

# 2022

THE WENDY'S COMPANY  
ANNUAL REPORT



# BOARD of DIRECTORS

## NELSON PELTZ<sup>4,5</sup>

Chairman, The Wendy's Company  
Chief Executive Officer and Founding  
Partner, Triam Fund Management, L.P.

## PETER W. MAY<sup>2,3,4,5,8</sup>

Senior Vice Chairman, The Wendy's Company  
President and Founding Partner,  
Triam Fund Management, L.P.

## MATTHEW H. PELTZ<sup>2,4,5,8</sup>

Vice Chairman, The Wendy's Company  
Partner and Co-Head of Research,  
Triam Fund Management, L.P.

## TODD A. PENEGOR<sup>2,5</sup>

President and Chief Executive Officer,  
The Wendy's Company

## MICHELLE CARUSO-CABRERA

Chief Executive Officer, MCC Productions LLC  
and CNBC Contributor

## KRISTINA A. DOLAN<sup>1,8</sup>

Chief Executive Officer, AMC Networks Inc. and  
Founder and Chief Executive Officer, 605, LLC

## KENNETH W. GILBERT<sup>4,8</sup>

Former Chief Marketing Officer,  
Voss of Norway ASA

## RICHARD H. GOMEZ<sup>1,8</sup>

Executive Vice President and  
Chief Food and Beverage Officer,  
Target Corporation

## JOSEPH A. LEVATO<sup>1,3,5,6,7</sup>

Former Executive Vice President and  
Chief Financial Officer, Triarc Companies, Inc.  
(predecessor to The Wendy's Company)

## MICHELLE "MICH" J. MATHEWS-SPRADLIN<sup>3,4,7,8</sup>

Former Chief Marketing Officer  
and Senior Vice President,  
Microsoft Corporation

## PETER H. ROTHSCHILD<sup>1,3,6,7</sup>

Partner, East Wind Advisors, LLC

## ARTHUR B. WINKLEBLACK<sup>1,6</sup>

Former Executive Vice President and  
Chief Financial Officer, H. J. Heinz Company

1. Member of Audit Committee, 2. Member of Capital and Investment Committee, 3. Member of Compensation and Human Capital Committee, 4. Member of Corporate Social Responsibility Committee, 5. Member of Executive Committee, 6. Member of Nominating and Corporate Governance Committee, 7. Member of Performance Compensation Subcommittee, 8. Member of Technology Committee

# LEADERSHIP TEAM

## TODD A. PENEGOR

President and Chief Executive Officer

## GUNTHER PLOSCH

Chief Financial Officer

## ABIGAIL E. PRINGLE

President, International and  
Chief Development Officer

## DEEPAK AJMANI

Chief Operations Officer - U.S.

## LILIANA M. ESPOSITO

Chief Corporate Affairs &  
Sustainability Officer

## JUAN CARLOS LOREDO

Global Chief Marketing Officer

## M. COLEY O'BRIEN

Chief People Officer

## SUZIE THUERK

Chief Accounting Officer

## KEVIN VASCONI

Chief Information Officer

## E.J. WUNSCH

Chief Legal Officer and Secretary

# CORPORATE INFORMATION

## CORPORATE OFFICE RESTAURANT SUPPORT CENTER

The Wendy's Company  
One Dave Thomas Boulevard  
Dublin, OH 43017

614.764.3100  
www.wendys.com

## SEC CERTIFICATIONS

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required to be filed with the Securities and Exchange Commission pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are included as exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2023, a copy of which (including the certifications) is included herein.

## STOCKHOLDER INFORMATION

### TRANSFER AGENT & REGISTRAR

If you are a stockholder of record and require assistance with your account, such as a change of address or change in registration, please contact:

EQ Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120

Toll free:  
888.888.0312 or 651.450.4151

E-mail:  
Visit [shareowneronline.com](http://shareowneronline.com) and  
navigate to Contact Us

[www.shareowneronline.com](http://www.shareowneronline.com)

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP  
330 Rush Alley, Suite 800  
Columbus, OH 43215

## INVESTOR INQUIRIES

Stockholders, securities analysts, investment managers, and others seeking information about the Company may either go to the Company's Investor Relations website, [www.irwendys.com](http://www.irwendys.com), or contact the Company directly as follows:

Kelsey Freed  
Director, Investor Relations  
614.764.3345  
[kelsey.freed@wendys.com](mailto:kelsey.freed@wendys.com)

## NEWS MEDIA INQUIRIES

Heidi S. Schauer  
Vice President, Communications,  
Public Affairs, and Customer Care  
614.764.3368  
[heidi.schauer@wendys.com](mailto:heidi.schauer@wendys.com)

## COMMON STOCK LISTING

WEN  
NASDAQ  
LISTED



THE WENDY'S COMPANY



The Wendy's Company  
One Dave Thomas Boulevard  
Dublin, Ohio 43017  
(614) 764-3100

Dear Fellow Stockholders,

In 2022, we continued to make tremendous progress against our strategic growth pillars and towards achieving our vision of becoming the world's most thriving and beloved restaurant brand. The Wendy's® brand is experiencing strong momentum thanks to the commitment and hard work of our restaurant team members, support center employees, franchisees and suppliers across the world. Our continued success in 2022 is a testament to our brand's ability to resonate with our customers, deliver high quality food, compelling value and convenience, and ultimately, achieve sustained growth while positively impacting our communities.

## **ADVANCING OUR STRATEGIC GROWTH PILLARS**

The progress we made over the course of the year has laid the foundation for continued growth for years to come. While challenges and uncertainties related to supply chain and other global dynamics persisted in 2022, the Wendy's System demonstrated our dedication to serving our new and returning customers every day.

As a result, we achieved our twelfth consecutive year of global same-restaurant sales growth and our second consecutive year of double-digit global same-restaurant sales growth on a two-year basis. This sales strength, along with a step down in inflationary pressures, underpinned the almost 300 basis point improvement in Company-operated restaurant margin over the course of the year.

We continued to drive trial, awareness and repeat at our breakfast daypart. We are creating new fans everywhere with Wendy's now offering breakfast in 95% of our restaurants worldwide following our launch of the daypart in Canada last May. The success of our first major breakfast menu innovation, French Toast Sticks, drove meaningful acceleration in U.S. breakfast sales in the second half of the year, which peaked at over \$3,000 per restaurant per week in the fourth quarter. We are extremely proud of the profitable sales layer our U.S. breakfast business has become over the last three years. As we move into our next phase of growth, we are broadening our focus to driving strong global same-restaurant sales momentum across all dayparts. We plan to continue our same-restaurant sales momentum through our ownable core products, exciting menu innovation, compelling value offerings, and improvements in speed and consistency in our restaurants.

Our digital business momentum continued to build in 2022 as we grew members in our U.S. loyalty program by almost 40% year-over-year to more than 29 million, launched Wendy's Rewards™ in Canada, and implemented kiosks in all of our U.K. restaurants. We continued to optimize our mobile app to enhance speed of service, convenience and order accuracy, all while creating a more seamless experience for our customers. Our innovative solutions resulted in double-digit global digital sales growth, including global digital sales mix of over 10% in the fourth quarter, representing a more than \$1.3 billion business in 2022.

We expect meaningful growth in our digital channels over the next several years, and are focused on partnering with world class technology companies to enhance the entire customer, restaurant team member and delivery driver journey. This includes building digital into our restaurants through innovative design and continuing to build our marketing capabilities to drive personalized relationships with our fans. We are also innovating by testing emerging technologies to reduce friction throughout the ordering experience.

We remain committed to our global growth mindset and, after opening over 275 new restaurants across the globe in 2022, achieved a second consecutive year of net unit growth acceleration. In 2022, we grew our U.K. footprint to almost 30 restaurants, including our first traditional franchise-operated restaurant, and brought nearly 40 new global franchisees into the Wendy's family. As part of our expanding global footprint, we also announced our intention to open Wendy's restaurants in new international markets, including Ireland, Australia and Spain. Further, we secured significant development agreements that will drive meaningful unit growth over the next several years in the Philippines and India.

We have a disciplined focus on driving traditional restaurant growth across the globe and believe that we have a strong foundation in place due to strategic investments we've made over the last few years. This includes a substantial portion of our development pipeline being locked in under existing development agreements, hundreds of potential franchise candidates in our recruiting pipeline, strong interest in our Build-to-Suit program, compelling development incentive programs, and a new global design standard – *Global Next Gen* – that we expect will support high average unit volumes, reduce build costs and improve operating efficiency, all while building a digital first mindset into everything we do in our restaurants. We can't wait to get more square burgers in the hands of more Wendy's customers across the world.

## RETURNING CASH TO STOCKHOLDERS

We are committed to creating value for all of our stockholders by driving accelerated growth across our strategic pillars and executing against our capital allocation policy. Our simple, yet powerful formula has enabled our success and ability to return significant cash to our stockholders as the momentum in our business continues to grow.

Supported by our business momentum, strong liquidity position and expected free cash flow growth, our Board of Directors approved a 100% increase in our quarterly dividend to \$0.25 per share that was effective beginning with our first quarter dividend on March 15, 2023. We now expect the full year dividend to reach \$1.00 per share. Our Board of Directors also approved a new \$500 million share repurchase authorization that extends through February 2027.

Under our capital allocation policy, we remain committed to investing in our business for growth, sustaining an attractive dividend for our stockholders and utilizing excess cash to repurchase shares and reduce debt as appropriate.

## GOOD DONE RIGHT

One of Dave Thomas' core values, "Do the Right Thing", acts as a guiding principle for the Wendy's family, including our employees, franchisees and suppliers, and is deeply embedded in our culture. I'm pleased that we continue to make meaningful progress against the three pillars of our "Good Done Right" Environment, Social and Governance (ESG) strategy and goals, which include:

- **Food:** Responsibly source our top 10 priority food categories in the U.S. and Canada.
- **People:** Increase the representation of underrepresented populations among Company leadership and management as well as the diversity of Wendy's franchisees.
- **Footprint:** Sustainably source 100% of our customer-facing packaging by 2026, and benchmark, track and reduce our Scope 1, Scope 2 and Scope 3 greenhouse gas emissions and set a science-based target by the end of 2023.

In 2022, some key progress highlights included:

- Developing responsible sourcing criteria and conducting individual sustainability performance assessments of our supply chain partners.
- Expanding our Wendy's Animal Welfare Standards Program to tailor and test an assessment tool for our U.S. and Canadian beef, pork, chicken and egg supply chains, and evaluating 100% of our finished product suppliers in the U.S. and Canada within these supply chains.
- Completing the transition away from sow gestation stalls to open pen/group housing for confirmed pregnant sows in our U.S. and Canadian supply chain.
- Introducing new trainings reinforcing key Diversity, Equity & Inclusion focus areas.
- Launching the *Own Your Opportunity* campaign to help increase both accessibility and diversity across franchisee candidates, including among women and people of color.
- Creating a new Employee Resource Group, GiveCare, to provide support and resources for parents and caregivers and to offer a space for employees to share these experiences.
- Transitioning more than 50% of our customer-facing packaging to goal status for sustainability.
- Reporting climate data to CDP, a leading framework for climate reporting, and preparing to report and measure progress against a science-based target. We are proud to have received validation of our science-based target from the Science Based Target initiative nearly a year ahead of schedule, and we publicly announced our target in February 2023.

We believe that our Good Done Right strategy will contribute to the long-term success of our business and brand, and will make us a desired choice for customers. We are committed to collaborating internally across our System and externally with key stakeholders to champion Good Done Right and will continue to report on our progress, including in our 2022 Corporate Responsibility report which will be published later this spring.

## LOOKING AHEAD

In 2022, we delivered high quality food, compelling value, and convenience, all of which helped us build more loyalty with our customers and made the Wendy's brand more relevant than ever. I am continuously impressed by the Wendy's team and proud of all we've accomplished together.

I am excited to see what's in store for 2023 and confident that our significant business momentum and the sound execution of our key priorities will deliver accelerated growth for years to come.

Sincerely,



TODD A. PENEGOR  
President and Chief Executive Officer



*This Annual Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements and Projections" in the Form 10-K included in this Annual Report for additional important information regarding forward-looking statements.*

QUALITY IS OUR RECIPE | TREAT PEOPLE WITH RESPECT | DO THE RIGHT THING  
PROFIT MEANS GROWTH | GIVE SOMETHING BACK



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED January 1, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number: 1-2207

**THE WENDY'S COMPANY**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
One Dave Thomas Blvd. Dublin, Ohio  
(Address of principal executive offices)

38-0471180  
(I.R.S. Employer Identification No.)

43017  
(Zip Code)

Registrant's telephone number, including area code: (614) 764-3100

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>    | <u>Trading Symbol(s)</u> | <u>Name of each exchange<br/>on which registered</u> |
|-------------------------------|--------------------------|--|
| Common Stock, \$.10 par value | WEN                      | The Nasdaq Stock Market LLC                          |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of common equity held by non-affiliates of The Wendy's Company as of July 1, 2022 was approximately \$3,282.5 million. As of February 21, 2023, there were 212,594,753 shares of The Wendy's Company common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this Form 10-K, to the extent not set forth herein, is incorporated herein by reference from The Wendy's Company's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after January 1, 2023.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
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## **PART I**

### **Explanatory Note**

The Wendy's Company ("The Wendy's Company") is the parent company of its 100% owned subsidiary holding company, Wendy's Restaurants, LLC ("Wendy's Restaurants"). Wendy's Restaurants is the parent company of Wendy's International, LLC (formerly known as Wendy's International, Inc.). Wendy's International, LLC is the indirect parent company of (1) Quality Is Our Recipe, LLC ("Quality"), which is the owner and franchisor of the Wendy's® restaurant system in the United States and all international jurisdictions except for Canada, and (2) Wendy's Restaurants of Canada Inc., which is the owner and franchisor of the Wendy's restaurant system in Canada. As used in this report, unless the context requires otherwise, the term "Company" refers to The Wendy's Company and its direct and indirect subsidiaries, and "Wendy's" refers to Quality when the context relates to the ownership or franchising of the Wendy's restaurant system and to Wendy's International, LLC when the context refers to the Wendy's brand. References in this Annual Report on Form 10-K (the "Form 10-K") to restaurants that we "own" or that are "Company-operated" include owned and leased restaurants.

### **Special Note Regarding Forward-Looking Statements and Projections**

This Annual Report on Form 10-K and oral statements made from time to time by representatives of the Company may contain or incorporate by reference certain statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Generally, forward-looking statements include the words "may," "believes," "plans," "expects," "anticipates," "intends," "estimate," "goal," "upcoming," "outlook," "guidance" or the negation thereof, or similar expressions. In addition, all statements that address future operating, financial or business performance, strategies or initiatives, future efficiencies or savings, anticipated costs or charges, future capitalization, anticipated impacts of recent or pending investments or transactions and statements expressing general views about future results or brand health are forward-looking statements within the meaning of the Reform Act. Forward-looking statements are based on our expectations at the time such statements are made, speak only as of the dates they are made and are susceptible to a number of risks, uncertainties and other factors. For all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Reform Act. Our actual results, performance and achievements may differ materially from any future results, performance or achievements expressed or implied by our forward-looking statements. Many important factors could affect our future results and cause those results to differ materially from those expressed in or implied by our forward-looking statements. Such factors include, but are not limited to, the following:

- the impact of competition or poor customer experiences at Wendy's restaurants;
- adverse economic conditions or disruptions, including in regions with a high concentration of Wendy's restaurants;
- changes in discretionary consumer spending and consumer tastes and preferences;
- the disruption to our business from the novel coronavirus (COVID-19) pandemic and the impact of the pandemic on our results of operations, financial condition and prospects;
- impacts to our corporate reputation or the value and perception of our brand;
- the effectiveness of our marketing and advertising programs and new product development;
- our ability to manage the accelerated impact of social media;
- our ability to protect our intellectual property;
- food safety events or health concerns involving our products;
- our ability to deliver accelerated global sales growth and achieve or maintain market share across our dayparts;
- our ability to achieve our growth strategy through new restaurant development and our Image Activation program;
- our ability to effectively manage the acquisition and disposition of restaurants or successfully implement other strategic initiatives;

- risks associated with leasing and owning significant amounts of real estate, including environmental matters;
- risks associated with our international operations, including our ability to execute our international growth strategy;
- changes in commodity and other operating costs;
- shortages or interruptions in the supply or distribution of our products and other risks associated with our independent supply chain purchasing co-op;
- the impact of increased labor costs or labor shortages;
- the continued succession and retention of key personnel and the effectiveness of our leadership and organizational structure;
- risks associated with our digital commerce strategy, platforms and technologies, including our ability to adapt to changes in industry trends and consumer preferences;
- our dependence on computer systems and information technology, including risks associated with the failure or interruption of our systems or technology or the occurrence of cyber incidents or deficiencies;
- risks associated with our securitized financing facility and other debt agreements, including compliance with operational and financial covenants, restrictions on our ability to raise additional capital, the impact of our overall debt levels and our ability to generate sufficient cash flow to meet our debt service obligations and operate our business;
- risks associated with our capital allocation policy, including the amount and timing of equity and debt repurchases and dividend payments;
- risks associated with complaints and litigation, compliance with legal and regulatory requirements and an increased focus on environmental, social and governance issues;
- risks associated with the availability and cost of insurance, changes in accounting standards, the recognition of impairment or other charges, changes in tax rates or tax laws and fluctuations in foreign currency exchange rates;
- conditions beyond our control, such as adverse weather conditions, natural disasters, hostilities, social unrest, health epidemics or pandemics or other catastrophic events;
- risks associated with our organizational redesign initiative; and
- other risks and uncertainties referred to in this Annual Report on Form 10-K (see especially “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”) and in our other current and periodic filings with the Securities and Exchange Commission.

In addition to the factors described above, there are risks associated with our predominantly franchised business model that could impact our results, performance and achievements. Such risks include our ability to identify, attract and retain experienced and qualified franchisees, our ability to effectively manage the transfer of restaurants between and among franchisees, the business and financial health of franchisees, the ability of franchisees to meet their royalty, advertising, development, reimagining and other commitments, participation by franchisees in brand strategies and the fact that franchisees are independent third parties that own, operate and are responsible for overseeing the operations of their restaurants. Our predominantly franchised business model may also impact the ability of the Wendy’s system to effectively respond and adapt to market changes. Many of these risks have been or in the future may be heightened due to the business disruption and impact from the COVID-19 pandemic.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. New risks and uncertainties arise from time to time, and factors that we currently deem immaterial may become material, and it is impossible for us to predict these events or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this Annual Report on Form 10-K as a result of new information, future events or developments, except as required by federal securities laws, although we may do so from time to time. We do not endorse any projections regarding future performance that may be made by third parties.

## **Item 1. Business.**

### **Company Overview**

Wendy's is primarily engaged in the business of operating, developing and franchising a system of distinctive quick-service restaurants serving high quality food. Wendy's opened its first restaurant in Columbus, Ohio in 1969. Today, Wendy's is the second largest quick-service restaurant company in the hamburger sandwich segment in the United States (the "U.S.") based on traffic share, and the third largest globally with 7,095 restaurants in the U.S. and 31 foreign countries and U.S. territories as of January 1, 2023.

At January 1, 2023, there were 5,994 Wendy's restaurants in operation in the U.S. Of these restaurants, 403 were operated by the Company and 5,591 were operated by a total of 217 franchisees. In addition, at January 1, 2023, there were 1,101 Wendy's restaurants in operation in 31 foreign countries and U.S. territories. Of the international restaurants, 1,089 were operated by 106 franchisees and 12 were operated by the Company in the United Kingdom (the "U.K.").

The Company's principal executive offices are located at One Dave Thomas Blvd., Dublin, Ohio 43017, and its telephone number is (614) 764-3100.

### ***Corporate History***

The Wendy's Company's corporate predecessor was incorporated in Ohio in 1929 and was reincorporated in Delaware in June 1994. Effective September 29, 2008, in conjunction with the merger of Triarc Companies, Inc. and Wendy's International, Inc., the Company's corporate name was changed from Triarc Companies, Inc. to Wendy's/Arby's Group, Inc. Effective July 5, 2011, in connection with the Company's sale of Arby's Restaurant Group, Inc., the Company's corporate name was changed to The Wendy's Company.

### ***Fiscal Year***

The Company's fiscal reporting periods consist of 52 or 53 weeks ending on the Sunday closest to December 31 and are referred to herein as (1) "the year ended January 1, 2023" or "2022," which consisted of 52 weeks, (2) "the year ended January 2, 2022" or "2021," which consisted of 52 weeks, and (3) "the year ended January 3, 2021" or "2020," which consisted of 53 weeks.

### ***Business Strategy***

Wendy's long-term growth opportunities include delivering accelerated global growth through (1) driving strong same-restaurant sales momentum across all dayparts, (2) accelerating our implementation of consumer-facing digital platforms and technologies and (3) expanding the Company's footprint through global restaurant expansion. Wendy's vision is to become the world's most thriving and beloved restaurant brand.

### ***Business Segments***

The Company is comprised of the following segments: (1) Wendy's U.S., (2) Wendy's International and (3) Global Real Estate & Development. Wendy's U.S. includes the operation and franchising of Wendy's restaurants in the U.S. and derives its revenues from sales at Company-operated restaurants and royalties, fees and advertising fund collections from franchised restaurants. Wendy's International includes the operation and franchising of Wendy's restaurants in countries and territories other than the U.S. and derives its revenues from sales at Company-operated restaurants and royalties, fees and advertising fund collections from franchised restaurants. Global Real Estate & Development includes real estate activity for owned sites and sites leased from third parties, which are leased and/or subleased to franchisees, and also includes our share of the income of our Canadian restaurant real estate joint venture ("TimWen"). In addition, Global Real Estate & Development earns fees from facilitating franchisee-to-franchisee restaurant transfers ("Franchise Flips") and providing other development-related services to franchisees. See Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7 herein and Note 27 of the Financial Statements and Supplementary Data contained in Item 8 herein for segment financial information.

## The Wendy's Restaurant System

The revenues from our restaurant business are derived from two principal sources: (1) sales at Company-operated restaurants and (2) franchise-related revenues, including royalties, national advertising funds contributions, rents and franchise fees received from Wendy's franchised restaurants. Company-operated restaurants comprised approximately 5% of the total Wendy's system as of January 1, 2023.

### *Restaurant Openings and Closings*

During 2022, Wendy's opened 14 new Company-operated restaurants and closed seven generally underperforming Company-operated restaurants. During 2022, Wendy's franchisees opened 262 new restaurants and closed 123 generally underperforming restaurants.

The following table sets forth the number of Wendy's restaurants in operation at the beginning and end of each fiscal year from 2020 to 2022:

|   | <u>2022</u>  | <u>2021</u>  | <u>2020</u>  |
|---|--------------|--------------|--------------|
| Restaurants open at beginning of period ..... | 6,949        | 6,828        | 6,788        |
| Restaurants opened during period .....        | 276          | 210          | 147          |
| Restaurants closed during period .....        | (130)        | (89)         | (107)        |
| Restaurants open at end of period .....       | <u>7,095</u> | <u>6,949</u> | <u>6,828</u> |

### *Restaurant Operations*

Each Wendy's restaurant offers an extensive menu specializing in hamburger sandwiches and featuring filet of chicken breast sandwiches, which are prepared to order with the customer's choice of toppings and condiments. Wendy's menu also includes chicken nuggets, chili, french fries, baked potatoes, freshly prepared salads, soft drinks, Frosty® desserts and kids' meals. In addition, Wendy's restaurants sell a variety of promotional products on a limited time basis. In March 2020, Wendy's entered the breakfast daypart across the U.S. system and, in May 2022, launched breakfast in Canada. Wendy's breakfast menu features a variety of breakfast sandwiches such as the Breakfast Baconator® and sides such as seasoned potatoes.

Free-standing Wendy's restaurants generally include a pick-up window in addition to a dining room. In 2020, 2021 and 2022 pick-up window sales represented approximately 83%, 82% and 77% of sales at Company-operated restaurants, respectively.

Wendy's strives to maintain quality and uniformity throughout all restaurants by publishing detailed specifications for food products, preparation and service, continual in-service training of employees, restaurant operational audits and field visits from Wendy's supervisors. In the case of franchisees, field visits are made by Wendy's personnel who review restaurant operations, including quality, service and cleanliness, and make recommendations to assist in compliance with Wendy's specifications.

### *Supply Chain, Distribution and Purchasing*

As of January 1, 2023, three independent processors (five total production facilities) supplied all of the beef used by Wendy's restaurants in the U.S. In addition, seven independent processors (14 total production facilities) supplied all of the chicken used by Wendy's restaurants in the U.S. In addition, there was one main in-line distributor of food, packaging and beverage products, excluding breads, that serviced approximately 67% of Wendy's restaurants in the U.S. and four additional in-line distributors that, in the aggregate, serviced approximately 32% of Wendy's restaurants in the U.S. Except as discussed below, Wendy's and its franchisees have not experienced any material shortages of food, equipment, fixtures or other products that are necessary to maintain restaurant operations, and Wendy's anticipates no such shortages of products and believes that alternate suppliers and distribution sources are available. During 2020, the COVID-19 pandemic led to interruptions in the delivery of beef and other products and, as a result, some menu items were occasionally in short supply at some Wendy's system restaurants. While we and our supply chain partners effectively managed through this disruption, there can be no assurances that we will not see similar disruptions in the future. Suppliers and distributors to the Wendy's system must comply with U.S. Department of Agriculture ("USDA") and U.S. Food and Drug Administration ("FDA") regulations governing the manufacture, packaging, storage, distribution and sale of all food and packaging products.

Wendy's has a purchasing co-op relationship structure with its franchisees that establishes Quality Supply Chain Co-op, Inc. ("QSCC"). QSCC manages, for the Wendy's system in the U.S. and Canada, contracts for the purchase and distribution of food, proprietary paper, operating supplies and equipment under national agreements with pricing based upon total system volume. QSCC's supply chain management facilitates the continuity of supply and provides consolidated purchasing efficiencies while monitoring and seeking to minimize possible obsolete inventory throughout the Wendy's supply chain in the U.S. and Canada. Wendy's and its franchisees pay sourcing fees to third-party vendors on certain products sourced by QSCC. Such sourcing fees are remitted by these vendors to QSCC and are the primary means of funding QSCC's operations. Should QSCC's sourcing fees exceed its expected needs, QSCC's board of directors may return some or all of the excess to its members in the form of a patronage dividend.

Wendy's does not sell food or restaurant supplies to its franchisees.

### *Quality Assurance*

Wendy's quality assurance program is designed to verify that the food products supplied to our restaurants are processed in a safe, sanitary environment and in compliance with our food safety and quality standards. Wendy's quality assurance personnel regularly conduct sanitation and production audits for all of our core menu product processing facilities, which include beef, chicken, egg, pork, buns, french fries, Frosty® dessert ingredients and produce. Animal welfare audits are also conducted at all beef, chicken and pork facilities to confirm compliance with our required animal welfare and handling policies and procedures. In addition to our facility audit program, weekly samples of beef, chicken and other core menu products from our distribution centers are randomly sampled and analyzed by a third-party laboratory to test conformance to our quality specifications. Wendy's representatives, including third-party auditors, regularly conduct evaluations and inspections of all Company-operated and franchised restaurants to test conformance to our sanitation, food safety and operational requirements. In addition, restaurant crew and managers at Company-operated and franchised restaurants are re-certified each year on critical food safety standards. Wendy's has the right to terminate franchise agreements if franchisees fail to comply with quality standards.

### *Information Technology*

Wendy's relies on computer systems and information technology to conduct its business. Wendy's utilizes both commercially available third-party software and proprietary software owned by the Company to run the point-of-sale and kitchen delivery functions and certain other consumer-facing and back-office functions in Wendy's restaurants. Wendy's has invested significant resources to focus on consumer-facing technology, including installing a single point-of-sale system for Wendy's restaurants, activating mobile ordering via Wendy's mobile apps, launching the Wendy's Rewards loyalty program and establishing delivery arrangements with third-party vendors for Wendy's U.S. and Canadian restaurants. We believe our digital platforms are critical to creating a more seamless user experience, providing insights to enhance our relationship with customers and meeting consumer demand for customization, speed and convenience. In December 2019, we implemented a plan to realign and reinvest resources in our IT organization to strengthen our ability to accelerate growth. We are partnering with a third-party global IT consultant on this new structure to leverage their global capabilities and enable a more seamless integration between our digital and corporate IT assets. In October 2021, we announced a partnership with a third-party global cloud provider with the intention to enhance our restaurant experience and unlock new customer, restaurant and employee experiences through data-driven insights.

### *Trademarks and Service Marks*

Wendy's or its subsidiaries have registered certain trademarks and service marks in the U.S. Patent and Trademark Office and in international jurisdictions, some of which include Wendy's®, Quality Is Our Recipe® and the Wendy Cameo design. Wendy's believes that these and other related marks are of material importance to its business. Domestic trademarks and service marks have their next required maintenance filings at various times from 2023 to 2033 in order to keep such registrations in force, while international trademarks and service marks have various durations of seven to 15 years. Wendy's generally intends to maintain and renew its trademarks and service mark registrations in accordance with applicable deadlines.

Wendy's entered into an Assignment of Rights Agreement with the Company's founder, Dave Thomas, and his wife dated as of November 5, 2000 (the "Assignment"). Wendy's had used Mr. Thomas, who was Senior Chairman of the Board until his death on January 8, 2002, as a spokesperson and focal point for its products and services for many years. With the efforts and attributes of Mr. Thomas, Wendy's has, through its extensive investment in the advertising and promotional use of Mr. Thomas' name, likeness, image, voice, caricature, endorsement rights and photographs (the "Thomas Persona"), made the Thomas Persona well known in the U.S. and throughout North America and a valuable asset for both Wendy's and Mr. Thomas' estate. Under the terms of the Assignment, Wendy's acquired the entire right, title, interest and ownership in and to the Thomas Persona, including the sole and exclusive right to commercially use the Thomas Persona.

### *Research and Development*

New product development is important to the Wendy's system. The Company believes that the development and testing of new and improved products is critical to increasing sales, attracting new customers and differentiating the Wendy's brand from competitors. The Company maintains a state-of-the-art research and development facility that includes a sensory lab, analytical labs, culinary kitchens and a Wendy's test kitchen. The Company employs a variety of professionals from the culinary and food science disciplines to bring new and improved products to market.

### *Seasonality*

Wendy's restaurant operations are moderately seasonal. Wendy's average restaurant sales are normally higher during the summer months than during the winter months. Because our business is moderately seasonal, results for any quarter are not necessarily indicative of the results that may be achieved for any other quarter or for the full fiscal year.

### *Competition*

Each Wendy's restaurant is in competition with other food service operations within the same geographical area. The quick-service restaurant segment is highly competitive and includes well-established competitors. Wendy's competes with other restaurant companies and food outlets, primarily through the quality, variety, convenience, price and value perception of food and beverage products offered. The number and location of restaurants, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development by Wendy's and its competitors are also important factors. The price charged for each menu item may vary from market to market (and within markets) depending on competitive pricing and the local cost structure. Wendy's competes within the food service industry and the quick-service restaurant sector for customers as well as for personnel, suitable real estate sites and qualified franchisees.

Wendy's competitive position is differentiated by a focus on high quality, craveable food, its made-to-order square hamburgers using fresh, never frozen ground beef\*, its unique and diverse menu, including chicken sandwiches, freshly-prepared salads and other signature items like chili, baked potatoes and the Frosty® dessert, its promotional products, its choice of toppings and condiments and the atmosphere and décor of its restaurants. (\*Fresh beef available in the contiguous U.S., Alaska and Canada.) Wendy's continues to implement its Image Activation program, which includes reimagining existing Wendy's restaurants and building new Wendy's restaurants with innovative exterior and interior restaurant designs, with plans for a significant number of new and reimagined restaurants in 2023 and beyond. The Image Activation program also differentiates the Company from its competitors by its emphasis on selection and performance of restaurant employees that provide friendly and engaged customer service in Wendy's restaurants.

Many of the leading restaurant chains continue to focus on new restaurant development as one strategy to increase market share through increased consumer awareness and convenience. This results in increased competition for available development sites and higher development costs for those sites. Competitors also employ marketing strategies such as frequent use of price discounting, frequent promotions and heavy advertising expenditures. Continued price discounting, including the use of coupons and offers, in the quick-service restaurant industry and the emphasis on value menus could have an adverse impact on Wendy's business.

Other restaurant chains have also competed by offering high quality sandwiches made with fresh ingredients and artisan breads, and there are several emerging restaurant chains featuring high quality food served at in-line

locations. Several chains have also sought to compete by targeting certain consumer groups, such as capitalizing on trends toward certain types of diets or dietary preferences (e.g., plant-based food, alternative proteins, low carbohydrate, low trans-fat, gluten free or antibiotic free) by offering menu items that are promoted as being consistent with such diets.

Additional competitive pressures for prepared food purchases come from operators outside the restaurant industry. A number of major grocery chains offer fresh deli sandwiches and fully prepared food and meals to go as part of their deli sections. Some of these chains also have in-store cafes with service counters and tables where consumers can order and consume a full menu of items prepared especially for that portion of the operation. Additionally, convenience stores and retail outlets at gas stations frequently offer a wide variety of sandwiches and other foods.

Wendy’s also competes with grocery chains, food delivery providers and other retail outlets that sell food to be prepared at home. Competition with these chains, providers and other outlets could increase based on the gap between the price of food prepared at home compared to the price of food purchased at restaurants.

Technology and delivery are becoming increasingly critical parts of the restaurant consumer experience. In the quick-service restaurant category, technology initiatives include mobile interactive technology for brand and menu search information, mobile ordering, mobile payment, mobile offers, mobile order pick-up and carryout, customer loyalty and rewards programs and other self-service technologies. An increasing number of restaurant chains have also introduced or expanded their restaurant delivery arrangements as another strategy to increase market share. If our technology initiatives, digital commerce platforms or third-party delivery providers do not meet customers’ expectations in terms of security, speed, cost, attractiveness or ease of use, customers may be less inclined to use those platforms or providers and our competitive position could be adversely impacted.

***System Optimization***

The Company’s system optimization initiative included a shift from Company-operated restaurants to franchised restaurants over time, through acquisitions and dispositions, as well as by facilitating Franchise Flips. During 2016, the Company completed the sale of 310 Company-operated restaurants to franchisees, which resulted in the achievement of its plan to reduce its ongoing Company-operated restaurant ownership to approximately 5% of the total Wendy’s system.

While the Company has no plans to move its ownership away from approximately 5% of the Wendy’s system, it expects to continue to optimize the Wendy’s system by facilitating Franchise Flips, as well as evaluating strategic acquisitions of franchised restaurants and strategic dispositions of Company-operated restaurants to existing and new franchisees, to further strengthen the franchisee base, drive new restaurant development and accelerate adoption of Wendy’s Image Activation program. Wendy’s generally retains a right of first refusal in connection with any proposed sale or transfer of franchised restaurants.

The table below shows the number of restaurant acquisitions, restaurant dispositions and Franchise Flips completed in each of 2022, 2021 and 2020.

|                         | Year Ended |      |      |
|-------------------------|------------|------|------|
|                         | 2022       | 2021 | 2020 |
| Restaurant acquisitions | 1          | 93   | —    |
| Restaurant dispositions | 1          | 47   | 1    |
| Franchise Flips (a)     | 79         | 34   | 54   |

(a) Represents franchisee-to-franchisee restaurant transfers for which the Company received advisory fees, which include valuation services and fees for selecting pre-approved buyers.

**Franchising**

As of January 1, 2023, 217 Wendy’s U.S. franchisees operated 5,591 franchised restaurants in 50 states and the District of Columbia, and 106 Wendy’s international franchisees operated 1,089 franchised restaurants in 31 foreign countries and U.S. territories.

### *U.S. Franchise Arrangements*

The rights and obligations governing the majority of franchised restaurants operating in the U.S. are set forth in the Wendy's current Unit Franchise Agreement (the "Current Franchise Agreement") (non-traditional locations, including delivery kitchens, may operate under an amended agreement or alternate form of agreement). This agreement provides the franchisee the right to construct, own and operate a Wendy's restaurant upon a site accepted by Wendy's and to use the Wendy's system in connection with the operation of the restaurant at that site. The Current Franchise Agreement provides for a 20-year term and a 10-year renewal subject to certain conditions. The initial term may be extended up to 25 years and the renewal extended up to 20 or 25 years for qualifying restaurants under the new restaurant development incentive and reimage programs described below in "Franchise Development and Other Relationships." Wendy's has in the past franchised under different agreements on a multi-unit basis; however, Wendy's now grants new Wendy's franchises on a unit-by-unit basis.

The Current Franchise Agreement requires that the franchisee pay a monthly royalty of 4.0% of sales, as defined in the agreement, from the operation of the restaurant. The agreement also typically requires that the franchisee pay Wendy's an initial technical assistance fee. In the U.S., the standard technical assistance fee required under a newly executed Current Franchise Agreement is currently \$50,000 for each new restaurant opened.

The technical assistance fee is used to defray some of the costs to Wendy's for training, start-up and transitional services related to new and existing franchisees acquiring Company-operated restaurants and in the development and opening of new restaurants. In certain limited instances (such as a reduced franchise agreement term, development incentive programs or other unique circumstances), Wendy's may charge a reduced technical assistance fee or may waive the technical assistance fee. Wendy's does not select or employ personnel on behalf of franchisees.

### *International Franchise Arrangements*

Wendy's Restaurants of Canada Inc. ("WROC"), a 100% owned subsidiary of Wendy's, holds master franchise rights for Canada. The rights and obligations governing the majority of franchised restaurants operating in Canada are set forth in a Single Unit Sub-Franchise Agreement (the "Single Unit Sub-Franchise Agreement") (non-traditional locations, including delivery kitchens, may operate under an amended agreement or alternate form of agreement). This document provides the franchisee the right to construct, own and operate a Wendy's restaurant upon a site accepted by WROC and to use the Wendy's system in connection with the operation of the restaurant at that site. The Single Unit Sub-Franchise Agreement provides for a 20-year term and a ten-year renewal subject to certain conditions. The sub-franchisee pays to WROC a monthly royalty of 4.0% of sales, as defined in the agreement, from the operation of the restaurant. The agreement also typically requires that the franchisee pay WROC an initial technical assistance fee. The standard technical assistance fee is currently C\$50,000 for each new restaurant opened.

Franchisees who wish to operate Wendy's restaurants outside of the U.S. and Canada enter into franchise or license agreements with Wendy's that generally provide franchise rights for each restaurant for an initial term of ten years or 20 years, depending on the country, and typically include a ten-year renewal provision, subject to certain conditions. The agreements grant a license to the franchisee to use the Wendy's trademarks and know-how in the operation of a Wendy's restaurant at a specified location. Generally, the franchisee pays Wendy's an initial technical assistance fee or other per restaurant fee and monthly fees based on a percentage of gross monthly sales of each restaurant. In certain foreign markets, Wendy's may grant the franchisee exclusivity to develop a territory in exchange for the franchisee undertaking to develop a specified number of new Wendy's restaurants in the territory based on a negotiated schedule. In these instances, the franchisee generally pays Wendy's an upfront development fee, annual development fees or a per restaurant development fee. In certain circumstances, Wendy's may charge an upfront development fee for a non-exclusive territory, which is proportionate to a multi-unit development commitment. Wendy's may also grant a franchisee the right to sub-franchise in a stated territory, subject to certain conditions.

### *Non-Traditional Development*

Non-traditional locations, such as fuel and transportation centers, food courts and other retail locations, military bases and delivery kitchens, represent a component of Wendy's development strategy. These non-traditional locations may be subject to different rights and obligations than our traditional franchise arrangements, including with respect to initial and renewal franchise terms, technical assistance fees, monthly royalty rates and advertising contribution rates, and the sales levels at these locations may also differ from sales levels at traditional Wendy's restaurants.



### *Franchise Development and Other Relationships*

In addition to its franchise and license agreements, Wendy's also enters into development and/or relationship agreements with certain franchisees. The development agreement provides the franchisee with the right to develop a specified number of new Wendy's restaurants using the Image Activation program design within a stated, non-exclusive territory for a specified period, subject to the franchisee meeting interim new restaurant development requirements. The relationship agreement addresses other aspects of the franchisor-franchisee relationship, such as restrictions on operating competing restaurants, participation in brand initiatives such as the Image Activation program, employment of approved operators, confidentiality and restrictions on engaging in sale/leaseback or debt refinancing transactions without Wendy's prior consent.

To promote new restaurant development, Wendy's has provided franchisees with certain incentive programs for qualifying new restaurants. In February 2023, Wendy's announced a new restaurant development incentive program in the U.S. and Canada that provides for waivers of royalty, national advertising and technical assistance fees for up to the first three years of operation for qualifying new restaurants ("Pacesetter"). Wendy's previously offered and will continue to offer a restaurant development incentive program that provides for reductions in royalty and national advertising fees for up to the first two years of operation for qualifying new restaurants ("Groundbreaker"). Wendy's U.S. and Canadian franchisees may elect either the Pacesetter program or the Groundbreaker program when committing to new multi-unit development agreements or adding incremental commitments to existing development agreements. Wendy's also provides franchisees with the option of an early 20-year or 25-year renewal of their franchise agreement upon completion of reimagining utilizing certain approved Image Activation reimage designs.

Franchised restaurants are required to be operated under uniform operating standards and specifications relating to the selection, quality and preparation of menu items, signage, decor, equipment, uniforms, suppliers, maintenance and cleanliness of premises and customer service. Wendy's monitors franchisee operations and inspects restaurants periodically to ensure that required practices and procedures are being followed. See "The Wendy's Restaurant System—Quality Assurance" above for additional information.

See Note 7 and Note 22 of the Financial Statements and Supplementary Data contained in Item 8 herein, and the information under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" herein, for information regarding certain guarantee obligations, reserves, commitments and contingencies involving franchisees.

### *Advertising and Marketing*

In the U.S. and Canada, Wendy's advertises nationally through national advertising funds primarily on network and cable television programs, including nationally televised events, as well as through audio and digital media, and advertises locally primarily through regional network and cable television, audio and digital media and out-of-home media, such as billboards. Wendy's maintains two national advertising funds established to collect and administer funds contributed for use in advertising through television, radio, the Internet and a variety of promotional campaigns, including through digital and social media platforms. Separate national advertising funds are administered for Wendy's U.S. and Canadian restaurant locations. Contributions to the national advertising funds are required to be made by both Company-operated and franchised restaurants and are based on a percentage of restaurant sales. In addition to the contributions to the national advertising funds, Wendy's requires additional contributions to be made for both Company-operated and franchised restaurants based on a percentage of restaurant sales for the purpose of local and regional advertising programs. Required franchisee contributions to the national advertising funds and for local and regional advertising programs are governed by the Current Franchise Agreement in the U.S. and by the Single Unit Sub-Franchise Agreement in Canada. Required contributions by Company-operated restaurants for advertising and promotional programs are at the same percentage of sales as franchised restaurants within the Wendy's system. As of January 1, 2023, the contribution rate for U.S. restaurants was generally 3.5% of sales for national advertising and 0.5% of sales for local and regional advertising. As of January 1, 2023, the contribution rate for Canadian restaurants was generally 3.0% of sales for national advertising and 1.0% of sales for local and regional advertising, with the exception of Quebec, for which there is no national advertising contribution rate and the local and regional advertising contribution rate is 4.0% of sales. Non-traditional locations, including delivery kitchens, may be subject to adjusted requirements for national, local and regional advertising contributions. See Note 25 of the Financial Statements and Supplementary Data contained in Item 8 herein for additional information regarding advertising.

