

Abstract

This report was prepared in the context of ISEG's Master in Finance, as the final project, and is focused on the evaluation of Wendy's Company, a fast-food burger chain. The report was drafted in accordance with the recommendations of the CFA Institute and is based on the information publicly available until June 30, 2019.

We chose Wendy's Company firstly because of the unique way the same has been able to adjust itself to the new features and opportunities made available by the social media, and also because we believe that our evaluation skills can be better developed in the context of the evaluation of a company with which we have never had contact before.

The target price per share of \$23.75 was calculated based on the Discounted Cash Flow Method at the year end of 2020F. This target price represents a BUY recommendation with medium risk. By way of introduction, this report highlights the most significant moments of the company's history, followed by a description of its strategy and business model, explaining the key drivers of profitability, as well as the board organization and its principal stockholders.

The report includes a high-level assessment of the world's economic environment, with particular emphasis on the US economy, where the company has its most significant presence, and the description of the industry and its main future challenges.

Against this background, the assumptions for the company's performance for the coming four years were based on its performance in the previous five years. Based on these assumptions, we calculated the future Cash Flows and the Cash Flow for the perpetuity, and these were discounted by the end of 2020 with a discount rate calculated by us.

As previously mentioned, this valuation reflects a Buy recommendation, and our recommendation is supported by the multiples valuation method with which we got an average target price per share of \$ 22.69, which represents a BUY recommendation.

We further evaluated the company based on the Dividend Discount Model. However, the result was inconclusive because Wendy's Company does not have a stable payout policy.

Since there are some risks associated with these evaluations, we performed some sensibility analysis, as well as a Monte Carlo simulation. From these analyzes, it is worth highlighting the variables associated with the terminal period, especially the discount rate for the perpetuity and the eternal growth rate.