

WESTPEAK RESEARCH ASSOCIATION

Texas Roadhouse Inc (NASDAQ: TXRH)

Consumer Cyclical - Restaurants

Taming the Bull

March 3rd, 2024

Originating in Clarksville, Indiana in 1993, Texas Roadhouse Inc, is an American casual dining restaurant chain. Since then, the restaurant has expanded two other concepts including Bubba's 33 and Jagers. Texas Roadhouse restaurants operate in the US and ten foreign countries. They specialise in "Hand-Cut-Steaks" and "Fall-off-the-bone ribs" as well as sides, burgers and sandwiches.

Thesis

With over 700 restaurants concentrated in the United States but spanning the globe, Texas Roadhouse is a premier and affordable full-service dining option for steak lovers everywhere. While low barriers to entry in the restaurant industry and persistently inflated beef prices present headwinds to Texas Roadhouse, our view is that a strong operating model coupled with domestic and international restaurant expansions will be additive to bottom-line earnings.

Drivers

Texas Roadhouse plans to open 12 new company-owned restaurants in Q4 2024 and anticipates 30 additional openings for Texas Roadhouse, Bubba's 33, and Jagers in upcoming years. The company focuses on maintaining and improving restaurant-level profitability by driving comparable sales adjusting pricing for inflation. Efforts to attract and retain customers involve localized marketing, ensuring speedy service, and expanding capacity in high-volume restaurants.

Valuation

We calculated a target share price of US\$162.08, indicating an 8.3% upside, based on our DCF and comparable companies' analysis. Our calculations demonstrate that the stock is marginally undervalued, warranting a hold rating.

Analyst: Nicole Sanctis, BCom. '27
contact@westpeakresearch.com

Equity Research US

Price Target	US\$ 162.08
Rating	Hold
Share Price (Mar. 3 Close)	US\$ 149.60
Total Return	8.3%

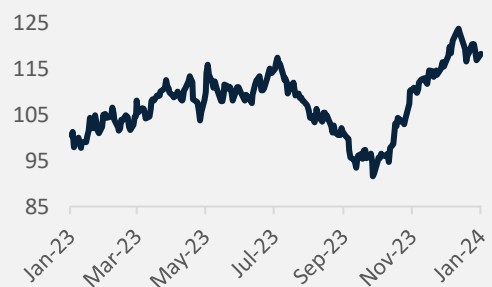
Key Statistics

52 Week H/L	\$152.55/\$91.10
Market Capitalization	\$10.0B
Average Daily Trading Volume	9.4M
Net Debt	\$669.3M
Enterprise Value	\$10.7B
Net Debt/EBITDA	1.1x
Diluted Shares Outstanding	67M
Free Float	99.3%
Dividend Yield	1.6%

WestPeak's Forecast

	2024E	2025E	2026E
Revenue	\$5.49B	\$6.48B	\$7.64B
EBITDA	\$796M	\$1.06B	\$1.25B
Net Income	\$538M	\$760M	\$1.05B
EPS	\$8.07	\$11.39	\$13.65
P/E	18.5x	13.1x	11.0x
EV/EBITDA	17.3x	15.7x	14.2x

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

Texas Roadhouse a full-service, casual dining restaurant specialises in steaks, ribs, seafood, chicken, pork chops, hamburgers, salads and made-from-scratch side items. Texas Roadhouse has grown to three concepts with 685 restaurants in 49 U.S states and ten foreign countries including the Middle East, Taiwan, the Philippines, Mexico, China, Kuwait and South Korea. Texas Roadhouse owns and operates 597 restaurants with 62 domestic franchised restaurants and 38 international restaurants. The other concepts Bubba's 33 makes up around 40 restaurants and 8 Jagers restaurants.

With the first restaurant opened in 2013 in North Carolina, Bubba's 33 is a casual family dining restaurant, specialising in items made from scratch, ice-cold beer and signature drinks. Similarly, Jagers is a burger and salad joint also serving hand-breaded chicken tenders and chicken sandwiches. The first Jagers restaurant opened in 2014 in Indiana.



Operating Strategy

The operating strategy for Texas Roadhouse restaurants centers around several components. The restaurants focus on offering high quality food by utilising proprietary recipes to provide consistency in quality. Texas Roadhouse Restaurants specialise in “Hand-Cut-Steaks” and “Fall-off-the-bone-ribs” as well as sides, burgers and sandwiches. They also create a fun and comfortable environment with a welcoming atmosphere. This is achieved through a low table-to-server ratio, rustic southwestern lodge decor, upbeat country hits and televisions playing sporting events and music videos. Moreover, the company maintains attractive price points by setting them as low or lower than those offered by competitors without sacrificing food quality. Several price points with each menu category are offered to satisfy individual customer budgets. Furthermore, operating hours are limited to only dinner during the weekdays for almost all locations and half of restaurants offering lunch on Fridays. Restaurant managers are offered performance-based compensation consisting of a performance bonus on top of a base salary. Regarding its site selection, the company dedicates a real estate team that devotes time and resources to evaluate local market demographics, population density, household income levels and site-specific characteristics including visibility, accessibility, proximity of other retail activities and competitors, traffic and parking.