## Human Capital

At Wendy's, our vision is to become the world's most thriving and beloved restaurant brand, and every day we strive to live our purpose of creating joy and opportunity through food, family and community. Our restaurants, our food and the value and service we provide to our customers are all integral to our long-term success, but ultimately it is our people that help us deliver our brand promise of "Fast Food Done Right" every single day.

We continue to invest in employees to ensure we are able to attract, hire and retain great talent throughout our organization. We measure our effectiveness in these areas using various tools and metrics, including administering employee engagement surveys annually and tracking our employee turnover rates compared to others in the restaurant industry.

### *Employees*

As of January 1, 2023, the Company was comprised of approximately 14,500 employees, of which approximately one-third were full-time, and two-thirds were part-time. The vast majority of our employees are located in the U.S. and work in our Company-operated restaurants within our Wendy's U.S. business segment. Outside of our Company-operated restaurants, our largest population of employees work in our restaurant support organization, which includes employees across the globe and at our restaurant support center in Dublin, Ohio. We are proud to have a workforce with diverse backgrounds and experiences.

### *Respectful Workplace*

From day one, the Wendy's business has always been of, for and about people. Respect and fair treatment for our team members, franchisees, supplier partners and vendors are a central part of our business. So is staying true to the values established by our founder Dave Thomas more than 50 years ago, which include Doing the Right Thing, Treating People with Respect and Giving Something Back. Our commitment to these values is reflected in our Code of Business Conduct and Ethics, which applies to Company employees and directors, and in our Supplier Code of Conduct, which sets forth our expectations for key suppliers to the Wendy's system in the U.S. and Canada. We strive to bring our values to life through daily interactions with our team members, franchisees and customers and in the communities where we do business. We expect our employees to maintain respectful workplaces that support and protect the integrity of the Wendy's brand and fuel our continued success.

### *Diversity, Equity and Inclusion*

We believe our strategic focus on diversity, equity and inclusion ("DE&I") has helped, and will continue to help, the Company remain true to our values as well as support our financial performance and global growth strategy. Creating and fostering inclusive work environments allows us to create an engaging and welcoming culture for our employees, which we believe positively affects the quality of products, service and experience we deliver to our customers. Through the leadership and support of our Office of DE&I, we continue to make meaningful progress against all of our goals, including increasing the diversity of representation among Company leadership and management and attracting new, diverse franchisees into our system.

We are fortunate to have several thriving Employee Resource Groups ("ERGs"), which are voluntary employee-led groups, each sponsored by a Wendy's senior leadership team member. Our ERGs serve an important role in support of our DE&I strategy, creating forums for learning and inclusion, providing opportunities to celebrate different backgrounds, empowering employees to bring their authentic self to work, and creating leadership and professional development opportunities. Our ERGs focus on employees and allies who identify as Women (Women of Wendy's), LGBTQ+ (WeQual), Military Veterans & Families (WeVets), Culturally Diverse (WCD), Black (WeBERG) and Young Professionals (WenGEN). In 2022, we added our newest ERG, GiveCare, with a focus on caretakers for children, siblings, parents, partners and other family members.

### *Compensation and Benefits*

We are committed to providing market-competitive pay and benefits to attract and retain great talent. We enable this by benchmarking and analyzing pay and benefits both externally and internally. In addition to receiving

competitive hourly rates and base salaries, all general managers and district managers of our Company-operated restaurants are eligible for performance-based cash incentive bonuses. Restaurant support service employees are also eligible to participate in a performance-based annual bonus plan. For our restaurant-level employees, we offer the potential for raises based on individual performance reviews throughout the year. At Wendy's, we are committed to providing pay equity for all employees, regardless of gender or ethnicity.

We also offer a robust set of benefits to help eligible employees and their families stay healthy, manage spend related to health and financial well-being and effectively balance work and life. For our U.S. employees, this includes offerings such as insurance for medical, dental, vision and prescription drugs, telehealth access, 401(k) savings and retirement plans, health savings accounts, employee assistance program, paid sick leave, bonding leave and adoption assistance.

### *Safety and Well-Being*

We are committed to providing our employees with safe and comfortable work environments and offering resources that our employees can use to help promote their well-being. We are extremely proud of the work our employees have done to support our restaurants, employees, customers and communities that we serve throughout the COVID-19 pandemic. As the Company and our communities have transitioned from pandemic crisis intervention to ongoing prevention and protection, we remain committed to continuing to do our part to support the well-being of each other, our customers and our workplaces.

We remain focused on our high standards of quality and cleanliness at our restaurants through processes like reviewing cleaning procedures, maintaining an adequate supply of cleaning products and conducting our annual food safety recertification for our restaurant crew and managers. We also recognize that the well-being of our employees goes beyond work and our work environments. We offer several benefits to support the health and well-being of our employees, including our employee assistance program (EAP), available at no cost to all Company Employees and their household members, as well as other training and resources related to overall health and well-being.

### *Talent Development*

To set our employees up for success and help them achieve their personal development needs and career growth, we invest in training and development programs at all levels within the Company. We also leverage annual processes that support individual performance planning, individual professional development planning and a broad review of talent development throughout the Company. Restaurant-level employees have the opportunity to take advantage of an extensive online learning curriculum, as well as hands-on training led by crew trainers, managers and field support staff. Restaurant managers and multi-unit operators participate in Wendy's University, which includes targeted training to develop management and leadership skills. Wendy's University also provides targeted programming for corporate management staff, including diversity training, people manager training, leadership dialogues and the opportunity to participate in third-party conferences and training. In 2022, we launched a new leadership development program (WeLead), facilitating a six-month program designed to build a performance-driven culture and develop talent across our organization.

### *Community-Based Giving*

Wendy's maintains a charitable giving program that supports four core categories: (1) foster care adoption; (2) hunger and food integrity; (3) youth and families; and (4) vibrant communities. In 2022, Wendy's made charitable donations to a variety of organizations across the globe, highlighted by our continued support of the Dave Thomas Foundation for Adoption, a charitable foundation created by our founder, Dave Thomas, which has been our signature charitable cause for more than 25 years. In addition to corporate contributions, we also host an employee-driven Community Giving Program, in which employees from across the Wendy's system nominate worthy charitable organizations to receive charitable grants from The Wendy's Foundation. We also made grants available to charitable organizations chosen by each of our ERGs in support of their missions.

Additional information about our people and human capital initiatives is available on our website at [www.wendys.com/what-we-value](http://www.wendys.com/what-we-value), in our annual Corporate Social Responsibility report and on The Square Deal™ Wendy's Blog at [www.squaredealblog.com](http://www.squaredealblog.com). The contents of our website and these additional information sources are not incorporated by reference in this Form 10-K or any other report or document we file with the Securities and Exchange Commission.

## **Governmental Regulations**

### *U.S. Operations*

The Company and our franchisees are subject to various federal, state and local laws and regulations affecting the operation of our respective businesses, including laws and regulations relating to building and zoning, health, fire and safety, sanitation, food preparation, nutritional content and menu labeling, advertising, information security and privacy and consumer protection. Each Wendy's restaurant is subject to licensing and regulation by a number of governmental authorities in the state and/or municipality in which the restaurant is located. The Company is also subject to federal, state and local laws governing labor and employment matters, including minimum wage requirements, overtime and other working conditions, family leave and health care mandates, union organizing, work authorization requirements, insurance and workers' compensation rules and anti-discrimination and anti-harassment laws applicable to Company employees, and our franchisees are subject to labor and employment laws with respect to their employees. Additionally, the Company and our franchisees are subject to the Americans with Disabilities Act and other similar laws that provide civil rights protections to individuals with disabilities in the context of public accommodations and other areas.

The Company's franchising activities are subject to the rules and regulations of the Federal Trade Commission (the "FTC") and various state laws regulating the offer and sale of franchises. The FTC requires that franchisors furnish a franchise disclosure document ("FDD") containing certain information to prospective franchisees before the execution of a franchise agreement. Several states require registration and disclosure of the FDD in connection with franchise offers and sales and have laws regulating the franchisor-franchisee relationship. These state laws often limit, among other things, the duration and scope of non-competition provisions and the ability of franchisors to terminate franchise agreements or withhold consent to the renewal or transfer of franchise agreements. The Company believes that our FDD, together with applicable state versions or supplements, and franchising procedures comply in all material respects with the FTC's franchise rules and applicable state franchise laws.

### *International Operations*

Internationally, the Company and our franchisees are subject to national, provincial and local laws and regulations that often are similar to those impacting us and our franchisees in the U.S., including laws and regulations concerning franchises, labor and employment, building and zoning, health, fire and safety, sanitation, food preparation, nutritional content, menu labeling, advertising, information security, privacy and consumer protection. Wendy's restaurants outside the U.S. are also often subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment, as well as anti-bribery and anti-corruption laws. The Company believes that our international franchise disclosure documents and franchising procedures comply in all material respects with the laws of the applicable countries.

### *Environmental Matters*

The Company's operations, including the selection and development of properties that we own, lease and/or sublease to franchisees, and any construction or improvements made at those properties, are subject to a variety of federal, state, local and international environmental laws and regulations, including laws and regulations concerning the storage, handling and disposal of hazardous or toxic substances. Our properties are sometimes located in developed commercial or industrial areas and might previously have been occupied by more environmentally significant operations, such as gas stations. Environmental laws and regulations sometimes require owners or operators of contaminated property to remediate that property, regardless of fault, and could give rise to significant fines, penalties and liabilities, as well as third-party claims. The Company believes that our restaurant operations comply substantially with all applicable environmental laws and regulations.

Increased focus by governmental authorities on environmental matters is likely to lead to new governmental initiatives, particularly in the area of climate change. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. There is a possibility that government initiatives, or actual or perceived effects of changes in weather patterns, climate change or scarcity of energy and water resources, could have a direct impact on our business in ways that we cannot predict at this time.

## *Legal Matters*

The Company is involved in litigation and claims incidental to our business. We provide accruals for such litigation and claims when we determine it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. We believe we have adequate accruals for all of our legal and environmental matters. See Item 3 “Legal Proceedings” for additional information.

The Company does not believe that compliance with applicable laws and regulations, including environmental laws and regulations, or the outcome of any legal matters in which we are involved, will have a material adverse effect on our results of operations, financial condition, capital expenditures, earnings or competitive position. However, the Company cannot predict what laws or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or whether any legal matters in which we are involved could result in greater liabilities than we currently anticipate. See Item 1A “Risk Factors” for a discussion of certain risks relating to legal and regulatory requirements, litigation and claims and related matters affecting our business.

## **Available Information**

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including exhibits and amendments to such reports, as well as our annual proxy statement, available, free of charge, on our Investor Relations website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. These filings are also available to the public on the Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov). We also provide our Code of Business Conduct and Ethics, free of charge, on our website. Our corporate website address is [www.wendys.com](http://www.wendys.com) and our Investor Relations website address is [www.irwendys.com](http://www.irwendys.com). Information contained on those websites is not part of this Form 10-K.

## **Item 1A. Risk Factors.**

We wish to caution readers that in addition to the important factors described elsewhere in this Form 10-K, we have included below certain material factors that have affected, or in the future could affect, our actual results and could cause our actual consolidated results during fiscal 2023, and beyond, to differ materially from those expressed in or implied by any forward-looking statements made by us or on our behalf.

### **Risks Related to Macroeconomic and Industry Conditions**

*Competition from other restaurant companies, as well as grocery chains and other retail food outlets, or poor customer experience at Wendy’s restaurants, could hurt our brand.*

The market segments in which Wendy’s restaurants compete are highly competitive with respect to, among other things, price, food quality and presentation, service, location, convenience and the nature and condition of the restaurant facility. If customers have a poor experience at a Wendy’s restaurant, whether at a Company-operated or franchised restaurant, we may experience a decrease in customer counts. Further, Wendy’s restaurants compete with a variety of locally owned restaurants, as well as competitive regional, national and global restaurant chains. Several of these chains compete by offering menu items that are targeted at certain consumer groups or dietary trends. Additionally, many of our competitors have introduced lower cost value meal menu options and have employed marketing strategies that include frequent use of price discounting (including through the use of coupons and other offers), frequent promotions and heavy advertising expenditures. Some of our competitors have substantially greater financial, marketing, personnel and other resources than we do, which may allow them to react to changes in pricing and marketing strategies better than we can and drive higher levels of brand awareness among consumers. This product and price competition could result in reduced revenues and loss of market share.

Moreover, new companies, including operators outside the quick-service restaurant industry, may enter market areas in which Wendy’s restaurants operate and target our customer base. For example, additional competitive pressures for prepared food purchases have come from deli sections and in-store cafes of a number of major grocery store chains, as well as from convenience stores, casual dining outlets and food delivery providers. Such competitors may have, among other things, lower operating costs, better locations, better facilities, more effective marketing and more efficient operations. Wendy’s also competes with grocery chains and other retail outlets or concepts that sell food to be prepared at home. Competition with these chains and other outlets could increase based on the gap

between the price of food prepared at home compared to the price of food purchased at restaurants. This increased product and price competition could put deflationary pressure on the selling price of products offered at Wendy's restaurants. All such competition may adversely affect our brand, business, results of operations and financial condition.

*Adverse economic conditions or disruptions in the national and global economies, or in regions that have a high concentration of Wendy's restaurants, could adversely impact our business, results of operations and financial condition.*

Adverse economic conditions or disruptions in the national and global economies could result in higher unemployment rates, labor shortages, increases in inflation and interest rates and declines in consumer confidence and spending. If such disruptions occur, they may result in significant declines in consumer food-away-from-home spending and customer counts in Wendy's restaurants. There can be no assurance that government responses to economic disruptions will restore consumer confidence. Ongoing disruptions in the national and global economies may adversely impact our business, results of operations and financial condition. Additionally, adverse economic conditions in regions that contain a high concentration of Wendy's restaurants, including markets in which Company-operated restaurants are located, could also have a material adverse impact on our results of operations.

*Changes in discretionary consumer spending, and in consumer tastes and preferences, could adversely affect our business, results of operations and financial condition.*

The success of the Wendy's system depends to a significant extent on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. Material declines in the amount of discretionary spending or consumer food-away-from-home spending could hurt our business, results of operations and financial condition. Furthermore, significant increases in expenses incurred by consumers, such as living expenses or gasoline prices, could also adversely affect our business. Our success also depends to a large extent on continued consumer acceptance of our offerings, the success of our operating, promotional, marketing and new product development initiatives and the reputation of our brand. If we are unable to continue to achieve consumer acceptance or adapt to changes in consumer preferences, including with respect to nutrition, health or dietary trends or environmental or social concerns, Wendy's restaurants may lose customers, and the resulting revenues from Company-operated restaurants and the royalties that we receive from franchisees may decline.

*The COVID-19 pandemic has disrupted and could continue to disrupt our business, which has materially affected and could continue to materially affect our results of operations, financial condition and prospects.*

The COVID-19 pandemic and related protective measures have adversely affected, and could continue to adversely affect, our business. During the height of the pandemic, our customer counts and systemwide sales were significantly negatively impacted. Even as mobility increases, customers have been and may continue to be reluctant to return to in-restaurant dining. Our restaurant operations have been and could continue to be disrupted by the pandemic, including restaurant and dining room closures, labor shortages or increased labor costs. Furthermore, the pandemic has led, and could again lead, to interruptions in the delivery of food or other supplies to Wendy's restaurants arising from delays or restrictions on shipping or manufacturing, labor shortages and increased labor costs, closures of supplier or distributor facilities or financial distress of suppliers or distributors. These delays or interruptions have impacted, and could continue to impact, the availability of certain food items at Wendy's restaurants, including beef, chicken, pork and other core menu products. Our results of operations and those of our franchisees could be adversely affected if our key suppliers or distributors are unable to fulfill their responsibilities and we are unable to timely identify and transition the impacted business to alternative suppliers or distributors. The pandemic has had, and could again have, an adverse effect on new restaurant development, as well as on our franchisees' operations and financial condition. To the extent the pandemic causes development delays, or leads to the financial distress of our franchisees, our results of operations, cash flows and financial condition could be impacted. Such risks and other potential impacts from the pandemic could have a material adverse effect on our liquidity and capital resources, which may impede our ability to comply with our debt covenants or access additional capital. In addition to the risks described above, the pandemic has had, and could continue to have, the effect of heightening other risks disclosed in this risk factors section, including, but not limited to, those related to brand value and perception, consumer preferences and spending, our ability to achieve or maintain market share, new restaurant

development, commodity costs, labor, supply chain and purchasing and international operations. We cannot predict the ultimate duration, scope or severity of the pandemic or its ultimate impact on our results of operations, financial condition and prospects.

## **Risks Related to Brand Perception and Value**

*Our success depends substantially on our corporate reputation and on the value and perception of our brand.*

Our success depends in large part upon our ability to maintain and enhance the value of our brand, our customers' loyalty to our brand and a positive relationship with our franchisees and other business partners. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring, and whether originating from us, our franchisees or our business partners, can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our brand could be damaged by claims or perceptions about the quality or safety of our products or the quality or reputation of our franchisees or other business partners, regardless of whether such claims or perceptions are true. Our brand could also be adversely impacted by other incidents described in this risk factors section, including incidents related to customer service, health or safety, a failure to attract and retain qualified employees, food safety or other health concerns regarding our products, the impact of social media, data privacy violations, cyber incidents, environmental, social and governance matters or reports of our employees, franchisees or business partners taking controversial positions or acting in an unethical, illegal or socially irresponsible manner. Any such incidents could cause a decline in consumer confidence in our brand and reduce consumer demand for our products, which could have a material adverse impact on our business, results of operations and financial condition.

*Our results of operations and the value and perception of our brand depend in part on the effectiveness of our marketing and advertising programs and the successful development and launch of new products.*

Our results of operations and the value and perception of our brand are heavily influenced by brand marketing and advertising and by our ability to develop and launch new and innovative products. Our marketing and advertising programs may not be successful, or we may fail to develop commercially successful new products, which may impact our ability to attract new customers and retain existing customers, which, in turn, could materially and adversely affect our results of operations and the value and perception of our brand. Moreover, because franchisees contribute to advertising funds based on a percentage of sales at their franchised restaurants, advertising fund expenditures are dependent upon sales volumes across the Wendy's system. If systemwide sales decline, this could result in a reduced amount of funds available for our marketing and advertising programs. In addition, to the extent we use value offerings or other promotions or discounts in our marketing and advertising programs to drive customer counts, these actions may condition our customers to resist higher menu prices or result in reduced demand for premium products.

*Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our brand, business and results of operations.*

Social media platforms, including forms of internet-based communications, allow individuals access to a broad audience. The availability of information on social media platforms is virtually immediate and has given users the ability to more effectively organize collective actions such as boycotts and other brand-damaging behaviors. The dissemination of information via social media, whether accurate or inaccurate, could harm our business, brand, reputation, results of operation and financial condition. This damage may be immediate, without an opportunity to correct inaccurate information or respond to or address particular issues. In addition, as part of our marketing efforts, we frequently use social media to communicate with consumers in order to build their awareness of, engagement with and loyalty to our brand. Our failure to use social media effectively or appropriately, particularly as compared to our competitors, could lead to a decline in brand value, customer visits and revenues. Laws and regulations governing the use of social media continue to rapidly evolve. A failure by us, our employees, our franchisees or third parties acting on our behalf to abide by applicable laws and regulations in the use of social media could adversely impact our reputation, brand, results of operations and financial condition or subject us to litigation, fines or other penalties. Social media risks could also arise from employees not following defined policies for the use of social media during business operations, or actions taken by employees during personal activities outside of their employment, but which could still reflect negatively on the Wendy's brand.

*We may be unable to adequately protect our intellectual property, which could harm the value of our brand and hurt our business.*

Our intellectual property is material to the conduct of our business. We rely on a combination of trademarks, copyrights, service marks, trade secrets and similar intellectual property rights to protect our brand and other intellectual property. The success of our business strategy depends, in part, on our continued ability to use our trademarks and service marks to increase brand awareness and further develop our branded products in existing and new markets. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates, infringes, dilutes or otherwise violates our intellectual property, the value of our brand may be harmed, which could have a material adverse effect on our business. While we try to ensure that the quality of our brand is maintained by our franchisees, we cannot ensure that franchisees will not take actions that hurt the value of our intellectual property or the reputation of the Wendy's brand or restaurant system. Any damage or violation of our intellectual property could harm our image, brand or competitive position and result in significant legal fees and the diversion of resources. If we do not attempt or are unable to successfully protect, maintain or enforce our intellectual property rights, there could be a material adverse effect on our business or results of operations as a result of, among other things, consumer confusion, dilution of the Wendy's brand or increased competition from unauthorized users of our brand.

We have registered certain trademarks and have other trademark registrations pending in the United States and certain foreign jurisdictions. Not all of the trademarks that are used in the Wendy's system have been registered in all of the countries in which we do business or may do business in the future, and some trademarks will never be registered in all of these countries. Some countries' laws make unregistered trademarks more difficult to enforce, or do not protect them at all, and third parties have filed, or may in the future file, for "Wendy's" or similar marks. Accordingly, we may not be able to adequately protect the Wendy's brand everywhere in the world and use of the Wendy's brand may result in liability for trademark infringement, trademark dilution or unfair competition. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. We cannot ensure that all of the steps we have taken to protect our intellectual property in the United States and foreign countries will be adequate.

We cannot ensure that third parties will not bring infringement claims against us in the future. Any such claim, whether or not it has merit, could be time-consuming, cause delays in introducing new menu items, require costly modifications to advertising and promotional materials, harm our brand, image, competitive position or ability to expand our operations into other jurisdictions, cause us to incur significant costs related to defense or settlement or require us to enter into royalty or licensing agreements. As a result, any such claim could harm our business and adversely impact our results of operations and financial condition. In addition, third parties may assert that certain of our intellectual property, or our rights therein, are invalid or unenforceable. If our rights in any of our intellectual property were found to infringe third-party rights, or portions thereof were deemed invalid or unenforceable, we may be forced to defend or resolve related claims and incur related expenses. In addition, such loss of rights could permit competing uses of such intellectual property which, in turn, could harm our business and adversely impact our results of operations and financial condition.

*Food safety events or health concerns regarding our products could create negative publicity and adversely affect our brand, business and results of operations.*

Food safety is a top priority for Wendy's, and we dedicate substantial resources to food safety matters to ensure our customers enjoy safe, quality food products. However, food safety events, including instances of food-borne illness (such as salmonella or E. coli), have occurred in the food industry in the past, and could occur in the future. For example, in August 2022, the Centers for Disease Control and Prevention (the "CDC") began investigating a multistate outbreak of E. coli in which many of the impacted individuals reported having eaten at a Wendy's restaurant and most reported consuming sandwich romaine lettuce. The Company cooperated with the CDC's investigation and, as a precautionary measure, removed sandwich romaine lettuce from its restaurants in the relevant region. In October 2022, the CDC announced that the outbreak was over and that the specific source of the outbreak had not been confirmed. The Company was referenced in news stories related to the outbreak, and the Company (and others) have been named in various claims and lawsuits related to the outbreak. Food safety events, whether or not involving Wendy's restaurants or other restaurant companies, could adversely affect the price and availability of certain products and result in negative publicity for Wendy's or the restaurant industry. This negative publicity may reduce demand for Wendy's food and could result in a decrease in customer counts to Wendy's restaurants as



consumers shift their preferences to our competitors or to other products or food types. Any report linking our restaurants or suppliers to food-borne illnesses, food tampering, contamination or mislabeling or other food-safety issues could damage the value of our brand immediately and severely hurt sales of our products and possibly lead to product liability claims, litigation (including class actions) or other damages. The Wendy's system may also be adversely impacted by consumer concerns regarding the nutritional aspects of the products we sell, the ingredients in our products or the cooking processes used in our restaurants. These or similar concerns could result in less demand for our products and a decline in sales at Company-operated restaurants and in royalties from sales at franchised restaurants.

## **Risks Related to Our Business Strategy**

*We may be unable to deliver accelerated global sales growth or achieve or maintain market share across our dayparts.*

Our business strategy includes a focus on driving strong sales momentum across all of our dayparts through exciting menu innovation, compelling value offerings and operational excellence. However, we may be unable to deliver accelerated global sales growth or achieve or maintain market share across our dayparts due to competitive pressures and other factors, such as consumer tastes and preferences, the effectiveness of our marketing and advertising programs, the successful development and launch of new products, commodity and labor costs, providing fast and accurate customer experiences, further accelerating our digital business, driving new restaurant development and ensuring the support and engagement of franchisees. For example, Wendy's recently entered the breakfast daypart in the United States and Canada with a breakfast program designed to drive incremental sales and profits through a strong economic model. Our inability to successfully execute on our strategy for the breakfast daypart and reach targeted levels of sales and profits could have a material adverse impact on our business, results of operations and financial condition.

*Our predominantly franchised business model presents a number of risks.*

As of January 1, 2023, approximately 95% of restaurants in the Wendy's system were operated by franchisees. Wendy's franchisees are contractually obligated to operate their restaurants in accordance with the standards set forth in our franchise and other agreements with them. Wendy's also provides training and support to franchisees. However, franchisees are independent third parties that we do not control, and franchisees own, operate and oversee the daily operations of their restaurants. Specifically, franchisees are solely responsible for developing and utilizing their own policies and procedures, making their own hiring, firing and disciplinary decisions, scheduling hours and establishing wages and managing their day-to-day employment processes and procedures in accordance with applicable laws, rules and regulations, all of which is done independent of Wendy's. Further, franchisees have discretion as to the prices charged to customers. As a result, the ultimate success and quality of any franchise restaurant rests with the franchisee. If franchisees do not successfully operate their restaurants in a manner consistent with required standards, their royalty payments to us could be adversely affected and our brand's image and reputation could be harmed, which in turn, could hurt our business and results of operations. In addition, the failure of franchisees to adequately engage in succession planning may adversely affect their restaurant operations and development of new Wendy's restaurants, which in turn could hurt our business and results of operations.

Wendy's franchisees are an integral part of our business, growth and brand strategies, and difficulties in identifying, attracting and retaining franchisees who meet our criteria could harm our business and brand. Our business and results of operations could be adversely affected if a significant number of franchisees do not participate in brand strategies, such as new restaurant development, Image Activation, marketing and menu programs and digital commerce platforms and technologies, which in turn may harm our business and financial condition. In addition, Wendy's current franchise model, and the way our brand strategies are executed across the system, may make it difficult for our brand to respond and adapt to the speed of change in technology, consumer preferences or other factors as quickly as may be required to maintain and grow market share and remain competitive. Certain of our competitors that have a significantly higher percentage of company-operated restaurants than we do may have greater influence over their respective restaurant systems and greater ability to implement operational initiatives and business strategies.

We receive revenues in the form of royalties and national advertising funds contributions (both of which are generally based on a percentage of sales at franchised restaurants), as well as rent and fees from franchisees.

Accordingly, a substantial portion of our financial results is to a large extent dependent upon the operational and financial success of our franchisees. If sales trends or economic conditions worsen for franchisees, or if the overall business or financial health of franchisees deteriorates, their results of operations or financial condition may worsen and our royalty, national advertising funds, rent and other fee revenues may decline. Additionally, when Company-operated restaurants with leased real estate are sold to franchisees, we are often required to remain responsible for lease payments for these restaurants in the event the purchasing franchisees default on their leases. Similarly, when we lease or sublease properties to franchisees, we remain responsible for certain expenses related to the properties, such as lease payments and maintenance charges. If franchisees fail to renew their franchise agreements or fail to perform under or extend their leases or subleases with us, or if we are unable to identify, attract and retain new franchisees who meet our criteria, then our royalty and rental revenues may decrease and our future growth could be adversely affected.

*The growth of our business is dependent on new restaurant openings, which could be affected by factors beyond our control.*

Our business derives earnings from sales at Company-operated restaurants as well as royalties and other fees received from franchised restaurants. Growth in our revenues and earnings is dependent on new restaurant openings. Numerous factors beyond our control may adversely affect new restaurant openings, which in turn could hurt our business and results of operations. These factors include, among others: (i) our ability to attract new franchisees; (ii) the availability of site locations for new restaurants; (iii) the ability of restaurant owners to obtain financing; (iv) the ability of restaurant owners to attract, train and retain qualified operating personnel; (v) construction and development costs; (vi) the ability of restaurant owners to secure required governmental approvals and permits in a timely manner, or at all; (vii) the ability of us and our franchises to execute our development strategy for non-traditional restaurants, such as fuel and transportation centers, food courts and other retail locations, military bases and delivery kitchens; and (viii) adverse weather conditions. Our inability to identify suitable locations, achieve consumer acceptance or otherwise execute our development strategy could have an adverse impact on our future growth, results of operations and financial condition.

*Our Image Activation program may not positively affect sales or improve our results of operations, and franchisees may not participate in our Image Activation program to the extent expected by us.*

We continue to implement our Image Activation program, which includes reimagining existing Wendy's restaurants and building new Wendy's restaurants with innovative exterior and interior restaurant designs. Our Image Activation program may not positively affect sales at Wendy's restaurants or improve our results of operations. There can also be no assurance that franchisees will participate in the Image Activation program to the extent expected by the Company. In order to support our Image Activation program and promote new restaurant development, we have provided franchisees with certain incentive programs for qualifying new and reimaged restaurants, including waivers or reductions in royalty, national advertising and technical assistance fees and options for the early renewal of franchise agreements. It is possible we may provide additional financial incentives to franchisees, which could result in additional expenses, a reduction of royalties or other revenues or the incurrence of other costs or liabilities. Some franchisees may need to borrow funds in order to reimage existing restaurants or build new restaurants under the Image Activation program. If franchisees are unable to obtain financing at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the reimagining of their existing restaurants or the development of new restaurants, and our future growth and results of operations could be adversely affected.

*We may be unable to manage effectively the acquisition and disposition of restaurants, or successfully implement other strategic initiatives, which could adversely affect our business, results of operations and financial results.*

We continue to optimize the Wendy's system through our system optimization initiative, which includes facilitating the transfer of restaurants between and among franchisees, as well as evaluating strategic acquisitions of franchised restaurants and strategic dispositions of Company-operated restaurants to existing and new franchisees, to further strengthen the franchisee base, drive new restaurant development and accelerate adoption of our Image Activation program. The success of this initiative is dependent upon many factors, such as the availability of sellers and buyers, the availability of financing, the ability to negotiate transactions on terms deemed acceptable and the ability to successfully transition and integrate restaurant operations. Acquisitions of franchised restaurants pose various risks to our operations, including (i) diversion of management's attention to the integration of acquired restaurant

operations; (ii) increased operating expenses and the inability to achieve expected cost savings and operating efficiencies; (iii) exposure to liabilities arising out of prior operations of acquired restaurants; and (iv) the assumption of long-term, non-cancelable leases. Our system optimization initiative also places demands on our operational and financial management resources and may require us to expand these resources. If we are unable to execute our system optimization initiative or effectively manage the acquisition and disposition of restaurants, our business and financial results could be adversely affected.

In addition, Wendy's from time to time evaluates and may pursue other opportunities for growth, including through new and existing franchise partners, joint venture investments, expansion of our brand through other opportunities and strategic mergers, acquisitions and divestitures. These strategic initiatives involve various risks, including general transaction and business risk, integration and synergy risk, market acceptance risk and risks associated with the potential diversion of management's attention. Strategic transactions may not ultimately create value for us or our stockholders and may harm our reputation and materially adversely affect our business, results of operations and financial condition.

*Our leasing and ownership of significant amounts of real estate exposes us to possible liabilities and losses, including liabilities associated with environmental matters.*

We have significant real estate operations in connection with our business and are subject to the normal risks associated with owning, leasing and subleasing real estate. Our real estate values and the costs associated with our real estate operations are impacted by a variety of factors, including changes in the investment climate for real estate, macroeconomic trends, governmental regulations, infrastructure, condemnation or eminent domain, insurance, demographic trends, supply chain management, supply and demand for the ownership and operation of restaurants and environmental matters. A significant decrease in real estate values or increase in real estate costs could adversely affect our results of operations and financial condition.

We are subject to federal, state and local environmental, health and safety laws and regulations concerning the discharge, storage, handling, release and disposal of hazardous or toxic substances. These environmental laws provide for significant fines, penalties and liabilities, sometimes without regard to whether the owner, operator or occupant of the property knew of, or was responsible for, the release or presence of the hazardous or toxic substances. Third parties may also make claims against owners, operators or occupants of properties for personal injuries and property damage associated with releases of or exposure to such substances. A number of our restaurant sites were formerly gas stations or are adjacent to current or former gas stations or were used for other commercial activities that can create environmental impacts. While we employ environmental review standards and practices in the current development of our real estate, we have not conducted a comprehensive environmental review of all of our properties and we may not have identified all of the potential environmental liabilities at our leased and owned properties, and any such liabilities identified in the future could cause us to incur significant costs, including costs associated with litigation, fines or clean-up responsibilities. We cannot predict the amount of future expenditures that may be required in order to comply with any environmental laws or regulations or to satisfy any such claims.

We generally secure long-term real estate interests for our leased restaurants and have limited flexibility to quickly alter our real estate portfolio. Many leases provide that the rent will increase over the term of the lease and any renewals of the term. Most leases require us to pay the costs of insurance, taxes, maintenance, utilities and capital repairs and replacements. We generally cannot cancel these leases prior to the expiration of their term. If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying rent, taxes and maintenance costs for the balance of the lease term. In addition, as our leases expire, we may fail to negotiate additional renewals or renewal options, either on commercially acceptable terms or at all, which could cause us to close restaurants in desirable locations, negatively impacting our results of operations.

*Our international operations are subject to various risks and uncertainties and there is no assurance that our international operations will continue to be profitable.*

In addition to many of the factors described in this risk factors section, our business outside of the United States is subject to a number of additional risks and uncertainties, including international economic and political conditions, risk of corruption and violations of the U.S. Foreign Corrupt Practices Act or similar laws of other

countries, the inability to adapt to differing cultures or consumer preferences, inadequate brand infrastructure to support our international activities, inability to obtain adequate supplies meeting our quality standards and product specifications or interruptions in obtaining such supplies, challenges and risks associated with managing and monitoring suppliers, restrictions on our ability to move cash out of certain foreign countries, currency regulations and fluctuations, diverse government regulations and tax systems, uncertain or differing interpretations of rights and obligations in connection with international franchise agreements, the collection of royalties and other fees from international franchisees, the inability to protect technology, data or intellectual property rights, compliance with international privacy and information security laws and regulations, the availability and cost of land, construction costs, other legal, financial or regulatory impediments to the development or operation of restaurants, the inability to identify, attract and retain experienced management, qualified franchisees and joint venture partners and ongoing disruptions and impacts from the COVID-19 pandemic. Adverse conditions or unforeseen events in countries that contain a high concentration of Wendy's restaurants (including Canada, our largest international market), could have a material adverse impact on our international growth strategy and results of operations. In addition, to the extent we invest in international Company-operated restaurants or joint ventures, we would also have the risk of operating losses related to those restaurants, which could adversely affect our results of operations and financial condition. There can be no assurance that our international growth strategy will be successful or that our international operations will be profitable.

For example, Wendy's entered the United Kingdom in 2021, plans to expand into other anchor markets in Europe utilizing a franchise model and intends to accelerate restaurant development in other existing international markets. New and emerging markets may have lower brand awareness as well as competitive conditions, consumer tastes and preferences, discretionary spending patterns and social and cultural differences that are more difficult to predict or satisfy than our existing markets. We may need to make greater investments than we originally planned in advertising and promotional activity to build brand awareness, which could negatively impact the profitability of our operations. In addition, we may be unable to obtain desirable locations for new restaurants at reasonable prices, or at all, and restaurants may have higher construction, occupancy, food and labor costs than we currently anticipate. Any of these risks and uncertainties, and other factors we cannot anticipate, could have a material adverse impact on our business, results of operations and financial condition.

## **Risks Related to Supply Chain and Labor**

*Changes in commodity costs and other operating costs could adversely affect our results of operations.*

Our profitability depends in part on our ability to anticipate and react to changes in commodity costs (including beef, chicken, pork, dairy and grains), supplies, fuel, utilities, distribution and other operating costs, including labor costs. Increases in commodity costs have adversely impacted and could continue to adversely impact our results of operations. Our business is susceptible to increases in commodity and other operating costs as a result of various factors beyond our control, such as general economic conditions, inflation, industry demand, energy costs, food safety concerns, animal disease outbreaks, product recalls and government regulations. Increasing weather volatility or other long-term changes in weather patterns, including related to climate change, could have a significant impact on the price or availability of some of our ingredients. In addition, our supply chain is subject to increased costs arising from actual or perceived effects of climate change, greenhouse gas emissions and scarcity of energy and water resources. The ongoing and long-term costs of these impacts could have a material adverse effect on our business if not properly mitigated. We could also be adversely impacted by the cost of products raised or grown in accordance with our responsible sourcing criteria, including those related to environmental sustainability and animal welfare, as the availability of products that can be assured to meet those criteria are generally smaller and more concentrated, and may be more costly, than the markets for conventionally raised or grown products that are not assured to meet those criteria. We cannot predict whether we will be able to anticipate and react to changing commodity costs by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our results of operations. In addition, we may not seek to or be able to pass along price increases to our customers. If increased costs were passed to our customers, demand for our products may decrease, which in turn could adversely affect our results of operations.

*Shortages or interruptions in the supply or distribution of perishable food products could damage our brand and adversely affect our business and results of operations.*

Wendy's and our franchisees are dependent on frequent deliveries of perishable food products that meet brand specifications. Shortages or interruptions in the supply of perishable food products caused by unanticipated demand, problems in production or distribution, labor shortages, disease or food-borne illnesses, political unrest, health epidemics or pandemics, inclement weather or other calamities or conditions could adversely affect the availability, quality and cost of ingredients, which could lower revenues, increase operating costs, damage brand reputation and otherwise harm our business and the businesses of our franchisees. Certain of the products sold in our restaurants, such as beef and chicken, are sourced from a limited number of suppliers, which may increase our reliance on those suppliers. In addition, our system relies on a limited number of in-line distributors to deliver certain food, packaging and beverage products to our restaurants. If a disruption of service from any of our key suppliers or distributors was to occur, we could experience short-term increases in our costs while supply and distribution channels were adjusted, and we may be unable to identify or negotiate with new suppliers or distributors on terms that are commercially reasonable to us.

*We do not exercise ultimate control over purchasing for our restaurant system, which could harm our business, results of operations and financial condition.*

While we require and seek to ensure that all suppliers to the Wendy's system meet certain quality control standards, our franchisees ultimately control the purchasing of food, proprietary paper, equipment and other operating supplies from third party suppliers through QSCC, Wendy's independent purchasing co-op. QSCC manages, for the Wendy's system in the United States and Canada, contracts for the purchase and distribution of food, proprietary paper, equipment and other operating supplies under national agreements with pricing based on total system volume. We do not control the decisions and activities of QSCC. If QSCC does not properly estimate the product needs of the Wendy's system, makes poor purchasing decisions or ceases its operations, or if our relationship with QSCC is terminated for any reason, system sales, operating costs and supply chain management could be adversely affected, which could harm us and our franchisees and have a material adverse impact on our business, results of operations and financial condition.

*Our business could be hurt by increased labor costs or labor shortages.*

Labor is a primary component in the cost of operating our restaurants. We devote significant resources to recruiting and training our restaurant personnel, including managers and hourly employees. Increased labor costs due to competition, inflationary pressures, increased wages or employee benefits costs (including various federal, state and local actions to increase minimum wages), unionization activity or other factors have adversely impacted and could continue to adversely impact our cost of sales and operating expenses. In addition, Wendy's success depends on our ability to attract, motivate and retain qualified employees, including restaurant managers and staff as well as employees and key personnel at our restaurant support center, and our inability to do so could adversely affect our business and results of operations. Our business, results of operations and brand perception could also be adversely impacted by unionization efforts or other campaigns by labor organizations affecting our employees or the employees of our franchisees or by our responses to any such efforts or campaigns.

*Our success depends in part upon the continued succession and retention of certain key personnel and the effectiveness of our leadership and organizational structure.*

We believe that over time our success has been dependent to a significant extent upon the efforts and abilities of our senior leadership team and other key personnel. Our failure to retain members of our senior leadership team or other key personnel could adversely affect our ability to achieve our growth strategy and other business initiatives. In addition, changes to our leadership and organizational structure can be inherently difficult to manage, and if we are unable to implement such changes effectively, our business, results of operations and financial results could be adversely affected.

## Risks Related to Technology and Cybersecurity

*There are risks and uncertainties associated with our increasing dependence on digital commerce platforms and technologies and alternative methods of delivery.*

Advances in technologies, including advances in digital food ordering and delivery technologies, and changes in consumer behavior driven by such advances could have a negative effect on our business. Technology and consumer offerings continue to develop and evolve, and we expect that new and enhanced technologies and consumer offerings will be available in the future, including those with a focus on restaurant modernization, restaurant technology, digital engagement and integration, online ordering and delivery. Our inability to predict consumer acceptance of new technology or our failure to adequately invest in and implement new technology or adapt to technological developments, industry trends and evolving legal and regulatory requirements could result in a loss of customers and related market share. In addition, our competitors, some of whom have greater resources than we do, may be better able to benefit from changes in technologies or consumer acceptance of such changes, which could harm our competitive position and brand.

An increasing amount of our sales and revenues is derived from digital orders, which includes online ordering and delivery. We have implemented technology and targeted advertising and promotions to support the growth of our digital business. If we are unable to continue to grow our digital business, it may be difficult for us to achieve our planned sales growth. If our digital commerce platforms, including the Wendy's mobile app and online ordering system, do not meet customers' expectations in terms of security, privacy, speed, attractiveness or ease of use, customers may be less inclined to return to those platforms, which could negatively impact our business, results of operations and financial condition. Our business could also be negatively impacted if we are unable to successfully implement or execute other consumer-facing digital initiatives, such as mobile order pick-up and carryout. We rely on third-party delivery services to fulfill delivery orders, and errors or failures by those providers to make timely deliveries could cause customers to stop ordering from us. The third-party restaurant delivery business is intensely competitive, with a number of companies competing for capital, market share, online traffic and delivery drivers. If the third-party delivery services that we utilize cease or curtail their operations, increase their fees or give greater priority or promotions on their platforms to our competitors, our delivery business and our sales may be negatively impacted. In addition, the delivery business has been consolidating and may continue to consolidate, which may give third-party delivery companies more leverage in negotiating the terms and pricing of contracts, which could in turn negatively impact our profits from this channel.

*We are heavily dependent on computer systems and information technology and any material failure, interruption or degradation of our systems or technology or issues with our key technology providers could adversely affect our business, results of operations and financial condition.*

We are heavily dependent on our computer systems and information technology, including those controlled by third-party providers, to conduct our business, including point-of-sale processing in our restaurants, technologies that support our digital and delivery solutions, management of our supply chain, collection of cash, payment of obligations and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and performance of our systems and technology. The failure of our systems and technology to operate effectively, or an interruption or degradation in our systems or technology could be harmful and cause delays in customer service, result in the loss of digital sales or data, reduce efficiency or cause delays in operations. Significant capital investments might be required to remediate any such problems or to maintain or upgrade our systems and technology or transition to replacement systems or technology.

We are dependent to a significant extent on our ongoing relationship with key technology providers, including their personnel, resources, technological expertise, systems and technology and their ability to help execute our digital, restaurant technology and enterprise technology initiatives and support our technology innovation and growth initiatives. The inability of us or our providers to successfully execute our technology growth initiatives while maintaining our brand value and perception could have an adverse impact on our business, results of operations and financial condition.

