:												
On Pre-Q3'21 Hubs W/ Spokes		35.5	43.8	41.7	44.6	44.4	45.0	55.3	49.0	53.0	55.0	55.0
On Q4'21E Hubs		0	0	0	0	0	20.0	20.0	40.0	60.0	70.0	80.0
On Q1'22E Hubs		0	0	0	0	0	0.0	0.0	35.0	50.0	70.0	80.0
On Q2'22E Hubs		0	0	0	0	0	0.0	0.0	30.0	50.0	70.0	80.0
On Q3'22E Hubs		0	0	0	0	0	0.0	0.0	25.0	45.0	70.0	80.0
On Q4'22E Hubs		0	0	0	0	0	0.0	0.0	20.0	40.0	60.0	80.0
On Q1'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	35.0	55.0	80.0
On Q2'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	30.0	50.0	80.0
On Q3'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	25.0	45.0	80.0
On Q4'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	20.0	40.0	60.0
On FY 2024E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	35.0	55.0
On FY 2025E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	35.0
Beginning of Period # of Operating Spokes		2,606	2,288	4,137	4,712	5,067	5,220	4,137	5,565	6,499	7,673	8,735
Net Openings (Closings)		(318)	1,849	575	355	153	345	1,428	934	1,174	1,062	980
End of Period # of Operating Spokes	2,606	2,288	4,137	4,712	5,067	5,220	5,565	5,565	6,499	7,673	8,735	9,715
# of Insomnia Cookie Shops:												
Beginning Amount	0	146	168	184	191	199	206	184	213	241	265	287
Net Openings (Closings)	146	22	16	7	8	7	7	29	28	24	22	22
Ending Period Count	146	168	184	191	199	206	213	213	241	265	287	309
Revenue from Hubs Without Spokes	\$156.8	\$170.0	\$205.4	\$71.1	\$64.5	\$72.8	\$73.8	\$82.2	\$31.2	\$87.4	\$62.5	\$42.5
Revenue per Hub (\$MM)	\$1.89	\$1.82	\$1.85	\$0.59	\$0.52	\$0.60	\$0.62	\$2.36	\$2.49	\$2.47	\$2.50	\$2.50
Revenue from Hubs With Spokes	\$161.1	\$204.4	\$331.0	\$109.7	\$118.6	\$113.0	\$130.8	\$72.2	\$69.1	\$68.1	\$71.7	\$76.5
Sales per Hub (\$MM)	\$3.04	\$3.17	\$3.50	\$0.97	\$1.05	\$0.96	\$1.05	3.9	4.3	4.4	4.6	4.8
Hub Revenue	100.1	117.3	199.8	66.4	59.1	71.0	76.9	273.4	328.6	355.4	387.5	407.5
Hub Revenue per Hub (\$MM)	\$1.89	\$1.82	\$2.11	\$0.59	\$0.52	\$0.60	\$0.62	\$2.36	\$2.49	\$2.47	\$2.50	\$2.50
Spoke Revenue	61.0	87.1	131.3	43.3	59.5	42.1	53.9	198.8	240.5	282.7	328.2	369.0
Spoke Revenue per Spoke (\$MM)	\$0.02	\$0.04	\$0.03	\$0.01	\$0.01	\$0.01	\$0.01	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Sweet Treats Branded Product Line Revenues	\$125.7	\$112.1	\$128.6	\$3.9	\$12.3	\$2.4	\$3.0	\$21.6	\$22.0	\$38.0	\$45.0	\$50.0
Insomnia Cookies Revenues	\$0.0	\$101.0	\$117.7	\$37.7	\$35.5	\$37.6	\$41.9	\$152.7	\$199.9	\$227.7	\$248.4	\$268.2
Revenue per Shop (\$MM)	\$0.00	\$0.64	\$0.67	\$0.20	\$0.18	\$0.19	\$0.20	\$0.77	\$0.88	\$0.90	\$0.90	\$0.90
Total US/CAN Market Revenues	\$443.6	\$587.5	\$782.7	\$222.5	\$230.9	\$225.8	\$249.5	\$928.7	\$1,122.3	\$1,291.2	\$1,471.6	\$1,637.2
International Market Segment												
# of Hubs With Spokes:												
Beginning Amount		25	36	36	38	37	35.0	36.0	35.0	35.0	35.0	36.0
Net Openings (Closings)		11	0	2	(1)	(2)	0.0	(1.0)	0.0	0.0	1.0	1.0
On Q4'21E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q1'22E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q2'22E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q3'22E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q4'22E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q1'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q2'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q3'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On Q4'23E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
On FY 2024E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	1.0	1.0
On FY 2025E Hubs		0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	1.0
Ending Period Count	25	36	36	38	37	35	35.0	35.0	35.0	35.0	36.0	37.0
# of Spokes per Hub:												
On Pre-Q3'21 Hubs W/ Spokes		67.1	63.2	65.8	68.7	74.8	75.0	73.9	75.0	75.0	75.0	75.0
On Q4'21E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q1'22E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q2'22E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q3'22E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q4'22E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q1'23E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q2'23E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q3'23E Hubs		0	0	0	0	0	0	0	0	0	0	0
On Q4'23E Hubs		0	0	0	0	0	0	0	0	0	0	0
On FY 2024E Hubs		0	0	0	0	0	0	0	0	0	35.0	55.0
On FY 2025E Hubs		0	0	0	0	0	0	0	0	0	0	35.0
Beginning of Period # of Operating Spokes		1,879	2,214	2,334	2,535	2,618	2,767.0	2,334.0	2,625.0	2,625.0	2,625.0	2,585.0
Net Openings (Closings)		335	120	201	83	149	(142.0)	291.0	0.0	0.0	(40.0)	55.0
End of Period # of Operating Spokes	1,879	2,214	2,334	2,535	2,618	2,767	2,625.0	2,625.0	2,625.0	2,625.0	2,585.0	2,640.0
Revenue from Hubs With Spokes	\$185.8	\$223.1	\$230.2	\$66.5	\$89.2	\$87.3	\$81.0	\$324.0	\$334.5	\$337.8	\$344.0	\$352.5
Sales per Hub (\$MM)	\$7.43	\$7.32	\$6.39	\$1.80	\$2.38	\$2.42	\$2.31	\$9.13	\$9.56	\$9.65	\$9.69	\$9.66
Hub Revenue	47.2	55.5	74.6	21.7	19.5	21.7	21.7	84.7	86.5	85.8	88.8	91.3
Hub Revenue per Hub (\$MM)	\$1.89	\$1.82	\$2.07	\$0.59	\$0.52	\$0.60	\$0.62	\$2.36	\$2.49	\$2.47	\$2.50	\$2.50
Spoke Revenue	138.6	167.6	155.6	44.8	69.7	65.5	59.3	239.3	248.1	252.0	255.3	261.3
Spoke Revenue per Spoke (\$MM)	\$0.07	\$0.08	\$0.07	\$0.02	\$0.03	\$0.02	\$0.02	\$0.10	\$0.09	\$0.10	\$0.10	\$0.10
Total International Market Revenues	\$185.8	\$223.1	\$230.2	\$66.5	\$89.2	\$87.3	\$81.0	\$324.0	\$334.5	\$337.8	\$344.0	\$352.5
Market Development Segment												
Hubs & Spokes (Franchisee) - # of Doors												
Hubs Beginning Amount	1,144	1,146	1,339	1,339	1,395	1,505	1,532	1,532	1,694	1,819	1,924	2,009
Net Openings (Closings)		237	189	142	135	138	137	142	134	136	141	146
Hubs Ending Period Count	237	189	142	135	138	137	134	134	136	141	146	151
Beginning of Period # of Operating Spokes		907	957	1,197	1,204	1,257	1,368	1,197	1,398	1,558	1,678	1,778
Net Openings (Closings)		50	240	7	53	111	30	201	160	120	100	80
End of Period # of Operating Spokes	907	957	1,197	1,204	1,257	1,368	1,398.0	1,398.0	1,558.0	1,678.0	1,778.0	1,858.0
Total KK Revenues from Franchisees	\$47.0	\$46.6	\$36.9	\$8.2	\$8.0	\$8						