Growth Strategy

The company's growth strategy revolves mostly around expanding their restaurant base. Recently Texas Roadhouse opened 12 new company-owned stores in the fourth quarter with more restaurant expansion ventures going into 2024. In the long term it is expected that they will maintain a more balanced opening schedule. Aside from opening new restaurants, they will focus on improving restaurant profitability by both increasing restaurant sales and operating cost management. They will continue to invest in existing sites so that they can grow and generate strong profits. With excess cash, Texas Roadhouse intends to return capital through dividends and repurchasing shares. Historically, dividends per share had an overall increasing trend, going from \$0.40 in Q2 2021 to \$0.55 in Q2 2023.

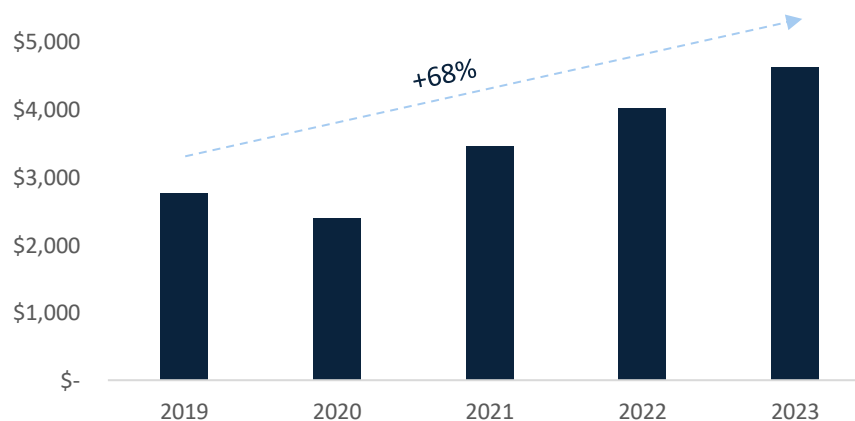


In terms of the company's marketing strategy, they rely on local promotional strategies. Restaurant marketing involves interacting with guests and participating in special promotions such as Valentine's day, Mother's Day, Veteran's Day and an eight week holiday gift card campaign. Managing partners are also encouraged to participate in creative community-based marketing and contribute to complimentary meals for charitable, civic and cultural programs. The company does not rely on national television or print advertising; instead it uses a permission-based email loyalty program and social media marketing.

Revenue Breakdown

Texas Roadhouse's revenue derives from two sources: restaurant and other sales, which amounted to \$4.60 billion in 2023, and franchise royalties and fees, which reached \$27.12 million in the same year. Both of these revenue streams have shown impressive growth over the past three years, with a 15.43% increase in restaurant and other sales and a 3.79% increase in franchise royalties and fees. It's also worth noting that the "other" category includes income from merchandise sales, such as candles and apparel.

Total Revenue Growth
FY19 - FY23



The company's domestic franchise agreements require franchisees to pay a royalty fee based on a percentage of gross sales, in addition to contributing a percentage of their gross sales to a national marketing fund for system-wide promotions.

Dividend Policy

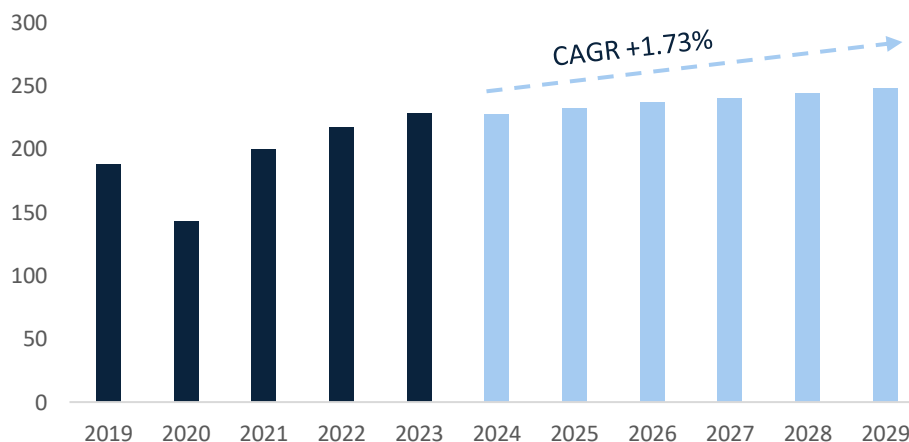
The dividend yield for Texas Roadhouse is 1.6% and its payout ratio is 48.32%. The quarterly dividend payment totaled \$110.4 million in 2023 YTD and \$93.3 million in 2022 YTD.