*The occurrence of cyber incidents, or a deficiency in cybersecurity, could negatively impact our brand, business, results of operations and financial condition.*

Cybersecurity incidents or breaches have, from time to time, occurred and may in the future occur involving our systems, the systems of our franchisees or the systems of third-party service providers. Such cybersecurity incidents and breaches may include, without limitation, unauthorized access, phishing attacks, account takeovers, denial of service, computer viruses, introduction of malware or ransomware and other disruptive problems caused by malicious actors. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those managed by third parties. Our business involves the collection and retention of customer data, including, in some instances, credit and debit card numbers and other personally identifiable information, in various information systems that we and our franchisees maintain and in those maintained by third parties with whom we and our franchisees contract to provide credit card processing, digital ordering and related services. We also maintain important internal data, such as personally identifiable information about our employees and franchisees and information relating to our operations. Our use of personally identifiable information is regulated by international, federal and state laws, as well as by certain third-party agreements. As privacy and information security laws and regulations change, we will likely incur additional costs to ensure that we remain in compliance with those laws and regulations. If our security and information systems are compromised or if our employees or franchisees fail to comply with these laws, regulations or contract terms, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, disrupt our operations, damage our relationship with customers, franchisees or employees and result in costly litigation, judgments, or penalties resulting from violation of applicable laws and payment card industry regulations. A cyber incident could also require us to notify customers, employees or other groups, result in adverse publicity or a loss in consumer confidence, sales and profits, increase fees payable to third parties or cause us to incur penalties or remediation and other costs that could adversely affect our business, results of operations and financial condition. We have devoted considerable resources to secure our systems and technology against security breaches and have implemented various processes, procedures and controls to help mitigate the risk of a cyber incident. However, the techniques and sophistication used to conduct cyber-attacks change frequently and the measures we have taken do not guarantee that a cyber incident or security breach could not occur or that our business, reputation and financial condition will not be adversely affected.

### **Risks Related to Our Indebtedness**

*The Company and certain of our subsidiaries are subject to various restrictions, and substantially all of the assets of certain subsidiaries are security, under the terms of a securitized financing facility.*

Wendy's Funding, LLC, a limited-purpose, bankruptcy-remote, wholly owned indirect subsidiary of the Company, is the master issuer (the "Master Issuer") of outstanding senior secured notes under a securitized financing facility entered into in June 2015. Under the facility, the Master Issuer issued and has outstanding certain series of fixed rate and variable funding notes (collectively, the "Senior Notes"). The Senior Notes are secured by a security interest in substantially all of the assets of the Master Issuer and certain other limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiaries of the Company that act as guarantors (collectively, the "Securitization Entities"), except for certain real estate assets and subject to certain limitations as set forth in the indenture governing the Senior Notes (the "Indenture") and the related guarantee and collateral agreement. The assets of the Securitization Entities include most of the domestic and certain of the foreign revenue-generating assets of the Company and its subsidiaries, which principally consist of franchise-related agreements, real estate assets, intellectual property and license agreements for the use of intellectual property.

The Senior Notes are subject to a series of covenants and restrictions customary for transactions of this type, including that the Master Issuer maintains specified reserve accounts to be used to make required payments in respect of the Senior Notes, provisions relating to optional and mandatory prepayments and the related payment of specified amounts, including specified make-whole payments under certain circumstances, certain indemnification payments in the event, among other things, that the assets pledged as collateral for the Senior Notes are in stated ways defective or ineffective and covenants relating to recordkeeping, access to information and similar matters. The Senior Notes are also subject to customary rapid amortization events provided for in the Indenture, including events tied to failure to maintain stated debt service coverage ratios, the sum of global gross sales for specified restaurants being below certain levels on certain measurement dates, certain manager termination events, the occurrence of an event of default and the failure to repay or refinance on the applicable scheduled maturity date. The Senior Notes are also subject to certain

customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the Senior Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, the trustee under the Indenture ceasing to have valid and perfected security interests in certain collateral and certain judgments. In the event that a rapid amortization event occurs under the Indenture (including, without limitation, upon an event of default under the Indenture or the failure to repay the securitized debt at the end of the applicable term), the funds available to the Company would be reduced or eliminated, which would in turn reduce our ability to operate or grow our business.

In addition, the Indenture and the related management agreement contain various covenants that limit the Company and its subsidiaries' ability to engage in specified types of transactions, subject to certain exceptions, including, for example, to incur or guarantee additional indebtedness, sell certain assets, create or incur liens on certain assets to secure indebtedness or consolidate, merge, sell or otherwise dispose of all or substantially all of their assets. As a result of these restrictions, the Company may not have adequate resources or flexibility to continue to manage the business and provide for growth of the Wendy's system, which could have a material adverse effect on the Company's future growth prospects, results of operations, financial condition and liquidity.

*We have a significant amount of debt outstanding, and such indebtedness could adversely affect our business, results of operations and financial condition.*

As of January 1, 2023, the Company had approximately \$2.9 billion of outstanding debt on its balance sheet. Additionally, a subsidiary of the Company has issued variable funding notes, which allows for the borrowing of up to \$300.0 million from time to time on a revolving basis. This level of debt could have significant consequences on the Company's future operations, including: (i) making it more difficult to meet payment and other obligations under outstanding debt; (ii) resulting in an event of default if the Company's subsidiaries fail to comply with the financial and other restrictive covenants contained in debt agreements, which event of default could result in all of the Company's subsidiaries' debt becoming immediately due and payable; (iii) reducing the availability of the Company's cash flow to fund working capital, capital expenditures, equity and debt repurchases, dividends, acquisitions and other general corporate purposes, and limiting the Company's ability to obtain additional financing for these purposes; (iv) subjecting the Company to the risk of increased sensitivity to interest rate increases on indebtedness with variable interest rates; (v) limiting the Company's flexibility in planning for or reacting to, and increasing its vulnerability to, changes in the Company's business or industry or the general economy; and (vi) placing the Company at a competitive disadvantage compared to its competitors that are less leveraged. Further, the Company's outstanding variable funding notes may accrue interest based on the London interbank offered rate ("LIBOR"). In connection with the discontinuance of LIBOR, we expect to renegotiate certain loan documents and cannot predict what alternative index will be negotiated with our lenders or the resulting impact on our interest expense.

The ability of the Company to make payments on, repay or refinance its debt, and to fund planned capital expenditures, dividends and other cash needs will depend largely upon its future operating performance and ability to generate significant cash flows. In addition, the ability of the Company to borrow funds in the future to make payments on its debt will depend on the satisfaction of the covenants in the securitized financing facility and other debt agreements, and other agreements it may enter into in the future. There can be no assurance that the Company's business will generate sufficient cash flow from operations or that future borrowings will be available under the Company's securitized financing facility or other debt agreements or from other sources in an amount sufficient to enable the Company to pay its debt or to fund its dividend and other liquidity needs.

In addition to the Company's outstanding indebtedness, the Company is subject to risks related to certain commitments, guarantees and other liabilities. These commitments, guarantees and other liabilities include, among others, significant contractual requirements regarding the purchase of soft drinks and guarantees and contingent liabilities related to certain franchisee leases for which the Company has been indemnified. These commitments, guarantees and other liabilities could have an adverse effect on the Company's liquidity and the ability of its subsidiaries to meet payment obligations. The Company may incur additional indebtedness, guarantees, commitments or other liabilities in the future that could amplify the risks that the Company currently faces.



## **Risks Related to Our Common Stock**

*There can be no assurance regarding whether or to what extent we will pay dividends on our common stock in the future.*

Holders of our common stock will only be entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Any dividends will be made at the discretion of our Board of Directors and will depend on our earnings, financial condition, cash requirements and such other factors as the Board may deem relevant from time to time. In addition, because Wendy's is a holding company, its ability to declare and pay dividends is dependent upon cash, cash equivalents and short-term investments on hand and cash flows from its subsidiaries. The ability of our subsidiaries to pay cash dividends to the holding company is dependent upon their ability to achieve sufficient cash flows after satisfying their respective cash requirements, including the requirements and restrictions under our securitized financing facility and other debt agreements.

*A substantial amount of our common stock is concentrated in the hands of certain stockholders.*

Nelson Peltz, our Chairman, Peter May, our Senior Vice Chairman, Matthew Peltz, our Vice Chairman, and Edward Garden, a former director of the Company, beneficially own shares of our outstanding common stock that collectively constitute approximately 20% of the Company's total voting power as of February 21, 2023. These individuals may, from time to time, acquire beneficial ownership of additional shares of common stock.

On December 1, 2011, the Company entered into an agreement (the "Trian Agreement") with Messrs. N. Peltz, May and Garden, and several of their affiliates (the "Covered Persons"). Pursuant to the Trian Agreement, our Board of Directors, including a majority of the independent directors, approved, for purposes of Section 203 of the Delaware General Corporation Law, the Covered Persons becoming the owners (as defined in Section 203(c)(9)) of or acquiring an aggregate of up to (and including), but not more than, 32.5% (subject to certain adjustments set forth in the Trian Agreement) of the outstanding shares of the Company's common stock, such that no such persons would be subject to the restrictions set forth in Section 203 solely as a result of such ownership. This concentration of ownership gives these individuals significant influence over the outcome of actions requiring stockholder approval, including the election of directors and the approval of mergers, consolidations and the sale of all or substantially all of the Company's assets. They are also in a position to have significant influence to prevent or cause a change in control of the Company.

*Our certificate of incorporation contains certain anti-takeover provisions and permits our Board of Directors to issue preferred stock without stockholder approval and limits our ability to raise capital from affiliates.*

Certain provisions in our certificate of incorporation are intended to discourage or delay a hostile takeover of control of the Company. Our certificate of incorporation authorizes the issuance of shares of "blank check" preferred stock, which will have such designations, rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power and other rights of the holders of our common stock. The preferred stock could be used to discourage, delay or prevent a change in control of the Company that is determined by the Board of Directors to be undesirable. Our certificate of incorporation prohibits the issuance of preferred stock to affiliates, unless offered ratably to the holders of our common stock, subject to an exception in the event that the Company is in financial distress and the issuance is approved by the Audit Committee of our Board of Directors. This prohibition limits our ability to raise capital from affiliates.

## **General Business Risks**

*Complaints or litigation could hurt our brand, business, results of operations and financial condition.*

Wendy's customers may file complaints or lawsuits against us or our franchisees alleging that we are responsible for an illness or injury they suffered at or after a visit to a Wendy's restaurant, or alleging that there was a problem with food safety, food quality or operations at a Wendy's restaurant. We may also be subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims, claims from franchisees, intellectual property claims, data privacy claims and claims alleging violations of law regarding workplace

and employment matters, discrimination and similar matters, including class action lawsuits. Regardless of whether any claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations, hurt our performance and have a negative impact on our brand. While we believe we have adequate accruals for all of our legal and environmental matters, we cannot estimate the aggregate possible range of loss for our existing litigation and claims due to various reasons, including, but not limited to, many proceedings being in preliminary stages, with various motions either yet to be submitted or pending, discovery yet to occur, and significant factual matters unresolved. In addition, most cases seek an indeterminate amount of damages and many involve multiple parties. Predicting the outcomes of settlement discussions or judicial or arbitral decisions are thus inherently difficult. Insurance policies contain customary limitations, conditions and exclusions that can affect the amount of insurance proceeds ultimately received. A judgment significantly in excess of our insurance coverage for any claims could materially adversely affect our results of operations or financial condition. Additionally, the restaurant industry has been subject to a number of claims alleging that the menus and actions of restaurant chains have contributed to the obesity or otherwise adversely impacted the health of certain of their customers. Adverse publicity resulting from these allegations may harm the reputation of our restaurants, even if the allegations are not directed against our restaurants or are not valid. Moreover, complaints, litigation or adverse publicity experienced by one or more of our franchisees could also hurt our brand or business as a whole.

*Existing and changing legal and regulatory requirements, as well as an increasing focus on environmental, social and governance issues, could adversely affect our brand, business, results of operations and financial condition.*

Each Wendy's restaurant is subject to licensing and regulation by health, sanitation, safety and other agencies in the state or municipality in which the restaurant is located, as well as to federal laws, rules and regulations and requirements of non-governmental entities such as payment card industry rules. Governmental authorities may enact laws, rules or regulations that impact restaurant operations and the cost of conducting those operations. In addition, there can be no assurance that we and our franchisees will not experience material difficulties or failures in obtaining the necessary licenses or approvals for opening new restaurants. More stringent and varied requirements of local regulators with respect to tax, zoning, land use and environmental factors could also delay or prevent development of new restaurants in particular locations.

We are subject to various laws and regulations that govern the offer and sale of a franchise, including rules by the U.S. Federal Trade Commission. Various state, provincial and foreign laws regulate certain aspects of the franchise relationship, including terminations and the refusal to renew franchises. The failure to comply with these laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales, fines and penalties or require us to make offers of rescission or restitution, any of which could adversely affect our business and results of operations. We could also face lawsuits by franchisees based upon alleged violations of these laws. We and our franchisees are each also subject to laws and regulations that govern employment matters at the federal/national, state/provincial and local levels. In the United States, this includes laws like the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, Title VII, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the National Labor Relations Act, family leave, paid sick time and similar requirements and a variety of other laws, regulations and rules. Changes in laws, regulations, rules and governmental policies, including the interpretation thereof, could increase our costs, require modifications to our business practices, result in increased litigation, investigations, enforcement actions, fines or liabilities and adversely affect our business, results of operations and financial condition. Changes in the legal framework of employment or franchise liability could negatively impact our business, particularly if such changes result in any law, rule, regulation, governmental policy or interpretation or judicial decision determining that Wendy's is an employer of its franchisees or a joint employer with our franchisees or otherwise imposing liability for employment-related claims or impacting our employment relationships based on theories of joint employer liability or other theories of vicarious liability. In addition, various state and local laws may require wage increases and impose working hour and working condition standards that could result in increased costs, limit our or our franchisees' ability to respond to market conditions and negatively impact our ability to identify, attract and retain qualified franchisees to operate or open restaurants in the impacted markets. If we are unable to effectively manage the risks associated with this complex legislative and regulatory environment, it could have a material adverse effect on our business and financial condition.

We are also subject to legal and compliance risks related to privacy and data collection, protection and management of certain data and information associated with our technology-related services and platforms made

available to customers, employees, franchisees, business partners or other third parties. We are subject to a variety of U.S. federal and state and foreign laws and regulations in this area. These laws and regulations have been subject to frequent change, and there may be jurisdictions that propose or enact new data privacy requirements in the future. Failure to meet applicable data privacy requirements could result in legal proceedings and substantial penalties and adversely impact our business and financial condition. Additionally, evolving laws and regulations could require us and our franchisees to change or limit the way we collect or use information in operating our business, which may result in additional costs, limit our marketing or growth strategies and adversely affect our business and results of operations.

There has been increasing public focus by investors, environmental activists, the media and governmental and nongovernmental organizations on environmental, social and governance matters, including packaging and waste, animal health and welfare, human rights, diversity, climate change, greenhouse gases and land, energy and water use. As a result, we have experienced increased pressure and expectations to provide expanded disclosure and establish commitments, goals or targets with respect to various environmental, social and governance issues and to take the actions necessary to meet those commitments, goals and targets. Furthermore, the standards by which certain environmental, social and governance issues are measured are evolving and subject to frequent change. If we are not effective, or perceived to be effective, in achieving our commitments, goals or targets or otherwise addressing various environmental, social and governance matters, consumer trust in our brand may suffer. In addition, the actions needed to achieve our commitments, goals and targets could result in market, operational, execution and other costs, which could have a material adverse effect on our results of operation and financial condition. Our results of operation and financial condition could be adversely impacted if we are unable to effectively manage the risks or costs to us, our franchisees and our supply chain associated with environmental, social and governance matters.

*Our current insurance may not provide adequate levels of coverage against claims that have been or may be filed.*

We currently maintain insurance that we believe to be adequate for businesses of our size and type. However, there are types of losses we could encounter that cannot be insured against or that we believe are not economically reasonable to insure, such as losses due to natural disasters, acts of terrorism or the declaration of war. In addition, we currently self-insure a significant portion of expected losses under workers' compensation, general liability, products liability, auto liability and property insurance programs. Unanticipated changes in the actuarial assumptions and management estimates underlying our reserves for these losses could result in materially different amounts of expense, which could harm our business and adversely affect our results of operations and financial condition. We also currently maintain insurance coverage to address cyber incidents. Applicable insurance policies contain customary limitations, conditions and exclusions, and there can be no assurance that our cyber insurance policies will cover substantially all of the costs and expenses related to any previous or future cyber incidents. In addition, our future insurance premiums may increase, and we may be unable to obtain similar levels of insurance on reasonable terms, or at all, due to challenging conditions in the insurance industry. Any inadequacy of, or inability to obtain, insurance coverage could have a material adverse effect on our results of operation and financial condition.

*Changes in accounting standards, or the recognition of impairment or other charges, could adversely affect our future results of operations.*

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, goodwill and intangible assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as business and economic conditions, operating costs, inflation, competition, consumer and demographic trends and restructuring activities. If our estimates or underlying assumptions change in the future, or if the operating performance or cash flows of our business decline, we may be required to record impairment charges, which could have a significant adverse effect on our reported results for the affected periods.

*Tax matters, including changes in tax rates or laws, imposition of new taxes, disagreements with taxing authorities and unanticipated tax liabilities, could impact our results of operations and financial condition.*

We are subject to income and other taxes in the United States and foreign jurisdictions, and our operations, plans and results are affected by tax matters and initiatives around the world. In particular, we are affected by the

impact of changes to tax rates, laws or policies or related authoritative interpretations. We are also impacted by the settlement of adjustments proposed by taxing and governmental authorities in connection with our tax reviews and audits, all of which will depend on their timing, nature and scope. While we believe our recorded provision for income taxes properly reflects all applicable tax laws as currently enacted, there can be no assurance that we would be successful in challenging adjustments by the relevant tax authorities. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our results of operations and financial condition.

*Our operations are subject to fluctuations in foreign currency exchange rates.*

Most of our revenues, costs and indebtedness is denominated in U.S. dollars, which is also our reporting currency. Our international operations that are denominated in currencies other than the U.S. dollar are translated to U.S. dollars for our financial reporting purposes and are impacted by fluctuations in currency exchange rates and changes in currency regulations. Our exposures to foreign currency risk are primarily related to fluctuations in the Canadian dollar relative to the U.S. dollar for our Canadian operations. Unfavorable currency fluctuations could reduce our royalty income and revenues. While we attempt to minimize our foreign currency risks, our risk management strategies may not be effective and our results of operations and financial condition could be adversely affected.

*Our results can be adversely affected by unforeseen events, such as adverse weather conditions, natural disasters, hostilities, social unrest, health epidemics or pandemics or other catastrophic events.*

Unforeseen events, such as adverse weather conditions (including related to climate change), natural disasters, hostilities (including acts of war, terrorist activities and public or workplace violence), social unrest, health epidemics or pandemics or other catastrophic events can adversely affect consumer spending, consumer confidence, restaurant sales and operations, supply chains and our ability to perform corporate or support functions at our restaurant support center, any of which could affect our business, results of operations and financial condition.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We believe that our properties, taken as a whole, are generally well maintained and are adequate for our current and foreseeable business needs.

The following table contains information about our principal office facilities as of January 1, 2023:

| <u>ACTIVE FACILITIES</u>                   | <u>FACILITIES LOCATION</u>  | <u>LAND TITLE</u> | <u>APPROXIMATE SQ. FT. OF FLOOR SPACE</u> |
|--|-----------------------------|-------------------|---|
| Corporate Headquarters . . . . .           | Dublin, Ohio                | Owned             | 324,025*                                  |
| Wendy's Restaurants of Canada Inc. . . . . | Burlington, Ontario, Canada | Leased            | 8,917**                                   |

\* QSCC, Wendy's independent supply chain purchasing co-op, leases 18,774 square feet of this space from Wendy's. The Corporate Headquarters serves all of our operating segments.

\*\* The Wendy's Restaurants of Canada Inc. facility primarily serves the International operating segment.

At January 1, 2023, Wendy's and its franchisees operated 7,095 Wendy's restaurants. Of the 403 Company-operated restaurants in the Wendy's U.S. segment, Wendy's owned the land and building for 158 restaurants, owned the building and held long-term land leases for 143 restaurants and held leases covering the land and building for 102 restaurants. Wendy's also held leases covering the land and building for each of the 12 Company-operated restaurants in the Wendy's International segment. Lease terms are generally initially between 15 and 20 years and, in most cases, provide for rent escalations and renewal options. Certain leases contain contingent rent provisions that require additional rental payments based upon restaurant sales volume in excess of specified amounts. As part of the Global Real Estate & Development segment, Wendy's also owned 488 and leased 1,199 properties that were either leased or subleased principally to franchisees as of January 1, 2023. Surplus land and buildings are generally held for sale and are not material to our financial condition or results of operations.

**Item 3. *Legal Proceedings.***

The Company is involved in litigation and claims incidental to our business. We provide accruals for such litigation and claims when we determine it is probable that a liability has been incurred and the loss is reasonably estimable. The Company believes it has adequate accruals for all of its legal and environmental matters. We cannot estimate the aggregate possible range of loss for our existing litigation and claims due to various reasons, including, but not limited to, many proceedings being in preliminary stages, with various motions either yet to be submitted or pending, discovery yet to occur, and significant factual matters unresolved. In addition, most cases seek an indeterminate amount of damages and many involve multiple parties. Predicting the outcomes of settlement discussions or judicial or arbitral decisions is thus inherently difficult and future developments could cause these actions or claims, individually or in aggregate, to have a material adverse effect on the Company's financial condition, results of operations, or cash flows of a particular reporting period.

**Item 4. *Mine Safety Disclosures.***

Not applicable.

## PART II

### Item 5. *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

The Company’s common stock is traded on the Nasdaq Global Select Market (“Nasdaq”) under the symbol “WEN.”

The Company’s common stock is entitled to one vote per share on all matters on which stockholders are entitled to vote. The Company has no class of equity securities currently issued and outstanding except for its common stock. However, the Company is currently authorized to issue up to 100 million shares of preferred stock.

The Company paid quarterly cash dividends of \$.09, \$.10, \$.12 and \$.12 per share of common stock during the first, second, third and fourth quarters of 2021, respectively. The Company paid quarterly cash dividends of \$.125 per share of common stock during each of the first, second, third and fourth quarters of 2022.

During the first quarter of 2023, the Company declared a dividend of \$.25 per share of common stock to be paid on March 15, 2023 to stockholders of record as of March 1, 2023. Although the Company currently intends to continue to declare and pay quarterly cash dividends, there can be no assurance that any additional quarterly cash dividends will be declared or paid or as to the amount or timing of such dividends, if any. Future dividend payments, if any, will be made at the discretion of our Board of Directors and will be based on such factors as the Company’s earnings, financial condition and cash requirements and other factors.

As of February 21, 2023, there were approximately 20,115 holders of record of the Company’s common stock.

The following table provides information with respect to repurchases of shares of our common stock by us and our “affiliated purchasers” (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the fourth fiscal quarter of 2022:

#### Issuer Repurchases of Equity Securities

| Period                                    | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (2) |
|---|--------------------------------------|------------------------------|---|---|
| October 3, 2022 through November 6, 2022  | 7,604                                | \$19.27                      | —   | \$198,088,626   |
| November 7, 2022 through December 4, 2022 | 1,161                                | \$20.83                      | —   | \$198,088,626   |
| December 5, 2022 through January 1, 2023  | 729                                  | \$23.22                      | —   | \$198,088,626   |
| Total                                     | 9,494                                | \$19.77                      | —   | \$198,088,626   |

- (1) Represents shares of common stock reacquired by the Company from holders of share-based awards to satisfy certain requirements associated with the vesting or exercise of the respective award. The shares were valued at the fair market value of the Company’s common stock on the vesting or exercise date of such awards, as set forth in the applicable plan document.
- (2) In February 2022, our Board of Directors authorized the repurchase of up to \$100.0 million of our common stock through February 28, 2023, when and if market conditions warranted and to the extent legally permissible (the “February 2022 Authorization”). In April 2022, our Board of Directors approved an increase of \$150.0 million to the February 2022 Authorization, resulting in an aggregate authorization of \$250.0 million. In January 2023, our Board of Directors authorized a repurchase program for up to \$500.0 million of our common stock through February 28, 2027, when and if market conditions warrant and to the extent legally permissible (the “January 2023 Authorization”). In connection with the January 2023 Authorization, the remaining portion of the February 2022 Authorization was canceled.

Subsequent to January 1, 2023 through February 21, 2023, the Company repurchased 0.6 million shares under the January 2023 Authorization with an aggregate purchase price of \$12.9 million, excluding commissions.

**Item 6. *[Reserved]***

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

### **Introduction**

This “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of The Wendy’s Company (“The Wendy’s Company” and, together with its subsidiaries, the “Company,” “we,” “us,” or “our”) should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere within this report. Certain statements we make under this Item 7 constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Special Note Regarding Forward-Looking Statements and Projections” in “Part I” preceding “Item 1 - Business.” You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors” in Item 1A above, as well as our consolidated financial statements, related notes and other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission (the “SEC”).

The Wendy’s Company is the parent company of its 100% owned subsidiary holding company, Wendy’s Restaurants, LLC (“Wendy’s Restaurants”). Wendy’s Restaurants is the parent company of Wendy’s International, LLC (formerly known as Wendy’s International, Inc). Wendy’s International, LLC is the indirect parent company of (1) Quality Is Our Recipe, LLC (“Quality”), which is the owner and franchisor of the Wendy’s restaurant system in the United States (the “U.S.”) and all international jurisdictions except for Canada, and (2) Wendy’s Restaurants of Canada Inc., which is the owner and franchisor of the Wendy’s restaurant system in Canada. As used herein, unless the context requires otherwise, the term “Company” refers to The Wendy’s Company and its direct and indirect subsidiaries, and “Wendy’s” refers to Quality when the context relates to the ownership or franchising of the Wendy’s restaurant system and to Wendy’s International, LLC when the context refers to the Wendy’s brand.

Wendy’s is primarily engaged in the business of operating, developing and franchising a system of distinctive quick-service restaurants serving high quality food. Wendy’s opened its first restaurant in Columbus, Ohio in 1969. Today, Wendy’s is the second largest quick-service restaurant company in the hamburger sandwich segment in the U.S. based on traffic share, and the third largest globally with 7,095 restaurants in the U.S. and 31 foreign countries and U.S. territories as of January 1, 2023.

The Company is comprised of the following segments: (1) Wendy’s U.S., (2) Wendy’s International and (3) Global Real Estate & Development. Wendy’s U.S. includes the operation and franchising of Wendy’s restaurants in the U.S. and derives its revenues from sales at Company-operated restaurants and royalties, fees and advertising fund collections from franchised restaurants. Wendy’s International includes the operation and franchising of Wendy’s restaurants in countries and territories other than the U.S. and derives its revenues from sales at Company-operated restaurants and royalties, fees and advertising fund collections from franchised restaurants. Global Real Estate & Development includes real estate activity for owned sites and sites leased from third parties, which are leased and/or subleased to franchisees, and also includes our share of the income of our TimWen real estate joint venture. In addition, Global Real Estate & Development earns fees from facilitating franchisee-to-franchisee restaurant transfers (“Franchise Flips”) and providing other development-related services to franchisees. In this Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the Company reports on the segment profit for each of the three segments described above. The Company measures segment profit using segment adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”). Segment adjusted EBITDA excludes certain unallocated general and administrative expenses and other items that vary from period to period without correlation to the Company’s core operating performance. See “Results of Operations” below and Note 27 of the Financial Statements and Supplementary Data contained in Item 8 herein for segment financial information.

The Company’s fiscal reporting periods consist of 52 or 53 weeks ending on the Sunday closest to December 31 and are referred to herein as (1) “the year ended January 1, 2023” or “2022,” which consisted of 52 weeks, (2) “the year ended January 2, 2022” or “2021,” which consisted of 52 weeks, and (3) “the year ended January 3, 2021” or “2020,” which consisted of 53 weeks. All references to years, quarters and months relate to fiscal periods rather than calendar periods.

### **Executive Overview**

#### *Our Business*

As of January 1, 2023, the Wendy’s restaurant system was comprised of 7,095 restaurants, with 5,994 Wendy’s restaurants in operation in the U.S. Of the U.S. restaurants, 403 were operated by the Company and 5,591 were



operated by a total of 217 franchisees. In addition, at January 1, 2023, there were 1,101 Wendy's restaurants in operation in 31 foreign countries and U.S. territories. Of the international restaurants, 1,089 were operated by 106 franchisees and 12 were operated by the Company in the United Kingdom (the "U.K.").

The revenues from our restaurant business are derived from two principal sources: (1) sales at Company-operated restaurants and (2) franchise-related revenues, including royalties, national advertising funds contributions, rents and franchise fees received from Wendy's franchised restaurants. Company-operated restaurants comprised approximately 5% of the total Wendy's system as of January 1, 2023.

Wendy's operating results are impacted by a number of external factors, including commodity costs, labor costs, intense price competition, unemployment and consumer spending levels, general economic and market trends and weather. The COVID-19 pandemic has had and may continue to have the effect of heightening the impact of many of these factors. See "Special Note Regarding Forward-Looking Statements and Projections" in "Part I" preceding "Item 1 - Business" for additional information.

Wendy's long-term growth opportunities include delivering accelerated global growth through (1) driving strong same-restaurant sales momentum across all dayparts, (2) accelerating our implementation of consumer-facing digital platforms and technologies and (3) expanding the Company's footprint through global restaurant expansion.

### *Key Business Measures*

We track our results of operations and manage our business using the following key business measures, which include non-GAAP financial measures:

- **Same-Restaurant Sales** — We report same-restaurant sales commencing after new restaurants have been open for 15 continuous months and as soon as reimaged restaurants reopen. Restaurants temporarily closed for more than one week are excluded from same-restaurant sales. For 2020, same-restaurant sales excluded the impact of a 53<sup>rd</sup> operating week. For 2020, same-restaurant sales compared the 52 weeks from December 30, 2019 through December 27, 2020 to the 52 weeks from December 31, 2018 through December 29, 2019. For 2021, same-restaurant sales compared the 52 weeks from January 4, 2021 through January 2, 2022 to the 52 weeks from January 6, 2020 through January 3, 2021. This methodology is consistent with the metric used by our management for internal reporting and analysis. The table summarizing same-restaurant sales below in "Results of Operations" provides the same-restaurant sales percent changes.
- **Restaurant Margin** — We define restaurant margin as sales from Company-operated restaurants less cost of sales divided by sales from Company-operated restaurants. Cost of sales includes food and paper, restaurant labor and occupancy, advertising and other operating costs. Cost of sales excludes certain costs that support restaurant operations that are not allocated to individual restaurants, which are included in "General and administrative." Cost of sales also excludes depreciation and amortization expense and impairment of long-lived assets. Therefore, as restaurant margin as presented excludes certain costs as described above, its usefulness may be limited and may not be comparable to other similarly titled measures of other companies in our industry.

Restaurant margin is influenced by factors such as price increases, the effectiveness of our advertising and marketing initiatives, featured products, product mix, fluctuations in food and labor costs, restaurant openings, remodels and closures and the level of our fixed and semi-variable costs.

- **Systemwide Sales** — Systemwide sales is a non-GAAP financial measure, which includes sales by both Company-operated restaurants and franchised restaurants. Franchised restaurants' sales are reported by our franchisees and represent their revenues from sales at franchised Wendy's restaurants. The Company's consolidated financial statements do not include sales by franchised restaurants to their customers. The Company's royalty and advertising funds revenues are computed as percentages of sales made by Wendy's franchisees. As a result, sales by Wendy's franchisees have a direct effect on the Company's royalty and advertising funds revenues and profitability.
- **Average Unit Volumes** — We calculate Company-operated restaurant average unit volumes by summing the average weekly sales of all Company-operated restaurants which reported sales during the week. Average unit volumes exclude the impact of the 53<sup>rd</sup> week of 2020. For 2020, average unit volumes are calculated using the 52 weeks from December 30, 2019 through December 27, 2020.

Franchised restaurant average unit volumes is a non-GAAP financial measure, which includes sales by franchised restaurants, which are reported by our franchisees and represent their revenues from sales at franchised Wendy's restaurants. The Company's consolidated financial statements do not include sales by franchised restaurants to their customers. We calculate franchised restaurant average unit volumes by summing the average weekly sales of all franchised restaurants which reported sales during the week.

The Company calculates same-restaurant sales and systemwide sales growth on a constant currency basis. Constant currency results exclude the impact of foreign currency translation and are derived by translating current year results at prior year average exchange rates. The Company believes excluding the impact of foreign currency translation provides better year over year comparability.

Same-restaurant sales and systemwide sales exclude sales from Argentina and Venezuela due to the highly inflationary economies of those countries. The Company considers economies that have had cumulative inflation in excess of 100% over a three-year period as highly inflationary.

The Company believes its presentation of same-restaurant sales, restaurant margin, systemwide sales and average unit volumes, including franchised restaurant average unit volumes, provide a meaningful perspective of the underlying operating performance of the Company's current business and enables investors to better understand and evaluate the Company's historical and prospective operating performance. The Company believes that these metrics are important supplemental measures of operating performance because they highlight trends in the Company's business that may not otherwise be apparent when relying solely on GAAP financial measures. The Company believes investors, analysts and other interested parties use these metrics in evaluating issuers and that the presentation of these measures facilitates a comparative assessment of the Company's operating performance. With respect to same-restaurant sales, systemwide sales and franchised restaurant average unit volumes, the Company also believes that the data is useful in assessing consumer demand for the Company's products and the overall success of the Wendy's brand.

The non-GAAP financial measures discussed above do not replace the presentation of the Company's financial results in accordance with GAAP. Because all companies do not calculate non-GAAP financial measures in the same way, these measures as used by other companies may not be consistent with the way the Company calculates such measures.

### *2022 Financial Highlights*

- Revenue increased 10.5% to \$2.1 billion in 2022 compared to \$1.9 billion in 2021;
- Global same-restaurant sales increased 4.9%, U.S. same-restaurant sales increased 3.9% and international same-restaurant sales increased 12.4% compared to 2021. On a two-year basis, global same-restaurant sales increased 14.9%;
- Global Company-operated restaurant margin was 13.8% in 2022, a decrease of 290 basis points compared to 2021; and
- Net income decreased 11.5% to \$177.4 million in 2022 compared to \$200.4 million in 2021.

### *Global Same-Restaurant Sales*

Wendy's long-term growth opportunities include driving strong same-restaurant sales momentum across all dayparts through our ownable core products, exciting menu innovation, compelling value offerings and improvements in speed and consistency in our restaurants. Global same-restaurant sales increased 4.9% during 2022.

### *Digital*

Wendy's long-term growth opportunities include accelerated implementation of consumer-facing digital platforms and technologies. Over the past several years, the Company has invested significant resources to focus on consumer-facing technology, including activating mobile ordering via Wendy's mobile app, launching the Wendy's Rewards loyalty program in the U.S. and Canada and establishing delivery agreements with third-party vendors. The Company is also partnering with key technology providers to help execute our digital, restaurant technology and

enterprise technology initiatives and support our technology innovation and growth. The Company's digital business represented approximately 10.3% of global systemwide sales during 2022.

### *New Restaurant Development*

Wendy's long-term growth opportunities include expanding the Company's footprint through global restaurant expansion. To promote new restaurant development, the Company has provided franchisees with certain incentive programs for qualifying new restaurants. In February 2023, the Company announced a new restaurant development incentive program in the U.S. and Canada that provides for waivers of royalty, national advertising and technical assistance fees for up to the first three years of operation for qualifying new restaurants. In addition, the Company has development agreements in place with a number of franchisees that contractually obligate such franchisees to open additional Wendy's restaurants over a specified timeframe. During 2022, the Company and its franchisees added 146 net new restaurants across the Wendy's system.

### *Organizational Redesign*

On February 16, 2023, the Board of Directors approved a plan to redesign the Company's organizational structure to better support the execution of the Company's long-term growth strategy by maximizing organizational efficiency and streamlining decision making. As a result of the redesign, the Company expects to hold its general and administrative expense in 2023 and 2024 relatively flat compared with 2022. The Company expects to incur total costs of approximately \$11 million to \$13 million related to these savings, of which approximately \$9 million to \$11 million will be cash expenditures. The cash expenditures are expected to continue into 2025, with approximately two-thirds of the total cash expenditures occurring in 2023. Costs related to the plan are recorded to "Reorganization and realignment costs." The total costs expected to be incurred are comprised of (1) severance and related employee costs of approximately \$8 million, (2) recruitment and relocation costs of approximately \$1 million, (3) third-party and other costs of approximately \$1 million and (4) share-based compensation of approximately \$2 million. The Company expects costs to be recognized during 2023 and continue into 2026, with approximately three-fourths to be recognized during 2023.

### *Debt Financing*

On April 1, 2022, the Company completed a debt financing transaction under which the Company issued fixed rate senior secured notes in the following 2022-1 series: Class A-2-I with an interest rate of 4.236% and initial principal amount of \$100.0 million (the "Class A-2-I Notes") and Class A-2-II with an interest rate of 4.535% and initial principal amount of \$400.0 million (the "Class A-2-II Notes"). The anticipated repayment dates of the Class A-2-I Notes and the Class A-2-II Notes will be March 2029 and March 2032, respectively. See Note 12 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information on the Company's debt financing transaction.

This section of this Form 10-K generally discusses 2022 and 2021 items and year-to-year comparisons between 2022 and 2021. For discussion related to 2020 items and year-to-year comparisons between 2021 and 2020 that are not included in this Form 10-K, please refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2021 Form 10-K, filed with the United States Securities and Exchange Commission on March 1, 2022.

## Results of Operations

The tables included throughout this Results of Operations section set forth in millions (except as otherwise indicated) the Company's consolidated results of operations for the years ended January 1, 2023, January 2, 2022 and January 3, 2021. Except as noted below, the Company's consolidated results of operations described below includes the benefit of the 53<sup>rd</sup> week in 2020.

|  | 2022            |                  | 2021            |                | 2020            |
|--|-----------------|------------------|-----------------|----------------|-----------------|
|  | Amount          | Change           | Amount          | Change         | Amount          |
| Revenues:  |                 |                  |                 |                |                 |
| Sales  | \$ 896.6        | \$162.5          | \$ 734.1        | \$ 11.3        | \$ 722.8        |
| Franchise royalty revenue and fees   | 558.2           | 21.5             | 536.7           | 92.0           | 444.7           |
| Franchise rental income  | 234.5           | (2.2)            | 236.7           | 4.1            | 232.6           |
| Advertising funds revenue  | 406.2           | 16.7             | 389.5           | 55.8           | 333.7           |
|  | <u>2,095.5</u>  | <u>198.5</u>     | <u>1,897.0</u>  | <u>163.2</u>   | <u>1,733.8</u>  |
| Costs and expenses:  |                 |                  |                 |                |                 |
| Cost of sales  | 773.2           | 161.5            | 611.7           | (3.2)          | 614.9           |
| Franchise support and other costs  | 46.7            | 3.8              | 42.9            | 16.4           | 26.5            |
| Franchise rental expense   | 124.1           | (8.3)            | 132.4           | 6.8            | 125.6           |
| Advertising funds expense  | 430.8           | 19.0             | 411.8           | 66.4           | 345.4           |
| General and administrative   | 255.0           | 12.0             | 243.0           | 36.1           | 206.9           |
| Depreciation and amortization (exclusive of amortization of cloud computing arrangements shown separately below) | 133.4           | 7.9              | 125.5           | (7.3)          | 132.8           |
| Amortization of cloud computing arrangements   | 2.4             | 2.4              | —               | —              | —               |
| System optimization gains, net   | (6.8)           | 26.7             | (33.5)          | (30.4)         | (3.1)           |
| Reorganization and realignment costs   | 0.7             | (7.8)            | 8.5             | (7.5)          | 16.0            |
| Impairment of long-lived assets  | 6.4             | 4.1              | 2.3             | (5.7)          | 8.0             |
| Other operating income, net  | (23.7)          | (9.1)            | (14.6)          | (6.1)          | (8.5)           |
|  | <u>1,742.2</u>  | <u>212.2</u>     | <u>1,530.0</u>  | <u>65.5</u>    | <u>1,464.5</u>  |
| Operating profit   | 353.3           | (13.7)           | 367.0           | 97.7           | 269.3           |
| Interest expense, net  | (122.3)         | (13.1)           | (109.2)         | 8.5            | (117.7)         |
| Loss on early extinguishment of debt   | —               | 17.9             | (17.9)          | (17.9)         | —               |
| Investment income (loss), net  | 2.1             | 2.1              | —               | 0.2            | (0.2)           |
| Other income, net  | 10.4            | 9.7              | 0.7             | (0.7)          | 1.4             |
|  | <u>243.5</u>    | <u>2.9</u>       | <u>240.6</u>    | <u>87.8</u>    | <u>152.8</u>    |
| Income before income taxes   | 243.5           | 2.9              | 240.6           | 87.8           | 152.8           |
| Provision for income taxes   | (66.1)          | (25.9)           | (40.2)          | (5.2)          | (35.0)          |
| Net income   | <u>\$ 177.4</u> | <u>\$ (23.0)</u> | <u>\$ 200.4</u> | <u>\$ 82.6</u> | <u>\$ 117.8</u> |

|   | <u>2022</u>      | <u>% of<br/>Total<br/>Revenues</u> | <u>2021</u>      | <u>% of<br/>Total<br/>Revenues</u> | <u>2020</u>      | <u>% of<br/>Total<br/>Revenues</u> |
|---|------------------|------------------------------------|------------------|------------------------------------|------------------|------------------------------------|
| <i>Revenues:</i>  |                  |                                    |                  |                                    |                  |                                    |
| Sales .....   | \$ 896.6         | 42.8%                              | \$ 734.1         | 38.7%                              | \$ 722.8         | 41.7%                              |
| Franchise royalty revenue and fees:                       |                  |                                    |                  |                                    |                  |                                    |
| Franchise royalty revenue .....                           | 485.5            | 23.2%                              | 460.7            | 24.3%                              | 416.5            | 24.0%                              |
| Franchise fees .....                                      | 72.7             | 3.4%                               | 76.0             | 4.0%                               | 28.2             | 1.7%                               |
| Total franchise royalty revenue and<br>fees .....         | 558.2            | 26.6%                              | 536.7            | 28.3%                              | 444.7            | 25.7%                              |
| Franchise rental income .....                             | 234.5            | 11.2%                              | 236.7            | 12.5%                              | 232.6            | 13.4%                              |
| Advertising funds revenue .....                           | 406.2            | 19.4%                              | 389.5            | 20.5%                              | 333.7            | 19.2%                              |
| Total revenues .....                                      | <u>\$2,095.5</u> | <u>100.0%</u>                      | <u>\$1,897.0</u> | <u>100.0%</u>                      | <u>\$1,733.8</u> | <u>100.0%</u>                      |
|   | <u>2022</u>      | <u>% of<br/>Sales</u>              | <u>2021</u>      | <u>% of<br/>Sales</u>              | <u>2020</u>      | <u>% of<br/>Sales</u>              |
| <i>Cost of sales:</i>                                     |                  |                                    |                  |                                    |                  |                                    |
| Food and paper .....                                      | \$ 292.9         | 32.7%                              | \$ 224.1         | 30.5%                              | \$ 221.8         | 30.7%                              |
| Restaurant labor .....                                    | 288.0            | 32.1%                              | 231.5            | 31.5%                              | 233.6            | 32.3%                              |
| Occupancy, advertising and other operating<br>costs ..... | 192.3            | 21.4%                              | 156.1            | 21.3%                              | 159.5            | 22.1%                              |
| Total cost of sales .....                                 | <u>\$ 773.2</u>  | <u>86.2%</u>                       | <u>\$ 611.7</u>  | <u>83.3%</u>                       | <u>\$ 614.9</u>  | <u>85.1%</u>                       |
|   | <u>2022</u>      | <u>% of<br/>Sales</u>              | <u>2021</u>      | <u>% of<br/>Sales</u>              | <u>2020</u>      | <u>% of<br/>Sales</u>              |
| <i>Company-operated restaurant margin:</i>                |                  |                                    |                  |                                    |                  |                                    |
| U.S. ....   | \$ 125.9         | 14.3%                              | \$ 124.4         | 17.0%                              | \$ 108.9         | 15.1%                              |
| Global .....  | 123.4            | 13.8%                              | 122.4            | 16.7%                              | 107.9            | 14.9%                              |

The table below presents certain of the Company's key business measures, which are defined and further discussed in the "Executive Overview" section included herein.

|   | <u>2022</u>       | <u>2021</u>       | <u>2020</u>       |
|---|-------------------|-------------------|-------------------|
| <i>Key business measures:</i>                         |                   |                   |                   |
| U.S. same-restaurant sales (a):                       |                   |                   |                   |
| Company-operated . . . . .                            | 4.4%              | 11.9%             | (0.7)%            |
| Franchised . . . . .                                  | 3.9%              | 9.0%              | 2.3%              |
| Systemwide . . . . .                                  | 3.9%              | 9.2%              | 2.0%              |
| International same-restaurant sales (a) (b) . . . . . | 12.4%             | 17.6%             | (6.0)%            |
| Global same-restaurant sales (a):                     |                   |                   |                   |
| Company-operated . . . . .                            | 4.4%              | 11.9%             | (0.7)%            |
| Franchised (b) . . . . .                              | 4.9%              | 9.9%              | 1.4%              |
| Systemwide (b) . . . . .                              | 4.9%              | 10.0%             | 1.2%              |
| Systemwide sales (c):                                 |                   |                   |                   |
| U.S. Company-operated . . . . .                       | \$ 882.7          | \$ 730.4          | \$ 722.8          |
| U.S. franchised . . . . .                             | <u>10,811.7</u>   | <u>10,380.3</u>   | <u>9,508.5</u>    |
| U.S. systemwide . . . . .                             | 11,694.4          | 11,110.7          | 10,231.3          |
| International Company-operated . . . . .              | 13.9              | 3.7               | —                 |
| International franchised (b) . . . . .                | <u>1,592.4</u>    | <u>1,392.9</u>    | <u>1,107.2</u>    |
| International systemwide (b) . . . . .                | <u>1,606.3</u>    | <u>1,396.6</u>    | <u>1,107.2</u>    |
| Global systemwide (b) . . . . .                       | <u>\$13,300.7</u> | <u>\$12,507.3</u> | <u>\$11,338.5</u> |
| Restaurant average unit volumes (in thousands) (a):   |                   |                   |                   |
| U.S. Company-operated . . . . .                       | \$ 2,192.0        | \$ 2,172.4        | \$ 1,978.5        |
| U.S. franchised . . . . .                             | <u>1,957.2</u>    | <u>1,878.4</u>    | <u>1,708.9</u>    |
| U.S. systemwide . . . . .                             | 1,973.1           | 1,895.3           | 1,725.5           |
| International systemwide (b) . . . . .                | <u>1,526.5</u>    | <u>1,448.1</u>    | <u>1,199.5</u>    |
| Global systemwide (b) . . . . .                       | <u>\$ 1,905.8</u> | <u>\$ 1,832.1</u> | <u>\$ 1,654.7</u> |

(a) Excludes the impact of the 53<sup>rd</sup> week in 2020.