Revenue Build - Base Case - \$ in MM											
Fiscal Quarter/Year	Q4'21E	Q1'22E	Q2'22E	Q3'22E	Q4'22E	Q1'23E	Q2'23E	Q3'23E	Q4'23E	FY 2024E	FY 2025E
Calendar Period	1/3/2022	4/3/2022	7/3/2022	10/3/2022	1/3/2023	4/3/2023	7/3/2023	10/3/2023	1/3/2024	1/3/2025	1/3/2026
Base Case											
Discounted Cash Flow Valuation Analysis											
EBIT (GAAP)	8,364	21,471	21,577	30,185	30,312	39,545	35,952	43,331	43,880	214,904	258,115
(-) Taxes	1.8	4.5	4.5	6.3	6.4	8.3	7.6	9.1	9.2	45.1	54.2
Tax Rate	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
EBIAT	6.6	17.0	17.0	23.8	23.9	31.2	28.4	34.2	34.7	169.8	203.9
(+) Depreciation	14.9	13.8	14.4	14.9	15.4	14.3	14.9	15.3	15.7	64.6	66.3
(+) Amortization	12.2	11.3	11.3	11.3	11.3	10.5	10.5	10.5	10.5	38.6	35.2
(+) Share Based Compensation	7.2	6.6	5.8	5.1	4.2	4.2	4.3	4.5	4.6	19.6	21.4
(-) Capital Expenditures	30.0	29.0	29.1	25.2	25.3	29.2	29.3	23.5	23.6	114.4	114.2
(-) Changes in NWC	(12.4)	(18.0)	(8.9)	(8.2)	(7.8)	(8.0)	(8.0)	(8.7)	(8.8)	(35.8)	(34.2)
Free Cash Flow to the Firm	23.3	37.7	28.3	38.1	37.4	39.0	36.7	49.8	50.7	214.1	246.9
Terminal Value											4,623.0
Discount Period	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.25	3.25	4.25
Present Value	23.1	36.8	27.3	36.3	35.2	36.3	33.7	45.2	45.5	182.7	3,957.9
Firm Value	4,459.8										
(-) Debt	830.3										
(+) Cash	44.9										
Equity Value	3,674.5										
Shares Outstanding	166.0										
Implied Share Price	\$22.13										
Current Share Price	\$ 15.70										
Return	40.96%										