Industry Analysis

The total value of chained restaurants in the US is estimated to be approximately US \$227.6 billion in 2024, with a projected growth to reach about US \$248 billion by 2029 with a projected CAGR of 1.73% during the forecast period. Despite this promising outlook, the sector faces several challenges and transformative trends.

Chained Restaurants in the US (\$US bn)

FY19 - FY29



Technology

One notable trend is the increasing integration of technology within full-service restaurants. This includes the adoption of online ordering systems, delivery services, and digital menus. Such technological advancements aim to enhance customer convenience and make operations more manageable. However, the increase in tech usage is also a response to challenges including rising labour costs due to minimum wage hikes. Companies are investing in kitchen automation, digital tipping, and kiosks to offset these wage increases and maintain profitability.

Competition

The industry faces competition from fast-food chains offering cheaper dining options. This competitive pressure poses a challenge to full-service restaurants, particularly when coupled with higher operating costs associated with premium ingredients, notably beef.

Full-service restaurants tend to experience higher price points (compared to fast-food chains) partly related to alcohol and tips. These increased price points reduce traffic counts and result in larger guest checks, making the overall cost of dining more expensive for each customer. The combined effect of these factors can be particularly challenging for businesses during an economic downturn as people tend to be more cautious with their spending, opting for more affordable options.

Furthermore, full-service restaurants' high operating leverage models where significant portions of its costs are fixed pose risks. This is because the fixed costs remain constant regardless of the decline in sales. As a result, the company's profit margins shrink or contract more dramatically since there is less revenue to cover those fixed costs.

To navigate these challenges, restaurants are actively engaging in promotional activities and increased advertising spending, aiming to attract and retain customers amid a slowing consumer spending trend.

Investment Thesis

Improving Restaurant Level Profitability

The company is focused on maintaining or improving restaurant-level profitability through strategies such as driving comparable restaurant sales, implementing a pricing strategy considering inflationary pressures, and emphasizing long-term value. Efforts are directed towards encouraging repeat visits and attracting new guests by upholding operational standards, utilizing localized marketing programs, ensuring speed of service, and enhancing the digital guest experience. For high-volume restaurants, the company explores opportunities to expand dining room and parking capacity, either by adding to existing structures or leasing additional property. Building modifications and expansions, including room additions are undertaken to accommodate increased dine-in and to-go sales. The company has also relocated some Texas Roadhouse locations to better sites, updating them to current design standards, constructing larger buildings, and obtaining more favorable lease terms, particularly for older locations with strong sales.

Historically, Texas Roadhouse has been increasing both their top line and bottom line with a major contribution from organic sales. Their business model proves to be highly adaptable as they saw growth even during the pandemic and have seen around 10-12% growth every year in their topline. Texas Roadhouse does not need to rely on extensive marketing campaigns for every individual sale.

As for long-term growth, Texas Roadhouse has around 700 restaurants worldwide, giving them a huge runway to open more locations.

Management Team

Gerald L. Morgan – Chief Executive Officer

In March 2021, Mr. Morgan assumed the role of Chief Executive Officer. With a tenure dating back to 1997, he has been an integral part of Texas Roadhouse, progressing through various roles such as Managing Partner, Market Partner, and Regional Market Partner. From December 2020 to January 2023, he also served as the President of Texas Roadhouse. Bringing over 35 years of extensive experience in the restaurant industry, Mr. Morgan has contributed significantly to the success of Texas Roadhouse, as well as having held positions at other notable establishments such as Bennigan's and Burger King. In 2022 Mr. Morgan made \$1,787,674 in total compensation with the base pay being \$492,500 and total equity being \$793,936.



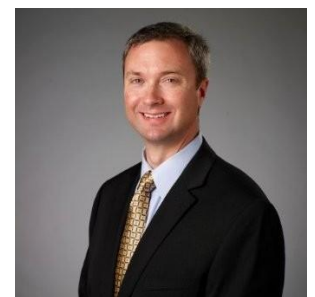
Regin A. Tobin – President

In January 2023, Ms. Tobin assumed the role of President. Her journey with Texas Roadhouse began in January 1996 when she joined as a Managing Partner, earning the title of Managing Partner of the Year in 1999. Over the years, Ms. Tobin has demonstrated her commitment to the company by taking on various roles, including Market Partner and Vice President of Training. Notably, from June 2021 until her appointment as President, she served as the Chief Learning and Culture Officer. With a career spanning more than 35 years in the restaurant industry, Ms. Tobin brings a wealth of experience to her leadership role at Texas Roadhouse. In 2022 Ms. Tobin made \$1,788,904 in total compensation with the base pay being \$492,500 and total equity being \$795,166.