(b) Excludes Argentina and Venezuela due to the impact of the highly inflationary economies of those countries.

(c) During 2022 and 2021, global systemwide sales increased 6.8% and 9.8%, respectively, U.S. systemwide sales increased 5.3% and 8.6%, respectively, and international systemwide sales increased 19.2% and 20.7%, respectively, on a constant currency basis.

The table below presents details regarding the change in restaurant counts of the Wendy's system from 2020 to 2022.

|   | <u>U.S.<br/>Company-operated</u> | <u>U.S.<br/>Franchised</u> | <u>International<br/>Company-operated</u> | <u>International<br/>Franchised</u> | <u>Systemwide</u>   |
|---|----------------------------------|----------------------------|---|-------------------------------------|---------------------|
| <i>Restaurant count:</i>                          |                                  |                            |   |                                     |                     |
| Restaurant count at January 3,<br>2021 .....      | 361                              | 5,520                      | —   | 947                                 | 6,828               |
| Opened .....                                      | 7                                | 116                        | 5   | 82                                  | 210                 |
| Closed .....                                      | (8)                              | (58)                       | —   | (23)                                | (89)                |
| Net purchased from (sold by)<br>franchisees ..... | <u>43</u>                        | <u>(43)</u>                | <u>—</u>                                  | <u>—</u>                            | <u>—</u>            |
| Restaurant count at January 2,<br>2022 .....      | <u>403</u>                       | <u>5,535</u>               | <u>5</u>                                  | <u>1,006</u>                        | <u>6,949</u>        |
| Opened .....                                      | 7                                | 132                        | 7   | 130                                 | 276                 |
| Closed .....                                      | <u>(7)</u>                       | <u>(76)</u>                | <u>—</u>                                  | <u>(47)</u>                         | <u>(130)</u>        |
| Restaurant count at January 1,<br>2023 .....      | <u><u>403</u></u>                | <u><u>5,591</u></u>        | <u><u>12</u></u>                          | <u><u>1,089</u></u>                 | <u><u>7,095</u></u> |

### *Sales*

|             | <u>2022</u>   |               | <u>2021</u>   |               | <u>2020</u>   |
|-------------|---------------|---------------|---------------|---------------|---------------|
|             | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Sales ..... | \$896.6       | \$162.5       | \$734.1       | \$11.3        | \$722.8       |

The increase in sales during 2022 was primarily due to (1) the Company's acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021 of \$162.7 million, (2) a 4.4% increase in Company-operated same-restaurant sales of \$27.9 million and (3) net new restaurant development of \$11.4 million. The increase in sales during 2022 was partially offset by the sale of 47 Company-operated restaurants in New York during the second quarter of 2021 of \$42.9 million. Company-operated same-restaurant sales increased due to higher average check, partially offset by a decrease in customer count. Company-operated same-restaurant sales during 2021 benefited from government stimulus payments to consumers during the first quarter of 2021, which did not recur in 2022.

### *Franchise Royalty Revenue and Fees*

|                                 | <u>2022</u>           |                      | <u>2021</u>           |                      | <u>2020</u>           |
|---------------------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
|                                 | <u>Amount</u>         | <u>Change</u>        | <u>Amount</u>         | <u>Change</u>        | <u>Amount</u>         |
| Franchise royalty revenue ..... | \$485.5               | \$24.8               | \$460.7               | \$44.2               | \$416.5               |
| Franchise fees .....            | <u>72.7</u>           | <u>(3.3)</u>         | <u>76.0</u>           | <u>47.8</u>          | <u>28.2</u>           |
|                                 | <u><u>\$558.2</u></u> | <u><u>\$21.5</u></u> | <u><u>\$536.7</u></u> | <u><u>\$92.0</u></u> | <u><u>\$444.7</u></u> |

Franchise royalty revenue during 2022 increased \$24.8 million, of which (1) \$21.8 million was due to a 4.9% increase in global franchise same-restaurant sales and (2) \$3.1 million was due to a net increase in the number of franchise restaurants in operation during 2022 compared to 2021. Franchise same-restaurant sales during 2022 increased due to higher average check, partially offset by a decrease in customer count. Franchise same-restaurant sales during 2021 benefited from government stimulus payments to consumers during the first quarter of 2021, which did not recur in 2022.

The decrease in franchise fees during 2022 was primarily due to the accelerated recognition of franchise agreement revenue in the prior year as a result of franchisee-to-franchisee restaurant transfers of \$8.3 million, partially offset by higher fees for providing information technology services to franchisees of \$5.8 million. This increase in fees for providing information technology services during 2022 reflects the one-month waiver of technology fees during the first quarter of 2021.

### *Franchise Rental Income*

|                               | <u>2022</u>   |               | <u>2021</u>   |               | <u>2020</u>   |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
|                               | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Franchise rental income ..... | \$234.5       | \$(2.2)       | \$236.7       | \$4.1         | \$232.6       |

The decrease in franchise rental income during 2022 was primarily due to the impact of terminating existing leases where the Company was lessor of \$5.2 million, primarily in connection with the Company's acquisition of franchise-operated restaurants in Florida during the fourth quarter of 2021. The decrease in franchise rental income was partially offset by (1) the impact of the sale of Company-operated restaurants in New York during the second quarter of 2021 of \$1.5 million and (2) assigning certain leases to franchisees of \$1.5 million.

#### *Advertising Funds Revenue*

|                           | 2022          |               | 2021          |               | 2020          |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
|                           | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Advertising funds revenue | \$406.2       | \$16.7        | \$389.5       | \$55.8        | \$333.7       |

The increase in advertising funds revenue during 2022 was primarily due to an increase in franchise same-restaurant sales in the U.S. and Canada.

#### *Cost of Sales, as a Percent of Sales*

|  | 2022          |               | 2021          |               | 2020          |
|--|---------------|---------------|---------------|---------------|---------------|
|  | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Food and paper                                   | 32.7%         | 2.2%          | 30.5%         | (0.2)%        | 30.7%         |
| Restaurant labor                                 | 32.1%         | 0.6%          | 31.5%         | (0.8)%        | 32.3%         |
| Occupancy, advertising and other operating costs | 21.4%         | 0.1%          | 21.3%         | (0.8)%        | 22.1%         |
|  | <u>86.2%</u>  | <u>2.9%</u>   | <u>83.3%</u>  | <u>(1.8)%</u> | <u>85.1%</u>  |

The increase in cost of sales, as a percent of sales, during 2022 was primarily due to (1) higher commodity costs, (2) an increase in restaurant labor rates, (3) a decrease in customer count and (4) the impact of the Company's investments to support the entry into the U.K. market. These impacts were partially offset by higher average check.

#### *Franchise Support and Other Costs*

|                                   | 2022          |               | 2021          |               | 2020          |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
|                                   | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Franchise support and other costs | \$46.7        | \$3.8         | \$42.9        | \$16.4        | \$26.5        |

The increase in franchise support and other costs during 2022 was primarily due to an increase in costs incurred to provide information technology and other services to franchisees.

#### *Franchise Rental Expense*

|                          | 2022          |               | 2021          |               | 2020          |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
|                          | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Franchise rental expense | \$124.1       | \$(8.3)       | \$132.4       | \$6.8         | \$125.6       |

The decrease in franchise rental expense during 2022 was primarily due to (1) the impact of assigning certain leases to franchisees and (2) the impact of the Company's acquisition of franchise-operated restaurants in Florida during the fourth quarter of 2021.

#### *Advertising Funds Expense*

|                           | 2022          |               | 2021          |               | 2020          |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
|                           | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Advertising funds expense | \$430.8       | \$19.0        | \$411.8       | \$66.4        | \$345.4       |

The increase in advertising funds expense during 2022 was primarily due to (1) an increase in franchise same-restaurant sales in the U.S. and Canada and (2) timing of promotions. These increases were partially offset by a decrease in the Company's funding of incremental advertising.



### General and Administrative

|  | 2022           |                | 2021           |               | 2020           |
|--|----------------|----------------|----------------|---------------|----------------|
|  | Amount         | Change         | Amount (a)     | Change        | Amount (a)     |
| Employee compensation and benefits . . . . . | \$128.5        | \$ 13.4        | \$115.1        | \$ (1.5)      | \$116.6        |
| Professional services . . . . .              | 61.8           | 8.5            | 53.3           | 11.3          | 42.0           |
| Travel-related expenses . . . . .            | 11.5           | 6.0            | 5.5            | 0.3           | 5.2            |
| Share-based compensation . . . . .           | 24.5           | 2.5            | 22.0           | 3.9           | 18.1           |
| Incentive compensation . . . . .             | 25.0           | (21.5)         | 46.5           | 23.5          | 23.0           |
| Other, net . . . . .                         | 3.7            | 3.1            | 0.6            | (1.4)         | 2.0            |
|  | <u>\$255.0</u> | <u>\$ 12.0</u> | <u>\$243.0</u> | <u>\$36.1</u> | <u>\$206.9</u> |

(a) Certain reclassifications have been made to the prior year presentation to conform to the current year presentation.

The increase in general and administrative expenses during 2022 was primarily due to (1) an increase in employee compensation and benefits, reflecting investments in resources to support the Company’s development and digital organizations, (2) higher professional fees, primarily as a result of costs associated with the Company’s enterprise resource planning (“ERP”) system implementation and (3) an increase in travel-related expenses. These increases were partially offset by a decrease in incentive compensation accruals, reflecting higher operating performance as compared to plan in 2021 versus 2022.

### Depreciation and Amortization (exclusive of amortization of cloud computing arrangements shown separately below)

|   | 2022           |              | 2021           |                | 2020           |
|---|----------------|--------------|----------------|----------------|----------------|
|   | Amount         | Change       | Amount         | Change         | Amount         |
| Restaurants . . . . .                             | \$ 84.0        | \$7.6        | \$ 76.4        | \$(8.5)        | \$ 84.9        |
| Technology support, corporate and other . . . . . | 49.4           | 0.3          | 49.1           | 1.2            | 47.9           |
|   | <u>\$133.4</u> | <u>\$7.9</u> | <u>\$125.5</u> | <u>\$(7.3)</u> | <u>\$132.8</u> |

The increase in depreciation and amortization during 2022 was primarily due to depreciation and amortization on assets acquired from a franchisee in Florida during the fourth quarter of 2021.

### Amortization of Cloud Computing Arrangements

|  | 2022   |        | 2021   |        | 2020   |
|--|--------|--------|--------|--------|--------|
|  | Amount | Change | Amount | Change | Amount |
| Amortization of cloud computing arrangements . . . . . | \$2.4  | \$2.4  | \$—    | \$—    | \$—    |

Amortization of cloud computing arrangements primarily represents amortization of assets associated with the Company’s ERP system implementation completed in 2022.

### System Optimization Gains, Net

|  | 2022    |        | 2021     |          | 2020    |
|--|---------|--------|----------|----------|---------|
|  | Amount  | Change | Amount   | Change   | Amount  |
| System optimization gains, net . . . . . | \$(6.8) | \$26.7 | \$(33.5) | \$(30.4) | \$(3.1) |

System optimization gains, net during 2022 were primarily comprised of gains on the sale of surplus and other properties. System optimization gains, net during 2021 were primarily comprised of a gain on the sale of 47 Company-operated restaurants in New York. See Note 4 of the Financial Statements and Supplementary Data contained in Item 8 herein for further discussion.

### Reorganization and Realignment Costs

|                                  | 2022         |                | 2021          |                | 2020          |
|----------------------------------|--------------|----------------|---------------|----------------|---------------|
|                                  | Amount       | Change         | Amount        | Change         | Amount        |
| Operations and field realignment | \$0.1        | \$(1.6)        | \$ 1.7        | \$(2.1)        | \$ 3.8        |
| IT realignment                   | —            | —              | —             | (7.3)          | 7.3           |
| G&A realignment                  | —            | 0.1            | (0.1)         | (0.7)          | 0.6           |
| System optimization initiative   | 0.6          | (6.3)          | 6.9           | 2.6            | 4.3           |
|                                  | <u>\$0.7</u> | <u>\$(7.8)</u> | <u>\$ 8.5</u> | <u>\$(7.5)</u> | <u>\$16.0</u> |

As part of the Company's system optimization initiative, the Company expects to continue to optimize the Wendy's system through strategic restaurant acquisitions and dispositions, as well as by facilitating Franchise Flips. During 2022, the Company recognized costs associated with its system optimization initiative totaling \$0.6 million, which were primarily comprised of professional fees and other costs associated with the Company's acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021. During 2021, the Company recognized costs totaling \$6.9 million, which were primarily comprised of the write-off of certain lease assets, lease termination fees and transaction fees associated with the bankruptcy sale process of NPC Quality Burgers, Inc. ("NPC"), as well as professional fees and transaction fees associated with the Company's acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021. The Company expects to recognize a gain of approximately \$0.7 million, primarily related to the write-off of certain NPC-related lease liabilities upon final termination of the leases. See Note 3 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information regarding the NPC bankruptcy sale process.

Costs incurred under the Company's other reorganization and realignment plans were not material during 2022 and 2021. The Company does not expect to incur any material additional costs under these plans. See Note 5 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information regarding the Company's reorganization and realignment plans.

### Impairment of Long-Lived Assets

|                                 | 2022   |        | 2021   |         | 2020   |
|---------------------------------|--------|--------|--------|---------|--------|
|                                 | Amount | Change | Amount | Change  | Amount |
| Impairment of long-lived assets | \$6.4  | \$4.1  | \$2.3  | \$(5.7) | \$8.0  |

The increase in impairment charges during 2022 was primarily driven by the deterioration in operating performance of certain Company-operated restaurants.

### Other Operating Income, Net

|   | 2022            |                | 2021            |                | 2020           |
|---|-----------------|----------------|-----------------|----------------|----------------|
|   | Amount          | Change         | Amount          | Change         | Amount         |
| Gain from insurance recoveries            | \$ (8.6)        | \$(8.6)        | \$ —            | \$ —           | —              |
| Lease buyout                              | (2.8)           | (3.8)          | 1.0             | 1.6            | (0.6)          |
| Equity in earnings in joint ventures, net | (9.4)           | 1.8            | (11.2)          | (5.1)          | (6.1)          |
| Gains on sales-type leases                | (3.0)           | 1.2            | (4.2)           | (2.2)          | (2.0)          |
| Other, net                                | 0.1             | 0.3            | (0.2)           | (0.4)          | 0.2            |
|   | <u>\$(23.7)</u> | <u>\$(9.1)</u> | <u>\$(14.6)</u> | <u>\$(6.1)</u> | <u>\$(8.5)</u> |

The increase in other operating income, net during 2022 was primarily due to (1) a gain from insurance recoveries and (2) lease buyout activity. These impacts were partially offset by a decrease in the equity in earnings from our TimWen joint venture, which included a gain on the sale of a parcel of land during 2021.

### *Interest Expense, Net*

|                       | 2022          |               | 2021          |               | 2020          |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
|                       | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Interest expense, net | \$122.3       | \$13.1        | \$109.2       | \$(8.5)       | \$117.7       |

Interest expense, net increased during 2022 primarily due to the impact of completing a debt financing transaction under the Company's securitized financing facility in the first quarter of 2022, partially offset by the impact of completing the refinancing of a portion of the Company's securitized financing facility in the second quarter of 2021.

### *Loss on Early Extinguishment of Debt*

|                                      | 2022          |               | 2021          |               | 2020          |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
|                                      | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Loss on early extinguishment of debt | \$—           | \$(17.9)      | \$17.9        | \$17.9        | \$—           |

During the second quarter of 2021, in connection with the refinancing of a portion of the Company's securitized financing facility, the Company incurred a loss on the early extinguishment of debt as a result of repaying the outstanding 2015-1 Class A-2-III Notes and 2018-1 Class A-2-I Notes with the proceeds from the issuance of its 2021-1 Class A-2 Notes. The loss on the early extinguishment of debt of \$17.9 million was comprised of a specified make-whole payment of \$9.6 million and the write-off of certain unamortized deferred financing costs of \$8.3 million.

### *Investment Income (Loss), Net*

|                               | 2022          |               | 2021          |               | 2020          |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
|                               | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Investment income (loss), net | \$2.1         | \$2.1         | \$—           | \$0.2         | \$(0.2)       |

During 2022, the Company recognized a gain of \$2.1 million on an investment in equity securities as a result of an observable price change.

### *Other Income, Net*

|                   | 2022          |               | 2021          |               | 2020          |
|-------------------|---------------|---------------|---------------|---------------|---------------|
|                   | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Other income, net | \$10.4        | \$9.7         | \$0.7         | \$(0.7)       | \$1.4         |

The increase in other income, net during 2022 was primarily due to interest income earned on our cash equivalents, which increased as a result of cash received from our debt financing transaction under the Company's securitized financing facility in the first quarter of 2022.

### *Provision for Income Taxes*

|                              | 2022          |               | 2021          |               | 2020          |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
|                              | <u>Amount</u> | <u>Change</u> | <u>Amount</u> | <u>Change</u> | <u>Amount</u> |
| Income before income taxes   | \$243.5       | \$ 2.9        | \$240.6       | \$87.8        | \$152.8       |
| Provision for income taxes   | (66.1)        | (25.9)        | (40.2)        | (5.2)         | (35.0)        |
| Effective tax rate on income | 27.2%         | 10.5%         | 16.7%         | (6.2)%        | 22.9%         |

The increase in the provision for income taxes and effective tax rate during 2022 was primarily due to (1) an increase in state income taxes, including an increase in state deferred income taxes, (2) a decrease in the tax benefit from share-based compensation and (3) an increase in tax on our foreign operations. The increase in state deferred income taxes from 2021 to 2022 was primarily due to a 2021 change in tax law, which resulted in a one-time release of a previously recorded valuation allowance against our state deferred tax assets.

## Segment Information

See Note 27 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information regarding the Company's segments.

### Wendy's U.S.

|                           | 2022             |                | 2021             |                | 2020             |
|---------------------------|------------------|----------------|------------------|----------------|------------------|
|                           | Amount           | Change         | Amount           | Change         | Amount           |
| Sales                     | \$ 882.7         | \$152.3        | \$ 730.4         | \$ 7.6         | \$ 722.8         |
| Franchise royalty revenue | 424.0            | 16.7           | 407.3            | 34.1           | 373.2            |
| Franchise fees            | 63.0             | (1.2)          | 64.2             | 42.1           | 22.1             |
| Advertising fund revenue  | 380.5            | 14.9           | 365.6            | 52.3           | 313.3            |
| Total revenues            | <u>\$1,750.2</u> | <u>\$182.7</u> | <u>\$1,567.5</u> | <u>\$136.1</u> | <u>\$1,431.4</u> |
| Segment profit            | \$ 480.5         | \$ 30.4        | \$ 450.1         | \$ 56.8        | \$ 393.3         |

The increase in Wendy's U.S. revenues during 2022 was primarily due to (1) the Company's acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021 and (2) an increase in same-restaurant sales. These increases were partially offset by the sale of 47 Company-operated restaurants in New York during the second quarter of 2021. Same-restaurant sales increased during 2022 primarily due to higher average check, partially offset by a decrease in customer count.

The increase in Wendy's U.S. segment profit during 2022 was primarily due to (1) higher revenues and (2) a decrease in the Company's funding of incremental advertising. These increases were partially offset by higher cost of sales, as a percent of sales for Company-operated restaurants driven by the same factors as described above for "Cost of Sales, as a Percent of Sales" (excluding the impact of the U.K. market).

### Wendy's International

|                           | 2022           |               | 2021          |               | 2020          |
|---------------------------|----------------|---------------|---------------|---------------|---------------|
|                           | Amount         | Change        | Amount        | Change        | Amount        |
| Sales                     | \$ 13.9        | \$10.2        | \$ 3.7        | \$ 3.7        | \$ —          |
| Franchise royalty revenue | 61.5           | 8.1           | 53.4          | 10.1          | 43.3          |
| Franchise fees            | 5.6            | 0.2           | 5.4           | 3.4           | 2.0           |
| Advertising fund revenue  | 25.7           | 1.8           | 23.9          | 3.6           | 20.3          |
| Total revenues            | <u>\$106.7</u> | <u>\$20.3</u> | <u>\$86.4</u> | <u>\$20.8</u> | <u>\$65.6</u> |
| Segment profit            | \$ 30.4        | \$ 3.0        | \$27.4        | \$ 7.3        | \$20.1        |

The increase in Wendy's International revenues during 2022 was primarily due to (1) the opening of Company-operated restaurants in the U.K. beginning in the second quarter of 2021 and (2) an increase in franchise same-restaurant sales. Franchise same-restaurant sales increased during 2022 due to (1) an increase in customer count and (2) higher average check.

The increase in Wendy's International segment profit during 2022 was primarily due to higher revenues. This increase was partially offset by (1) higher advertising fund expense, reflecting the Company's funding of incremental advertising to support the launch of breakfast in Canada in May 2022, and (2) the Company's investments to support the entry into the U.K. market.

### Global Real Estate & Development

|                         | 2022           |                | 2021           |              | 2020           |
|-------------------------|----------------|----------------|----------------|--------------|----------------|
|                         | Amount         | Change         | Amount         | Change       | Amount         |
| Franchise fees          | \$ 4.1         | \$(2.3)        | \$ 6.4         | \$2.2        | \$ 4.2         |
| Franchise rental income | 234.5          | (2.2)          | 236.7          | 4.1          | 232.6          |
| Total revenues          | <u>\$238.6</u> | <u>\$(4.5)</u> | <u>\$243.1</u> | <u>\$6.3</u> | <u>\$236.8</u> |
| Segment profit          | \$108.7        | \$ 2.6         | \$106.1        | \$5.4        | \$100.7        |

The decrease in Global Real Estate & Development revenues during 2022 was primarily due to (1) the accelerated recognition of franchise agreement revenue in the prior year as a result of franchisee-to-franchisee restaurant transfers and (2) lower franchise rental income. See “Franchise Rental Income” above for further information.

The increase in Global Real Estate & Development segment profit during 2022 was primarily due to a decrease in franchise rental expense, partially offset by lower revenues. See “Franchise Rental Expense” above for further information.

## **Consolidated Outlook for 2023**

### *Sales*

We expect sales at our Company-operated restaurants to be favorably impacted primarily by (1) a net increase in the number of Company-operated restaurants, (2) continued growth of our breakfast daypart, (3) our “Fast Food Done Right” strategy, which includes continuing core menu improvements, product innovation and strategic price increases on our menu items to partially offset commodity and labor inflation pressures, (4) focused execution of operational excellence and (5) continued growth of our digital business.

### *Franchise Royalty Revenue and Fees*

We expect sales at franchised restaurants to generally benefit from many of the factors described above under “Sales.” In addition, we expect franchise royalty revenue and fees to be favorably impacted by (1) a net increase in the number of franchise restaurants in operation due to net new restaurant development and (2) a full year of operating in the breakfast daypart across the Canadian system after the launch of breakfast in Canada in May 2022.

### *Cost of Sales*

We expect cost of sales, as a percent of sales to be favorably impacted by many of the same factors described above under “Sales,” and to also benefit from productivity initiatives. We expect cost of sales, as a percent of sales to be negatively impacted by (1) an increase in commodity costs and (2) higher restaurant labor rates.

### *General and Administrative*

We expect general and administrative expenses to be relatively flat, despite elevated inflationary pressures, primarily as a result of the Company’s organizational redesign. See “Executive Overview” above for further information regarding expected costs to be incurred under the plan.

### *Reorganization and Realignment Costs*

We expect reorganization and realignment costs to be elevated as a result of the Company’s organizational redesign announced in January 2023. See “Executive Overview” above for further information regarding expected costs to be incurred under the plan.

## **Liquidity and Capital Resources**

Our primary sources of liquidity and capital resources are cash flows from operations and borrowings under our securitized financing facility. Our principal uses of cash are operating expenses, capital expenditures, repurchases of common stock, dividends to stockholders and repurchases of debt.

### *Cash Flows from Operating, Investing and Financing Activities*

The table below summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years:

|   | 2022           |                | 2021             |                  | 2020           |
|---|----------------|----------------|------------------|------------------|----------------|
|   | Amount         | Change         | Amount           | Change           | Amount         |
| Net cash provided by (used in):                                       |                |                |                  |                  |                |
| Operating activities  | \$259.9        | \$ (85.9)      | \$ 345.8         | \$ 61.4          | \$ 284.4       |
| Investing activities  | (77.8)         | 76.9           | (154.7)          | (86.4)           | (68.3)         |
| Financing activities  | 288.7          | 531.4          | (242.7)          | (84.8)           | (157.9)        |
| Effect of exchange rate changes on cash                               | (6.0)          | (6.3)          | 0.3              | (1.0)            | 1.3            |
| Net increase (decrease) in cash, cash equivalents and restricted cash | <u>\$464.8</u> | <u>\$516.1</u> | <u>\$ (51.3)</u> | <u>\$(110.8)</u> | <u>\$ 59.5</u> |

#### *Operating Activities*

Cash provided by operating activities consists primarily of net income, adjusted for non-cash expenses such as depreciation and amortization, deferred income tax and share-based compensation, and the net change in operating assets and liabilities. Cash provided by operating activities was \$259.9 million and \$345.8 million in 2022 and 2021, respectively. The change was primarily due to (1) the timing of payments for marketing expenses of the national advertising funds, (2) an increase in payments for incentive compensation for the 2021 fiscal year paid in 2022 and (3) cash paid for cloud computing arrangements, primarily related to the Company's ERP system implementation.

#### *Investing Activities*

Cash used in investing activities was \$77.8 million and \$154.7 million in 2022 and 2021, respectively. The change was primarily due to (1) a decrease in payments for acquisitions of \$123.1 million, reflecting the impact of the Company's acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021 and (2) a payment for an investment in equity securities of \$10.0 million during 2021. These changes were partially offset by (1) a decrease in proceeds from dispositions of \$46.9 million, reflecting the sale of 47 Company-operated restaurants in New York during the second quarter of 2021 and (2) an increase in capital expenditures of \$7.6 million.

#### *Financing Activities*

Cash provided by (used in) financing activities was \$288.7 million and \$(242.7) million in 2022 and 2021, respectively. The change was primarily due to (1) a net increase in cash provided by long-term debt activities of \$354.2 million, reflecting the respective impacts of the completion of the Company's debt financing transaction during the first quarter of 2022 and the Company's debt refinancing transaction during the second quarter of 2021, and (2) a decrease in the repurchases of common stock of \$216.6 million. These changes were partially offset by (1) a decrease in proceeds from stock option exercises, net of payments related to tax withholding for share-based compensation, of \$23.8 million and (2) an increase in dividends of \$11.9 million.

#### *Material Cash Requirements*

Our anticipated cash requirements for 2023, exclusive of operating cash flow requirements, consist principally of:

- capital expenditures of approximately \$75.0 million to \$85.0 million as discussed below in "Capital Expenditures;"
- quarterly cash dividends aggregating approximately \$212.6 million as discussed below in "Dividends;"
- stock repurchases under the Company's January 2023 Authorization as discussed below in "Stock Repurchases;" and
- debt repurchases of up to \$75.0 million as discussed below in "Long-Term Debt, Including Current Portion."

Based on current levels of operations, the Company expects that available cash and cash flows from operations will provide sufficient liquidity to meet operating cash requirements for the next 12 months.

We currently believe we have the ability to pursue additional sources of liquidity if needed or desired to fund operating cash requirements or for other purposes. However, there can be no assurance that additional liquidity will be readily available or available on terms acceptable to us.

### *Capital Expenditures*

In 2022, cash capital expenditures amounted to \$85.5 million. In 2023, we expect that cash capital expenditures will amount to approximately \$75.0 million to \$85.0 million, principally relating to (1) technology investments, including consumer-facing digital technology, (2) the opening of new Company-operated restaurants and the reimaging of existing Company-operated restaurants, (3) restaurant equipment investments, (4) maintenance capital expenditures for Company-operated restaurants and (5) various other capital projects.

In addition to the capital expenditures noted above, the Company's cash expenditures related to cloud computing arrangements ("CCA") amounted to \$30.2 million during 2022, primarily related to the Company's ERP system implementation. In 2023, we expect to spend approximately \$25.0 million on CCA, primarily related to the Company's human capital management system implementation. See Note 1 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information related to our accounting policy for CCA.

### *Dividends*

On March 15, 2022, June 15, 2022, September 15, 2022 and December 15, 2022, the Company paid quarterly cash dividends per share of \$.125, aggregating \$106.8 million. On January 13, 2023, the Company announced a dividend of \$.25 per share to be paid on March 15, 2023 to stockholders of record as of March 1, 2023. If the Company pays regular quarterly cash dividends for the remainder of 2023 at the same rate as declared in the first quarter of 2023, the Company's total cash requirement for dividends for all of 2023 would be approximately \$212.6 million based on the number of shares of its common stock outstanding at February 21, 2023. The Company currently intends to continue to declare and pay quarterly cash dividends; however, there can be no assurance that any additional quarterly dividends will be declared or paid or of the amount or timing of such dividends, if any.

### *Stock Repurchases*

In February 2022, our Board of Directors authorized a repurchase program for up to \$100.0 million of our common stock through February 28, 2023, when and if market conditions warranted and to the extent legally permissible (the "February 2022 Authorization"). On April 1, 2022, the Company's Board of Directors approved an increase of \$150.0 million to the February 2022 Authorization, resulting in an aggregate authorization of \$250.0 million that was set to expire on February 28, 2023. During 2022, the Company repurchased 2.8 million shares under the February 2022 Authorization with an aggregate purchase price of \$51.9 million, excluding commissions. As of January 1, 2023, the Company had \$198.1 million of availability remaining under the February 2022 Authorization. In January 2023, our Board of Directors authorized a repurchase program for up to \$500.0 million of our common stock through February 28, 2027, when and if market conditions warrant and to the extent legally permissible (the "January 2023 Authorization"). In connection with the January 2023 Authorization, the remaining portion of the February 2022 Authorization was canceled. Subsequent to January 1, 2023 through February 21, 2023, the Company repurchased 0.6 million shares under the January 2023 Authorization with an aggregate purchase price of \$12.9 million, excluding commissions.

In February 2020, our Board of Directors authorized a repurchase program for up to \$100.0 million of our common stock through February 28, 2021, when and if market conditions warranted and to the extent legally permissible (the "February 2020 Authorization"). In July 2020, the Company's Board of Directors approved an extension of the February 2020 Authorization by one year, through February 28, 2022. In addition, in May 2021, August 2021 and November 2021, the Board of Directors approved increases of \$50.0 million, \$70.0 million and \$80.0 million, respectively, to the February 2020 Authorization, resulting in an aggregate authorization of \$300.0 million that continued to expire on February 28, 2022. In November 2021, the Company entered into an accelerated share repurchase agreement (the "2021 ASR Agreement") with a third-party financial institution to

repurchase common stock as part of the February 2020 Authorization. Under the 2021 ASR Agreement, the Company paid the financial institution an initial purchase price of \$125.0 million in cash and received an initial delivery of 4.9 million shares of common stock, representing an estimated 85% of the total shares expected to be delivered under the 2021 ASR Agreement. In February 2022, the Company completed the 2021 ASR Agreement and received an additional 0.7 million shares of common stock. The total number of shares of common stock ultimately purchased by the Company under the 2021 ASR Agreement was based on the average of the daily volume-weighted average prices of the common stock during the term of the 2021 ASR Agreement, less an agreed upon discount. In total, 5.6 million shares were delivered under the 2021 ASR Agreement at an average purchase price of \$22.22 per share. With the completion of the 2021 ASR Agreement in February 2022 as described above, the Company completed the February 2020 Authorization.

#### *Long-Term Debt, Including Current Portion*

As of January 1, 2023, the Company's long-term debt obligations totaled \$2,851.4 million, including \$29.3 million payable within 12 months. In addition, the Company is party to a revolving financing facility of Series 2021-1 Variable Funding Senior Secured Notes, Class A-1 (the "Class A-1 Notes"), which allows for the drawing of up to \$300.0 million on a revolving basis using various credit instruments, including a letter of credit facility. No amounts were borrowed under the Class A-1 Notes during 2022.

Subsequent to January 1, 2023, Wendy's repurchased \$25.0 million in principal of its 7% debentures at par value.

We may from time to time seek to repurchase additional portions of our outstanding long-term debt, including our 7% debentures and/or our senior secured notes, through open market purchases, privately negotiated transactions or otherwise. In February 2023, our Board of Directors authorized additional debt repurchases of up to \$50.0 million through February 28, 2024, resulting in total debt repurchases of up to \$75.0 million in 2023. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Whether or not to repurchase any debt and the size and timing of any such repurchases will be determined at our discretion.

See Note 12 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information related to our long-term debt obligations and the timing of expected payments.

#### *Leases*

The Company operates restaurants that are located on sites owned by us and sites leased by us from third parties. In addition, the Company owns sites and leases sites from third parties, which it leases and/or subleases to franchisees. The Company also leases restaurant, office and transportation equipment. As of January 1, 2023, the Company's future minimum rental payments for non-cancelable leases were \$2,159.5 million, including \$148.5 million payable within 12 months. See Note 20 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information related to our finance and operating lease obligations and the timing of expected payments.

#### *Purchase Obligations*

The Company's purchase obligations include payment obligations to a third-party global IT consultant, purchase requirements under a beverage agreement and other obligations related primarily to marketing and information technology. As of January 1, 2023, the Company's purchase obligations were \$252.9 million, including \$117.4 million payable within 12 months.



## Guarantees and Other Contingencies

|                             | <u>Year End</u> |
|-----------------------------|-----------------|
|                             | <u>2022</u>     |
| Lease guarantees (a) .....  | \$102.6         |
| Letters of credit (b) ..... | <u>28.6</u>     |
| Total .....                 | <u>\$131.2</u>  |

- (a) Wendy's has guaranteed the performance of certain leases and other obligations, primarily from former Company-operated restaurant locations now operated by franchisees. These leases extend through 2045.
- (b) The Company has outstanding letters of credit with various parties. The Company does not expect any material loss to result from these letters of credit because we do not believe performance will be required.

## General Inflation, Commodities and Changing Prices

Inflationary pressures on labor and commodity price increases directly impacted our consolidated results of operations during 2022, and we expect this to continue into 2023. We attempt to manage any inflationary costs and commodity price increases through selective menu price increases and product mix. Delays in implementing such menu price increases and competitive pressures may limit our ability to recover such cost increases in the future. Inherent volatility experienced in certain commodity markets, such as those for beef, chicken, pork, cheese and grains, could have a significant effect on our results of operations and may have an adverse effect on us in the future. The extent of any impact will depend on our ability to manage such volatility through product mix and selective menu price increases.

## Seasonality

Wendy's restaurant operations are moderately seasonal. Wendy's average restaurant sales are normally higher during the summer months than during the winter months. Because our business is moderately seasonal, results for a particular quarter are not necessarily indicative of the results that may be achieved for any other quarter or for the full fiscal year.

## Off-Balance Sheet Arrangements

Other than the obligations for guarantees described above in "Guarantees and Other Contingencies," we do not have any off-balance sheet arrangements that have, or are, in the opinion of management, reasonably likely to have, a current or future material effect on our financial condition or results of operations.

## Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in applying our critical accounting policies that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Our estimates and assumptions affect, among other things, impairment of goodwill and indefinite-lived intangible assets, impairment of long-lived assets, realizability of deferred tax assets and federal and state income tax uncertainties. We evaluate those estimates and assumptions on an ongoing basis based on historical experience and on various other factors which we believe are reasonable under the circumstances.

We believe that the following represent our more critical estimates and assumptions used in the preparation of our consolidated financial statements:

- Impairment of goodwill and indefinite-lived intangible assets:

Our goodwill totaled \$773.1 million as of January 1, 2023, of which \$620.6 million, \$30.0 million and \$122.5 million was allocated to our U.S. Company-operated and franchise restaurants reporting unit, Canada franchise restaurants reporting unit and global real estate and development operations reporting unit, respectively.

We test goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Our annual impairment test of goodwill may be completed through a qualitative assessment to determine if the fair value of the reporting unit is more likely than not greater than the carrying amount. If we elect to bypass the qualitative assessment for any reporting units, or if a qualitative assessment indicates it is more likely than not that the estimated carrying value of a reporting unit exceeds its fair value, we perform a quantitative goodwill impairment test. Under the quantitative test, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The fair value of the reporting unit is determined by management and is based on the results of (1) estimates we made regarding the present value of the anticipated cash flows associated with each reporting unit (the “income approach”) and/or (2) the indicated value of the reporting units based on a comparison and correlation of the Company and other similar companies (the “market approach”).

The income approach, which considers factors unique to each of our reporting units and related long range plans that may not be comparable to other companies and that are not yet publicly available, is dependent on several critical management assumptions. These assumptions include estimates of future sales growth, operating profit, income tax rates, terminal value growth rates, capital expenditures and the weighted average cost of capital (discount rate). Anticipated cash flows used under the income approach are developed every fourth quarter in conjunction with our annual budgeting process and also incorporate amounts and timing of future cash flows based on our long range plan.

The discount rates used in the income approach are an estimate of the rate of return that a market participant would expect of each reporting unit. To select an appropriate rate for discounting the future earnings stream, a review is made of short-term interest rate yields of long-term corporate and government bonds, as well as the typical capital structure of companies in the industry. The discount rates used for each reporting unit may vary depending on the risk inherent in the cash flow projections, as well as the risk level that would be perceived by a market participant. A terminal value is included at the end of the projection period used in our discounted cash flow analysis to reflect the remaining value that each reporting unit is expected to generate. The terminal value represents the present value in the last year of the projection period of all subsequent cash flows into perpetuity. The terminal value growth rate is a key assumption used in determining the terminal value as it represents the annual growth of all subsequent cash flows into perpetuity.

Under the market approach, we apply the guideline company method in estimating fair value. The guideline company method makes use of market price data of corporations whose stock is actively traded in a public market. The corporations we select as guideline companies are engaged in a similar line of business or are subject to similar financial and business risks, including the opportunity for growth. The guideline company method of the market approach provides an indication of value by relating the equity or invested capital (debt plus equity) of guideline companies to various measures of their earnings and cash flow, then applying such multiples to the business being valued. The result of applying the guideline company approach is adjusted based on the incremental value associated with a controlling interest in the business. This “control premium” represents the amount a new controlling stockholder would pay for the benefits resulting from synergies and other potential benefits derived from controlling the enterprise.

For the annual goodwill impairment test in the fourth quarter of 2022, we elected to perform a qualitative assessment for the U.S. Company-operated and franchise restaurants and the Canada franchise restaurants, and we performed a quantitative goodwill impairment test for the global real estate and development

operations. The qualitative assessment indicated the fair value of our U.S. Company-operated and franchise restaurants and our Canada franchise restaurants reporting units was more likely than not greater than the carrying amount. Our quantitative goodwill impairment test for our global real estate and development operations indicated that there had been no impairment and the fair value of this reporting unit of approximately \$1,400.0 million was approximately 21% in excess of its carrying value.

Our indefinite-lived intangible assets represent trademarks and totaled \$903.0 million as of January 1, 2023. We test indefinite-lived intangible assets for impairment annually, or more frequently if events or changes in circumstances indicate that the assets may be impaired. Our annual impairment test may be completed through a qualitative assessment to determine if the fair value of the indefinite-lived intangible assets is more likely than not greater than the carrying amount. If we elect to bypass the qualitative assessment, or if a qualitative assessment indicates it is more likely than not that the estimated carrying value exceeds the fair value, we test for impairment using a quantitative process. Our quantitative process includes comparing the carrying value to the fair value of our indefinite-lived intangible assets, with any excess recognized as an impairment loss. Our critical estimates in the determination of the fair value of our indefinite-lived intangible assets include the anticipated future revenues of Company-operated and franchised restaurants and the resulting cash flows.

For the annual impairment test of our indefinite-lived intangible assets in the fourth quarter of 2022, we elected to perform a qualitative assessment. The qualitative assessment indicated the fair value of our indefinite-lived intangible assets was more likely than not greater than the carrying amount.

