

Edgar Filing: Wingstop Inc. - Form 10-Q

Wingstop Inc.
Form 10-Q
August 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 25, 2016

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-37425

WINGSTOP INC.

(Exact name of registrant as specified in its charter)

Delaware 47-3494862
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

5501 LBJ Freeway, 5th Floor, 75240
Dallas, Texas
(Address of principal executive offices) (Zip Code)

(972) 686-6500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Larger accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

On August 5, 2016 there were 28,728,305 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(amounts in thousands, except share and per share amounts)

	June 25, 2016 (Unaudited)	December 26, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 10,014	\$ 10,690
Accounts receivable, net	2,581	3,404
Prepaid expenses and other current assets	2,063	1,752
Advertising fund assets, restricted	1,611	3,774
Total current assets	16,269	19,620
Property and equipment, net	4,805	4,593
Goodwill	45,128	45,128
Trademarks	32,700	32,700
Customer relationships, net	17,618	18,296
Other non-current assets	238	313
Total assets	\$ 116,758	\$ 120,650
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable	\$ 1,616	\$ 1,360
Other current liabilities	6,336	7,436
Advertising fund liabilities, restricted	1,611	3,774
Total current liabilities	9,563	12,570
Long-term debt, net	85,069	95,008
Deferred revenues, net of current	7,069	7,623
Deferred income tax liabilities, net	12,887	13,018
Other non-current liabilities	2,269	2,104
Total liabilities	116,857	130,323
Commitments and contingencies (see note 6)		
Stockholders' deficit		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 28,680,544 and 28,581,182 shares issued and outstanding as of June 25, 2016 and December 26, 2015, respectively	287	286
Additional paid-in-capital	38,074	36,870
Accumulated deficit	(38,460)	(46,829)
Total stockholders' deficit	(99)	(9,673)
Total liabilities and stockholders' deficit	\$ 116,758	\$ 120,650

See accompanying notes to consolidated financial statements

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(amounts in thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended June 25, June 27, 2016 2015		Twenty-Six Weeks Ended June 25, June 27, 2016 2015	
Revenue:				
Royalty revenue and franchise fees	\$14,305	\$11,400	\$27,803	\$22,557
Company-owned restaurant sales	8,418	7,832	16,994	15,701
Total revenue	22,723	19,232	44,797	38,258
Costs and expenses:				
Cost of sales ⁽¹⁾	6,184	5,516	12,261	11,252
Selling, general and administrative	8,572	10,665	16,227	18,341
Depreciation and amortization	727	645	1,441	1,308
Total costs and expenses	15,483	16,826	29,929	30,901
Operating income	7,240	2,406	14,868	7,357
Interest expense, net	707	1,177	1,468	1,964
Other expense, net	10	257	38	286
Income before income tax expense	6,523	972	13,362	5,107
Income tax expense	2,444	388	4,993	1,969
Net income	\$4,079	\$584	\$8,369	\$3,138
Earnings per share				
Basic	\$0.14	\$0.02	\$0.29	\$0.12
Diluted	\$0.14	\$0.02	\$0.29	\$0.12
Weighted average shares outstanding				
Basic	28,646	26,689	28,616	26,412
Diluted	28,989	26,970	28,979	26,711
Dividends per share	\$—	\$—	\$—	\$1.83

⁽¹⁾ exclusive of depreciation and amortization,
shown separately

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(amounts in thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015
Operating activities		
Net income	\$8,369	\$3,138
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,441	1,308
Excess tax benefit of stock-based compensation	(667)	(822)
Deferred income taxes	(131)	(438)
Stock-based compensation expense	253	342
Loss on disposal of property and equipment	—	4
Amortization of debt issuance costs	69	267
Changes in operating assets and liabilities:		
Accounts receivable	823	(197)
Prepaid expenses and other assets	(220)	(2,191)
Accounts payable and other current liabilities	(315)	(1,039)
Deferred revenue	(440)	54
Other non-current liabilities (attributable to deferred rent and lease incentives)	165	437
Cash provided by operating activities	9,347	863
Investing activities		
Purchases of property and equipment	(975)	(333)
Cash used in investing activities	(975)	(333)
Financing activities		
Proceeds from issuance of common stock, net of expenses	—	34,766
Proceeds from exercise of stock options	285	478
Borrowings of long-term debt	—	40,000
Principal payments on long-term debt	(10,000)	(33,218)
Payment of deferred financing costs	—	(227)
Excess tax benefit of stock-based compensation	667	822
Dividends paid	—	(47,999)
Cash used in financing activities	(9,048)	(5,378)
Net change in cash and cash equivalents	(676)	(4,848)
Cash and cash equivalents at beginning of period	10,690	9,723
Cash and cash equivalents at end of period	\$10,014	\$4,875
See accompanying notes to consolidated financial statements.		