Christopher D. Monroe – Chief Financial Officer

Mr. Monroe assumed the role of Chief Financial Officer in June 2023. Before joining the team, he had several senior-level financial roles at Southwest Airlines most recently Senior Vice President of Finance and Treasurer. With a wealth of over 30 years of financial experience, Mr. Monroe brings valuable insights to his role at Texas Roadhouse. In 2022 Mr. Monroe made \$1,755,123 in total compensation with the base pay being \$492,500 and total equity being \$893,178.



Valuation

Our valuation is based on a 50% weighting on the exit multiple DCF method, 25% on the EV/EBITDA mean comparable company analysis method, and 25% on the P/E mean comparable company analysis method. Based on our financial analysis and forecasts, we believe Texas Roadhouse has a share price return of 8.3% with a target price of \$162.08.

Discounted Cash Flow Analysis Assumptions

Revenue Forecasts

Anticipating an 18-23% growth rate for Texas Roadhouse into the future is supported by the company's strategic expansion plans and a more balanced approach to new store openings. In the fourth quarter of 2024, the company is set to open 12 additional company-owned restaurants, contributing to the growth trajectory. The pipeline includes approximately 30 new openings for both Texas Roadhouse and Bubba's 33, along with three Jagers. Franchise partners are also expected to launch at least 9 international and domestic locations.

Notably, the distribution of store openings is expected to be more evenly spread after the year in 2024. This shift in the opening schedule is indicative of a more balanced and sustainable growth strategy. Moreover, with 2024 being a 53-week year due to an extra week in Q4, there is an estimated benefit of approximately 4% for full-year earnings per share growth.

Costs Forecasts

Looking ahead to 2024, the initial forecast for the full-year income tax rate falls within the range of 14% to 15%, indicating a slight uptick in taxation from 13% in 2023.

The company acknowledges a heightened capital expenditure during the fourth quarter of 2023, driven by an increased level of construction activities. This signifies an upfront investment to support expansion and development initiatives, contributing to costs in the short term.

Labour-related costs are also a significant consideration. The forecasted wage and other labour inflation for 2024 is in the range of 4% to 5%, indicating an expected increase in labour-related expenses.

Commodity inflation is another factor influencing costs, particularly with a projection of 5% to 6% inflation, with beef identified as the primary driver. This inflationary pressure on commodities is expected to contribute to increased costs related to sourcing essential ingredients.

Weighted Average Cost of Capital (WACC)

We calculated the WACC for Texas Roadhouse to be 10.3%, based on a cost of equity of 11.7% and a cost of debt of 3.5%. The cost of equity is based on a risk-free rate of 4.0%, an expected market return of 12.2%, and a beta of 0.94. The perpetuity growth rate is 2.5% and terminal EV/EBITDA multiple is 10.0x.

Comparable Company Analysis

Comparable companies were chosen on the basis of geography, industry and market capitalization. Each company is based out of the U.S, has an average market capitalization of \$1,090.3 million and is in the full-service restaurant industry.

Texas Roadhouse (NASDAQ: TXRH)

Taming the Bull

Cheesecake Factory Inc (NASDAQ: CAKE)

The Cheesecake Factory Incorporated, founded in 1972 and headquartered in Calabasas, California, is a renowned player in the restaurant industry. Specializing in exceptional dining experiences, the company operates under brands such as The Cheesecake Factory, North Italia, and Fox Restaurant Concepts. With two state-of-the-art bakeries, it produces signature cheesecakes and baked products, serving them in its U.S. and Canada restaurants and supplying to international licensees, third-party customers, and distributors. The company's market capitalization stands at \$1,630.3 million.



BJ's Restaurant Inc (NASDAQ: BJRI)

BJ's Restaurants, Inc., established in 1978 and headquartered in Huntington Beach, California. The company owns and operates a chain of restaurants renowned for their diverse menu offerings, including pizzas, craft beers, appetizers, entrées, pastas, sandwiches, specialty salads, and desserts. The company's market capitalization stands at \$727.6 million.



Red Robin Gourmet Burgers (NASDAQ: RRGB)

Red Robin Gourmet Burgers, Inc., founded in 1969 and headquartered in Greenwood Village, Colorado, is a leading player in the casual-dining restaurant industry. The company, along with its subsidiaries, engages in the development, operation, and franchising of casual-dining restaurants, predominantly in North America and one Canadian province.



Specializing in gourmet burgers and pizza, Red Robin's restaurants offer a diverse menu featuring appetizers, salads, soups, other entrees, desserts, wings, milkshakes, as well as a selection of alcoholic and non-alcoholic specialty drinks, cocktails, wine, and beers. Red Robin has a market capitalization of \$166.3 million.