The estimated fair values of our goodwill reporting units and indefinite-lived intangible assets are subject to change as a result of many factors including, among others, any changes in our business plans, changing economic conditions and the competitive environment. Should actual cash flows and our future estimates vary adversely from those estimates we use, we may be required to recognize impairment charges in future years.

- Impairment of long-lived assets:

As of January 1, 2023, the total net carrying value of our long-lived tangible and definite-lived intangible assets was \$2,230.6 million. Our long-lived assets include (1) properties and related definite-lived intangible assets (e.g., favorable leases) that are leased and/or subleased to franchisees, (2) Company-operated restaurant assets and related definite-lived intangible assets, which include reacquired rights under franchise agreements, and (3) finance and operating lease assets.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess the recoverability of our long-lived assets by comparing the carrying amount of the asset group to future undiscounted net cash flows expected to be generated through leases and/or subleases or by our individual Company-operated restaurants. If the carrying amount of the long-lived asset group is not recoverable on an undiscounted cash flow basis, then impairment is recognized to the extent that the carrying amount exceeds its fair value and is included in "Impairment of long-lived assets." Our critical estimates in this review process include the anticipated future cash flows from leases and/or subleases or individual Company-operated restaurants, which is used in assessing the recoverability of the respective long-lived assets. Our impairment losses principally reflect impairment charges resulting from the deterioration in operating performance of certain Company-operated restaurants.

Our fair value estimates are subject to change as a result of many factors including, among others, any changes in our business plans, changing economic conditions and the competitive environment. Should actual cash flows and our future estimates vary adversely from those estimates we used, we may be required to recognize additional impairment charges in future years.

- Our ability to realize deferred tax assets:

We account for income taxes under the asset and liability method. A deferred tax asset or liability is recognized whenever there are (1) future tax effects from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (2) operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the years in which those differences are expected to be recovered or settled.

Deferred tax assets are recognized to the extent the Company believes these assets will more likely than not be realized. In evaluating the realizability of deferred tax assets, the Company considers all available positive and negative evidence, including the interaction and the timing of future reversals of existing temporary differences, recent operating results, tax-planning strategies and projected future taxable income. In projecting future taxable income, we begin with historical results from continuing operations and incorporate assumptions including future operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment and are consistent with the plans and estimates we are using to manage our underlying business. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income.

When considered necessary, a valuation allowance is recorded to reduce the carrying amount of the deferred tax assets to their anticipated realizable value. Our evaluation of the realizability of our deferred tax assets is subject to change as a result of many factors including, among others, any changes in our business plans, changing economic conditions, the competitive environment and the effect of future tax legislation. Should future taxable income vary from projected taxable income, we may be required to adjust our valuation allowance in future years.

Net operating loss and credit carryforwards are subject to various limitations and carryforward periods. As of January 1, 2023, we have foreign tax credits of \$18.2 million and state tax credits of \$0.4 million. The foreign tax credits begin to expire in 2027 and the state tax credits begin to expire in 2023. In addition, as of January 1, 2023, we have deferred tax assets for foreign net operating loss carryforwards of \$3.5 million and state and local net operating loss carryforwards of \$35.9 million that will begin to expire in 2023. We believe it is more likely than not that the benefit from certain net operating loss carryforwards and tax credits will not be realized. In recognition of this risk, we have provided a valuation allowance of \$35.7 million.

- Income tax uncertainties:

We measure income tax uncertainties in accordance with a two-step process of evaluating a tax position. We first determine if it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is then measured, for purposes of financial statement recognition, as the largest amount that has a greater than 50% likelihood of being realized upon effective settlement. We have unrecognized tax benefits of \$17.4 million, which if resolved favorably would reduce our tax expense by \$13.7 million as of January 1, 2023.

We accrue interest related to uncertain tax positions in “Interest expense, net.” As of January 1, 2023, we had \$0.9 million accrued for interest.

The Company participates in the Internal Revenue Service (the “IRS”) Compliance Assurance Process (“CAP”). As part of CAP, tax years are examined on a contemporaneous basis so that all or most issues are resolved prior to the filing of the tax return. As such, our U.S. federal income tax returns for fiscal years 2009 through 2020 have been settled. The statute of limitations for the Company’s state tax returns vary, but generally the Company’s state income tax returns from its 2018 fiscal year forward remain subject to examination. We believe that adequate provisions have been made for any liabilities, including interest and penalties that may result from the completion of these examinations.

## **New Accounting Standards**

See Note 1 of the Financial Statements and Supplementary Data contained in Item 8 herein for a summary of new or amended accounting standards applicable to us.

## **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.***

Certain statements the Company makes under this Item 7A constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Special Note Regarding Forward-Looking Statements and Projections” in “Part I” preceding “Item 1. Business.”

We are exposed to the impact of interest rate changes, changes in commodity prices and foreign currency fluctuations primarily related to the Canadian dollar. In the normal course of business, we employ established policies and procedures to manage our exposure to these changes using financial instruments we deem appropriate.

### *Interest Rate Risk*

Our objective in managing our exposure to interest rate changes is to limit the impact on our earnings and cash flows. Our policies prohibit the use of derivative instruments for trading purposes, and we had no outstanding derivative instruments as of January 1, 2023.

Our long-term debt, including the current portion, aggregated \$2,895.8 million as of January 1, 2023 (excluding unamortized debt issuance costs and the effect of purchase accounting adjustments). The Company's predominantly fixed-rate debt structure has reduced its exposure to interest rate increases that could adversely affect its earnings and cash flows. The Company could be exposed to interest rate increases under its Class A-1 Notes and other lines of credit; however, the Company had no outstanding borrowings under the Class A-1 Notes or its other lines of credit as of January 1, 2023. See Note 12 of the Financial Statements and Supplementary Data contained in Item 8 herein for further information on the Company's debt structure and its securitized financing facility.

In addition, certain of the Company's loan documents determine interest based on LIBOR, and we currently intend to renegotiate such loan documents prior to LIBOR being discontinued. At this time, we cannot predict what alternative index would be negotiated with our lenders or the resulting impact on our interest expense.

### *Commodity Price Risk*

Commodity price increases directly impacted our consolidated results of operations during 2022, and we expect this to continue into 2023. We purchase certain food products, such as beef, chicken, pork, cheese and grains, that are affected by changes in commodity prices and, as a result, we are subject to variability in our food costs. QSCC, our independent supply chain purchasing co-op, negotiates contracts with approved suppliers on behalf of the Wendy's system in the U.S. and Canada to ensure favorable pricing for its major food products, as well as maintain an adequate supply of fresh food products. While price volatility can occur, which would impact profit margins, the purchasing contracts seek to limit the variability of these commodity costs without establishing any firm purchase commitments by us or our franchisees. In addition, we believe that alternative suppliers are generally available. Our ability to recover increased commodity costs through higher pricing is, at times, limited by the competitive environment in which we operate.

### *Foreign Currency Risk*

Our exposures to foreign currency risk are primarily related to fluctuations in the Canadian dollar relative to the U.S. dollar for our Canadian operations. We monitor these exposures and periodically determine our need for the use of strategies intended to lessen or limit our exposure to these fluctuations. We have exposure related to our investment in a Canadian subsidiary which is subject to foreign currency fluctuations. The exposure to Canadian dollar exchange rates on the Company's cash flows primarily includes imports paid for by Canadian operations in U.S. dollars and payments from the Company's Canadian operations to the Company's U.S. operations in U.S. dollars. Revenues from our Canadian operations for the year ended January 1, 2023 represented approximately 5% of our total revenues. An immediate 10% change in Canadian dollar exchange rates versus the U.S. dollar from their levels at January 1, 2023 would not have a material effect on our consolidated financial position or results of operations.

## Item 8. *Financial Statements and Supplementary Data.*

### THE WENDY'S COMPANY AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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| <u>Defined Term</u>      | <u>Footnote Where Defined</u>                  |
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The Wendy's Company

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Wendy's Company and subsidiaries (the "Company") as of January 1, 2023 and January 2, 2022, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended January 1, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2023 and January 2, 2022, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 1, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Goodwill—Global Real Estate and Development Operations Reporting Unit – Refer to Notes 1 and 10 to the financial statements*

#### *Critical Audit Matter Description*

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value.

The Company used both an income approach and a market approach to estimate fair value of the global real estate and development operations reporting unit. The income approach requires management to make significant

estimates and assumptions including future sales growth, operating profit, terminal value growth rate and the weighted average cost of capital (discount rate). The market approach requires use of market price data of guideline public companies to estimate the fair value of the reporting unit. Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both. The goodwill balance was \$773.1 million as of January 1, 2023, of which \$122.5 million was allocated to the global real estate and development operations reporting unit. The fair value of the global real estate and development operations reporting unit exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized.

We identified the Company's income approach in the impairment evaluation of goodwill for the global real estate and development operations reporting unit as a critical audit matter because of the significant judgments made by management to estimate the fair value of this reporting unit. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions, particularly related to future sales growth, operating profit, terminal value growth rate and the selection of the discount rate.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the estimates of future sales growth, operating profit and discount rate used by management to estimate the fair value of the global real estate and development operations reporting unit included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the determination of the fair value of the global real estate and development operations reporting unit, such as controls related to management's forecasts of future sales growth, operating profit, terminal value growth rate and selection of the discount rate.
- We evaluated management's ability to accurately forecast future sales growth and operating profit by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's sales and operating profit forecasts by comparing the forecasts to (1) historical sales and operating profit and (2) internal communications to management and the Board of Directors. We also considered the impact of changes in management's forecasts from the annual measurement date in the fourth quarter to January 1, 2023.
- With the assistance of our fair value specialists, we evaluated the terminal value growth rate and the discount rate, including testing the underlying source information and the mathematical accuracy of the calculation, and by developing a range of independent estimates and comparing those to the discount rate selected by management.

/s/ Deloitte & Touche LLP  
Columbus, Ohio  
March 1, 2023

We have served as the Company's auditor since 1994.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands Except Par Value)

|   | <u>January 1,</u><br><u>2023</u> | <u>January 2,</u><br><u>2022</u> |
|---|----------------------------------|----------------------------------|
| <b>ASSETS</b>   |                                  |                                  |
| Current assets:   |                                  |                                  |
| Cash and cash equivalents . . . . .   | \$ 745,889                       | \$ 249,438                       |
| Restricted cash . . . . .   | 35,203                           | 27,535                           |
| Accounts and notes receivable, net . . . . .  | 116,426                          | 119,540                          |
| Inventories . . . . .   | 7,129                            | 5,934                            |
| Prepaid expenses and other current assets . . . . .   | 26,963                           | 30,584                           |
| Advertising funds restricted assets . . . . .   | 126,673                          | 159,818                          |
| Total current assets . . . . .  | <u>1,058,283</u>                 | <u>592,849</u>                   |
| Properties . . . . .  | 895,778                          | 906,867                          |
| Finance lease assets . . . . .  | 234,570                          | 244,279                          |
| Operating lease assets . . . . .  | 754,498                          | 812,620                          |
| Goodwill . . . . .  | 773,088                          | 775,278                          |
| Other intangible assets . . . . .   | 1,248,800                        | 1,280,791                        |
| Investments . . . . .   | 46,028                           | 49,870                           |
| Net investment in sales-type and direct financing leases . . . . .  | 317,337                          | 299,707                          |
| Other assets . . . . .  | 170,962                          | 139,130                          |
| Total assets . . . . .  | <u>\$ 5,499,344</u>              | <u>\$ 5,101,391</u>              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                  |                                  |
| Current liabilities:  |                                  |                                  |
| Current portion of long-term debt . . . . .   | \$ 29,250                        | \$ 24,250                        |
| Current portion of finance lease liabilities . . . . .  | 18,316                           | 15,513                           |
| Current portion of operating lease liabilities . . . . .  | 48,120                           | 47,315                           |
| Accounts payable . . . . .  | 43,996                           | 41,163                           |
| Accrued expenses and other current liabilities . . . . .  | 116,010                          | 140,783                          |
| Advertising funds restricted liabilities . . . . .  | 132,307                          | 157,901                          |
| Total current liabilities . . . . .   | <u>387,999</u>                   | <u>426,925</u>                   |
| Long-term debt . . . . .  | 2,822,196                        | 2,356,416                        |
| Long-term finance lease liabilities . . . . .   | 571,877                          | 559,587                          |
| Long-term operating lease liabilities . . . . .   | 792,051                          | 853,328                          |
| Deferred income taxes . . . . .   | 270,421                          | 267,710                          |
| Deferred franchise fees . . . . .   | 90,231                           | 88,102                           |
| Other liabilities . . . . .   | 98,849                           | 112,918                          |
| Total liabilities . . . . .   | <u>5,033,624</u>                 | <u>4,664,986</u>                 |
| Commitments and contingencies   |                                  |                                  |
| Stockholders' equity:   |                                  |                                  |
| Common stock, \$0.10 par value; 1,500,000 shares authorized;<br>470,424 shares issued; 213,101 and 215,849 shares outstanding, respectively . . | 47,042                           | 47,042                           |
| Additional paid-in capital . . . . .  | 2,937,885                        | 2,898,633                        |
| Retained earnings . . . . .   | 414,749                          | 344,198                          |
| Common stock held in treasury, at cost; 257,323 and 254,575 shares,<br>respectively . . . . .   | (2,869,780)                      | (2,805,268)                      |
| Accumulated other comprehensive loss . . . . .  | (64,176)                         | (48,200)                         |
| Total stockholders' equity . . . . .  | <u>465,720</u>                   | <u>436,405</u>                   |
| Total liabilities and stockholders' equity . . . . .  | <u>\$ 5,499,344</u>              | <u>\$ 5,101,391</u>              |

See accompanying notes to consolidated financial statements.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands Except Per Share Amounts)

|  | Year Ended         |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | January 1,<br>2023 | January 2,<br>2022 | January 3,<br>2021 |
| Revenues:  |                    |                    |                    |
| Sales . . . . .  | \$ 896,585         | \$ 734,074         | \$ 722,764         |
| Franchise royalty revenue and fees . . . . .   | 558,235            | 536,748            | 444,749            |
| Franchise rental income . . . . .  | 234,465            | 236,655            | 232,648            |
| Advertising funds revenue . . . . .  | 406,220            | 389,521            | 333,664            |
|  | <u>2,095,505</u>   | <u>1,896,998</u>   | <u>1,733,825</u>   |
| Costs and expenses:  |                    |                    |                    |
| Cost of sales . . . . .  | 773,169            | 611,680            | 614,907            |
| Franchise support and other costs . . . . .  | 46,736             | 42,900             | 26,464             |
| Franchise rental expense . . . . .   | 124,083            | 132,411            | 125,613            |
| Advertising funds expense . . . . .  | 430,760            | 411,751            | 345,360            |
| General and administrative . . . . .   | 254,979            | 242,970            | 206,876            |
| Depreciation and amortization (exclusive of amortization of cloud computing arrangements shown separately below) . . . . . | 133,414            | 125,540            | 132,775            |
| Amortization of cloud computing arrangements . . . . .   | 2,394              | —                  | —                  |
| System optimization gains, net . . . . .   | (6,779)            | (33,545)           | (3,148)            |
| Reorganization and realignment costs . . . . .   | 698                | 8,548              | 16,030             |
| Impairment of long-lived assets . . . . .  | 6,420              | 2,251              | 8,037              |
| Other operating income, net . . . . .  | (23,683)           | (14,468)           | (8,397)            |
|  | <u>1,742,191</u>   | <u>1,530,038</u>   | <u>1,464,517</u>   |
| Operating profit . . . . .   | 353,314            | 366,960            | 269,308            |
| Interest expense, net . . . . .  | (122,319)          | (109,185)          | (117,737)          |
| Loss on early extinguishment of debt . . . . .   | —                  | (17,917)           | —                  |
| Investment income (loss), net . . . . .  | 2,107              | 39                 | (225)              |
| Other income, net . . . . .  | 10,403             | 681                | 1,449              |
|  | <u>243,505</u>     | <u>240,578</u>     | <u>152,795</u>     |
| Income before income taxes . . . . .   | 243,505            | 240,578            | 152,795            |
| Provision for income taxes . . . . .   | (66,135)           | (40,186)           | (34,963)           |
| Net income . . . . .   | <u>\$ 177,370</u>  | <u>\$ 200,392</u>  | <u>\$ 117,832</u>  |
| Net income per share:  |                    |                    |                    |
| Basic . . . . .  | \$ .83             | \$ .91             | \$ .53             |
| Diluted . . . . .  | .82                | .89                | .52                |

See accompanying notes to consolidated financial statements.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In Thousands)

|   | Year Ended         |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | January 1,<br>2023 | January 2,<br>2022 | January 3,<br>2021 |
| Net income .....                              | \$177,370          | \$200,392          | \$117,832          |
| Other comprehensive (loss) income:            |                    |                    |                    |
| Foreign currency translation adjustment ..... | (15,976)           | 1,441              | 4,187              |
| Other comprehensive (loss) income .....       | (15,976)           | 1,441              | 4,187              |
| Comprehensive income .....                    | <u>\$161,394</u>   | <u>\$201,833</u>   | <u>\$122,019</u>   |

See accompanying notes to consolidated financial statements.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In Thousands)

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Common<br>Stock Held in<br>Treasury | Accumulated<br>Other<br>Comprehensive<br>Loss | Total             |
|--|-----------------|----------------------------------|----------------------|-------------------------------------|---|-------------------|
| Balance at December 29, 2019           | \$ 47,042       | \$ 2,874,001                     | \$ 185,725           | \$ (2,536,581)                      | \$ (53,828)                                   | \$ 516,359        |
| Net income                             | —               | —                                | 117,832              | —                                   | —   | 117,832           |
| Other comprehensive income, net        | —               | —                                | —                    | —                                   | 4,187   | 4,187             |
| Cash dividends                         | —               | —                                | (64,866)             | —                                   | —   | (64,866)          |
| Repurchases of common stock, including |                 |                                  |                      |                                     |   |                   |
| accelerated share repurchase           | —               | 15,000                           | —                    | (76,095)                            | —   | (61,095)          |
| Share-based compensation               | —               | 18,930                           | —                    | —                                   | —   | 18,930            |
| Common stock issued upon exercises of  |                 |                                  |                      |                                     |   |                   |
| stock options                          | —               | (912)                            | —                    | 24,263                              | —   | 23,351            |
| Common stock issued upon vesting of    |                 |                                  |                      |                                     |   |                   |
| restricted shares                      | —               | (7,889)                          | —                    | 2,500                               | —   | (5,389)           |
| Other                                  | —               | 146                              | (17)                 | 158                                 | —   | 287               |
| Balance at January 3, 2021             | 47,042          | 2,899,276                        | 238,674              | (2,585,755)                         | (49,641)                                      | 549,596           |
| Net income                             | —               | —                                | 200,392              | —                                   | —   | 200,392           |
| Other comprehensive income, net        | —               | —                                | —                    | —                                   | 1,441   | 1,441             |
| Cash dividends                         | —               | —                                | (94,846)             | —                                   | —   | (94,846)          |
| Repurchases of common stock, including |                 |                                  |                      |                                     |   |                   |
| accelerated share repurchase           | —               | (18,750)                         | —                    | (249,058)                           | —   | (267,808)         |
| Share-based compensation               | —               | 22,019                           | —                    | —                                   | —   | 22,019            |
| Common stock issued upon exercises of  |                 |                                  |                      |                                     |   |                   |
| stock options                          | —               | 1,911                            | —                    | 27,139                              | —   | 29,050            |
| Common stock issued upon vesting of    |                 |                                  |                      |                                     |   |                   |
| restricted shares                      | —               | (6,023)                          | —                    | 2,285                               | —   | (3,738)           |
| Other                                  | —               | 200                              | (22)                 | 121                                 | —   | 299               |
| Balance at January 2, 2022             | 47,042          | 2,898,633                        | 344,198              | (2,805,268)                         | (48,200)                                      | 436,405           |
| Net income                             | —               | —                                | 177,370              | —                                   | —   | 177,370           |
| Other comprehensive loss, net          | —               | —                                | —                    | —                                   | (15,976)                                      | (15,976)          |
| Cash dividends                         | —               | —                                | (106,779)            | —                                   | —   | (106,779)         |
| Repurchases of common stock, including |                 |                                  |                      |                                     |   |                   |
| accelerated share repurchase           | —               | 18,750                           | —                    | (70,700)                            | —   | (51,950)          |
| Share-based compensation               | —               | 24,538                           | —                    | —                                   | —   | 24,538            |
| Common stock issued upon exercises of  |                 |                                  |                      |                                     |   |                   |
| stock options                          | —               | 1,117                            | —                    | 3,461                               | —   | 4,578             |
| Common stock issued upon vesting of    |                 |                                  |                      |                                     |   |                   |
| restricted shares                      | —               | (5,363)                          | —                    | 2,482                               | —   | (2,881)           |
| Other                                  | —               | 210                              | (40)                 | 245                                 | —   | 415               |
| Balance at January 1, 2023             | <u>\$47,042</u> | <u>\$2,937,885</u>               | <u>\$ 414,749</u>    | <u>\$(2,869,780)</u>                | <u>\$(64,176)</u>                             | <u>\$ 465,720</u> |

See accompanying notes to consolidated financial statements.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)

|  | Year Ended         |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | January 1,<br>2023 | January 2,<br>2022 | January 3,<br>2021 |
| Cash flows from operating activities:  |                    |                    |                    |
| Net income   | \$ 177,370         | \$ 200,392         | \$ 117,832         |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                    |                    |                    |
| Depreciation and amortization (exclusive of amortization of cloud computing arrangements shown separately below) | 133,414            | 125,540            | 132,775            |
| Amortization of cloud computing arrangements   | 2,394              | —                  | —                  |
| Share-based compensation   | 24,538             | 22,019             | 18,930             |
| Impairment of long-lived assets  | 6,420              | 2,251              | 8,037              |
| Deferred income tax  | 4,305              | (13,781)           | 10,266             |
| Non-cash rental expense, net   | 33,915             | 40,596             | 28,937             |
| Change in operating lease liabilities  | (45,682)           | (45,606)           | (40,905)           |
| Net (recognition) receipt of deferred vendor incentives  | (1,060)            | 715                | 2,495              |
| System optimization gains, net   | (6,779)            | (33,545)           | (3,148)            |
| Gain on sale of investments, net   | —                  | (63)               | —                  |
| Distributions received from TimWen joint venture   | 12,612             | 16,337             | 8,376              |
| Equity in earnings in joint ventures, net  | (9,422)            | (11,203)           | (6,096)            |
| Long-term debt-related activities, net (see Note 21)   | 7,762              | 24,758             | 6,723              |
| Cloud computing arrangements expenditures  | (30,220)           | (14,086)           | —                  |
| Other, net   | (4,554)            | 844                | (6,438)            |
| Changes in operating assets and liabilities:   |                    |                    |                    |
| Accounts and notes receivable, net   | (5,857)            | (5,613)            | (16,243)           |
| Inventories  | (1,203)            | (872)              | (841)              |
| Prepaid expenses and other current assets  | 6,769              | (3,396)            | (8,780)            |
| Advertising funds restricted assets and liabilities  | (30,503)           | 11,519             | 49,052             |
| Accounts payable   | (1,533)            | 7,586              | 1,620              |
| Accrued expenses and other current liabilities   | (12,782)           | 21,380             | (18,231)           |
| Net cash provided by operating activities  | <u>259,904</u>     | <u>345,772</u>     | <u>284,361</u>     |
| Cash flows from investing activities:  |                    |                    |                    |
| Capital expenditures   | (85,544)           | (77,984)           | (68,969)           |
| Franchise development fund   | (3,605)            | —                  | —                  |
| Acquisitions   | —                  | (123,069)          | (4,879)            |
| Dispositions   | 8,237              | 55,118             | 6,091              |
| Proceeds from sale of investments  | —                  | 63                 | 169                |
| Notes receivable, net  | 3,136              | 1,203              | (662)              |
| Payments for investments   | —                  | (10,000)           | —                  |
| Net cash used in investing activities  | <u>(77,776)</u>    | <u>(154,669)</u>   | <u>(68,250)</u>    |
| Cash flows from financing activities:  |                    |                    |                    |
| Proceeds from long-term debt   | 500,000            | 1,100,000          | 153,315            |
| Repayments of long-term debt   | (26,750)           | (970,344)          | (191,462)          |
| Repayments of finance lease liabilities  | (17,312)           | (13,640)           | (8,383)            |
| Deferred financing costs   | (10,232)           | (20,873)           | (2,122)            |
| Repurchases of common stock, including accelerated share repurchase  | (51,950)           | (268,531)          | (62,173)           |
| Dividends  | (106,779)          | (94,846)           | (64,866)           |
| Proceeds from stock option exercises   | 4,865              | 30,003             | 23,361             |
| Payments related to tax withholding for share-based compensation   | (3,168)            | (4,511)            | (5,577)            |
| Net cash provided by (used in) financing activities  | <u>288,674</u>     | <u>(242,742)</u>   | <u>(157,907)</u>   |
| Net cash provided by (used in) operations before effect of exchange rate changes on cash                         | 470,802            | (51,639)           | 58,204             |
| Effect of exchange rate changes on cash  | (5,967)            | 364                | 1,330              |
| Net increase (decrease) in cash, cash equivalents and restricted cash  | 464,835            | (51,275)           | 59,534             |
| Cash, cash equivalents and restricted cash at beginning of period  | <u>366,966</u>     | <u>418,241</u>     | <u>358,707</u>     |
| Cash, cash equivalents and restricted cash at end of period  | <u>\$ 831,801</u>  | <u>\$ 366,966</u>  | <u>\$ 418,241</u>  |

See accompanying notes to consolidated financial statements.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In Thousands Except Per Share Amounts)

**(1) Summary of Significant Accounting Policies**

*Corporate Structure*

The Wendy's Company ("The Wendy's Company" and, together with its subsidiaries, the "Company," "we," "us," or "our") is the parent company of its 100% owned subsidiary holding company, Wendy's Restaurants, LLC ("Wendy's Restaurants"). Wendy's Restaurants is the parent company of Wendy's International, LLC and its subsidiaries ("Wendy's"). Wendy's franchises and operates Wendy's quick-service restaurants specializing in hamburger sandwiches throughout the United States of America ("U.S.") and in 31 foreign countries and U.S. territories. At January 1, 2023, Wendy's operated and franchised 415 and 6,680 restaurants, respectively.

The Company manages and internally reports its business in the following segments: (1) Wendy's U.S., (2) Wendy's International and (3) Global Real Estate & Development. See Note 27 for further information.

*Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include all of the Company's subsidiaries. We also consider for consolidation entities in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. The principal entities in which we possess a variable interest include the Company's national advertising funds for the U.S. and Canada (the "Advertising Funds"). All intercompany balances and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ materially from those estimates due to risks and uncertainties, including uncertainty in the current economic environment due to the COVID-19 pandemic and other factors.

*Reclassifications*

Beginning in 2022, the Company has reclassified payments for cloud computing arrangements in the consolidated statements of cash flows to "Cloud computing arrangements expenditures," which were previously recorded to "Other, net." The prior period amounts in the consolidated statement of cash flows for 2021 reflect the reclassification of these cash flows to conform to the current year presentation. There was no impact to "Net cash provided by operating activities." No payments for cloud computing arrangements were made by the Company in 2020.

The following table illustrates the reclassifications made to the consolidated statement of cash flows for 2021:

|   | <u>As Previously<br/>Reported</u> | <u>Reclassifications</u> | <u>As Currently<br/>Reported</u> |
|---|-----------------------------------|--------------------------|----------------------------------|
| Cloud computing arrangements expenditures . . . . . | \$ —                              | \$(14,086)               | \$(14,086)                       |
| Other, net . . . . .                                | (13,242)                          | 14,086                   | 844                              |



**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

*Fiscal Year*

The Company's fiscal reporting periods consist of 52 or 53 weeks ending on the Sunday closest to December 31 and are referred to herein as (1) "the year ended January 1, 2023" or "2022," which consisted of 52 weeks, (2) "the year ended January 2, 2022" or "2021," which consisted of 52 weeks, and (3) "the year ended January 3, 2021" or "2020," which consisted of 53 weeks. All references to years, quarters and months relate to fiscal periods rather than calendar periods.

*Cash and Cash Equivalents*

All highly liquid investments with a maturity of three months or less when acquired are considered cash equivalents. The Company's cash and cash equivalents principally consist of cash in bank and money market mutual fund accounts and are primarily not in Federal Deposit Insurance Corporation insured accounts.

We believe that our vulnerability to risk concentrations in our cash equivalents is mitigated by (1) our policies restricting the eligibility, credit quality and concentration limits for our placements in cash equivalents and (2) insurance from the Securities Investor Protection Corporation of up to \$500 per account, as well as supplemental private insurance coverage maintained by substantially all of our brokerage firms, to the extent our cash equivalents are held in brokerage accounts.

*Restricted Cash*

In accordance with the Company's securitized financing facility, certain cash accounts have been established with the trustee for the benefit of the trustee and the noteholders and are restricted in their use. Such restricted cash primarily represents cash collections and cash reserves held by the trustee to be used for payments of principal, interest and commitment fees required for the Company's senior secured notes. Restricted cash also includes cash collected by the Advertising Funds, usage of which is restricted for advertising activities and is included in "Advertising funds restricted assets." Refer to Note 7 for further information.

*Accounts and Notes Receivable, Net*

Accounts and notes receivable, net, consist primarily of royalties, rents, property taxes and franchise fees due principally from franchisees, delivery-related receivables, credit card receivables, insurance receivables and refundable income taxes. Reserve estimates include consideration of the likelihood of default expected over the estimated life of the receivable. The Company periodically assesses the need for an allowance for doubtful accounts on its receivables based upon several key credit quality indicators such as outstanding past due balances, the financial strength of the obligor, the estimated fair value of any underlying collateral and agreement characteristics.

We believe that our vulnerability to risk concentrations in our receivables is mitigated by (1) favorable historical collectability on past due balances, (2) recourse to the underlying collateral regarding sales-type and direct financing lease receivables, and (3) our expectations for fluctuations in general market conditions. Receivables are considered delinquent once they are contractually past due under the terms of the underlying agreements. See Note 7 for further information.

*Inventories*

The Company's inventories are stated at the lower of cost or net realizable value, with cost determined in accordance with the first-in, first-out method and consist primarily of restaurant food items and paper supplies.

*Cloud Computing Arrangements ("CCA")*

The Company capitalizes implementation costs associated with its CCA consistent with costs capitalized for internal-use software. Capitalized CCA implementation costs are included in "Prepaid expenses and other current

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assets” and “Other assets.” The CCA implementation costs are amortized over the term of the related hosting agreement, including renewal periods that are reasonably certain to be exercised. Amortization expense of CCA implementation costs is recorded to “Amortization of cloud computing arrangements.” The CCA implementation costs are included within operating activities in the Company’s consolidated statements of cash flows. See “Reclassifications” above for further information.

*Properties and Depreciation and Amortization*

Properties are stated at cost, including capitalized internal costs of employees to the extent such employees are dedicated to specific restaurant construction projects, less accumulated depreciation and amortization. Depreciation and amortization of properties is computed principally on the straight-line basis using the following estimated useful lives of the related major classes of properties: three to 20 years for office and restaurant equipment (including technology), three to 15 years for transportation equipment and seven to 30 years for buildings and improvements. When the Company commits to a plan to cease using certain properties before the end of their estimated useful lives, depreciation expense is accelerated to reflect the use of the assets over their shortened useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the respective leases, including periods covered by renewal options that the Company is reasonably assured of exercising.

The Company reviews properties for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. If such review indicates an asset group may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset group to be held and used or over the fair value less cost to sell of an asset to be disposed. See “Impairment of Long-Lived Assets” below for further information.

The Company classifies assets as held for sale and ceases depreciation of the assets when there is a plan for disposal of the assets and those assets meet the held for sale criteria. Assets held for sale are included in “Prepaid expenses and other current assets” in the consolidated balance sheets.

*Goodwill*

Goodwill, representing the excess of the cost of an acquired entity over the fair value of the acquired net assets, is not amortized. Goodwill associated with our Company-operated restaurants is reduced as a result of restaurant dispositions based on the relative fair values and is included in the carrying value of the restaurant in determining the gain or loss on disposal. If a Company-operated restaurant is sold within two years of being acquired from a franchisee, the goodwill associated with the acquisition is written off in its entirety. Goodwill has been assigned to reporting units for purposes of impairment testing. The Company tests goodwill for impairment annually during the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Our annual impairment test of goodwill may be completed through a qualitative assessment to determine if the fair value of the reporting unit is more likely than not greater than the carrying amount. If we elect to bypass the qualitative assessment for any reporting units, or if a qualitative assessment indicates it is more likely than not that the estimated carrying value of a reporting unit exceeds its fair value, we perform a quantitative goodwill impairment test. Under the quantitative test, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Our critical estimates in this impairment test include future sales growth, operating profit, income tax rates, terminal value growth rates, capital expenditures and the weighted average cost of capital (discount rate).

Our fair value estimates are subject to change as a result of many factors including, among others, any changes in our business plans, changing economic conditions and the competitive environment. Should actual cash flows and our future estimates vary adversely from those estimates we use, we may be required to recognize goodwill impairment charges in future years.

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*Impairment of Long-Lived Assets*

Our long-lived assets include (1) properties and related definite-lived intangible assets (e.g., favorable leases) that are leased and/or subleased to franchisees, (2) Company-operated restaurant assets and related definite-lived intangible assets, which include reacquired rights under franchise agreements, and (3) finance and operating lease assets.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess the recoverability of our long-lived assets by comparing the carrying amount of the asset group to future undiscounted net cash flows expected to be generated through leases and/or subleases or by our individual Company-operated restaurants. If the carrying amount of the long-lived asset group is not recoverable on an undiscounted cash flow basis, then impairment is recognized to the extent that the carrying amount exceeds its fair value and is included in "Impairment of long-lived assets." Our critical estimates in this review process include the anticipated future cash flows from leases and/or subleases or individual Company-operated restaurants, which is used in assessing the recoverability of the respective long-lived assets.

Our fair value estimates are subject to change as a result of many factors including, among others, any changes in our business plans, changing economic conditions and the competitive environment. Should actual cash flows and our future estimates vary adversely from those estimates we used, we may be required to recognize additional impairment charges in future years.

*Other Intangible Assets*

Definite-lived intangible assets are amortized on a straight-line basis using the following estimated useful lives of the related classes of intangibles: for favorable leases, the terms of the respective leases, including periods covered by renewal options that the Company as lessor is reasonably certain the tenant will exercise; one to five years for computer software; two to 20 years for reacquired rights under franchise agreements; and 20 years for franchise agreements. Trademarks have an indefinite life and are not amortized.

The Company reviews definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. Indefinite-lived intangible assets are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the assets may be impaired. Our annual impairment test for indefinite-lived intangible assets may be completed through a qualitative assessment to determine if the fair value of the indefinite-lived intangible assets is more likely than not greater than the carrying amount. If we elect to bypass the qualitative assessment, or if a qualitative assessment indicates it is more likely than not that the estimated carrying value exceeds the fair value, we test for impairment using a quantitative process. If the Company determines that impairment of its intangible assets may exist, the amount of impairment loss is measured as the excess of carrying value over fair value. Our critical estimates in the determination of the fair value of indefinite-lived intangible assets include the anticipated future revenues of Company-operated and franchised restaurants and the resulting cash flows.

*Investments*

The Company has a 50% share in a partnership in a Canadian restaurant real estate joint venture ("TimWen") with a subsidiary of Restaurant Brands International Inc., a quick-service restaurant company that owns the Tim Hortons® brand (Tim Hortons is a registered trademark of Tim Hortons USA Inc.). In addition, the Company has a 20% share in a joint venture in Brazil (the "Brazil JV"). The Company has significant influence over these investees. Such investments are accounted for using the equity method, under which our results of operations include our share of the income (loss) of the investees in "Other operating income, net." Cash distributions and dividends received that are determined to be returns of capital are recorded as a reduction of the carrying value of our investments and returns on our investments are recorded to "Investment income (loss), net."

The difference between the carrying value of our TimWen equity investment and the underlying equity in the historical net assets of the investee is accounted for as if the investee were a consolidated subsidiary. Accordingly, the

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carrying value difference is amortized over the estimated lives of the assets of the investee to which such difference would have been allocated if the equity investment were a consolidated subsidiary. To the extent the carrying value difference represents goodwill, it is not amortized.

Other investments in equity securities in which the Company does not have significant influence, and for which there is not a readily determinable fair value, are recorded at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Realized gains and losses are reported as income or loss in the period in which the securities are sold or otherwise disposed.

*Share-Based Compensation*

The Company has granted share-based compensation awards to certain employees under several equity plans (the "Equity Plans"). The Company measures the cost of employee services received in exchange for an equity award, which include grants of employee stock options and restricted shares, based on the fair value of the award at the date of grant. Share-based compensation expense is recognized net of estimated forfeitures, determined based on historical experience. The Company recognizes share-based compensation expense over the requisite service period unless the awards are subject to performance conditions, in which case we recognize compensation expense over the requisite service period to the extent performance conditions are considered probable. The Company determines the grant date fair value of stock options using a Black-Scholes-Merton option pricing model (the "Black-Scholes Model"). The grant date fair value of restricted share awards ("RSAs"), restricted share units ("RSUs") and performance-based awards are determined using the fair market value of the Company's common stock on the date of grant, as set forth in the applicable plan document, unless the awards are subject to market conditions, in which case we use a Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved.

*Foreign Currency Translation*

The Company's primary foreign operations are in Canada where the functional currency is the Canadian dollar. Financial statements of foreign subsidiaries are prepared in their functional currency and then translated into U.S. dollars. Assets and liabilities are translated at the exchange rate as of the balance sheet date and revenues, costs and expenses are translated at a monthly average exchange rate. Net gains or losses resulting from the translation are recorded to the "Foreign currency translation adjustment" component of "Accumulated other comprehensive loss." Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency are included in "General and administrative."

*Income Taxes*

The Company accounts for income taxes under the asset and liability method. A deferred tax asset or liability is recognized whenever there are (1) future tax effects from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (2) operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the years in which those differences are expected to be recovered or settled.

Deferred tax assets are recognized to the extent the Company believes these assets will more likely than not be realized. In evaluating the realizability of deferred tax assets, the Company considers all available positive and negative evidence, including the interaction and the timing of future reversals of existing temporary differences, projected future taxable income, recent operating results and tax-planning strategies. When considered necessary, a valuation allowance is recorded to reduce the carrying amount of the deferred tax assets to their anticipated realizable value.

The Company records uncertain tax positions on the basis of a two-step process whereby we first determine if it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-

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than-not recognition threshold is then measured for purposes of financial statement recognition as the largest amount of benefit that is greater than 50% likely of being realized upon being effectively settled.

Interest accrued for uncertain tax positions is charged to "Interest expense, net." Penalties accrued for uncertain tax positions are charged to "General and administrative."

*Restaurant Acquisitions and Dispositions*

The Company accounts for the acquisition of restaurants from franchisees using the acquisition method of accounting for business combinations. The acquisition method of accounting involves the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed. This allocation process requires the use of estimates and assumptions to derive fair values and to complete the allocation. The excess of the purchase price over the fair values of the assets acquired and liabilities assumed represents goodwill derived from the acquisition. See "Goodwill" above for further information.

In connection with the sale of Company-operated restaurants to franchisees, the Company typically enters into several agreements, in addition to an asset purchase agreement, with franchisees including franchise, development, relationship and lease agreements. The Company typically sells restaurants' cash, inventory and equipment and retains ownership or the leasehold interest to the real estate to lease and/or sublease to the franchisee. The Company has determined that its restaurant dispositions usually represent multiple-element arrangements, and as such, the cash consideration received is allocated to the separate elements based on their relative selling price. Cash consideration generally includes up-front consideration for the sale of the restaurants, technical assistance fees and development fees and future cash consideration for royalties and lease payments. The Company considers the future lease payments in allocating the initial cash consideration received. The Company obtains third-party evidence to estimate the relative selling price of the stated rent under the lease and/or sublease agreements which is primarily based upon comparable market rents. Based on the Company's review of the third-party evidence, the Company records favorable or unfavorable lease assets/liabilities with a corresponding offset to the gain or loss on the sale of the restaurants. The cash consideration per restaurant for technical assistance fees and development fees is consistent with the amounts stated in the related franchise agreements which are charged for separate standalone arrangements. The Company recognizes the technical assistance and development fees over the contractual term of the franchise agreements. Future royalty income is also recognized in revenue as earned. See "Revenue Recognition" below for further information.

*Revenue Recognition*

"Sales" includes revenues recognized upon delivery of food to the customer at Company-operated restaurants. "Sales" excludes taxes collected from the Company's customers. Revenue is recognized when the food is purchased by the customer, which is when our performance obligation is satisfied. "Sales" also includes income for gift cards. Gift card payments are recorded as deferred income when received and are recognized as revenue upon redemption.

"Franchise royalty revenue and fees" includes royalties, new build technical assistance fees, renewal fees, franchisee-to-franchisee restaurant transfer ("Franchise Flip") technical assistance fees, Franchise Flip advisory fees, development fees and information technology and other fees. Royalties from franchised restaurants are based on a percentage of sales of the franchised restaurant and are recognized as earned. New build technical assistance fees, renewal fees and Franchise Flip technical assistance fees are recorded as deferred revenue when received and recognized as revenue over the contractual term of the franchise agreements, once the restaurant has opened. Development fees are deferred when received, allocated to each agreed upon restaurant, and recognized as revenue over the contractual term of each respective franchise agreement, once the restaurant has opened. These franchise fees are considered highly dependent upon and interrelated with the franchise right granted in the franchise agreement. Franchise Flip advisory fees include valuation services and fees for selecting pre-approved buyers for Franchise Flips. Franchise Flip advisory fees are paid by the seller and are recognized as revenue at closing of the Franchise Flip transaction. Information technology and other fees are recognized as revenue as earned.

"Franchise rental income" includes rental income from properties owned and leased by the Company and leased or subleased to franchisees. Rental income is recognized on a straight-line basis over the respective operating

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lease terms. Favorable and unfavorable lease amounts related to the leased and/or subleased properties are amortized to rental income on a straight-line basis over the remaining term of the leases.

“Advertising funds revenue” includes contributions to the Advertising Funds by franchisees. Revenue related to these contributions is based on a percentage of sales of the franchised restaurants and is recognized as earned.

*Cost of Sales*

Cost of sales includes food and paper, restaurant labor and occupancy, advertising and other operating costs relating to Company-operated restaurants. Cost of sales excludes depreciation and amortization expense.

*Vendor Incentives*

The Company receives incentives from certain vendors. These incentives are recognized as earned and are classified as a reduction of “Cost of sales.”

*Advertising Costs*

Advertising costs are expensed as incurred and are included in “Cost of sales” and “Advertising funds expense.” Production costs of advertising are expensed when the advertisement is first released.

*Franchise Support and Other Costs*

The Company incurs costs to provide direct support services to our franchisees, as well as certain other direct and incremental costs to the Company’s franchise operations. These costs primarily relate to franchise development services, facilitating Franchise Flips and information technology services, which are charged to “Franchise support and other costs,” as incurred.

*Self-Insurance*

The Company is self-insured for most workers’ compensation losses and health care claims and purchases insurance for general liability and automotive liability losses, all subject to a \$500 per occurrence retention or deductible limit. The Company provides for their estimated cost to settle both known claims and claims incurred but not yet reported. Liabilities associated with these claims are estimated, in part, by considering the frequency and severity of historical claims, both specific to us, as well as industry-wide loss experience and other actuarial assumptions. We determine our insurance obligations with the assistance of actuarial firms. Since there are many estimates and assumptions involved in recording insurance liabilities and in the case of workers’ compensation a significant period of time elapses before the ultimate resolution of claims, differences between actual future events and prior estimates and assumptions could result in adjustments to these liabilities.