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

Basis of Presentation

Wingstop Inc. (“Wingstop” or the “Company”) is in the business of franchising and operating Wingstop restaurants. As of June 25, 2016, 831 franchised restaurants were in operation domestically and 63 international franchised restaurants were in operation across five countries. As of June 25, 2016, the Company owned and operated 20 restaurants.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Consequently, financial information and disclosures normally included in financial statements prepared annually in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. Balance sheet amounts are as of June 25, 2016 and December 26, 2015 and operating results are for the thirteen and twenty-six weeks ended June 25, 2016 and June 27, 2015.

In the Company’s opinion, all necessary adjustments have been made for the fair presentation of the results of the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended December 26, 2015.

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2016 and 2015 have 53 weeks and 52 weeks, respectively.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The Company adopted the amendment as of the first day of fiscal year 2016, and the adoption did not have any impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2018. This update permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect this guidance will have on our consolidated financial statements and related disclosures and has not yet selected a transition method.

In April 2015, the FASB issued ASU No 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update changes the presentation of debt issuance costs in the balance sheet. ASU 2015-03 requires debt issuance costs related to a recognized debt obligation to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than being presented as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU clarified guidance in ASC 2015-03 stating that the SEC staff would not object to a company presenting debt issuance costs related to a

line-of-credit arrangement on the balance sheet as a deferred asset, regardless of whether there were any outstanding borrowings at period-end. This update is effective for annual and interim periods beginning after December 15, 2015. The Company adopted this pronouncement during the first quarter of 2016 and applied the update on a retrospective basis, wherein the balance sheet of each period presented was adjusted to reflect the effects of applying the new

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

guidance. The Company reclassified deferred financing costs of \$431,000 and \$492,000 for the periods ended June 25, 2016 and December 26, 2015, respectively, from Other non-current assets to Long-term debt on the Consolidated Balance Sheets.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new leases standard on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). This update requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement, including recognition of excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Currently, GAAP requires excess tax benefits to be recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement, and excess tax benefits are not recognized until the deduction reduces taxes payable. ASU 2016-09 further requires that excess tax benefits be classified along with other income tax cash flows as an operating activity on the Statement of Cash Flows. Currently, they are classified as financing activities. The update also allows entities to make an accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early application is permitted. The Company is evaluating the effect this guidance will have on our consolidated financial statements and related disclosures and has not yet selected a transition method.

(2) Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards, determined using the treasury stock method. For the thirteen weeks ended June 25, 2016 we had approximately 7,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive. For the thirteen weeks ended June 27, 2015 all stock options had a dilutive effect; therefore none were excluded from the calculation of diluted earnings per share. For the twenty-six weeks ended June 25, 2016 and June 27, 2015, respectively, we had approximately 5,000 and 13,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Basic weighted average shares outstanding	28,646	26,689	28,616	26,412
Dilutive stock options	343	281	363	299
Diluted weighted average shares outstanding	28,989	26,970	28,979	26,711

(3) Fair Value Measurements

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. Assets and liabilities are classified using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 — Unadjusted quoted prices for identical instruments traded in active markets.

Level 2 — Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3 — Unobservable inputs reflecting management's estimates and assumptions.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. Fair value of debt is determined on a non-recurring basis, which results are summarized as follows (in thousands):

	Fair Value Hierarchy	June 25, 2016		December 26, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt obligations:					
Senior Secured Term Loan Facility ⁽¹⁾	Level 3	\$85,500	\$87,005	\$95,500	