Denny's Corp (NASDAQ: DENN)

Denny's Corporation was founded in 1953 and headquartered in Spartanburg, South Carolina. The company, through its subsidiaries, owns and operates franchised full-service restaurant chains under the well-known Denny's and Keke's Breakfast Cafe brands. With operations spanning the United States and international markets, Denny's Corporation has established a significant presence. The company operates in two segments: Denny's and Other. Under these segments, Denny's Corporation offers a diverse menu of full-service dining options. Denny's has a market capitalization of \$548.4 million.



Texas Roadhouse (NASDAQ: TXRH)

Taming the Bull

Cracker Barrel Old Country (NASDAQ: CBRL)

Cracker Barrel Old Country Store, Inc., incorporated in 1969 and headquartered in Lebanon, Tennessee. The company specializes in developing and operating Cracker Barrel stores that uniquely combine restaurants with a gift shop, offering patrons a wholesome and nostalgic experience. Cracker Barrel's restaurants serve breakfast, lunch, and dinner daily, providing dine-in, pick-up, and delivery services. The accompanying gift shop complements the dining experience, featuring an array of decorative and functional items, including rocking chairs, seasonal gifts, apparel, toys, cookware, and various other gift items. The company has a market capitalization of \$1,612.2 million.



Brinker International Inc (NYSE: EAT)

Brinker International, Inc., is headquartered in Dallas, Texas operating in the United States and internationally. The company is recognized for its diverse portfolio of restaurant brands, including Chili's Grill & Bar and Maggiano's Little Italy. In addition to its established brands, Brinker International operates virtual brands, such as It's Just Wings. Brinker International has a market capitalization of \$1,693.4 million.



Chuy's Holdings Inc (NASDAQ: CHUY)

Chuy's Holdings, Inc., is headquartered in Austin, Texas. The company, through its subsidiaries, owns and operates full-service restaurants under the Chuy's name, primarily located in the United States. With a market capitalization of \$562.0 million, Chuy's Holdings operates across 17 states, offering a distinctive menu featuring authentic, made-from-scratch Tex-Mex inspired dishes.



Bloomin Brands Inc (NASDAQ: BLMN)

Bloomin' Brands, Inc., is headquartered in Tampa. The company, along with its subsidiaries, specializes in owning and operating a diverse range of restaurants, spanning casual, upscale casual, and fine dining establishments both in the United States and internationally. Bloomin' Brands operates through two distinct segments: U.S. and International. These concepts include Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill and Fleming's Prime Steakhouse & Wine Bar. Bloomin' Brands has a market capitalization of \$2,156.6 million.



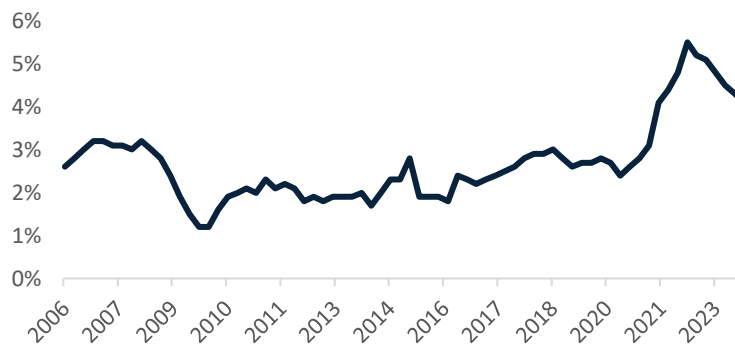
Risks

Labour Cost

The implementation of minimum wage increases, particularly in California, poses a significant risk to Texas Roadhouse's operational costs, with labour costs expected to climb by mid-single digits in 2024. Furthermore, the potential adoption of a \$15 federal minimum wage could further intensify labour cost pressures, particularly in states with lower existing minimum wage rates, such as those in the southern region where Texas Roadhouse has a significant presence. Labour costs have increased, with labour as a percentage of total sales rising by 51 basis points. Forecasts indicate ongoing wage and other labour inflation of 4% to 5% in 2024, which could contribute to overall operating cost inflation. The company plans a 2.7% menu price increase in Q4 to counteract the effects of state-mandated wage hikes, but there remains a risk of consumer resistance and potential negative impacts on profit margins. If consumers decided to trade down to cheaper fast-food restaurants, then those cheaper options become further competition for Texas Roadhouse in an already competitive industry.

Private Industry Wage Inflation

FY06 - FY23



Commodity Inflation, Particularly Beef

Texas Roadhouse anticipates commodity inflation of 5% to 6%, with beef identified as the primary driver. The main problem is a lack of supply. Widespread drought this past summer in addition to high input costs including labour and transportation has shrunk U.S. cattle herds to their lowest levels since 2015, driving beef prices to record highs. Texas Roadhouse's fixed-price contracts for some of the beef supply mitigate risks to some extent, but the overall commodity cost increases could impact profit margins. Additionally, higher commodity prices will lead to further increases in menu prices. Q4 experienced a 5.5% menu pricing increase from a 4.8% increase in Q1, with plans to carry the 5.5% rate into 2024. This can affect consumer spending in an environment where people are already pulling back on expenditures.