*Leases*

*Determination of Whether a Contract Contains a Lease*

The Company evaluates the contracts it enters into to determine whether such contracts contain leases. A contract contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. At commencement, contracts containing a lease are further evaluated for classification as an operating or finance lease where the Company is a lessee, or as an operating, sales-type or direct financing lease where the Company is a lessor, based on their terms.

*ROU Model and Determination of Lease Term*

The Company uses the right-of-use (“ROU”) model to account for leases where the Company is the lessee, which requires an entity to recognize a lease liability and ROU asset on the lease commencement date. A lease liability

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is measured equal to the present value of the remaining lease payments over the lease term and is discounted using the incremental borrowing rate, as the rate implicit in the Company's leases is not readily determinable. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. Lease payments include payments made before the commencement date and any residual value guarantees, if applicable. The initial ROU asset consists of the initial measurement of the lease liability, adjusted for any favorable or unfavorable terms for leases acquired from franchisees, as well as payments made before the commencement date, initial direct costs and lease incentives earned. When determining the lease term, the Company includes option periods that it is reasonably certain to exercise as failure to renew the lease would impose a significant economic detriment. For properties used for Company-operated restaurants, the primary economic detriment relates to the existence of unamortized leasehold improvements which might be impaired if we choose not to exercise the available renewal options. The lease term for properties leased or subleased to franchisees is determined based upon the economic detriment to the franchisee and includes consideration of the length of the franchise agreement and historical performance of the restaurant. Lease terms for real estate are generally initially between 15 and 20 years and, in most cases, provide for rent escalations and renewal options.

*Operating Leases*

For operating leases, minimum lease payments or receipts, including minimum scheduled rent increases, are recognized as rent expense where the Company is a lessee, or income where the Company is a lessor, as applicable, on a straight-line basis ("Straight-Line Rent") over the applicable lease terms. There is a period under certain lease agreements referred to as a rent holiday ("Rent Holiday") that generally begins on the possession date and ends on the rent commencement date. During a Rent Holiday, no cash rent payments are typically due under the terms of the lease; however, expense is recorded for that period on a straight-line basis. The excess of the Straight-Line Rent over the minimum rents paid is included in the ROU asset where the Company is a lessee. The excess of the Straight-Line Rent over the minimum rents received is recorded as a deferred lease asset and is included in "Other assets" where the Company is a lessor. Certain leases contain provisions, referred to as contingent rent ("Contingent Rent"), that require additional rental payments based upon restaurant sales volume. Contingent Rent is recognized each period as the liability is incurred or the asset is earned.

Lease cost for operating leases includes the amortization of the ROU asset and interest expense related to the operating lease liability. Variable lease cost for operating leases includes Contingent Rent and payments for executory costs such as real estate taxes, insurance and common area maintenance, which are excluded from the measurement of the lease liability. Short-term lease cost for operating leases includes rental expense for leases with a term of less than 12 months. Lease costs are recorded in the consolidated statements of operations based on the nature of the underlying lease as follows: (1) rental expense related to leases for Company-operated restaurants is recorded to "Cost of sales," (2) rental expense for leased properties that are subsequently subleased to franchisees is recorded to "Franchise rental expense" and (3) rental expense related to leases for corporate offices and equipment is recorded to "General and administrative."

Favorable and unfavorable lease amounts for operating leases where the Company is the lessor are recorded as components of "Other intangible assets" and "Other liabilities," respectively. Favorable and unfavorable lease amounts are amortized on a straight-line basis over the term of the leases.

Rental income and favorable and unfavorable lease amortization for operating leases on properties leased or subleased to franchisees is recorded to "Franchise rental income." Lessees' variable payments to the Company for executory costs under operating leases are recognized on a gross basis as "Franchise rental income" with a corresponding expense recorded to "Franchise rental expense."

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*Finance Leases*

Lease cost for finance leases where the Company is the lessee includes the amortization of the ROU asset, which is amortized on a straight-line basis and recorded to "Depreciation and amortization (exclusive of amortization of cloud computing arrangements shown separately below)," and interest expense on the finance lease liability, which is calculated using the interest method and recorded to "Interest expense, net." Finance lease ROU assets are amortized over the shorter of their estimated useful lives or the terms of the respective leases, including periods covered by renewal options that the Company is reasonably certain of exercising.

*Sales-Type and Direct Financing Leases*

For sales-type and direct financing leases where the Company is the lessor, the Company records its investment in properties leased to franchisees on a net basis, which is comprised of the present value of the lease payments not yet received and the present value of the guaranteed and unguaranteed residual assets. The current and long-term portions of our net investment in sales-type and direct financing leases are included in "Accounts and notes receivable, net" and "Net investment in sales-type and direct financing leases," respectively. Unearned income is recognized as interest income over the lease term and is included in "Interest expense, net." Sales-type leases result in the recognition of gain or loss at the commencement of the lease, which is recorded to "Other operating income, net." The gain or loss recognized upon commencement of the lease is directly affected by the Company's estimate of the amount to be derived from the guaranteed and unguaranteed residual assets at the end of the lease term. The Company's main component of this estimate is the expected fair value of the underlying assets, primarily the fair value of land. Lessees' variable payments to the Company for executory costs under sales-type and direct financing leases are recognized on a gross basis as "Franchise rental income" with a corresponding expense recorded to "Franchise rental expense."

*Significant Assumptions and Judgments*

Management makes certain estimates and assumptions regarding each new lease and sublease agreement, renewal and amendment, including, but not limited to, property values, market rents, property lives, discount rates and probable term, all of which can impact (1) the classification and accounting for a lease or sublease as operating or finance, including sales-type and direct financing, (2) the Rent Holiday and escalations in payment that are taken into consideration when calculating Straight-Line Rent, (3) the term over which leasehold improvements for each restaurant are amortized and (4) the values and lives of adjustments to the initial ROU asset where the Company is the lessee, or favorable and unfavorable leases where the Company is the lessor. The amount of depreciation and amortization, interest and rent expense and income reported would vary if different estimates and assumptions were used.

*Concentration of Risk*

Wendy's had no customers which accounted for 10% or more of consolidated revenues in 2022, 2021 or 2020. As of January 1, 2023, Wendy's had one main in-line distributor of food, packaging and beverage products, excluding breads, that serviced approximately 67% of Wendy's restaurants in the U.S. and four additional in-line distributors that, in the aggregate, serviced approximately 32% of Wendy's restaurants in the U.S. We believe that our vulnerability to risk concentrations related to significant vendors and sources of our raw materials is mitigated as we believe that there are other vendors who would be able to service our requirements. However, if a disruption of service from any of our main in-line distributors was to occur, we could experience short-term increases in our costs while distribution channels were adjusted.

Wendy's restaurants are principally located throughout the U.S. and to a lesser extent, in 31 foreign countries and U.S. territories, with the largest number in Canada. Wendy's U.S. restaurants are located in 50 states and the District of Columbia, with the largest number in Florida, Texas, Ohio, Georgia, California, North Carolina, Pennsylvania and Michigan. Because our restaurant operations are generally located throughout the U.S. and to a



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much lesser extent, Canada and other foreign countries and U.S. territories, we believe the risk of geographic concentration is not significant. We could be adversely affected by changing consumer preferences resulting from concerns over nutritional or safety aspects of beef, chicken, french fries or other products we sell or the effects of food safety events or disease outbreaks. Our exposure to foreign exchange risk is primarily related to fluctuations in the Canadian dollar relative to the U.S. dollar for our Canadian operations. However, our exposure to Canadian dollar foreign currency risk is mitigated by the fact that there are no Company-operated restaurants in Canada and less than 10% of Wendy's franchised restaurants are in Canada.

The Company is subject to credit risk through its accounts receivable consisting primarily of amounts due from franchisees for royalties, franchise fees and rent. In addition, we have notes receivable from certain of our franchisees. The financial condition of these franchisees is largely dependent upon the underlying business trends of the Wendy's brand and market conditions within the quick-service restaurant industry. This concentration of credit risk is mitigated, in part, by the number of franchisees and the short-term nature of the franchise receivables.

*New Accounting Standards Adopted*

*Financial Instruments*

In August 2020, the Financial Accounting Standards Board ("FASB") issued an amendment that simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The amendment simplifies accounting for convertible instruments by removing major separation models required under current accounting guidance. In addition, the amendment removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for the exception, and also simplifies the diluted earnings per share calculation in certain areas. The Company adopted this amendment during the first quarter of 2022. The adoption of this guidance did not have a material impact on our consolidated financial statements.

*New Accounting Standards*

*Business Combinations*

In October 2021, the FASB issued an amendment to improve the accounting for revenue contracts with customers acquired in a business combination. The amendment requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with current revenue recognition guidance as if the acquirer had originated the contracts. The standard is effective beginning with our 2023 fiscal year. The Company does not expect the guidance to have a material impact on our consolidated financial statements.

*Reference Rate Reform*

In March 2020, the FASB issued guidance to provide temporary optional expedients and exceptions to current reference rate reform guidance to ease the financial reporting burdens related to the expected market transition from the London interbank offered rate ("LIBOR") and other interbank offered rates to alternative reference rates. The guidance, as amended, was effective upon issuance and may be applied prospectively to applicable contract modifications through December 31, 2024. We are currently evaluating the impact of the transition from LIBOR to alternative reference rates but do not anticipate the adoption of this guidance to have a material impact on our consolidated financial statements.

**(2) Revenue**

*Nature of Goods and Services*

The Company generates revenues from sales at Company-operated restaurants and earns royalties, fees and rental income from franchised restaurants. Revenues are recognized upon delivery of food to the customer at

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Company-operated restaurants or upon the fulfillment of terms outlined in the franchise agreement for franchised restaurants. The franchise agreement provides the franchisee the right to construct, own and operate a Wendy's restaurant upon a site accepted by Wendy's and to use the Wendy's system in connection with the operation of the restaurant at that site. The franchise agreement generally provides for a 20-year term and a 10-year renewal subject to certain conditions. The initial term may be extended up to 25 years and the renewal extended up to 20 years for qualifying restaurants under certain new restaurant development and reimagining programs.

The franchise agreement requires that the franchisee pay a royalty based on a percentage of sales at the franchised restaurant, as well as make contributions to the Advertising Funds based on a percentage of sales. Wendy's may offer development incentive programs from time to time that provide for a discount or lesser royalty amount or Advertising Fund contribution for a limited period of time. The agreement also typically requires that the franchisee pay Wendy's a technical assistance fee. The technical assistance fee is used to defray some of the costs to Wendy's for training, start-up and transitional services related to new and existing franchisees acquiring restaurants and in the development and opening of new restaurants. The franchise agreement also requires that the franchisee pay an annual fee for technology services. The technology fee is a flat fee dependent on each restaurant's sales.

Wendy's also enters into development agreements with certain franchisees. The development agreement generally provides the franchisee with the right to develop a specified number of new Wendy's restaurants using the Image Activation design within a stated, non-exclusive territory for a specified period, subject to the franchisee meeting interim new restaurant development requirements.

Wendy's owns and leases sites from third parties, which it leases and/or subleases to franchisees. Noncancelable lease terms are generally initially between 15 and 20 years and, in most cases, provide for rent escalations and renewal options. The initial lease term for properties leased or subleased to franchisees is generally set to be coterminous with the initial 20-year term of the related franchise agreement and any renewal term is coterminous with the 10-year renewal term of the related franchise agreement.

Royalties and contributions to the Advertising Funds are generally due within the month subsequent to which the revenue was generated through sales at the franchised restaurant. Technical assistance fees and renewal fees are generally due upon execution of the related franchise agreement. Annual technology fees are due in quarterly installments. Rental income is due in accordance with the terms of each lease, which is generally at the beginning of each month.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

*Disaggregation of Revenue*

The following tables disaggregate revenue by segment and source for 2022, 2021 and 2020:

|   | <u>Wendy's U.S.</u> | <u>Wendy's<br/>International</u> | <u>Global Real<br/>Estate &amp;<br/>Development</u> | <u>Total</u>        |
|---|---------------------|----------------------------------|---|---------------------|
| <b>2022</b>                                     |                     |                                  |   |                     |
| Sales at Company-operated restaurants . . . . . | \$ 882,684          | \$ 13,901                        | \$ —  | \$ 896,585          |
| Franchise royalty revenue . . . . .             | 423,955             | 61,533                           | —   | 485,488             |
| Franchise fees . . . . .                        | 63,112              | 5,542                            | 4,093   | 72,747              |
| Franchise rental income . . . . .               | —                   | —                                | 234,465   | 234,465             |
| Advertising funds revenue . . . . .             | 380,491             | 25,729                           | —   | 406,220             |
| Total revenues . . . . .                        | <u>\$ 1,750,242</u> | <u>\$ 106,705</u>                | <u>\$ 238,558</u>                                   | <u>\$ 2,095,505</u> |
| <b>2021</b>                                     |                     |                                  |   |                     |
| Sales at Company-operated restaurants . . . . . | \$ 730,415          | \$ 3,659                         | \$ —  | \$ 734,074          |
| Franchise royalty revenue . . . . .             | 407,317             | 53,392                           | —   | 460,709             |
| Franchise fees . . . . .                        | 64,170              | 5,391                            | 6,478   | 76,039              |
| Franchise rental income . . . . .               | —                   | —                                | 236,655   | 236,655             |
| Advertising funds revenue . . . . .             | 365,594             | 23,927                           | —   | 389,521             |
| Total revenues . . . . .                        | <u>\$ 1,567,496</u> | <u>\$ 86,369</u>                 | <u>\$ 243,133</u>                                   | <u>\$ 1,896,998</u> |
| <b>2020</b>                                     |                     |                                  |   |                     |
| Sales at Company-operated restaurants . . . . . | \$ 722,764          | \$ —                             | \$ —  | \$ 722,764          |
| Franchise royalty revenue . . . . .             | 373,162             | 43,346                           | —   | 416,508             |
| Franchise fees . . . . .                        | 22,126              | 1,962                            | 4,153   | 28,241              |
| Franchise rental income . . . . .               | —                   | —                                | 232,648   | 232,648             |
| Advertising funds revenue . . . . .             | 313,330             | 20,334                           | —   | 333,664             |
| Total revenues . . . . .                        | <u>\$ 1,431,382</u> | <u>\$ 65,642</u>                 | <u>\$ 236,801</u>                                   | <u>\$ 1,733,825</u> |

*Contract Balances*

The following table provides information about receivables and contract liabilities (deferred franchise fees) from contracts with customers:

|   | <u>Year End</u>                |                                |
|---|--------------------------------|--------------------------------|
|   | <u>January 1,<br/>2023 (a)</u> | <u>January 2,<br/>2022 (a)</u> |
| Receivables, which are included in "Accounts and notes receivable, net" (b) . . . . . | \$ 54,497                      | \$ 49,168                      |
| Receivables, which are included in "Advertising funds restricted assets" . . . . .    | 70,422                         | 65,497                         |
| Deferred franchise fees (c) . . . . .   | 99,208                         | 97,186                         |

- (a) Excludes funds collected from the sale of gift cards, which are primarily reimbursed to franchisees upon redemption at franchised restaurants and do not ultimately result in the recognition of revenue in the Company's consolidated statements of operations.
- (b) Includes receivables related to "Sales" and "Franchise royalty revenue and fees."
- (c) Deferred franchise fees are included in "Accrued expenses and other current liabilities" and "Deferred franchise fees" and totaled \$8,977 and \$90,231, respectively, as of January 1, 2023, and \$9,084 and \$88,102, respectively, as of January 2, 2022.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

Significant changes in deferred franchise fees are as follows:

|  | Year Ended       |                  |                  |
|--|------------------|------------------|------------------|
|  | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
| Deferred franchise fees at beginning of period . . . . . | \$ 97,186        | \$ 97,785        | \$ 100,689       |
| Revenue recognized during the period . . . . .           | (11,567)         | (19,838)         | (8,955)          |
| New deferrals due to cash received and other . . . . .   | <u>13,589</u>    | <u>19,239</u>    | <u>6,051</u>     |
| Deferred franchise fees at end of period . . . . .       | <u>\$ 99,208</u> | <u>\$ 97,186</u> | <u>\$ 97,785</u> |

*Anticipated Future Recognition of Deferred Franchise Fees*

The following table reflects the estimated franchise fees to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

| Estimate for fiscal year: |  |                  |
|---------------------------|--|------------------|
| 2023 . . . . .            |  | \$ 8,977         |
| 2024 . . . . .            |  | 5,835            |
| 2025 . . . . .            |  | 5,669            |
| 2026 . . . . .            |  | 5,559            |
| 2027 . . . . .            |  | 5,482            |
| Thereafter . . . . .      |  | <u>67,686</u>    |
|                           |  | <u>\$ 99,208</u> |

**(3) Acquisitions**

During 2021, the Company acquired 93 restaurants from a franchisee. The Company completed no significant acquisitions of restaurants from franchisees during 2022 or 2020. The Company did not incur any material acquisition-related costs associated with the acquisition in 2021 and such transaction was not significant to our consolidated financial statements. The table below presents the allocation of the total purchase price to the fair value of assets acquired and liabilities assumed for restaurants acquired from a franchisee:

|  | Year Ended       |
|--|------------------|
|  | <u>2021 (a)</u>  |
| Restaurants acquired from franchisee (b) . . . . .       | 93               |
| Total consideration paid, net of cash received . . . . . | \$ 127,948       |
| Identifiable assets acquired and liabilities assumed:    |                  |
| Properties . . . . .                                     | 21,984           |
| Acquired franchise rights . . . . .                      | 81,239           |
| Finance lease assets . . . . .                           | 25,547           |
| Operating lease assets . . . . .                         | 44,282           |
| Finance lease liabilities . . . . .                      | (25,059)         |
| Operating lease liabilities . . . . .                    | (43,478)         |
| Other . . . . .  | <u>(9)</u>       |
| Total identifiable net assets . . . . .                  | <u>104,506</u>   |
| Goodwill . . . . .                                       | <u>\$ 23,442</u> |

(a) The fair values of assets acquired and liabilities assumed related to restaurants acquired in 2021 were provisional amounts as of January 2, 2022, pending final purchase accounting adjustments. The Company finalized the purchase price allocation during 2022, which resulted in an increase in cash received of \$260.

(b) Included two restaurants under construction and not operating as of January 2, 2022.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
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*NPC Quality Burgers, Inc. ("NPC")*

As previously announced, NPC, formerly the Company's largest franchisee, filed for chapter 11 bankruptcy in July 2020 and commenced a process to sell all or substantially all of its assets, including its interest in approximately 393 Wendy's restaurants across eight different markets, pursuant to a court-approved auction process. On November 18, 2020, the Company submitted a consortium bid together with a group of pre-qualified franchisees to acquire NPC's Wendy's restaurants. Under the terms of the consortium bid, several existing and new franchisees would have been the ultimate purchasers of seven of the NPC markets, while the Company would have acquired one market. As part of the consortium bid, the Company submitted a deposit of \$43,240. The deposit included \$38,361 received from the group of prequalified franchisees, which was payable to the franchisees pending resolution of the bankruptcy sale process.

During the three months ended April 4, 2021, following a court-approved mediation process, NPC and certain affiliates of Flynn Restaurant Group ("FRG") and the Company entered into separate asset purchase agreements under which all of NPC's Wendy's restaurants were sold to Wendy's approved franchisees. Under the transaction, FRG acquired approximately half of NPC's Wendy's restaurants in four markets, while several existing Wendy's franchisees that were part of the Company's consortium bid acquired the other half of NPC's Wendy's restaurants in the other four markets. The Company did not acquire any restaurants as part of this transaction. In addition, the deposits outstanding as of January 3, 2021 were settled during the three months ended April 4, 2021 upon resolution of the bankruptcy sale process. The net settlement of deposits of \$4,879 is included in "Acquisitions" in the consolidated statements of cash flows.

**(4) System Optimization Gains, Net**

The Company's system optimization initiative included a shift from Company-operated restaurants to franchised restaurants over time, through acquisitions and dispositions, as well as facilitating Franchise Flips. As of January 1, 2017, the Company achieved its plan to reduce its ongoing Company-operated restaurant ownership to approximately 5% of the total system. While the Company has no plans to move its ownership away from approximately 5% of the total system, the Company expects to continue to optimize the Wendy's system through Franchise Flips, as well as evaluating strategic acquisitions of franchised restaurants and strategic dispositions of Company-operated restaurants to existing and new franchisees, to further strengthen the franchisee base, drive new restaurant development and accelerate reimages. During 2022, 2021 and 2020, the Company facilitated 79, 34 and 54 Franchise Flips, respectively. Additionally, during 2021, the Company completed the sale of 47 Company-operated restaurants in New York (including Manhattan) to franchisees and, during each of 2022 and 2020, the Company completed the sale of one Company-operated restaurant to a franchisee.

Gains and losses recognized on dispositions are recorded to "System optimization gains, net" in our consolidated statements of operations. Costs related to acquisitions and dispositions under our system optimization initiative are recorded to "Reorganization and realignment costs," which are further described in Note 5. All other costs incurred related to facilitating Franchise Flips are recorded to "Franchise support and other costs."

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

The following is a summary of the disposition activity recorded as a result of our system optimization initiative:

|  | Year Ended      |                  |                 |
|--|-----------------|------------------|-----------------|
|  | <u>2022</u>     | <u>2021</u>      | <u>2020</u>     |
| Number of restaurants sold to franchisees . . . . .                | 1               | 47               | 1               |
| Proceeds from sales of restaurants (a) . . . . .                   | \$ 79           | \$ 50,518        | \$ 50           |
| Net assets sold (b) . . . . .                                      | (141)           | (16,939)         | (34)            |
| Goodwill related to sales of restaurants . . . . .                 | —               | (4,847)          | —               |
| Net unfavorable leases (c) . . . . .                               | (360)           | (2,939)          | —               |
| Gain on sales-type leases . . . . .                                | —               | 7,156            | —               |
| Other (d) . . . . .  | 6               | (2,148)          | —               |
|  | (416)           | 30,801           | 16              |
| Post-closing adjustments on sales of restaurants (e) (f) . . . . . | <u>2,877</u>    | <u>1,218</u>     | <u>362</u>      |
| Gain on sales of restaurants, net . . . . .                        | 2,461           | 32,019           | 378             |
| Gain on sales of other assets, net (g) . . . . .                   | <u>4,318</u>    | <u>1,526</u>     | <u>2,770</u>    |
| System optimization gains, net . . . . .                           | <u>\$ 6,779</u> | <u>\$ 33,545</u> | <u>\$ 3,148</u> |

- (a) In addition to the proceeds noted herein, the Company received cash proceeds of \$378 and \$39 during 2022 and 2021, respectively, related to a note receivable issued in connection with the sale of the Manhattan Company-operated restaurants.
- (b) Net assets sold consisted primarily of equipment.
- (c) During 2021, the Company recorded favorable lease assets of \$3,799 and unfavorable lease liabilities of \$6,738 as a result of leasing and/or subleasing land, buildings and/or leasehold improvements to franchisees, in connection with the sale of the New York Company-operated restaurants (including Manhattan).
- (d) 2021 includes a deferred gain of \$3,500 as a result of certain contingencies related to the extension of lease terms.
- (e) 2021 includes a gain on sales-type leases of \$1,625 and the write-off of certain lease assets of \$927 as a result of an amendment to lease terms in connection with a Manhattan Company-operated restaurant previously sold to a franchisee.
- (f) 2022, 2021 and 2020 include the recognition of deferred gains of \$3,522, \$515 and \$368, respectively, as a result of the resolution of certain contingencies related to the extension of lease terms for restaurants previously sold to franchisees.
- (g) During 2022, 2021 and 2020, the Company received cash proceeds of \$7,780, \$4,561 and \$6,041, respectively, primarily from the sale of surplus and other properties.

*Assets Held for Sale*

As of January 1, 2023 and January 2, 2022, the Company had assets held for sale of \$1,661 and \$3,541, respectively, primarily consisting of surplus properties. Assets held for sale are included in "Prepaid expenses and other current assets."

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

**(5) Reorganization and Realignment Costs**

The following is a summary of the initiatives included in “Reorganization and realignment costs:”

|  | Year Ended    |                 |                  |
|--|---------------|-----------------|------------------|
|  | <u>2022</u>   | <u>2021</u>     | <u>2020</u>      |
| Operations and field realignment . . . . .     | \$ 59         | \$ 1,758        | \$ 3,801         |
| IT realignment . . . . .                       | 32            | (10)            | 7,288            |
| G&A realignment . . . . .                      | (4)           | (52)            | 614              |
| System optimization initiative . . . . .       | <u>611</u>    | <u>6,852</u>    | <u>4,327</u>     |
| Reorganization and realignment costs . . . . . | <u>\$ 698</u> | <u>\$ 8,548</u> | <u>\$ 16,030</u> |

*Operations and Field Realignment*

In September 2020, the Company initiated a plan to reallocate resources to better support the long-term growth strategies for Company and franchise operations (the “Operations and Field Realignment Plan”). The Operations and Field Realignment Plan realigned the Company’s restaurant operations team, including transitioning from separate leaders of Company and franchise operations to a single leader of all U.S. restaurant operations. The Operations and Field Realignment Plan also included contract terminations, including the closure of certain field offices. During 2021 and 2020, the Company recognized costs totaling \$1,758 and \$3,801, respectively, which primarily included third-party and other costs in 2021 and severance and related employee costs and share-based compensation in 2020. The Company does not expect to incur any material additional costs under the Operations and Field Realignment Plan.

The following is a summary of the activity recorded as a result of the Operations and Field Realignment Plan:

|  | Year Ended   |                 |                 | Total Incurred<br>Since Inception |
|--|--------------|-----------------|-----------------|-----------------------------------|
|  | <u>2022</u>  | <u>2021</u>     | <u>2020</u>     |                                   |
| Severance and related employee costs . . . . .   | \$ 7         | \$ 270          | \$ 3,113        | \$ 3,390                          |
| Third-party and other costs . . . . .            | <u>52</u>    | <u>1,488</u>    | <u>67</u>       | <u>1,607</u>                      |
|  | 59           | 1,758           | 3,180           | 4,997                             |
| Share-based compensation (a) . . . . .           | <u>—</u>     | <u>—</u>        | <u>621</u>      | <u>621</u>                        |
| Total operations and field realignment . . . . . | <u>\$ 59</u> | <u>\$ 1,758</u> | <u>\$ 3,801</u> | <u>\$ 5,618</u>                   |

(a) Primarily represents incremental share-based compensation resulting from the modification of stock options in connection with the termination of employees under the Operations and Field Realignment Plan.

The tables below present a rollforward of our accruals for the Operations and Field Realignment Plan, which are included in “Accrued expenses and other current liabilities” as of January 2, 2022.

|                                       | Balance<br>January 2,<br>2022                  | Charges      | Payments        | Balance<br>January 1,<br>2023 |
|---------------------------------------|--|--------------|-----------------|-------------------------------|
|                                       | Severance and related employee costs . . . . . | \$ 155       | \$ 7            | \$ (162)                      |
| Third-party and other costs . . . . . | <u>11</u>                                      | <u>52</u>    | <u>(63)</u>     | <u>—</u>                      |
|                                       | <u>\$ 166</u>                                  | <u>\$ 59</u> | <u>\$ (225)</u> | <u>\$ —</u>                   |

|                                       | Balance<br>January 3,<br>2021                  | Charges         | Payments          | Balance<br>January 2,<br>2022 |
|---------------------------------------|--|-----------------|-------------------|-------------------------------|
|                                       | Severance and related employee costs . . . . . | \$ 2,600        | \$ 270            | \$ (2,715)                    |
| Third-party and other costs . . . . . | <u>—</u>                                       | <u>1,488</u>    | <u>(1,477)</u>    | <u>11</u>                     |
|                                       | <u>\$ 2,600</u>                                | <u>\$ 1,758</u> | <u>\$ (4,192)</u> | <u>\$ 166</u>                 |

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
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*Information Technology (“IT”) Realignment*

In December 2019, our Board of Directors approved a plan to realign and reinvest resources in the Company’s IT organization to strengthen its ability to accelerate growth (the “IT Realignment Plan”). The Company has partnered with a third-party global IT consultant on this new structure to leverage their global capabilities, enabling a more seamless integration between its digital and corporate IT assets. The IT Realignment Plan has reduced certain employee compensation and other related costs that the Company has reinvested back into IT to drive additional capabilities and capacity across all of its technology platforms. Additionally, in June 2020, the Company made changes to its leadership structure that included the elimination of the Chief Digital Experience Officer position and the creation of a Chief Information Officer position. During 2020, the Company recognized costs totaling \$7,288, which primarily included third-party and other costs and recruitment and relocation costs. The Company does not expect to incur any material additional costs under the IT Realignment Plan.

The following is a summary of the activity recorded as a result of the IT Realignment Plan:

|  | Year Ended |          |          | Total<br>Incurred<br>Since<br>Inception |
|--|------------|----------|----------|---|
|  | 2022       | 2021     | 2020     |   |
| Severance and related employee costs (a) ..... | \$ —       | \$ (165) | \$ 843   | \$ 8,226                                |
| Recruitment and relocation costs .....         | 29         | 146      | 1,296    | 1,471                                   |
| Third-party and other costs .....              | 3          | 9        | 5,149    | 6,547                                   |
|  | 32         | (10)     | 7,288    | 16,244                                  |
| Share-based compensation (b) .....             | —          | —        | —        | 193                                     |
| Total IT realignment .....                     | \$ 32      | \$ (10)  | \$ 7,288 | \$ 16,437                               |

- (a) 2021 includes a reversal of an accrual as a result of a change in estimate.
- (b) Primarily represents incremental share-based compensation resulting from the modification of stock options in connection with the termination of employees under the IT realignment plan.

*General and Administrative (“G&A”) Realignment*

In May 2017, the Company initiated a plan to reduce its G&A expenses (the “G&A Realignment Plan”). No material costs were incurred by the Company under the G&A Realignment Plan during 2022, 2021 and 2020. The Company does not expect to incur any material additional costs under the G&A Realignment Plan.

*System Optimization Initiative*

The Company recognizes costs related to acquisitions and dispositions under its system optimization initiative. During 2022, the Company recognized costs totaling \$611, which were primarily comprised of professional fees and other costs associated with the Company’s acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021. During 2021, the Company recognized costs totaling \$6,852, which were primarily comprised of the write-off of certain lease assets, lease termination fees and transaction fees associated with the NPC bankruptcy sale process, as well as professional fees and transaction fees associated with the Company’s acquisition of 93 franchise-operated restaurants in Florida during the fourth quarter of 2021. During 2020, the Company recognized costs totaling \$4,327, which primarily included professional fees related to the NPC bankruptcy sale process. See Note 3 for further information. The Company expects to recognize a gain of approximately \$700, primarily related to the write-off of certain NPC-related lease liabilities upon final termination of the leases.



**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

The following is a summary of the costs recorded as a result of our system optimization initiative:

|   | Year Ended    |                 |                 | Total Incurred Since Inception |
|---|---------------|-----------------|-----------------|--------------------------------|
|   | 2022          | 2021            | 2020            |                                |
| Severance and related employee costs . . . . .          | \$ 4          | \$ 661          | \$ —            | \$ 18,902                      |
| Professional fees . . . . .                             | 395           | 1,570           | 4,323           | 24,072                         |
| Other (a) . . . . .                                     | 145           | 1,765           | 4               | 7,763                          |
|   | 544           | 3,996           | 4,327           | 50,737                         |
| Accelerated depreciation and amortization (b) . . . . . | —             | —               | —               | 25,398                         |
| NPC lease termination costs (c) . . . . .               | 67            | 2,856           | —               | 2,923                          |
| Share-based compensation (d) . . . . .                  | —             | —               | —               | 5,013                          |
| Total system optimization initiative . . . . .          | <u>\$ 611</u> | <u>\$ 6,852</u> | <u>\$ 4,327</u> | <u>\$ 84,071</u>               |

- (a) 2021 includes transaction fees of \$1,350 associated with the NPC bankruptcy sale process.
- (b) Primarily includes accelerated amortization of previously acquired franchise rights related to the Company-operated restaurants in territories that have been sold to franchisees in connection with our system optimization initiative.
- (c) 2021 includes the write-off of lease assets of \$1,376 and lease termination fees paid of \$1,480.
- (d) Represents incremental share-based compensation resulting from the modification of stock options and performance-based awards in connection with the termination of employees under our system optimization initiative.

The table below presents a rollforward of our accruals for our system optimization initiative.

|  | Balance         | Charges         | Payments          | Balance         |
|--|-----------------|-----------------|-------------------|-----------------|
|  | January 3, 2021 |                 |                   | January 2, 2022 |
| Severance and related employee costs . . . . . | \$ —            | \$ 661          | \$ (661)          | \$ —            |
| Professional fees . . . . .                    | 1,230           | 1,570           | (2,800)           | —               |
| Other . . . . .                                | —               | 1,765           | (1,765)           | —               |
|  | <u>\$ 1,230</u> | <u>\$ 3,996</u> | <u>\$ (5,226)</u> | <u>\$ —</u>     |

***Organizational Redesign***

On February 16, 2023, the Board of Directors approved a plan to redesign the Company's organizational structure to better support the execution of the Company's long-term growth strategy by maximizing organizational efficiency and streamlining decision making. As a result of the redesign, the Company expects to hold its general and administrative expense in 2023 and 2024 relatively flat compared with 2022. The Company expects to incur total costs of approximately \$11,000 to \$13,000 related to these savings. The total costs expected to be incurred are comprised of (1) severance and related employee costs of approximately \$8,000, (2) recruitment and relocation costs of approximately \$1,000, (3) third-party and other costs of approximately \$1,000 and (4) share-based compensation of approximately \$2,000. The Company expects costs to be recognized during 2023 and continue into 2026, with approximately three-fourths to be recognized during 2023.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
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(In Thousands Except Per Share Amounts)

**(6) Net Income Per Share**

The calculation of basic and diluted net income per share was as follows:

|  | Year Ended     |                |                |
|--|----------------|----------------|----------------|
|  | <u>2022</u>    | <u>2021</u>    | <u>2020</u>    |
| Net income . . . . .   | \$ 177,370     | \$ 200,392     | \$ 117,832     |
| Common stock:  |                |                |                |
| Weighted average basic shares outstanding . . . . .              | 213,766        | 221,375        | 223,684        |
| Dilutive effect of stock options and restricted shares . . . . . | <u>2,073</u>   | <u>3,030</u>   | <u>4,330</u>   |
| Weighted average diluted shares outstanding . . . . .            | <u>215,839</u> | <u>224,405</u> | <u>228,014</u> |
| Net income per share:  |                |                |                |
| Basic . . . . .  | <u>\$ .83</u>  | <u>\$ .91</u>  | <u>\$ .53</u>  |
| Diluted . . . . .  | <u>\$ .82</u>  | <u>\$ .89</u>  | <u>\$ .52</u>  |

Basic net income per share for 2022, 2021 and 2020 was computed by dividing net income amounts by the weighted average number of shares of common stock outstanding. Diluted net income per share was computed by dividing net income by the weighted average number of basic shares outstanding plus the potential common share effect of dilutive stock options and restricted shares. We excluded potential common shares of 4,443, 2,404 and 2,064 for 2022, 2021 and 2020, respectively, from our diluted net income per share calculation as they would have had anti-dilutive effects.

**(7) Cash and Receivables**

|   | Year End                   |                            |
|---|----------------------------|----------------------------|
|   | <u>January 1,<br/>2023</u> | <u>January 2,<br/>2022</u> |
| <i>Cash and cash equivalents</i>  |                            |                            |
| Cash . . . . .  | \$ 185,207                 | \$ 249,438                 |
| Cash equivalents . . . . .  | <u>560,682</u>             | <u>—</u>                   |
|   | <u>745,889</u>             | <u>249,438</u>             |
| <i>Restricted cash</i>  |                            |                            |
| Accounts held by trustee for the securitized financing facility . . . . . | 34,850                     | 27,188                     |
| Other . . . . .   | <u>353</u>                 | <u>347</u>                 |
|   | 35,203                     | 27,535                     |
| Advertising Funds (a) . . . . .   | <u>50,709</u>              | <u>89,993</u>              |
|   | <u>85,912</u>              | <u>117,528</u>             |
| Total cash, cash equivalents and restricted cash . . . . .                | <u>\$ 831,801</u>          | <u>\$ 366,966</u>          |

(a) Included in “Advertising funds restricted assets.”

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
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|   | Year End          |  |                   |                   |  |                   |
|---|-------------------|--|-------------------|-------------------|--|-------------------|
|   | January 1, 2023   |  |                   | January 2, 2022   |  |                   |
|   | <u>Gross</u>      | <u>Allowance<br/>for<br/>Doubtful<br/>Accounts</u> | <u>Net</u>        | <u>Gross</u>      | <u>Allowance<br/>for<br/>Doubtful<br/>Accounts</u> | <u>Net</u>        |
| <i>Accounts and Notes Receivable, Net</i> |                   |  |                   |                   |  |                   |
| <b>Current</b>                            |                   |  |                   |                   |  |                   |
| Accounts receivable (a) . . . . .         | \$ 100,270        | \$(1,707)  | \$ 98,563         | \$ 104,744        | \$(3,229)  | \$ 101,515        |
| Notes receivable from                     |                   |  |                   |                   |  |                   |
| franchisees (b) (c) . . . . .             | <u>22,503</u>     | <u>(4,640)</u>                                     | <u>17,863</u>     | <u>23,000</u>     | <u>(4,975)</u>                                     | <u>18,025</u>     |
|   | <u>\$ 122,773</u> | <u>\$(6,347)</u>                                   | <u>\$ 116,426</u> | <u>\$ 127,744</u> | <u>\$(8,204)</u>                                   | <u>\$ 119,540</u> |
| <b>Non-current (d)</b>                    |                   |  |                   |                   |  |                   |
| Notes receivable from                     |                   |  |                   |                   |  |                   |
| franchisees (c) . . . . .                 | \$ 3,888          | \$ —   | \$ 3,888          | \$ 4,514          | \$ (315)   | \$ 4,199          |

(a) Includes income tax refund receivables of \$3,236 and \$11,901 as of January 1, 2023 and January 2, 2022, respectively.

(b) Includes the current portion of sales-type and direct financing lease receivables of \$8,263 and \$6,266 as of January 1, 2023 and January 2, 2022, respectively. See Note 20 for further information.

Includes a note receivable from a franchisee in Indonesia of \$1,153 and \$1,795 as of January 1, 2023 and January 2, 2022, respectively.

(c) Includes notes receivable related to the Brazil JV, of which \$13,087 and \$12,925 are included in current notes receivable and \$3,888 and \$4,200 are included in non-current notes receivable as of January 1, 2023 and January 2, 2022, respectively. As of both January 1, 2023 and January 2, 2022, the Company had reserves of \$4,640 on the loans outstanding related to the Brazil JV. See Note 8 for further information.

As of January 2, 2022, included a note receivable from a franchisee in India, of which \$335 was included in current notes receivable and \$315 was included in non-current notes receivable. As of January 2, 2022, the Company had reserves of \$650 on the loan. During 2022, the Company received a payment of \$350 from the franchisee and the remaining note receivable balance and related reserve were written off.

(d) Included in "Other assets."

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
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The following is an analysis of the allowance for doubtful accounts:

|   | <u>Accounts<br/>Receivable</u> | <u>Notes<br/>Receivable</u> | <u>Total</u>    |
|---|--------------------------------|-----------------------------|-----------------|
| <b>2022</b>   |                                |                             |                 |
| Balance at January 2, 2022 . . . . .                            | \$ 3,229                       | \$ 5,290                    | \$ 8,519        |
| Provision for doubtful accounts . . . . .                       | (565)                          | (350)                       | (915)           |
| Uncollectible accounts written off, net of recoveries . . . . . | <u>(957)</u>                   | <u>(300)</u>                | <u>(1,257)</u>  |
| Balance at January 1, 2023 . . . . .                            | <u>\$ 1,707</u>                | <u>\$ 4,640</u>             | <u>\$ 6,347</u> |
| <b>2021</b>   |                                |                             |                 |
| Balance at January 3, 2021 . . . . .                            | \$ 3,739                       | \$ 5,625                    | \$ 9,364        |
| Provision for doubtful accounts . . . . .                       | (148)                          | (335)                       | (483)           |
| Uncollectible accounts written off, net of recoveries . . . . . | <u>(362)</u>                   | <u>—</u>                    | <u>(362)</u>    |
| Balance at January 2, 2022 . . . . .                            | <u>\$ 3,229</u>                | <u>\$ 5,290</u>             | <u>\$ 8,519</u> |
| <b>2020</b>   |                                |                             |                 |
| Balance at December 29, 2019 . . . . .                          | \$ 3,314                       | \$ 6,705                    | \$ 10,019       |
| Provision for doubtful accounts . . . . .                       | 647                            | 206                         | 853             |
| Uncollectible accounts written off, net of recoveries . . . . . | <u>(222)</u>                   | <u>(1,286)</u>              | <u>(1,508)</u>  |
| Balance at January 3, 2021 . . . . .                            | <u>\$ 3,739</u>                | <u>\$ 5,625</u>             | <u>\$ 9,364</u> |

**(8) Investments**

The following is a summary of the carrying value of our investments:

|  | <u>Year End</u>            |                            |
|--|----------------------------|----------------------------|
|  | <u>January 1,<br/>2023</u> | <u>January 2,<br/>2022</u> |
| Equity method investments . . . . .              | \$ 33,921                  | \$ 39,870                  |
| Other investments in equity securities . . . . . | <u>12,107</u>              | <u>10,000</u>              |
|  | <u>\$ 46,028</u>           | <u>\$ 49,870</u>           |

**Equity Method Investments**

Wendy's has a 50% share in the TimWen real estate joint venture and a 20% share in the Brazil JV, both of which are accounted for using the equity method of accounting, under which our results of operations include our share of the income (loss) of the investees in "Other operating income, net."

A wholly-owned subsidiary of Wendy's entered into the Brazil JV during the second quarter of 2015 for the operation of Wendy's restaurants in Brazil. Wendy's, Starboard International Holdings B.V. and Infinity Holding E Participações Ltda. contributed \$1, \$2 and \$2, respectively, each receiving proportionate equity interests of 20%, 40% and 40%, respectively. The Company did not receive any distributions and our share of the Brazil JV's net losses was \$417 during 2020. The Brazil JV ceased operations in 2021 and no income or loss was recorded during 2022 and 2021. A wholly-owned subsidiary of Wendy's has loans outstanding related to the Brazil JV totaling \$16,975 and \$17,125 as of January 1, 2023 and January 2, 2022, respectively. The loans are denominated in U.S. Dollars, which is also the functional currency of the subsidiary; therefore, there is no exposure to changes in foreign currency rates. The loans bear interest at rates ranging from 3.25% to 6.5% per year. Of the total loans outstanding as of January 1, 2023, \$12,775 was due primarily in the fourth quarter of 2020 and \$4,200 is due primarily in 2024. As of January 1, 2023 and January 2, 2022, the Company had reserves of \$4,640 on the past due loans related to the Brazil JV. The Company is currently pursuing collection of certain of the past due amounts. See Note 7 for further information.

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The carrying value of our investment in TimWen exceeded our interest in the underlying equity of the joint venture by \$16,423 and \$20,532 as of January 1, 2023 and January 2, 2022, respectively, primarily due to purchase price adjustments from the 2008 merger of Triarc Companies, Inc. and Wendy's International, Inc. (the "Wendy's Merger").