Projection Period WACC	Terminal Growth						
	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%
8.00%	(19.33%)	(13.16%)	(6.10%)	2.04%	11.53%	22.76%	36.23%
7.50%	(17.32%)	(11.02%)	(3.83%)	4.48%	14.16%	25.61%	39.35%
7.00%	(15.26%)	(8.83%)	(1.49%)	6.98%	16.86%	28.54%	42.55%
6.50%	(13.14%)	(6.59%)	0.90%	9.54%	19.62%	31.53%	45.83%
6.00%	(10.98%)	(4.29%)	3.35%	12.16%	22.44%	34.60%	49.18%
5.50%	(8.76%)	(1.94%)	5.85%	14.85%	25.34%	37.74%	52.62%
5.00%	(6.49%)	0.47%	8.42%	17.60%	28.31%	40.96%	56.14%
4.50%	(4.16%)	2.94%	11.06%	20.42%	31.35%	44.26%	59.76%
4.00%	(1.77%)	5.47%	13.76%	23.32%	34.47%	47.64%	63.46%

Terminal Value WACC	Terminal Growth						
	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%
10.00%	(21.75%)	(16.80%)	(11.27%)	(5.04%)	2.01%	10.07%	19.38%
9.50%	(17.23%)	(11.72%)	(5.53%)	1.50%	9.52%	18.79%	29.59%
9.00%	(12.18%)	(6.01%)	0.98%	8.97%	18.19%	28.95%	41.66%
8.50%	(6.49%)	0.47%	8.42%	17.60%	28.31%	40.96%	56.14%
8.00%	(0.04%)	7.87%	17.01%	27.67%	40.26%	55.37%	73.85%
7.50%	7.33%	16.42%	27.02%	39.56%	54.60%	72.99%	95.97%
7.00%	15.83%	26.38%	38.86%	53.83%	72.14%	95.01%	124.42%
6.50%	25.74%	38.16%	53.07%	71.28%	94.05%	123.32%	162.36%
6.00%	37.46%	52.30%	70.43%	93.09%	122.22%	161.07%	215.46%

Company Name	EV/LTM	EV/LTM	LTM P/E	EV/LTM-1	EV/LTM-1	LTM-1	EV/NTM	EV/NTM	NTM	EV/2023
	Rev	EBITDA		Rev	EBITDA	P/E	Rev	EBITDA	P/E	EBITDA
The Wendy's Company (NasdaqGS:WEN)	5.33x	17.06x	25.89x	5.35x	16.81x	26.08x	4.26x	17.04x	26.42x	15.09x
Starbucks Corporation (NasdaqGS:SBUX)	5.13x	24.11x	31.44x	5.49x	27.15x	46.69x	4.56x	21.07x	32.56x	18.87x
Texas Roadhouse, Inc. (NasdaqGS:TXRH)	2.11x	55.99x	30.05x	2.28x	19.25x	33.78x	1.80x	16.45x	27.70x	13.01x
Krispy Kreme, Inc. (NasdaqGS:DNUT)	2.71x	30.08x	(46.88x)	2.82x	30.67x	(39.74x)	2.42x	18.39x	34.90x	14.54x

Krispy Kreme vs Comps (EV/LTM Adj. EBITDA)
(2010-Present)