Failure to Execute New Store Growth

A significant part of Texas Roadhouse's future growth plan is new store openings. The company plans to double its revenue in the next ten years primarily through a 45% increase in total stores over the next decade. Failure to follow this plan due to factors such as macro headwinds primarily affecting construction costs or failure to fund new openings due to cash declines will impede its plan.

Recommendation

HOLD

Texas Roadhouse is driven by strategic expansion plans and a balanced approach to new store openings. In Q4 2024, the company aims to open to 12 additional restaurants, emphasizing sustained growth. Focused on maintaining and enhancing restaurant-level profitability, Texas Roadhouse implements effective strategies, including pricing adjustments for inflation to navigate market challenges, initiatives to drive comparable restaurant sales, attract new guests, and expand capacity in high-volume restaurants which demonstrate the company's commitment to long-term value.

However, potential risks include rising labour costs due to minimum wage hikes, commodity inflation (especially in beef), and challenges in consumer spending amid economic uncertainties. Although, the company aims to counteract some effects, cautious monitoring of these factors is advised. Overall, these macro related risk have the potential to negatively impact Texas Roadhouse, however we believe the company can withstand these headwinds with its favourable business model. Texas Roadhouse is a stable business with no significant red flags and has a balanced expansion approach which warrants the stock a hold rating.