Presented below is activity related to our portion of TimWen and the Brazil JV included in our consolidated balance sheets and consolidated statements of operations as of and for the years ended January 1, 2023, January 2, 2022 and January 3, 2021.

|  | Year Ended       |                  |                 |
|--|------------------|------------------|-----------------|
|  | 2022             | 2021             | 2020            |
| Balance at beginning of period . . . . .   | \$ 39,870        | \$ 44,574        | \$45,310        |
| Equity in earnings for the period . . . . .  | 12,267           | 14,329           | 8,389           |
| Amortization of purchase price adjustments (a) . . . . .   | (2,845)          | (3,126)          | (2,293)         |
|  | 9,422            | 11,203           | 6,096           |
| Distributions received . . . . .   | (12,612)         | (16,337)         | (8,376)         |
| Foreign currency translation adjustment included in "Other comprehensive income" and other . . . . . | (2,759)          | 430              | 1,544           |
| Balance at end of period . . . . .   | <u>\$ 33,921</u> | <u>\$ 39,870</u> | <u>\$44,574</u> |

(a) Purchase price adjustments that impacted the carrying value of the Company's investment in TimWen are being amortized over the average original aggregate life of 21 years.

*Other Investments in Equity Securities*

During 2021, the Company made an investment in equity securities of \$10,000. During the year ended January 1, 2023, the Company recognized a gain of \$2,107 as a result of an observable price change for a similar investment of the same issuer.

**(9) Properties**

|   | Year End          |                   |
|---|-------------------|-------------------|
|   | January 1, 2023   | January 2, 2022   |
| Land . . . . .  | \$ 371,347        | \$ 370,742        |
| Buildings and improvements . . . . .                      | 510,685           | 504,462           |
| Leasehold improvements . . . . .                          | 422,330           | 422,094           |
| Office, restaurant and transportation equipment . . . . . | 314,223           | 282,770           |
|   | 1,618,585         | 1,580,068         |
| Accumulated depreciation and amortization . . . . .       | (722,807)         | (673,201)         |
|   | <u>\$ 895,778</u> | <u>\$ 906,867</u> |

Depreciation and amortization expense related to properties was \$69,239, \$68,298 and \$77,656 during 2022, 2021 and 2020, respectively.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
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**(10) Goodwill and Other Intangible Assets**

Goodwill activity for 2022 and 2021 was as follows:

|  | <u>Wendy's<br/>U.S.</u> | <u>Wendy's<br/>International</u> | <u>Global Real<br/>Estate &amp;<br/>Development</u> | <u>Total</u>     |
|--|-------------------------|----------------------------------|---|------------------|
| Balance at January 3, 2021:                            |                         |                                  |   |                  |
| Goodwill, gross . . . . .                              | \$ 596,874              | \$41,024                         | \$122,548   | \$760,446        |
| Accumulated impairment losses (a) . . . . .            | <u>—</u>                | <u>(9,397)</u>                   | <u>—</u>  | <u>(9,397)</u>   |
| Goodwill, net . . . . .                                | 596,874                 | 31,627                           | 122,548   | 751,049          |
| Changes in goodwill:                                   |                         |                                  |   |                  |
| Restaurant acquisitions . . . . .                      | 23,442                  | —                                | —   | 23,442           |
| Restaurant dispositions (b) . . . . .                  | 547                     | —                                | —   | 547              |
| Currency translation adjustment and<br>other . . . . . | —                       | 240                              | —   | 240              |
| Balance at January 2, 2022:                            |                         |                                  |   |                  |
| Goodwill, gross . . . . .                              | 620,863                 | 41,264                           | 122,548   | 784,675          |
| Accumulated impairment losses (a) . . . . .            | <u>—</u>                | <u>(9,397)</u>                   | <u>—</u>  | <u>(9,397)</u>   |
| Goodwill, net . . . . .                                | 620,863                 | 31,867                           | 122,548   | 775,278          |
| Changes in goodwill:                                   |                         |                                  |   |                  |
| Restaurant acquisitions (c) . . . . .                  | (260)                   | —                                | —   | (260)            |
| Restaurant dispositions . . . . .                      | —                       | —                                | —   | —                |
| Currency translation adjustment and<br>other . . . . . | —                       | (1,930)                          | —   | (1,930)          |
| Balance at January 1, 2023:                            |                         |                                  |   |                  |
| Goodwill, gross . . . . .                              | 620,603                 | 39,334                           | 122,548   | 782,485          |
| Accumulated impairment losses (a) . . . . .            | <u>—</u>                | <u>(9,397)</u>                   | <u>—</u>  | <u>(9,397)</u>   |
| Goodwill, net . . . . .                                | <u>\$ 620,603</u>       | <u>\$29,937</u>                  | <u>\$122,548</u>                                    | <u>\$773,088</u> |

- (a) Accumulated impairment losses resulted from the full impairment of goodwill of the Wendy's international franchise restaurants during the fourth quarter of 2013.
- (b) Represents adjustments to the amount of goodwill allocated to the Company's sale of 47 Company-operated restaurants in New York (including Manhattan) in the second quarter of 2021 upon final disposition of the restaurants. See Note 4 for further information.
- (c) Includes an adjustment to the fair value of net assets acquired in connection with the acquisition of franchised restaurants during 2021. See Note 3 for further information.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
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The following is a summary of the components of other intangible assets and the related amortization expense:

|   | Year End           |                                 |                    |                    |                                 |                    |
|---|--------------------|---------------------------------|--------------------|--------------------|---------------------------------|--------------------|
|   | January 1, 2023    |                                 |                    | January 2, 2022    |                                 |                    |
|   | <u>Cost</u>        | <u>Accumulated Amortization</u> | <u>Net</u>         | <u>Cost</u>        | <u>Accumulated Amortization</u> | <u>Net</u>         |
| Indefinite-lived:                                   |                    |                                 |                    |                    |                                 |                    |
| Trademarks . . . . .                                | \$ 903,000         | \$ —                            | \$ 903,000         | \$ 903,000         | \$ —                            | \$ 903,000         |
| Definite-lived:                                     |                    |                                 |                    |                    |                                 |                    |
| Franchise agreements . . . .                        | 348,293            | (236,536)                       | 111,757            | 349,391            | (220,663)                       | 128,728            |
| Favorable leases . . . . .                          | 154,048            | (67,928)                        | 86,120             | 159,488            | (62,136)                        | 97,352             |
| Reacquired rights under<br>franchise agreements . . | 90,509             | (10,536)                        | 79,973             | 91,111             | (4,732)                         | 86,379             |
| Software . . . . .                                  | 263,282            | (195,332)                       | 67,950             | 234,574            | (169,242)                       | 65,332             |
|   | <u>\$1,759,132</u> | <u>\$(510,332)</u>              | <u>\$1,248,800</u> | <u>\$1,737,564</u> | <u>\$(456,773)</u>              | <u>\$1,280,791</u> |

**Aggregate amortization expense:**

**Actual for fiscal year:**

|                |           |
|----------------|-----------|
| 2020 . . . . . | \$ 52,588 |
| 2021 . . . . . | 55,236    |
| 2022 . . . . . | 58,690    |

**Estimate for fiscal year:**

|                      |                   |
|----------------------|-------------------|
| 2023 . . . . .       | \$ 56,188         |
| 2024 . . . . .       | 49,999            |
| 2025 . . . . .       | 42,614            |
| 2026 . . . . .       | 36,777            |
| 2027 . . . . .       | 32,354            |
| Thereafter . . . . . | 127,868           |
|                      | <u>\$ 345,800</u> |

**(11) Accrued Expenses and Other Current Liabilities**

|   | Year End               |                        |
|---|------------------------|------------------------|
|   | <u>January 1, 2023</u> | <u>January 2, 2022</u> |
| Accrued compensation and related benefits . . . . . | \$ 39,247              | \$ 63,835              |
| Accrued taxes . . . . .                             | 30,159                 | 28,142                 |
| Other . . . . .                                     | 46,604                 | 48,806                 |
|   | <u>\$ 116,010</u>      | <u>\$ 140,783</u>      |

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
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**(12) Long-Term Debt**

Long-term debt consisted of the following:

|   | Year End           |                    |
|---|--------------------|--------------------|
|   | January 1,<br>2023 | January 2,<br>2022 |
| Series 2022-1 Class A-2 Notes:  |                    |                    |
| 4.236% Series 2022-1 Class A-2-I Notes, anticipated repayment<br>date 2029 .....  | \$ 99,500          | \$ —               |
| 4.535% Series 2022-1 Class A-2-II Notes, anticipated repayment<br>date 2032 ..... | 398,000            | —                  |
| Series 2021-1 Class A-2 Notes:  |                    |                    |
| 2.370% Series 2021-1 Class A-2-I Notes, anticipated repayment<br>date 2029 .....  | 443,250            | 447,750            |
| 2.775% Series 2021-1 Class A-2-II Notes, anticipated repayment<br>date 2031 ..... | 640,250            | 646,750            |
| Series 2019-1 Class A-2 Notes:  |                    |                    |
| 3.783% Series 2019-1 Class A-2-I Notes, anticipated repayment<br>date 2026 .....  | 364,000            | 368,000            |
| 4.080% Series 2019-1 Class A-2-II Notes, anticipated repayment<br>date 2029 ..... | 409,500            | 414,000            |
| Series 2018-1 Class A-2 Notes:  |                    |                    |
| 3.884% Series 2018-1 Class A-2-II Notes, anticipated repayment<br>date 2028 ..... | 451,250            | 456,000            |
| 7% debentures, due in 2025 .....  | 86,369             | 85,175             |
| Unamortized debt issuance costs .....   | (40,673)           | (37,009)           |
|   | <u>2,851,446</u>   | <u>2,380,666</u>   |
| Less amounts payable within one year .....  | (29,250)           | (24,250)           |
| Total long-term debt .....  | <u>\$2,822,196</u> | <u>\$2,356,416</u> |

Aggregate annual maturities of long-term debt, excluding the effect of purchase accounting adjustments, as of January 1, 2023 were as follows:

| <u>Fiscal Year</u> |                     |
|--------------------|---------------------|
| 2023 .....         | \$ 29,250           |
| 2024 .....         | 29,250              |
| 2025 .....         | 119,250             |
| 2026 .....         | 377,250             |
| 2027 .....         | 25,250              |
| Thereafter .....   | <u>2,315,500</u>    |
|                    | <u>\$ 2,895,750</u> |

**Senior Notes**

Wendy's Funding, LLC ("Wendy's Funding"), a limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiary of The Wendy's Company, is the master issuer (the "Master Issuer") of outstanding senior secured notes under a securitized financing facility that was entered into in June 2015. As of January 1, 2023, the Master Issuer issued the following outstanding series of fixed rate senior secured notes: (i) 2022-1 Class A-2-I with an initial



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principal amount of \$100,000; (ii) 2022-1 Class A-2-II with an initial principal amount of \$400,000 (collectively, the 2022-1 Class A-2-I Notes and the 2022-1 Class A-2-II Notes are referred to herein as the “2022-1 Class A-2 Notes”); (iii) 2021-1 Class A-2-I with an initial principal amount of \$450,000; (iv) 2021-1 Class A-2-II with an initial principal amount of \$650,000; (v) 2019-1 Class A-2-I with an initial principal amount of \$400,000; (vi) 2019-1 Class A-2-II with an initial principal amount of \$450,000; and (vii) 2018-1 Class A-2-II with an initial principal amount of \$475,000 (collectively, the notes described in (i) to (vii) are referred to herein as the “Class A-2 Notes”). In connection with the issuance of the 2021-1 Class A-2-I and 2021-1 Class A-2-II Notes, the Master Issuer also entered into a revolving financing facility of 2021-1 Variable Funding Senior Secured Notes, Class A-1 (the “2021-1 Class A-1 Notes”), which allows for the drawing of up to \$300,000 on a revolving basis using various credit instruments, including a letter of credit facility. No amounts were borrowed under the 2021-1 Class A-1 Notes during 2022. The Class A-2 Notes and the 2021-1 Class A-1 Notes are collectively referred to as the “Senior Notes.”

The Master Issuer’s issuance of the 2021-1 Class A-1 Notes in June 2021 replaced the Company’s previous \$150,000 Series 2019-1 Variable Funding Senior Secured Notes, Class A-1 (the “2019-1 Class A-1 Notes”) and \$100,000 Series 2020-1 Variable Funding Senior Secured Notes, Class A-1 (the “2020-1 Class A-1 Notes”). In March 2020, the Company drew down \$120,000 under the Series 2019-1 Class A-1 Notes, which was fully repaid in July 2020. In June 2020, the Master Issuer issued the Series 2020-1 Class A-1 Notes.

The Senior Notes are secured by a security interest in substantially all of the assets of the Master Issuer and certain other limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiaries of the Company that act as guarantors (collectively, the “Securitization Entities”), except for certain real estate assets and subject to certain limitations as set forth in the indenture governing the Senior Notes (the “Indenture”) and the related guarantee and collateral agreements. The assets of the Securitization Entities include most of the domestic and certain of the foreign revenue-generating assets of the Company and its subsidiaries, which principally consist of franchise-related agreements, certain Company-operated restaurants, intellectual property and license agreements for the use of intellectual property.

Interest and principal payments on the Class A-2 Notes are payable on a quarterly basis. The requirement to make such quarterly principal payments on the Class A-2 Notes is subject to certain financial conditions set forth in the Indenture. The legal final maturity dates for the Class A-2 Notes range from 2048 through 2052. If the Master Issuer has not repaid or refinanced the Class A-2 Notes prior to their respective anticipated repayment dates, which range from 2026 through 2032, additional interest will accrue pursuant to the Indenture.

The 2021-1 Class A-1 Notes accrue interest at a variable interest rate based on (i) the prime rate, (ii) overnight federal funds rates, (iii) LIBOR for U.S. Dollars or (iv) with respect to advances made by conduit investors, the weighted average cost of, or related to, the issuance of commercial paper allocated to fund or maintain such advances, in each case plus any applicable margin and as specified in the respective purchase agreements for the 2021-1 Class A-1 Notes. There is a commitment fee on the unused portions of the 2021-1 Class A-1 Notes, which ranges from 0.40% to 0.75% based on utilization. As of January 1, 2023, \$28,388 of letters of credit were outstanding against the 2021-1 Class A-1 Notes, which relate primarily to interest reserves required under the Indenture.

*Covenants and Restrictions*

The Senior Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) that the Master Issuer maintains specified reserve accounts to be used to make required payments in respect of the Senior Notes, (ii) provisions relating to optional and mandatory prepayments and the related payment of specified amounts, including specified make-whole payments in the case of the Class A-2 Notes under certain circumstances, (iii) certain indemnification payments in the event, among other things, the assets pledged as collateral for the Senior Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The Senior Notes are also subject to customary rapid amortization events provided for in the Indenture, including events tied to failure to maintain stated debt service coverage ratios, the sum of global gross sales for specified restaurants being below certain levels on certain measurement dates, certain manager termination events, an event of default, and the failure to repay or refinance the Class A-2 Notes on the applicable

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scheduled maturity date. The Senior Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal, or other amounts due on or with respect to the Senior Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective, and certain judgments. In addition, the Indenture and the related management agreement contain various covenants that limit the Company and its subsidiaries' ability to engage in specified types of transactions, subject to certain exceptions, including, for example, to (i) incur or guarantee additional indebtedness, (ii) sell certain assets, (iii) create or incur liens on certain assets to secure indebtedness or (iv) consolidate, merge, sell or otherwise dispose of all or substantially all of their assets.

In accordance with the Indenture, certain cash accounts have been established with the Indenture trustee for the benefit of the trustee and the noteholders, and are restricted in their use. As of January 1, 2023 and January 2, 2022, Wendy's Funding had restricted cash of \$34,850 and \$27,188, respectively, which primarily represents cash collections and cash reserves held by the trustee to be used for payments of principal, interest and commitment fees required for the Class A-2 Notes.

*Debt Financing*

In April 2022, the Master Issuer completed a debt financing transaction under which the Company issued the 2022-1 Class A-2 Notes with an initial principal amount of \$500,000. The legal final maturity date of the 2022-1 Class A-2 Notes is March 2052 and the anticipated repayment dates are in 2029 and 2032.

*Refinancing Transactions*

In June 2021, the Master Issuer completed a refinancing transaction under which the Master Issuer issued the Series 2021-1 Class A-2-I Notes and the Series 2021-1 Class A-2-II Notes. A portion of the net proceeds from the sale of the Series 2021-1 Class A-2 Notes were used to repay in full the Master Issuer's outstanding Series 2015-1 Class A-2-III Notes and Series 2018-1 Class A-2-I Notes, including the payment of prepayment and transaction costs. As a result of the refinancing, the Company recorded a loss on early extinguishment of debt of \$17,917 during 2021, which was comprised of a specified make-whole payment of \$9,632 and the write-off of certain unamortized deferred financing costs of \$8,285. As part of the June 2021 refinancing transaction, the Master Issuer also issued the 2021-1 Class A-1 Notes. The Series 2021-1 Class A-1 Notes replaced the Company's \$150,000 Series 2019-1 Class A-1 Notes and \$100,000 Series 2020-1 Class A-1 Notes, which were canceled on the closing date, and the letters of credit outstanding against the Series 2019-1 Class A-1 Notes were transferred to the Series 2021-1 Class A-1 Notes.

*Debt Issuance Costs*

During 2022, 2021 and 2020, the Company incurred debt issuance costs of \$10,232, \$20,873 and \$2,122 in connection with the issuance of the 2022-1 Class A-2 Notes, the June 2021 refinancing transaction and the issuance of the 2020-1 Class A-1 Notes, respectively. The debt issuance costs are being amortized to "Interest expense, net" through the anticipated repayment dates of the Class A-2 Notes utilizing the effective interest rate method. As of January 1, 2023, the effective interest rates, including the amortization of debt issuance costs, were 4.1%, 4.0%, 4.2%, 2.6%, 2.9%, 4.7% and 4.7% for the Series 2018-1 Class A-2-II Notes, Series 2019-1 Class A-2-I Notes, Series 2019-1 Class A-2-II Notes, Series 2021-1 Class A-2-I Notes, Series 2021-1 Class A-2-II Notes, Series 2022-1 Class A-2-I Notes and Series 2022-1 Class A-2-II Notes, respectively.

*Other Long-Term Debt*

Wendy's 7% debentures are unsecured and were reduced to fair value in connection with the Wendy's Merger based on their outstanding principal of \$100,000 and an effective interest rate of 8.6%. The fair value adjustment is being accreted and the related charge included in "Interest expense, net" until the debentures mature. These debentures contain covenants that restrict the incurrence of indebtedness secured by liens and certain finance lease transactions. In December 2019, Wendy's repurchased \$10,000 in principal of its 7% debentures for \$10,550,

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including a premium of \$500 and transaction fees of \$50. Subsequent to January 1, 2023, Wendy's repurchased \$25,000 in principal of its 7% debentures at par value. As a result, the Company recognized a loss on early extinguishment of debt of \$1,009 during the first quarter of 2023.

A Canadian subsidiary of Wendy's has a revolving credit facility of C\$6,000, which bears interest at the Bank of Montreal Prime Rate. Borrowings under the facility are guaranteed by Wendy's. In March 2020, the Company drew down C\$5,500 under the revolving credit facility, which the Company fully repaid through repayments of C\$3,000 in the fourth quarter of 2020 and C\$2,500 in the first quarter of 2021. As of January 1, 2023, the Company had no outstanding borrowings under the Canadian revolving credit facility.

Wendy's U.S. advertising fund has a revolving line of credit of \$25,000, which was established to support the advertising fund operations and bears interest at LIBOR plus 2.15%. Borrowings under the line of credit are guaranteed by Wendy's. During 2020, the Company borrowed and repaid \$29,397 under the revolving line of credit. There were no borrowings or repayments under the line of credit during 2022 or 2021. As of January 1, 2023, the Company had no outstanding borrowings under the advertising fund revolving line of credit.

*Interest Expense*

Interest expense on the Company's long-term debt was \$110,751, \$98,356 and \$106,116 during 2022, 2021 and 2020, respectively, which was recorded to "Interest expense, net."

*Pledged Assets*

The following is a summary of the Company's assets pledged as collateral for certain debt:

|  | Year End           |
|--|--------------------|
|  | January 1,<br>2023 |
| Cash and cash equivalents . . . . .          | \$ 43,439          |
| Restricted cash and other assets . . . . .   | 34,855             |
| Accounts and notes receivable, net . . . . . | 44,246             |
| Inventories . . . . .                        | 6,120              |
| Properties . . . . .                         | 64,328             |
| Other intangible assets . . . . .            | 1,010,313          |
|  | <u>\$1,203,301</u> |

**(13) Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques under the accounting guidance related to fair value measurements are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. These inputs are classified into the following hierarchy:

- Level 1 Inputs - Quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 Inputs - Pricing inputs are unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the assets or liabilities. The inputs into the determination of fair value require significant management judgment or estimation.

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*Financial Instruments*

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments:

|  | Year End        |            |                 |            | Fair Value Measurements |
|--|-----------------|------------|-----------------|------------|-------------------------|
|  | January 1, 2023 |            | January 2, 2022 |            |                         |
|  | Carrying Amount | Fair Value | Carrying Amount | Fair Value |                         |
| <i>Financial assets</i>                              |                 |            |                 |            |                         |
| Cash equivalents . . . . .                           | \$560,682       | \$560,682  | \$ —            | \$ —       | Level 1                 |
| Other investments in equity securities (a) . . . . . | 12,107          | 12,107     | 10,000          | 10,000     | Level 2                 |
| <i>Financial liabilities (b)</i>                     |                 |            |                 |            |                         |
| Series 2022-1 Class A-2-I Notes . . . . .            | 99,500          | 89,401     | —               | —          | Level 2                 |
| Series 2022-1 Class A-2-II Notes . . . . .           | 398,000         | 349,444    | —               | —          | Level 2                 |
| Series 2021-1 Class A-2-I Notes . . . . .            | 443,250         | 357,304    | 447,750         | 439,283    | Level 2                 |
| Series 2021-1 Class A-2-II Notes . . . . .           | 640,250         | 499,011    | 646,750         | 642,352    | Level 2                 |
| Series 2019-1 Class A-2-I Notes . . . . .            | 364,000         | 334,334    | 368,000         | 381,579    | Level 2                 |
| Series 2019-1 Class A-2-II Notes . . . . .           | 409,500         | 361,875    | 414,000         | 439,792    | Level 2                 |
| Series 2018-1 Class A-2-II Notes . . . . .           | 451,250         | 405,809    | 456,000         | 473,693    | Level 2                 |
| 7% debentures, due in 2025 . . . . .                 | 86,369          | 92,367     | 85,175          | 101,142    | Level 2                 |

(a) The fair value of our other investments in equity securities is based on our review of information provided by the investment manager, which is based on observable price changes in orderly transactions for a similar investment of the same issuer.

(b) The fair values were based on quoted market prices in markets that are not considered active markets.

The carrying amounts of cash, accounts payable and accrued expenses approximate fair value due to the short-term nature of those items. The carrying amounts of accounts and notes receivable, net (both current and non-current) approximate fair value due to the effect of the related allowance for doubtful accounts. Our cash equivalents are the only financial assets measured and recorded at fair value on a recurring basis.

*Non-Recurring Fair Value Measurements*

Assets and liabilities remeasured to fair value on a non-recurring basis resulted in impairment that we have recorded to "Impairment of long-lived assets" in our consolidated statements of operations.

Total impairment losses may reflect the impact of remeasuring long-lived assets held and used (including land, buildings, leasehold improvements, favorable lease assets and ROU assets) to fair value as a result of (1) the deterioration in operating performance of certain Company-operated restaurants and (2) the Company's decision to lease and/or sublease the land and/or buildings to franchisees in connection with the sale or anticipated sale of restaurants, including any subsequent lease modifications. The fair values of long-lived assets held and used presented in the tables below represent the remaining carrying value and were estimated based on either discounted cash flows of future anticipated lease and sublease income or discounted cash flows of future anticipated Company-operated restaurant performance.

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Total impairment losses may also include the impact of remeasuring long-lived assets held for sale. The fair values of long-lived assets held for sale presented in the tables below represent the remaining carrying value and were estimated based on current market values. See Note 17 for further information on impairment of our long-lived assets.

|               | January 1,<br>2023 | Fair Value Measurements |            |                | 2022<br>Total Losses |
|---------------|--------------------|-------------------------|------------|----------------|----------------------|
|               |                    | Level 1                 | Level 2    | Level 3        |                      |
| Held and used | \$4,590            | \$—                     | \$—        | \$4,590        | \$5,727              |
| Held for sale | 1,314              | —                       | —          | 1,314          | 693                  |
| Total         | <u>\$5,904</u>     | <u>\$—</u>              | <u>\$—</u> | <u>\$5,904</u> | <u>\$6,420</u>       |

|               | January 2,<br>2022 | Fair Value Measurements |            |                | 2021<br>Total Losses |
|---------------|--------------------|-------------------------|------------|----------------|----------------------|
|               |                    | Level 1                 | Level 2    | Level 3        |                      |
| Held and used | \$1,618            | \$—                     | \$—        | \$1,618        | \$2,051              |
| Held for sale | 371                | —                       | —          | 371            | 200                  |
| Total         | <u>\$1,989</u>     | <u>\$—</u>              | <u>\$—</u> | <u>\$1,989</u> | <u>\$2,251</u>       |

**(14) Income Taxes**

Income before income taxes is set forth below:

|             | Year Ended       |                  |                  |
|-------------|------------------|------------------|------------------|
|             | 2022             | 2021             | 2020             |
| Domestic    | \$231,862        | \$228,756        | \$149,046        |
| Foreign (a) | 11,643           | 11,822           | 3,749            |
|             | <u>\$243,505</u> | <u>\$240,578</u> | <u>\$152,795</u> |

(a) Excludes foreign income of domestic subsidiaries.

The (provision for) benefit from income taxes is set forth below:

|                                  | Year Ended        |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|
|                                  | 2022              | 2021              | 2020              |
| Current:                         |                   |                   |                   |
| U.S. federal                     | \$(43,141)        | \$(38,416)        | \$(16,176)        |
| State                            | (9,152)           | (7,039)           | (3,723)           |
| Foreign                          | (9,537)           | (8,512)           | (4,798)           |
| Current tax provision            | <u>(61,830)</u>   | <u>(53,967)</u>   | <u>(24,697)</u>   |
| Deferred:                        |                   |                   |                   |
| U.S. federal                     | (3,868)           | (52)              | (6,707)           |
| State                            | (2,629)           | 15,993            | (3,185)           |
| Foreign                          | 2,192             | (2,160)           | (374)             |
| Deferred tax (provision) benefit | <u>(4,305)</u>    | <u>13,781</u>     | <u>(10,266)</u>   |
| Income tax provision             | <u>\$(66,135)</u> | <u>\$(40,186)</u> | <u>\$(34,963)</u> |

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Deferred tax assets (liabilities) are set forth below:

|   | Year End            |                     |
|---|---------------------|---------------------|
|   | January 1,<br>2023  | January 2,<br>2022  |
| Deferred tax assets:                                  |                     |                     |
| Operating and finance lease liabilities . . . . .     | \$ 355,653          | \$ 368,932          |
| Net operating loss and credit carryforwards . . . . . | 58,030              | 60,620              |
| Deferred revenue . . . . .                            | 23,617              | 23,636              |
| Unfavorable leases . . . . .                          | 19,085              | 19,060              |
| Accrued compensation and related benefits . . . . .   | 14,577              | 18,487              |
| Accrued expenses and reserves . . . . .               | 7,012               | 6,763               |
| Other . . . . .                                       | 8,275               | 7,586               |
| Valuation allowances . . . . .                        | <u>(35,680)</u>     | <u>(38,277)</u>     |
| Total deferred tax assets . . . . .                   | 450,569             | 466,807             |
| Deferred tax liabilities:                             |                     |                     |
| Operating and finance lease assets . . . . .          | (326,646)           | (341,681)           |
| Intangible assets . . . . .                           | (285,688)           | (290,088)           |
| Fixed assets . . . . .                                | (66,830)            | (63,936)            |
| Other . . . . .                                       | <u>(41,826)</u>     | <u>(38,812)</u>     |
| Total deferred tax liabilities . . . . .              | <u>(720,990)</u>    | <u>(734,517)</u>    |
|   | <u>\$ (270,421)</u> | <u>\$ (267,710)</u> |

The amounts and expiration dates of net operating loss and tax credit carryforwards are as follows:

|  | <u>Amount</u>      | <u>Expiration</u> |
|--|--------------------|-------------------|
| Tax credit carryforwards:                                  |                    |                   |
| U.S. federal foreign tax credits . . . . .                 | \$ 14,350          | 2027-2032         |
| State tax credits . . . . .                                | 423                | 2023-2024         |
| Foreign tax credits of non-U.S. subsidiaries . . . . .     | 3,881              | Indefinite        |
| Total . . . . .  | <u>\$ 18,654</u>   |                   |
| Net operating loss carryforwards (pre-tax):                |                    |                   |
| State and local net operating loss carryforwards . . . . . | \$1,059,037        | 2023-Indefinite   |
| Foreign net operating loss carryforwards . . . . .         | 13,880             | Indefinite        |
| Total . . . . .  | <u>\$1,072,917</u> |                   |

The Company's valuation allowances of \$35,680 and \$38,277 as of January 1, 2023 and January 2, 2022, respectively, relate primarily to foreign and state tax credit and net operating loss carryforwards. Valuation allowances decreased \$2,597 and \$11,691 during 2022 and 2021, respectively, and increased \$4,785 during 2020. The relative presence of Company-operated restaurants in various states impacts expected future state taxable income available to utilize state net operating loss carryforwards.

The current portion of refundable income taxes was \$3,236 and \$11,901 as of January 1, 2023 and January 2, 2022, respectively, and is included in "Accounts and notes receivable, net." There were no long-term refundable income taxes as of January 1, 2023 and January 2, 2022.

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The reconciliation of income tax computed at the U.S. federal statutory rate of 21% to reported income tax is set forth below:

|   | Year Ended         |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | <u>2022</u>        | <u>2021</u>        | <u>2020</u>        |
| Income tax provision at the U.S. federal statutory rate . . . . .       | \$(51,136)         | \$(50,521)         | \$(32,087)         |
| State income tax provision, net of U.S. federal income tax effect . . . | (11,616)           | (6,256)            | (4,664)            |
| Prior years' tax matters . . . . .                                      | 2,290              | 1,820              | 1,761              |
| Excess federal tax benefits from share-based compensation . . . . .     | 402                | 7,160              | 5,338              |
| Foreign and U.S. tax effects of foreign operations . . . . .            | (3,744)            | (5)                | (397)              |
| Valuation allowances (a) . . . . .                                      | 2,127              | 11,807             | (4,593)            |
| Non-deductible goodwill (b) . . . . .                                   | —                  | (947)              | —                  |
| Tax credits . . . . .   | 1,385              | 1,028              | 1,901              |
| Non-deductible executive compensation . . . . .                         | (3,154)            | (3,810)            | (1,973)            |
| Unrepatriated earnings . . . . .  | (294)              | (282)              | (283)              |
| Non-deductible expenses and other . . . . .                             | (2,395)            | (180)              | 34                 |
|   | <u>\$ (66,135)</u> | <u>\$ (40,186)</u> | <u>\$ (34,963)</u> |

- (a) 2021 primarily relates to a \$12,606 benefit resulting from a change in state tax law.
- (b) Related to the sale of the New York Company-operated restaurants (including Manhattan). See Note 4 for further information.

The Company participates in the Internal Revenue Service (the "IRS") Compliance Assurance Process ("CAP"). As part of CAP, tax years are examined on a contemporaneous basis so that all or most issues are resolved prior to the filing of the tax return. As such, our tax returns for fiscal years 2009 through 2020 have been settled. The statute of limitations for the Company's state tax returns vary, but generally the Company's state income tax returns from its 2018 fiscal year and forward remain subject to examination. We believe that adequate provisions have been made for any liabilities, including interest and penalties that may result from the completion of these examinations.

***Unrecognized Tax Benefits***

As of January 1, 2023, the Company had unrecognized tax benefits of \$17,404, which, if resolved favorably, would reduce income tax expense by \$13,749. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

|   | Year Ended      |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | <u>2022</u>     | <u>2021</u>     | <u>2020</u>     |
| Beginning balance . . . . .               | \$18,849        | \$20,973        | \$22,323        |
| Additions:                                |                 |                 |                 |
| Tax positions of current year . . . . .   | 178             | 157             | 322             |
| Reductions:                               |                 |                 |                 |
| Tax positions of prior years . . . . .    | (662)           | (2,015)         | (1,183)         |
| Settlements . . . . .                     | (8)             | (46)            | (119)           |
| Lapse of statute of limitations . . . . . | (953)           | (220)           | (370)           |
| Ending balance . . . . .                  | <u>\$17,404</u> | <u>\$18,849</u> | <u>\$20,973</u> |

During 2023, we believe it is reasonably possible the Company will reduce unrecognized tax benefits by up to \$582 due primarily to the lapse of statutes of limitations and expected settlements.

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During 2022, 2021 and 2020, the Company recognized \$(30), \$138 and \$159 of (income) expense for interest and \$0, \$37 and \$81 of income for penalties, respectively, related to uncertain tax positions. The Company has \$943 and \$975 accrued for interest related to uncertain tax positions as of January 1, 2023 and January 2, 2022, respectively.

**(15) Stockholders' Equity**

*Dividends*

During 2022, 2021 and 2020, the Company paid dividends per share of \$.50, \$.43 and \$.29, respectively.

*Treasury Stock*

There were 470,424 shares of common stock issued at the beginning and end of 2022, 2021 and 2020. Treasury stock activity for 2022, 2021 and 2020 was as follows:

|   | Year Ended     |                |                |
|---|----------------|----------------|----------------|
|   | <u>2022</u>    | <u>2021</u>    | <u>2020</u>    |
| Number of shares at beginning of year . . . . . | 254,575        | 246,156        | 245,535        |
| Repurchases of common stock . . . . .           | 3,474          | 11,487         | 3,512          |
| Common shares issued:                           |                |                |                |
| Stock options, net . . . . .                    | (353)          | (2,657)        | (2,358)        |
| Restricted stock, net . . . . .                 | (264)          | (337)          | (465)          |
| Director fees . . . . .                         | (22)           | (17)           | (15)           |
| Other . . . . .                                 | (87)           | (57)           | (53)           |
| Number of shares at end of year . . . . .       | <u>257,323</u> | <u>254,575</u> | <u>246,156</u> |

*Repurchases of Common Stock*

In February 2022, our Board of Directors authorized a repurchase program for up to \$100,000 of our common stock through February 28, 2023, when and if market conditions warranted and to the extent legally permissible (the "February 2022 Authorization"). On April 1, 2022, the Company's Board of Directors approved an increase of \$150,000 to the February 2022 Authorization, resulting in an aggregate authorization of \$250,000 that was set to expire on February 28, 2023. During 2022, the Company repurchased 2,759 shares under the February 2022 Authorization with an aggregate purchase price of \$51,911, excluding commissions of \$39. As of January 1, 2023, the Company had \$198,089 of availability remaining under the February 2022 Authorization. In January 2023, our Board of Directors authorized a repurchase program for up to \$500,000 of our common stock through February 28, 2027, when and if market conditions warrant and to the extent legally permissible (the "January 2023 Authorization"). In connection with the January 2023 Authorization, the remaining portion of the February 2022 Authorization was canceled. Subsequent to January 1, 2023 through February 21, 2023, the Company repurchased 578 shares under the January 2023 Authorization with an aggregate purchase price of \$12,910, excluding commissions of \$8.

In February 2020, our Board of Directors authorized a repurchase program for up to \$100,000 of our common stock through February 28, 2021, when and if market conditions warranted and to the extent legally permissible (the "February 2020 Authorization"). In July 2020, the Company's Board of Directors approved an extension of the February 2020 Authorization by one year, through February 28, 2022. In addition, in May 2021, August 2021 and November 2021, the Board of Directors approved increases of \$50,000, \$70,000 and \$80,000, respectively, to the February 2020 Authorization, resulting in an aggregate authorization of \$300,000 that continued to expire on February 28, 2022. In November 2021, the Company entered into an accelerated share repurchase agreement (the "2021 ASR Agreement") with a third-party financial institution to repurchase common stock as part of the February 2020 Authorization. Under the 2021 ASR Agreement, the Company paid the financial institution an initial purchase



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price of \$125,000 in cash and received an initial delivery of 4,910 shares of common stock, representing an estimated 85% of the total shares expected to be delivered under the 2021 ASR Agreement. In February 2022, the Company completed the 2021 ASR Agreement and received an additional 715 shares of common stock. The total number of shares of common stock ultimately purchased by the Company under the 2021 ASR Agreement was based on the average of the daily volume-weighted average prices of the common stock during the term of the 2021 ASR Agreement, less an agreed upon discount. In total, 5,625 shares were delivered under the 2021 ASR Agreement at an average purchase price of \$22.22 per share.

In addition to the shares repurchased in connection with the 2021 ASR Agreement, during 2021, the Company repurchased 6,577 shares with an aggregate purchase price of \$142,715, excluding commissions of \$93, under the February 2020 Authorization. After taking into consideration these repurchases, with the completion of the 2021 ASR Agreement in February 2022 described above, the Company completed the February 2020 Authorization.

During 2020, the Company repurchased 1,572 shares under the February 2020 Authorization with an aggregate purchase price of \$32,285, of which \$723 was accrued at January 3, 2021, and excluding commissions of \$22.

In February 2019, our Board of Directors authorized a repurchase program for up to \$225,000 of our common stock through March 1, 2020, when and if market conditions warranted and to the extent legally permissible (the "February 2019 Authorization"). In November 2019, the Company entered into an accelerated share repurchase agreement (the "2019 ASR Agreement") with a third-party financial institution to repurchase common stock as part of the February 2019 Authorization. Under the 2019 ASR Agreement, the Company paid the financial institution an initial purchase price of \$100,000 in cash and received an initial delivery of 4,051 shares of common stock, representing an estimated 85% of the total shares expected to be delivered under the 2019 ASR Agreement. In February 2020, the Company completed the 2019 ASR Agreement and received an additional 628 shares of common stock. The total number of shares of common stock ultimately purchased by the Company under the 2019 ASR Agreement was based on the average of the daily volume-weighted average prices of the common stock during the term of the 2019 ASR Agreement, less an agreed upon discount. In total, 4,679 shares were delivered under the 2019 ASR Agreement at an average purchase price of \$21.37 per share.

In addition to the shares repurchased in connection with the 2019 ASR Agreement, during 2020, the Company repurchased 1,312 shares with an aggregate purchase price of \$28,770, excluding commissions of \$18, under the February 2019 Authorization. After taking into consideration these repurchases, with the completion of the 2019 ASR Agreement in February 2020, the Company completed the February 2019 Authorization.

*Preferred Stock*

There were 100,000 shares authorized and no shares issued of preferred stock throughout 2022, 2021 and 2020.

*Accumulated Other Comprehensive Loss*

The following table provides a rollforward of accumulated other comprehensive loss, which is entirely comprised of foreign currency translation:

|  | Year Ended        |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | <u>2022</u>       | <u>2021</u>       | <u>2020</u>       |
| Balance at beginning of period . . . . . | \$(48,200)        | \$(49,641)        | \$(53,828)        |
| Foreign currency translation . . . . .   | (15,976)          | 1,441             | 4,187             |
| Balance at end of period . . . . .       | <u>\$(64,176)</u> | <u>\$(48,200)</u> | <u>\$(49,641)</u> |

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**(16) Share-Based Compensation**

The Company has the ability to grant stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and performance compensation awards to current or prospective employees, directors, officers, consultants or advisors. During 2020, the Company's Board of Directors and its stockholders approved the adoption of the 2020 Omnibus Award Plan (the "2020 Plan") for the issuance of equity instruments as described above. The Company's previous 2010 Omnibus Award Plan (as amended, the "2010 Plan") expired in accordance with its terms in 2020. All equity grants in 2022 and 2021 were issued from the 2020 Plan. Equity grants in 2020 were issued from both the 2020 Plan and the 2010 Plan. The 2020 Plan is currently the only equity plan from which future equity awards may be granted, but outstanding awards granted under the 2010 Plan will continue to be governed by the terms of the 2010 Plan. As of January 1, 2023, there were approximately 18,168 shares of common stock available for future grants under the 2020 Plan. During the periods presented in the consolidated financial statements, the Company settled all exercises of stock options and vesting of restricted shares, including performance shares, with treasury shares.

*Stock Options*

The Company's current outstanding stock options have maximum contractual terms of 10 years and vest ratably over three years or cliff vest after three years. The exercise price of options granted is equal to the market price of the Company's common stock on the date of grant. The fair value of stock options on the date of grant is calculated using the Black-Scholes Model. The aggregate intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price.

The following table summarizes stock option activity during 2022:

|   | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life in Years | Aggregate<br>Intrinsic<br>Value |
|---|----------------------|--|--|---------------------------------|
| Outstanding at January 2, 2022 . . . . .                | 9,858                | \$18.44                                  |  |                                 |
| Granted . . . . .                                       | 1,562                | 21.40                                    |  |                                 |
| Exercised . . . . .                                     | (414)                | 13.82                                    |  |                                 |
| Forfeited and/or expired . . . . .                      | (116)                | 21.93                                    |  |                                 |
| Outstanding at January 1, 2023 . . . . .                | <u>10,890</u>        | \$19.00                                  | 6.60   | <u>\$41,181</u>                 |
| Vested or expected to vest at January 1, 2023 . . . . . | 10,770               | \$18.97                                  | 6.57   | <u>\$41,084</u>                 |
| Exercisable at January 1, 2023 . . . . .                | 7,844                | \$17.73                                  | 5.69   | <u>\$39,116</u>                 |

The total intrinsic value of options exercised during 2022, 2021 and 2020 was \$2,979, \$39,522 and \$28,111, respectively. The weighted average grant date fair value of stock options granted during 2022, 2021 and 2020 was \$6.33, \$6.33 and \$6.02, respectively.

The weighted average grant date fair value of stock options was determined using the following assumptions:

|   | 2022   | 2021   | 2020   |
|---|--------|--------|--------|
| Risk-free interest rate . . . . .       | 3.00%  | 0.70%  | 0.22%  |
| Expected option life in years . . . . . | 4.75   | 4.50   | 4.50   |
| Expected volatility . . . . .           | 37.82% | 38.00% | 38.02% |
| Expected dividend yield . . . . .       | 2.34%  | 2.03%  | 1.72%  |

The risk-free interest rate represents the U.S. Treasury zero-coupon bond yield correlating to the expected life of the stock options granted. The expected option life represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends for similar grants. The expected volatility is based on the historical market price volatility of the Company over a period equivalent to the expected option life. The expected

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dividend yield represents the Company's annualized average yield for regular quarterly dividends declared prior to the respective stock option grant dates.

The Black-Scholes Model has limitations on its effectiveness including that it was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable and that the model requires the use of highly subjective assumptions, such as expected stock price volatility. Employee stock option awards have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect the fair value estimates.

*Restricted Shares*

The Company grants RSAs and RSUs, which primarily cliff vest after one to three years, respectively. For the purposes of our disclosures, the term "Restricted Shares" applies to RSAs and RSUs collectively unless otherwise noted. The fair value of Restricted Shares granted is determined using the fair market value of the Company's common stock on the date of grant, as set forth in the applicable plan document.