Appendix 1: Summary Page

(Figures in mm USD)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Income Statement											
Revenue	2,457.4	2,756.2	2,398.1	3,463.9	4,014.9	4,657.6	5,492.1	6,586.1	7,964.1	9,790.1	12,133.4
EBITDA	289.0	327.6	141.7	424.0	457.4	549.6	796.4	1,080.1	1,306.1	1,605.6	1,989.9
Net Income	164.3	181.5	34.9	253.3	277.6	349.9	538.8	775.9	958.0	1,202.6	1,519.7
Earnings Per Share	\$ 2.28	\$ 2.56	\$ 0.50	\$ 3.61	\$ 4.09	\$ 5.21	\$ 8.04	\$ 11.58	\$ 14.30	\$ 17.95	\$ 22.68
Cash Flow Statement											
Capital Expenditures	(156.0)	(214.3)	(154.4)	(200.7)	(246.1)	(336.5)	(389.3)	(338.9)	(369.0)	(401.8)	(437.5)
Acquisitions	(2.2)	(1.5)	(10.6)	-	(33.1)	(39.2)	-	-	-	-	-
Divestitures	-	-	-	-	0.3	0.6	-	-	-	-	-
Dividend Payment	-	-	240.0	(140.0)	(50.0)	(90.1)	(160.3)	(40.1)	(40.1)	(40.1)	(40.1)
Dividend Per Share	\$ 1.00	\$ 1.20	\$ 0.36	\$ 1.20	\$ 1.84	\$ 2.25	\$ 2.40	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60
Dividend Payout to Earnings	-	-	-687.2%	55.3%	18.0%	25.7%	29.7%	5.2%	4.2%	3.3%	2.6%
Dividend Payout to Core FCF	-	-	-74.3%	22.1%	7.0%	10.3%	14.6%	3.1%	2.6%	2.2%	1.8%
Dividend Yield	1.4%	2.1%	0.5%	1.2%	1.9%	1.9%	1.6%	0.4%	0.4%	0.4%	0.4%
Balance Sheet											
Current Assets	345.0	247.9	510.7	563.5	396.8	229.1	439.3	1,089.8	1,942.1	3,056.5	4,509.0
Non-Current Assets	1,124.3	1,735.7	1,814.5	1,948.4	2,128.8	2,417.9	2,634.1	2,784.8	2,948.8	3,127.4	3,321.8
Assets	1,469.3	1,983.6	2,325.2	2,512.0	2,525.7	2,647.0	3,073.4	3,874.6	4,890.9	6,183.9	7,830.8
Current Liabilities	385.1	417.2	506.3	602.1	652.0	591.0	638.8	704.1	802.5	932.9	1,100.2
Non-Current Liabilities	123.4	635.2	875.8	836.3	846.0	865.7	865.7	865.7	865.7	865.7	865.7
Liabilities	508.6	1,052.4	1,382.1	1,438.5	1,498.0	1,456.7	1,504.5	1,569.9	1,668.3	1,798.6	1,966.0
Shareholders' Equity	960.7	931.2	943.1	1,073.5	1,027.7	1,190.3	1,568.9	2,304.7	3,222.6	4,385.2	5,864.9
Cash	210.1	107.9	363.2	335.6	173.9	65.6	250.8	761.1	1,549.6	2,579.4	3,923.4
Debt	508.6	1,052.4	1,382.1	1,438.5	1,498.0	1,456.7	1,504.5	1,569.9	1,668.3	1,798.6	1,966.0
Net Debt	298.4	944.5	1,019.0	1,102.8	1,324.1	1,391.1	1,253.8	808.8	118.7	(780.8)	(1,957.5)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	1.0 x	2.9 x	7.2 x	2.6 x	2.9 x	2.5 x	1.6 x	0.7 x	0.1 x	n/a	n/a
Operating Metrics											
Return on Equity (ROE)	23.9%	19.5%	3.7%	23.6%	27.0%	29.4%	34.3%	33.7%	29.7%	27.4%	25.9%
Return on Assets (ROA)	11.2%	9.2%	1.5%	10.1%	11.0%	13.2%	17.5%	20.0%	19.6%	19.4%	19.4%
Return on Invested Capital (ROIC)	21.8%	21.9%	7.5%	34.8%	32.4%	30.7%	40.7%	50.3%	57.3%	66.6%	78.3%
Valuation Metrics											
Stock Price (High)	\$ 75.24	\$ 58.80	\$ 83.49	\$ 109.41	\$ 101.16	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60
Stock Price (Low)	\$ 66.37	\$ 54.87	\$ 74.56	\$ 94.90	\$ 90.38	\$ 92.94	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60
Stock Price (Average)	\$ 70.81	\$ 56.84	\$ 79.03	\$ 102.16	\$ 95.77	\$ 121.27	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60	\$ 149.60
Diluted Shares Outstanding (Average)	72.0	70.9	69.9	70.1	67.9	67.1	67.0	67.0	67.0	67.0	67.0
Market Capitalization (Average)	5,095.4	4,030.5	5,523.3	7,160.9	6,504.7	8,141.8	10,025.3	10,025.3	10,025.3	10,025.3	10,025.3
Enterprise Value (Average)	5,393.9	4,975.0	6,542.2	8,263.7	7,828.8	9,532.9	11,279.0	10,834.0	10,144.0	9,244.5	8,067.8
P/E	31.0 x	22.2 x	158.1 x	28.3 x	23.4 x	23.3 x	18.6 x	12.9 x	10.5 x	8.3 x	6.6 x
EV/EBITDA	18.7 x	15.2 x	46.2 x	19.5 x	17.1 x	17.3 x	14.2 x	10.0 x	7.8 x	5.8 x	4.1 x
FCF Yield to Market Capitalization	2.8%	2.7%	1.2%	3.1%	3.3%	1.8%	3.5%	5.5%	8.3%	10.7%	13.9%
FCF Yield to Enterprise Value	2.7%	2.2%	1.0%	2.7%	2.7%	1.6%	3.1%	5.1%	8.2%	11.6%	17.2%
Free Cash Flow											
EBIT	187.8	212.0	23.8	297.2	320.2	397.3	623.4	891.8	1,101.1	1,382.3	1,746.8
Tax Expense	(24.3)	(32.4)	15.7	(39.6)	(43.7)	(50.2)	(78.8)	(112.7)	(139.2)	(174.7)	(220.8)
D&A	101.2	115.5	117.9	126.8	137.2	152.4	173.0	188.3	205.0	223.2	243.1
Capital Expenditures	(156.0)	(214.3)	(154.4)	(200.7)	(246.1)	(336.5)	(389.3)	(338.9)	(369.0)	(401.8)	(437.5)
Changes in NWC	34.6	29.4	61.9	36.2	44.0	(14.1)	22.8	(74.9)	34.6	45.8	58.8
Unlevered Free Cash Flow	143.4	110.2	64.9	219.8	211.6	148.7	351.1	553.6	832.5	1,074.9	1,390.4
Valuation Summary											
Current Price	\$ 149.60										
Target Price	\$ 162.08										
Total Return	8.3%										
Recommendation	HOLD										
DCF Valuation											
Perpetuity Growth Implied Price	\$ 172.13										
Exit Multiple Implied Price	\$ 193.06										
Comps Valuation											
Comps - EV/EBITDA Implied Price	\$ 99.42										
Comps - P/E Implied Price	\$ 81.56										

Appendix 2: Discounted Cash Flow

(Figures in mm USD)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
WACC Calculations											
Cost of Equity											
Risk-free rate	4.0%										
Expected market return	12.2%										
Market Risk Premium	8.2%										
Beta	0.94										
Cost of Equity	11.7%										
Cost of Debt											
Pre-tax cost of debt	4.0%										
Effective tax rate	12.6%										
Cost of Debt	3.5%										
WACC											
Market value of equity	10,025.3										
Market value of debt	1,456.7										
Total Capitalization	11,482.0										
Cost of equity	11.7%										
Cost of debt	3.5%										
WACC	10.7%										
Free Cash Flow											
EBIT	187.8	212.0	23.8	297.2	320.2	397.3	623.4	891.8	1,101.1	1,382.3	1,746.8
Less: Tax expense	(24.3)	(32.4)	15.7	(39.6)	(43.7)	(50.2)	(78.8)	(112.7)	(139.2)	(174.7)	(220.8)
Add: Depreciation and amortization	101.2	115.5	117.9	126.8	137.2	152.4	173.0	188.3	205.0	223.2	243.1
Less: Capital expenditures	(156.0)	(214.3)	(154.4)	(200.7)	(246.1)	(336.5)	(389.3)	(338.9)	(369.0)	(401.8)	(437.5)
Less: Change in net working capital	34.6	29.4	61.9	36.2	44.0	(14.1)	22.8	(74.9)	34.6	45.8	58.8
Unlevered Free Cash Flow	143.4	110.2	64.9	219.8	211.6	148.7	351.1	553.6	832.5	1,074.9	1,390.4
Discount factor	0.5 1.5 2.5 3.5 4.5 5.5										
Present Value of Unlevered Free Cash Flow						143.3	314.1	429.7	583.9	681.2	796.2
Discounted Cash Flow Valuations											
Perpetuity Growth Method											
Perpetuity Growth Rate	2.5%										
PV sum of unlevered FCF	2,948.4										
Terminal value	9,993.1										
Enterprise Value	12,941.5										
Add: Cash	65.6										
Less: Debt	1,456.7										
Less: Other EV adjustments	15.2										
Equity Value	11,535.2										
Shares outstanding	67.0										
Implied Share Price	\$ 172.13										
Current Price	\$ 149.60										
Implied Price	\$ 172.13										
Total Return	15.1%										
Exit Multiple Method											
Terminal EV/EBITDA Multiple											
WACC											
9.00% 8.50% 8.00% 7.50% 7.00%											
PV sum of unlevered FCF	1.00x	\$ 188.63	\$ 204.77	\$ 223.26	\$ 244.65	\$ 269.67					
Terminal value	1.50x	\$ 200.37	\$ 218.46	\$ 239.39	\$ 263.86	\$ 292.85					
Enterprise Value	2.00x	\$ 213.77	\$ 234.25	\$ 258.20	\$ 286.56	\$ 320.67					
Add: Cash	2.50x	\$ 229.24	\$ 252.68	\$ 280.43	\$ 313.81	\$ 354.68					
Less: Debt	3.00x	\$ 247.29	\$ 274.45	\$ 307.11	\$ 347.10	\$ 397.18					
Less: Other EV adjustments											
Equity Value	WACC										
9.00% 8.50% 8.00% 7.50% 7.00%											
Shares outstanding											
Implied Share Price	8.0 x	\$ 173.45	\$ 178.05	\$ 182.78	\$ 187.66	\$ 192.68					
	9.0 x	\$ 191.94	\$ 197.01	\$ 202.23	\$ 207.61	\$ 213.14					
Current Price	10.0 x	\$ 210.42	\$ 215.97	\$ 221.68	\$ 227.56	\$ 233.61					
Implied Price	11.0 x	\$ 228.91	\$ 234.92	\$ 241.12	\$ 247.50	\$ 254.08					
Total Return	12.0 x	\$ 247.39	\$ 253.88	\$ 260.57	\$ 267.45	\$ 274.54					

The content, opinions, estimates, and projections contained in this report are those of WestPeak Research Association (known as “WestPeak” or “WestPeak Research”) and its directors, analysts, and affiliates and are subject to change without notice. The content, opinions, estimates, and projections on this report may not have been updated directly by WestPeak and its directors, analysts, and affiliates and may also have been altered or without your or our knowledge. WestPeak and its directors, analysts, and affiliates, without exception, do not accept any liability for factual, typographical, and grammatical errors, omissions, or content in this report. WestPeak and its directors, analysts, and affiliates do not accept any liability for damages arising from the use of or reliance on any of the content, opinions, estimates, and projections on this report. WestPeak and its directors, analysts, and affiliates endeavor to ensure that the content, opinions, estimates, and projections have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. Information may be available to WestPeak and its directors, analysts, and affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This report is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. WestPeak and its directors, analysts, and affiliates may have a personal long or short position in any of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that WestPeak and its directors, analysts, and affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The reader, by the viewing of and use of the content, opinions, estimates, and projections contained in this report is assumed by WestPeak and its directors, analysts, and affiliates to have fully read, understood, and unconditionally agreed to all the terms and conditions set forth in this legal disclaimer.

Nicole Sanctis
Junior Analyst

WestPeak Research Association
contact@westpeakresearch.com