The following table summarizes activity of Restricted Shares during 2022:

|   | Number of<br>Restricted<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---|-----------------------------------|---|
| Non-vested at January 2, 2022 . . . . . | 1,094                             | \$20.09   |
| Granted . . . . .                       | 429                               | 20.34   |
| Vested . . . . .                        | (279)                             | 20.38   |
| Forfeited . . . . .                     | <u>(58)</u>                       | 21.65   |
| Non-vested at January 1, 2023 . . . . . | <u>1,186</u>                      | \$20.03   |

The total fair value of Restricted Shares that vested in 2022, 2021 and 2020 was \$5,564, \$7,048 and \$8,634, respectively.

*Performance Shares*

The Company grants performance-based awards to certain officers and key employees. The vesting of these awards is contingent upon meeting one or more defined operational or financial goals (a performance condition) or common stock share prices (a market condition). The quantity of shares awarded ranges from 0% to 200% of "Target," as defined in the award agreement as the midpoint number of shares, based on the level of achievement of the performance and market conditions.

The fair values of the performance condition awards granted in 2022, 2021 and 2020 were determined using the fair market value of the Company's common stock on the date of grant, as set forth in the applicable plan document. Share-based compensation expense recorded for performance condition awards is reevaluated at each reporting period based on the probability of the achievement of the goal.

The fair value of market condition awards granted in 2022, 2021 and 2020 were estimated using the Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that the market conditions will be achieved and is applied to the trading price of our common stock on the date of grant.

The input variables are noted in the table below:

|                                       | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-------------|-------------|-------------|
| Risk-free interest rate . . . . .     | 1.71%       | 0.20%       | 1.38%       |
| Expected life in years . . . . .      | 3.00        | 3.00        | 3.00        |
| Expected volatility . . . . .         | 52.33%      | 49.47%      | 23.26%      |
| Expected dividend yield (a) . . . . . | 0.00%       | 0.00%       | 0.00%       |

(a) The Monte Carlo method assumes a reinvestment of dividends.

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Share-based compensation expense is recorded ratably for market condition awards during the requisite service period and is not reversed, except for forfeitures, at the vesting date regardless of whether the market condition is met.

The following table summarizes activity of performance shares at Target during 2022:

|                                      | Performance Condition Awards |  | Market Condition Awards |  |
|--------------------------------------|------------------------------|--|-------------------------|--|
|                                      | Shares                       | Weighted Average Grant Date Fair Value | Shares                  | Weighted Average Grant Date Fair Value |
| Non-vested at January 2, 2022        | 505                          | \$20.48                                | 422                     | \$24.52                                |
| Granted                              | 207                          | 21.94                                  | 148                     | 30.70                                  |
| Dividend equivalent units issued (a) | 14                           | 21.67                                  | 11                      | 27.37                                  |
| Vested                               | (75)                         | 17.86                                  | (99)                    | 21.37                                  |
| Forfeited                            | (67)                         | 17.86                                  | (20)                    | 21.38                                  |
| Non-vested at January 1, 2023        | <u>584</u>                   | \$21.67                                | <u>462</u>              | \$27.38                                |

(a) Dividend equivalent units are issued in lieu of cash dividends for non-vested performance shares. There is no weighted average fair value associated with dividend equivalent units.

The total fair value of performance condition awards that vested in 2022, 2021 and 2020 was \$1,712, \$1,784 and \$3,447, respectively. The total fair value of market condition awards that vested in 2022, 2021 and 2020 was \$2,253, \$3,498 and \$4,910, respectively.

**Share-Based Compensation**

Total share-based compensation and the related income tax benefit recognized in the Company's consolidated statements of operations were as follows:

|   | Year Ended      |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | 2022            | 2021            | 2020            |
| Stock options                                       | \$ 9,072        | \$ 9,256        | \$ 8,499        |
| Restricted shares (a)                               | 7,106           | 6,677           | 6,507           |
| Performance shares:                                 |                 |                 |                 |
| Performance condition awards                        | 4,431           | 2,861           | 782             |
| Market condition awards                             | 3,929           | 3,225           | 2,521           |
| Modifications, net                                  | —               | —               | 621             |
| Share-based compensation                            | <u>24,538</u>   | <u>22,019</u>   | <u>18,930</u>   |
| Less: Income tax benefit                            | <u>(3,043)</u>  | <u>(2,790)</u>  | <u>(2,958)</u>  |
| Share-based compensation, net of income tax benefit | <u>\$21,495</u> | <u>\$19,229</u> | <u>\$15,972</u> |

(a) 2021 and 2020 include \$19 and \$213, respectively, related to retention awards in connection with the Company's G&A Realignment Plan, which is included in "Reorganization and realignment costs." See Note 5 for further information.

As of January 1, 2023, there was \$30,038 of total unrecognized share-based compensation, which will be recognized over a weighted average amortization period of 1.98 years.

**(17) Impairment of Long-Lived Assets**

The Company records impairment charges as a result of (1) the deterioration in operating performance of certain Company-operated restaurants, (2) the Company's decision to lease and/or sublease properties to franchisees

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in connection with the sale or anticipated sale of Company-operated restaurants, including any subsequent lease modifications, and (3) closing Company-operated restaurants and classifying such surplus properties as held for sale. Impairment charges during 2020 were primarily due to the deterioration in operating performance of certain Company-operated restaurants as a result of the COVID-19 pandemic.

The following is a summary of impairment losses recorded, which represent the excess of the carrying amount over the fair value of the affected assets and are included in “Impairment of long-lived assets:”

|  | Year Ended     |                |                |
|--|----------------|----------------|----------------|
|  | 2022           | 2021           | 2020           |
| Company-operated restaurants . . . . .                   | \$5,485        | \$1,862        | \$7,586        |
| Restaurants leased or subleased to franchisees . . . . . | 242            | 189            | —              |
| Surplus properties . . . . .                             | 693            | 200            | 451            |
|  | <u>\$6,420</u> | <u>\$2,251</u> | <u>\$8,037</u> |

**(18) Investment Income (Loss), Net**

|   | Year Ended     |              |                |
|---|----------------|--------------|----------------|
|   | 2022           | 2021         | 2020           |
| Gain on other investments in equity securities . . . . .            | \$2,107        | \$ —         | \$ —           |
| Gain on sale of investments, net . . . . .                          | —              | 63           | —              |
| Impairment loss on other investments in equity securities . . . . . | —              | —            | (471)          |
| Other, net . . . . .  | —              | (24)         | 246            |
|   | <u>\$2,107</u> | <u>\$ 39</u> | <u>\$(225)</u> |

**(19) Retirement Benefit Plans**

*401(k) Plan*

The Company has a 401(k) defined contribution plan (the “401(k) Plan”) for employees who meet certain minimum requirements and elect to participate. The 401(k) Plan permits employees to contribute up to 75% of their compensation, subject to certain limitations, and provides for matching employee contributions up to 4% of compensation and for discretionary profit sharing contributions. In connection with the matching and profit sharing contributions, the Company recognized compensation expense of \$5,929, \$4,583 and \$5,175 in 2022, 2021 and 2020, respectively.

*Wendy's Executive Plans*

In conjunction with the Wendy's Merger, amounts due under supplemental executive retirement plans (collectively, the “SERP”) were funded into a restricted account. As of January 1, 2011, participation in the SERP was frozen to new entrants and future contributions, and existing participants' balances only earn annual interest. The corresponding SERP liabilities are included in “Accrued expenses and other current liabilities” and “Other liabilities” and, in the aggregate, were \$281 and \$294 as of January 1, 2023 and January 2, 2022, respectively.

The Company has a non-qualified, unfunded deferred compensation plan for management and highly compensated employees, whereby participants may defer all or a portion of their base compensation and certain incentive awards on a pre-tax basis. The Company credits the amounts deferred with earnings based on the investment options selected by the participants. The Company may also make discretionary contributions to the plan. The total of participant deferrals was \$1,435 and \$1,455 at January 1, 2023 and January 2, 2022, respectively, which are included in “Other liabilities.”

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**(20) Leases**

*Nature of Leases*

The Company operates restaurants that are located on sites owned by us and sites leased by us from third parties. In addition, the Company owns sites and leases sites from third parties, which it leases and/or subleases to franchisees. At January 1, 2023, Wendy's and its franchisees operated 7,095 Wendy's restaurants. Of the 415 Company-operated Wendy's restaurants, Wendy's owned the land and building for 158 restaurants, owned the building and held long-term land leases for 143 restaurants and held leases covering the land and building for 114 restaurants. Wendy's also owned 488 and leased 1,199 properties that were either leased or subleased principally to franchisees. The Company also leases restaurant, office and transportation equipment.

*Company as Lessee*

The components of lease cost for 2022, 2021 and 2020 are as follows:

|   | Year Ended       |                  |                  |
|---|------------------|------------------|------------------|
|   | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
| Finance lease cost:                             |                  |                  |                  |
| Amortization of finance lease assets . . . . .  | \$ 15,440        | \$ 13,992        | \$ 13,395        |
| Interest on finance lease liabilities . . . . . | 42,918           | 41,419           | 40,682           |
|   | <u>58,358</u>    | <u>55,411</u>    | <u>54,077</u>    |
| Operating lease cost . . . . .                  | 86,050           | 89,283           | 91,475           |
| Variable lease cost (a) . . . . .               | 64,473           | 63,853           | 59,076           |
| Short-term lease cost . . . . .                 | 5,439            | 5,102            | 4,641            |
| Total operating lease cost (b) . . . . .        | <u>155,962</u>   | <u>158,238</u>   | <u>155,192</u>   |
| Total lease cost . . . . .                      | <u>\$214,320</u> | <u>\$213,649</u> | <u>\$209,269</u> |

(a) Includes expenses for executory costs of \$38,749, \$39,646, and \$38,652 for 2022, 2021 and 2020, respectively, for which the Company is reimbursed by sublessees.

(b) Includes \$123,924, \$132,158 and \$125,553 for 2022, 2021 and 2020, respectively, recorded to "Franchise rental expense" for leased properties that are subsequently leased to franchisees. Also includes \$29,648, \$23,558 and \$26,866 for 2022, 2021 and 2020, respectively, recorded to "Cost of sales" for leases for Company-operated restaurants.

The following table includes supplemental cash flow and non-cash information related to leases:

|   | Year Ended  |             |             |
|---|-------------|-------------|-------------|
|   | <u>2022</u> | <u>2021</u> | <u>2020</u> |
| Cash paid for amounts included in the measurement of lease liabilities: |             |             |             |
| Operating cash flows from finance leases . . . . .                      | \$42,979    | \$42,277    | \$39,349    |
| Operating cash flows from operating leases . . . . .                    | 88,372      | 91,930      | 85,689      |
| Financing cash flows from finance leases . . . . .                      | 17,312      | 13,640      | 8,383       |
| Right-of-use assets obtained in exchange for lease obligations:         |             |             |             |
| Finance lease liabilities . . . . .                                     | 34,478      | 82,032      | 34,918      |
| Operating lease liabilities . . . . .                                   | 24,742      | 58,770      | 18,327      |

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The following table includes supplemental information related to leases:

|  | Year End           |                    |
|--|--------------------|--------------------|
|  | January 1,<br>2023 | January 2,<br>2022 |
| Weighted-average remaining lease term (years): |                    |                    |
| Finance leases                                 | 15.1               | 15.8               |
| Operating leases                               | 13.7               | 14.1               |
| Weighted average discount rate:                |                    |                    |
| Finance leases                                 | 8.66%              | 8.91%              |
| Operating leases                               | 4.90%              | 4.94%              |
| Supplemental balance sheet information:        |                    |                    |
| Finance lease assets, gross                    | \$310,686          | \$307,965          |
| Accumulated amortization                       | <u>(76,116)</u>    | <u>(63,686)</u>    |
| Finance lease assets                           | 234,570            | 244,279            |
| Operating lease assets                         | 754,498            | 812,620            |

The following table illustrates the Company's future minimum rental payments for non-cancelable leases as of January 1, 2023:

| Fiscal Year                                     | Finance Leases       |                        | Operating Leases     |                        |
|---|----------------------|------------------------|----------------------|------------------------|
|   | Company-<br>Operated | Franchise<br>and Other | Company-<br>Operated | Franchise<br>and Other |
| 2023  | \$ 6,590             | \$ 54,163              | \$ 21,948            | \$ 65,838              |
| 2024  | 6,683                | 54,763                 | 21,891               | 66,211                 |
| 2025  | 6,883                | 55,357                 | 21,666               | 66,072                 |
| 2026  | 7,028                | 57,043                 | 22,113               | 65,314                 |
| 2027  | 7,072                | 57,742                 | 22,047               | 64,901                 |
| Thereafter                                      | <u>81,853</u>        | <u>603,101</u>         | <u>185,694</u>       | <u>537,504</u>         |
| Total minimum payments                          | \$116,109            | \$ 882,169             | \$295,359            | \$ 865,840             |
| Less interest                                   | <u>(39,079)</u>      | <u>(369,006)</u>       | <u>(78,935)</u>      | <u>(242,093)</u>       |
| Present value of minimum lease payments (a) (b) | <u>\$ 77,030</u>     | <u>\$ 513,163</u>      | <u>\$216,424</u>     | <u>\$ 623,747</u>      |

- (a) The present value of minimum finance lease payments of \$18,316 and \$571,877 are included in "Current portion of finance lease liabilities" and "Long-term finance lease liabilities," respectively.
- (b) The present value of minimum operating lease payments of \$48,120 and \$792,051 are included in "Current portion of operating lease liabilities" and "Long-term operating lease liabilities," respectively.

***Company as Lessor***

The components of lease income for 2022, 2021 and 2020 are as follows:

|   | Year Ended       |                  |                  |
|---|------------------|------------------|------------------|
|   | 2022             | 2021             | 2020             |
| Sales-type and direct-financing leases: |                  |                  |                  |
| Selling profit                          | \$ 2,981         | \$ 4,244         | \$ 1,995         |
| Interest income (a)                     | 31,298           | 30,648           | 29,067           |
| Operating lease income                  | 170,633          | 173,442          | 174,452          |
| Variable lease income                   | <u>63,832</u>    | <u>63,213</u>    | <u>58,196</u>    |
| Franchise rental income (b)             | <u>\$234,465</u> | <u>\$236,655</u> | <u>\$232,648</u> |

- (a) Included in "Interest expense, net."

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- (b) Includes sublease income of \$175,053, \$174,327 and \$169,921 recognized during 2022, 2021 and 2020, respectively. Sublease income includes lessees' variable payments to the Company for executory costs of \$38,733, \$39,650 and \$38,636 for 2022, 2021 and 2020, respectively.

The following table illustrates the Company's future minimum rental receipts for non-cancelable leases and subleases as of January 1, 2023:

| <u>Fiscal Year</u>  | <u>Sales-Type and<br/>Direct Financing Leases</u> |                             | <u>Operating Leases</u> |                             |
|---|---|-----------------------------|-------------------------|-----------------------------|
|   | <u>Subleases</u>                                  | <u>Owned<br/>Properties</u> | <u>Subleases</u>        | <u>Owned<br/>Properties</u> |
| 2023 .....  | \$ 36,408   | \$ 2,512                    | \$ 107,111              | \$ 53,609                   |
| 2024 .....  | 38,425  | 2,523                       | 107,832                 | 54,743                      |
| 2025 .....  | 37,316  | 2,640                       | 107,923                 | 55,334                      |
| 2026 .....  | 38,623  | 2,810                       | 107,843                 | 57,089                      |
| 2027 .....  | 39,190  | 2,726                       | 107,967                 | 56,698                      |
| Thereafter .....  | <u>428,631</u>                                    | <u>29,035</u>               | <u>889,728</u>          | <u>593,718</u>              |
| Total future minimum receipts .....                                   | 618,593   | 42,246                      | <u>\$1,428,404</u>      | <u>\$871,191</u>            |
| Unearned interest income .....  | <u>(312,508)</u>                                  | <u>(22,731)</u>             |                         |                             |
| Net investment in sales-type and direct financing<br>leases (a) ..... | <u>\$ 306,085</u>                                 | <u>\$ 19,515</u>            |                         |                             |

- (a) The present value of minimum sales-type and direct financing rental receipts of \$8,263 and \$317,337 are included in "Accounts and notes receivable, net" and "Net investment in sales-type and direct financing leases," respectively. The present value of minimum sales-type and direct financing rental receipts includes a net investment in unguaranteed residual assets of \$611.

Properties owned by the Company and leased to franchisees and other third parties under operating leases include:

|   | <u>Year End</u>            |                            |
|---|----------------------------|----------------------------|
|   | <u>January 1,<br/>2023</u> | <u>January 2,<br/>2022</u> |
| Land .....                                      | \$ 260,650                 | \$ 258,513                 |
| Buildings and improvements .....                | 291,659                    | 288,782                    |
| Restaurant equipment .....                      | <u>1,701</u>               | <u>1,701</u>               |
|   | 554,010                    | 548,996                    |
| Accumulated depreciation and amortization ..... | <u>(187,269)</u>           | <u>(173,243)</u>           |
|   | <u>\$ 366,741</u>          | <u>\$ 375,753</u>          |



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**(21) Supplemental Cash Flow Information**

The following table includes supplemental cash flow information for 2022, 2021 and 2020:

|   | January 1,<br>2023 | Year Ended<br>January 2,<br>2022 | January 3,<br>2021 |
|---|--------------------|----------------------------------|--------------------|
| Long-term debt-related activities, net:                     |                    |                                  |                    |
| Loss on early extinguishment of debt . . . . .              | \$ —               | \$ 17,917                        | \$ —               |
| Accretion of long-term debt . . . . .                       | 1,194              | 1,177                            | 1,161              |
| Amortization of deferred financing costs . . . . .          | 6,568              | 5,664                            | 5,562              |
|   | <u>\$ 7,762</u>    | <u>\$ 24,758</u>                 | <u>\$ 6,723</u>    |
| Cash paid for:  |                    |                                  |                    |
| Interest . . . . .  | \$144,418          | \$133,284                        | \$136,228          |
| Income taxes, net of refunds . . . . .                      | 47,769             | 54,779                           | 16,202             |
| Non-cash investing and financing activities:                |                    |                                  |                    |
| Capital expenditures included in accounts payable . . . . . | \$ 14,468          | \$ 6,158                         | \$ 3,673           |
| Finance leases . . . . .                                    | 34,478             | 82,032                           | 34,918             |
|   | <u>\$ 48,946</u>   | <u>\$ 88,190</u>                 | <u>\$ 38,591</u>   |

The following table includes a reconciliation of cash, cash equivalents and restricted cash for 2022, 2021 and 2020:

|  | January 1,<br>2023 | January 2,<br>2022 | January 3,<br>2021 |
|--|--------------------|--------------------|--------------------|
| Cash and cash equivalents . . . . .  | \$745,889          | \$249,438          | \$306,989          |
| Restricted cash . . . . .  | 35,203             | 27,535             | 33,973             |
| Restricted cash, included in Advertising funds restricted assets . . . . . | 50,709             | 89,993             | 77,279             |
| Total cash, cash equivalents and restricted cash . . . . .                 | <u>\$831,801</u>   | <u>\$366,966</u>   | <u>\$418,241</u>   |

***Franchise Development Fund***

In August 2021, the Company announced the creation of a \$100,000 strategic build to suit development fund to drive additional new restaurant growth. The Company expects the development fund to drive up to 80 new franchise restaurants through 2026. Capital expenditures related to the fund are included in “Franchise development fund” in the consolidated statements of cash flows.

**(22) Guarantees and Other Commitments and Contingencies**

***Guarantees and Contingent Liabilities***

***Franchisee Image Activation Incentive Programs***

To promote new restaurant development, Wendy’s has provided franchisees with certain incentive programs for qualifying new restaurants. In February 2023, Wendy’s announced a new restaurant development incentive program in the U.S. and Canada that provides for waivers of royalty, national advertising and technical assistance fees for up to the first three years of operation for qualifying new restaurants (“Pacesetter”). Wendy’s previously offered and will continue to offer a restaurant development incentive program that provides for reductions in royalty and national advertising fees for up to the first two years of operation for qualifying new restaurants (“Groundbreaker”). Wendy’s U.S. and Canadian franchisees may elect either the Pacesetter program or the Groundbreaker program when committing to new multi-unit development agreements or adding incremental commitments to existing development agreements. Wendy’s also provides franchisees with the option of an early 20-year or 25-year renewal of their franchise agreement upon completion of reimagining utilizing certain approved Image Activation reimage designs.

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*Lease Guarantees*

Wendy's has guaranteed the performance of certain leases and other obligations, primarily from former Company-operated restaurant locations now operated by franchisees, amounting to \$102,627 as of January 1, 2023. These leases extend through 2045. We have had no judgments against us as guarantor of these leases as of January 1, 2023. In the event of default by a franchise owner where Wendy's is called upon to perform under its guarantee, Wendy's has the ability to pursue repayment from the franchise owner. The liability recorded for our probable exposure associated with these lease guarantees was not material as of January 1, 2023.

*Insurance*

Wendy's is self-insured for most workers' compensation losses and purchases insurance for general liability and automotive liability losses, all subject to a \$500 per occurrence retention or deductible limit. Wendy's determines its liability for claims incurred but not reported for the insurance liabilities on an actuarial basis. As of January 1, 2023, the Company had \$17,885 recorded for these insurance liabilities. Wendy's is self-insured for health care claims for eligible participating employees subject to certain deductibles and limitations and determines its liability for health care claims incurred but not reported based on historical claims runoff data. As of January 1, 2023, the Company had \$2,873 recorded for these health care insurance liabilities.

*Letters of Credit*

As of January 1, 2023, the Company had outstanding letters of credit with various parties totaling \$28,622. Substantially all of the outstanding letters of credit include amounts outstanding against the 2021-1 Class A-1 Notes. See Note 12 for further information. We do not expect any material loss to result from these letters of credit.

*Purchase and Capital Commitments*

*Beverage Agreement*

The Company has an agreement with a beverage vendor, which provides fountain beverage products and certain marketing support funding to the Company and its franchisees. This agreement requires minimum purchases of certain fountain beverages ("Fountain Beverages") by the Company and its franchisees at agreed upon prices until the total contractual gallon volume usage is reached. This agreement also provides for an annual advance to be paid to the Company based on the vendor's expectation of the Company's annual Fountain Beverages usage, which is amortized over actual usage during the year. In January 2019, the Company amended its contract with the beverage vendor, which now expires at the later of reaching a minimum usage requirement or December 31, 2025. Beverage purchases made by the Company under this agreement during 2022, 2021 and 2020 were \$10,545, \$9,709 and \$10,986, respectively. The Company estimates future annual purchases to be approximately \$10,900 in 2023, \$11,000 in 2024 and \$11,200 in 2025 based on current pricing and the expected ratio of usage at Company-operated restaurants to franchised restaurants. As of January 1, 2023, \$2,707 is due to the beverage vendor and is included in "Accounts payable," principally for annual estimated payments that exceeded usage under this agreement.

*IT Services Agreement*

In December 2019, the Company entered into an agreement to partner with a third-party global IT consultant on the Company's new IT organization structure to leverage the consultant's global capabilities, which the Company believes will enable a more seamless integration between its digital and corporate IT assets. Costs incurred by the Company under this agreement were \$18,780, \$20,053 and \$16,961 during 2022, 2021 and 2020, respectively. The Company's unconditional purchase obligations under the agreement are approximately \$14,700 in 2023, \$13,800 in 2024 and \$7,100 in 2025. As of January 1, 2023, \$1,395 is due to the consultant and is included in "Accrued expenses and other current liabilities."

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

*Marketing Agreement*

The Company has an agreement with two national broadcasters that grants the Company certain marketing and media rights. Costs incurred by the Company under this agreement were approximately \$12,000 and \$15,000 in 2022 and 2021, respectively, which are included in “Advertising funds expense.” No costs were incurred under this agreement in 2020. The Company’s unconditional purchase obligations under the agreement are approximately \$15,900 in 2023, \$13,400 in 2024 and \$12,700 in 2025.

**(23) Transactions with Related Parties**

The following is a summary of transactions between the Company and its related parties:

|  | Year Ended  |             |             |
|--|-------------|-------------|-------------|
|  | <u>2022</u> | <u>2021</u> | <u>2020</u> |
| Transactions with QSCC:  |             |             |             |
| Wendy’s Co-op (a) . . . . .  | \$ 427      | \$ 279      | \$ —        |
| Rental receipts (b) . . . . .  | 198         | 217         | 217         |
| TimWen lease and management fee payments (c) . . . . .                     | \$19,694    | \$18,687    | \$16,130    |
| Yellow Cab royalty, advertising fund, lease and other income (d) . . . . . | \$13,404    | \$ 9,869    | \$ 1,090    |

*Transactions with QSCC*

(a) Wendy’s has a purchasing co-op relationship structure (the “Wendy’s Co-op”) with its franchisees that establishes Quality Supply Chain Co-op, Inc. (“QSCC”). QSCC manages, for the Wendy’s system in the U.S. and Canada, contracts for the purchase and distribution of food, proprietary paper, operating supplies and equipment under national agreements with pricing based upon total system volume. QSCC’s supply chain management facilitates continuity of supply and provides consolidated purchasing efficiencies while monitoring and seeking to minimize possible obsolete inventory throughout the Wendy’s supply chain in the U.S. and Canada.

Wendy’s and its franchisees pay sourcing fees to third-party vendors on certain products sourced by QSCC. Such sourcing fees are remitted by these vendors to QSCC and are the primary means of funding QSCC’s operations. Should QSCC’s sourcing fees exceed its expected needs, QSCC’s board of directors may return some or all of the excess to its members in the form of a patronage dividend. Wendy’s recorded its share of patronage dividends of \$427 and \$279 in 2022 and 2021, respectively, which are included as a reduction of “Cost of sales.” There were no patronage dividends recorded during 2020.

(b) Pursuant to a lease agreement, Wendy’s leased 14,493 square feet of office space to QSCC for an annual base rent of \$217. The lease was amended in June 2021 to increase both the leased square footage to 18,774 and the annual base rent to \$250 beginning in 2023, subject to annual increases, and to extend the lease term through January 31, 2027. The Company received lease payments from QSCC of \$198 during 2022 and \$217 during each of 2021 and 2020, which has been recorded to “Franchise rental income.”

*TimWen Lease and Management Fee Payments*

(c) A wholly-owned subsidiary of Wendy’s leases restaurant facilities from TimWen, which are then subleased to franchisees for the operation of Wendy’s/Tim Hortons combo units in Canada. Wendy’s paid TimWen \$19,927, \$18,906 and \$16,339 under these lease agreements during 2022, 2021 and 2020, respectively, which has been recorded to “Franchise rental expense.” In addition, TimWen paid Wendy’s a management fee under the TimWen joint venture agreement of \$233, \$219 and \$209 during 2022, 2021 and 2020, respectively, which has been included as a reduction to “General and administrative.”

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

*Transactions with Yellow Cab*

- (d) Certain family members and affiliates of Mr. Nelson Peltz, our Chairman, and Mr. Peter May, our Senior Vice Chairman, as well as Mr. Matthew Peltz, our Vice Chairman, hold indirect, minority ownership interests in Yellow Cab Holdings, LLC (“Yellow Cab”) and operating companies managed by Yellow Cab, a Wendy’s franchisee, that as of January 1, 2023 owned and operated 84 Wendy’s restaurants (including 54 restaurants acquired from NPC during the first quarter of 2021 as described below). During 2022, 2021 and the fourth quarter of 2020, the Company recognized \$13,404, \$9,869 and \$1,090, respectively, in royalty, advertising fund, lease and other income from Yellow Cab and related entities. As of January 1, 2023 and January 2, 2022, \$1,125 and \$974, respectively, was due from Yellow Cab for such income, which is included in “Accounts and notes receivable, net” and “Advertising funds restricted assets.”

In November 2020, the Company submitted a consortium bid together with a group of pre-qualified franchisees (of which Yellow Cab was a member) to acquire the Wendy’s restaurants owned by NPC, formerly the Company’s largest franchisee, which filed for chapter 11 bankruptcy in July 2020. As part of the consortium bid, in November 2020, the Company received deposits from each of the pre-qualified franchisees (including Yellow Cab), which amounts were transferred to a third-party escrow account pending resolution of the bankruptcy sale process. On January 7, 2021, following a court-approved mediation process, Yellow Cab was selected as the purchaser for 54 of NPC’s Wendy’s restaurants. In March 2021, Yellow Cab closed on its acquisition of these restaurants and its deposit was applied against the purchase price for the restaurants. See Note 3 for further information.

**(24) Legal and Environmental Matters**

The Company is involved in litigation and claims incidental to our business. We provide accruals for such litigation and claims when we determine it is probable that a liability has been incurred and the loss is reasonably estimable. The Company believes it has adequate accruals for all of our legal and environmental matters. We cannot estimate the aggregate possible range of loss for our existing litigation and claims due to various reasons, including, but not limited to, many proceedings being in preliminary stages, with various motions either yet to be submitted or pending, discovery yet to occur, and significant factual matters unresolved. In addition, most cases seek an indeterminate amount of damages and many involve multiple parties. Predicting the outcomes of settlement discussions or judicial or arbitral decisions is thus inherently difficult and future developments could cause these actions or claims, individually or in aggregate, to have a material adverse effect on the Company’s financial condition, results of operations, or cash flows of a particular reporting period.

**(25) Advertising Costs and Funds**

We maintain U.S. and Canadian national advertising funds established to collect and administer funds contributed for use in advertising and promotional programs. Contributions to the Advertising Funds are required from both Company-operated and franchised restaurants and are based on a percentage of restaurant sales. In addition to the contributions to the Advertising Funds, Company-operated and franchised restaurants make additional contributions to other local and regional advertising programs.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

Restricted assets and liabilities of the Advertising Funds at January 1, 2023 and January 2, 2022 are as follows:

|  | Year End           |                    |
|--|--------------------|--------------------|
|  | January 1,<br>2023 | January 2,<br>2022 |
| Cash and cash equivalents . . . . .                      | \$ 50,709          | \$ 89,993          |
| Accounts receivable, net . . . . .                       | 70,422             | 65,497             |
| Other assets . . . . .                                   | 5,542              | 4,328              |
| Advertising funds restricted assets . . . . .            | <u>\$126,673</u>   | <u>\$159,818</u>   |
| Accounts payable . . . . .                               | \$115,339          | \$136,043          |
| Accrued expenses and other current liabilities . . . . . | 16,968             | 21,858             |
| Advertising funds restricted liabilities . . . . .       | <u>\$132,307</u>   | <u>\$157,901</u>   |

Advertising expenses included in “Cost of sales” totaled \$37,418, \$31,617 and \$29,671 in 2022, 2021 and 2020, respectively.

**(26) Geographic Information**

The table below presents revenues and properties information by geographic area:

|                      | <u>U.S.</u> | <u>International</u> | <u>Total</u> |
|----------------------|-------------|----------------------|--------------|
| <i>2022</i>          |             |                      |              |
| Revenues . . . . .   | \$1,946,005 | \$149,500            | \$2,095,505  |
| Properties . . . . . | 841,143     | 54,635               | 895,778      |
| <i>2021</i>          |             |                      |              |
| Revenues . . . . .   | \$1,771,997 | \$125,001            | \$1,896,998  |
| Properties . . . . . | 856,841     | 50,026               | 906,867      |
| <i>2020</i>          |             |                      |              |
| Revenues . . . . .   | \$1,635,696 | \$ 98,129            | \$1,733,825  |
| Properties . . . . . | 879,806     | 36,083               | 915,889      |

**(27) Segment Information**

The Company is comprised of the following segments: (1) Wendy’s U.S., (2) Wendy’s International and (3) Global Real Estate & Development. Wendy’s U.S. includes the operation and franchising of Wendy’s restaurants in the U.S. and derives its revenues from sales at Company-operated restaurants and royalties, fees and advertising fund collections from franchised restaurants. Wendy’s International includes the operation and franchising of Wendy’s restaurants in countries and territories other than the U.S. and derives its revenues from sales at Company-operated restaurants and royalties, fees and advertising fund collections from franchised restaurants. Global Real Estate & Development includes real estate activity for owned sites and sites leased from third parties, which are leased and/or subleased to franchisees, and also includes our share of the income of our TimWen real estate joint venture. In addition, Global Real Estate & Development earns fees from facilitating Franchise Flips and providing other development-related services to franchisees. The Company measures segment profit using segment adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”). Segment adjusted EBITDA excludes certain unallocated general and administrative expenses and other items that vary from period to period without correlation to the Company’s core operating performance. When the Company’s chief operating decision maker reviews balance sheet information, it is at a consolidated level. The accounting policies of the Company’s segments are the same as those described in Note 1.

**THE WENDY'S COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
(In Thousands Except Per Share Amounts)

Revenues by segment are as follows:

|  | Year Ended         |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | <u>2022</u>        | <u>2021</u>        | <u>2020</u>        |
| Wendy's U.S. . . . . .                     | \$1,750,242        | \$1,567,496        | \$1,431,382        |
| Wendy's International . . . . .            | 106,705            | 86,369             | 65,642             |
| Global Real Estate & Development . . . . . | 238,558            | 243,133            | 236,801            |
| Total revenues . . . . .                   | <u>\$2,095,505</u> | <u>\$1,896,998</u> | <u>\$1,733,825</u> |

The following table reconciles profit by segment to the Company's consolidated income before income taxes:

|  | Year Ended        |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | <u>2022</u>       | <u>2021</u>       | <u>2020</u>       |
| Wendy's U.S. (a) . . . . .   | \$ 480,498        | \$ 450,117        | \$ 393,314        |
| Wendy's International (b) . . . . .  | 30,432            | 27,386            | 20,119            |
| Global Real Estate & Development . . . . .   | 108,700           | 106,113           | 100,731           |
| Total segment profit . . . . .   | 619,630           | 583,616           | 514,164           |
| Unallocated franchise support and other costs . . . . .  | (742)             | (753)             | —                 |
| Advertising funds (deficit) surplus . . . . .  | (8,325)           | 2,770             | 2,904             |
| Unallocated general and administrative (c) . . . . .   | (130,103)         | (116,273)         | (94,256)          |
| Depreciation and amortization (exclusive of amortization of cloud computing arrangements shown separately below) . . . . . | (133,414)         | (125,540)         | (132,775)         |
| Amortization of cloud computing arrangements . . . . .   | (2,394)           | —                 | —                 |
| System optimization gains, net . . . . .   | 6,779             | 33,545            | 3,148             |
| Reorganization and realignment costs . . . . .   | (698)             | (8,548)           | (16,030)          |
| Impairment of long-lived assets . . . . .  | (6,420)           | (2,251)           | (8,037)           |
| Unallocated other operating income, net . . . . .  | 9,001             | 394               | 190               |
| Interest expense, net . . . . .  | (122,319)         | (109,185)         | (117,737)         |
| Loss on early extinguishment of debt . . . . .   | —                 | (17,917)          | —                 |
| Investment income (loss), net . . . . .  | 2,107             | 39                | (225)             |
| Other income, net . . . . .  | 10,403            | 681               | 1,449             |
| Income before income taxes . . . . .   | <u>\$ 243,505</u> | <u>\$ 240,578</u> | <u>\$ 152,795</u> |

- (a) Wendy's U.S. includes advertising funds expense of \$11,000, \$25,000 and \$14,600 for 2022, 2021 and 2020, respectively, related to the Company funding of incremental advertising.
- (b) Wendy's International includes advertising fund expense of \$4,116 for 2022 related to the Company's funding of incremental advertising. In addition, Wendy's International includes other international-related advertising deficit of \$1,099 for 2022.
- (c) Includes corporate overhead costs, such as employee compensation and related benefits.

Net income (loss) of our equity method investments for the Brazil JV and TimWen are included in segment profit for the Wendy's International and Global Real Estate & Development segments, respectively. Net income (loss) of equity method investments by segment was as follows:

|   | Year Ended     |                 |                |
|---|----------------|-----------------|----------------|
|   | <u>2022</u>    | <u>2021</u>     | <u>2020</u>    |
| Wendy's International . . . . .                         | \$ —           | \$ —            | \$ (417)       |
| Global Real Estate & Development . . . . .              | 9,422          | 11,203          | 6,513          |
| Total net income of equity method investments . . . . . | <u>\$9,422</u> | <u>\$11,203</u> | <u>\$6,096</u> |

## **Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Not applicable.

## **Item 9A. *Controls and Procedures.***

### **Evaluation of Disclosure Controls and Procedures**

The management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of January 1, 2023. Based on such evaluations, the Chief Executive Officer and Chief Financial Officer concluded that as of January 1, 2023, the disclosure controls and procedures of the Company were effective at a reasonable assurance level in (1) recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and (2) ensuring that information required to be disclosed by the Company in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Management’s Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). The management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an assessment of the effectiveness of its internal control over financial reporting for the Company as of January 1, 2023. The assessment was performed using the criteria for effective internal control reflected in the *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the assessment of the system of internal control for the Company, the management of the Company believes that as of January 1, 2023, internal control over financial reporting of the Company was effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report dated March 1, 2023 on the Company’s internal control over financial reporting.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in the internal control over financial reporting of the Company during the fourth quarter of 2022 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

There are inherent limitations in the effectiveness of any control system, including the potential for human error and the possible circumvention or overriding of controls and procedures. Additionally, judgments in decision-making can be faulty and breakdowns can occur because of a simple error or mistake. An effective control system can provide only reasonable, not absolute, assurance that the control objectives of the system are adequately met. Accordingly, the management of the Company, including its Chief Executive Officer and Chief Financial Officer, does not expect that the control system can prevent or detect all error or fraud. Finally, projections of any evaluation or assessment of effectiveness of a control system to future periods are subject to the risks that, over time, controls may become inadequate because of changes in an entity’s operating environment or deterioration in the degree of compliance with policies or procedures.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The Wendy's Company

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of The Wendy's Company and subsidiaries (the "Company") as of January 1, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended January 1, 2023, of the Company and our report dated March 1, 2023, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP  
Columbus, Ohio  
March 1, 2023



## **Item 9B. *Other Information.***

On February 28, 2023, the Company and Kevin Vasconi, the Company's Chief Information Officer, entered into an amendment (the "Amendment") to Mr. Vasconi's employment letter to provide that if Mr. Vasconi resigns before January 31, 2026 due to being required to report directly to an individual other than the current President and Chief Executive Officer by reason of either (i) the Company terminating the employment of the current President and Chief Executive Officer without "Cause" (as defined in an agreement between the Company and the current President and Chief Executive Officer), or (ii) the current President and Chief Executive Officer's separation from the Company within 12 months following a "Change in Control" (as defined in the Company's Executive Severance Pay Policy), such resignation will be treated for purposes of the Company's Executive Severance Pay Policy as a termination by the Company "without Cause." This summary of the Amendment is not complete and is qualified in its entirety by the actual terms of the Amendment, a copy of which is attached hereto as Exhibit 10.46 and is incorporated herein by reference.

## **Item 9C. *Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.***

Not applicable.

## **PART III**

### **Items 10, 11, 12, 13 and 14.**

The information required by Items 10 (Directors, Executive Officer and Corporate Governance), 11 (Executive Compensation), 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), 13 (Certain Relationships and Related Transactions, and Director Independence) and 14 (Principal Accountant Fees and Services) will be furnished on or prior to May 1, 2023 (and is hereby incorporated by reference) by an amendment hereto or pursuant to a definitive proxy statement involving the election of directors pursuant to Regulation 14A that will contain such information. Notwithstanding the foregoing, information appearing in the sections "Compensation Committee Report" and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Form 10-K.

## **PART IV**

### **Item 15. *Exhibits and Financial Statement Schedules.***

(a) 1. Financial Statements:

See Index to Financial Statements (Item 8).

2. Financial Statement Schedules:

All schedules have been omitted since they are either not applicable or the information is contained elsewhere in "Item 8. Financial Statements and Supplementary Data."

### 3. Exhibits:

Exhibits that are incorporated by reference to documents filed previously by the Company under the Securities Exchange Act of 1934, as amended, are filed with the Securities and Exchange Commission under File No. 001-02207, or File No. 001-08116 for documents filed by Wendy's International, Inc. We will furnish copies of any exhibit listed on the Exhibit Index upon written request to the Secretary of The Wendy's Company at One Dave Thomas Boulevard, Dublin, Ohio 43017 for a reasonable fee to cover our expenses in furnishing such exhibits.

| <u>EXHIBIT NO.</u> | <u>DESCRIPTION</u>   |
|--------------------|--|
| 2.1                | Agreement and Plan of Merger, dated as of April 23, 2008, by and among Triarc Companies, Inc., Green Merger Sub, Inc. and Wendy's International, Inc., incorporated herein by reference to Exhibit 2.1 to Triarc's Current Report on Form 8-K dated April 29, 2008 (SEC file no. 001-02207).   |
| 2.2                | Side Letter Agreement, dated August 14, 2008, by and among Triarc Companies, Inc., Green Merger Sub, Inc. and Wendy's International, Inc., incorporated herein by reference to Exhibit 2.3 to Triarc's Registration Statement on Form S-4, Amendment No. 3, filed on August 15, 2008 (Reg. no. and SEC file no. 333-151336).   |
| 3.1                | Amended and Restated Certificate of Incorporation of The Wendy's Company, as filed with the Secretary of State of the State of Delaware on May 26, 2016, incorporated herein by reference to Exhibit 3.1 of The Wendy's Company Current Report on Form 8-K filed on May 27, 2016 (SEC file no. 001-02207).   |
| 3.2                | By-Laws of The Wendy's Company (as amended and restated through November 4, 2021), incorporated herein by reference to Exhibit 3.1 of The Wendy's Company Current Report on Form 8-K filed on November 8, 2021 (SEC file no. 001-02207).   |
| 4.1                | Base Indenture, dated as of June 1, 2015, by and between Wendy's Funding, LLC, as Master Issuer, and Citibank, N.A., as Trustee and Securities Intermediary, incorporated herein by reference to Exhibit 4.1 of The Wendy's Company Current Report on Form 8-K filed on June 2, 2015 (SEC file no. 001-02207).   |
| 4.2                | Series 2018-1 Supplement to Base Indenture, dated as of January 17, 2018, by and between Wendy's Funding, LLC, as Master Issuer of the Series 2018-1 fixed rate senior secured notes, Class A-2, and Series 2018-1 variable funding senior notes, Class A-1, and Citibank, N.A., as Trustee and Series 2018-1 Securities Intermediary, incorporated herein by reference to Exhibit 4.1 of The Wendy's Company Current Report on Form 8-K filed on January 17, 2018 (SEC file no. 001-02207). |
| 4.3                | Series 2019-1 Supplement to Base Indenture, dated as of June 26, 2019, by and between Wendy's Funding, LLC, as Master Issuer of the Series 2019-1 fixed rate senior secured notes, Class A-2, and Series 2019-1 variable funding senior notes, Class A-1, and Citibank, N.A., as Trustee and Series 2019-1 Securities Intermediary, incorporated herein by reference to Exhibit 4.1 of The Wendy's Company Current Report on Form 8-K filed on June 26, 2019 (SEC file no. 001-02207).       |
| 4.4                | Series 2021-1 Supplement to Base Indenture, dated as of June 22, 2021, by and between Wendy's Funding, LLC, as Master Issuer of the Series 2021-1 fixed rate senior secured notes, Class A-2, and Series 2021-1 variable funding senior notes, Class A-1, and Citibank, N.A., as Trustee and Series 2021-1 Securities Intermediary, incorporated herein by reference to Exhibit 4.1 of The Wendy's Company Current Report on Form 8-K filed on June 23, 2021 (SEC file no. 001-02207).       |
| 4.5                | Series 2022-1 Supplement to Amended and Restated Base Indenture, dated as of April 1, 2022, by and between Wendy's Funding, LLC, as Master Issuer of the Series 2022-1 fixed rate senior secured notes, Class A-2 and Citibank, N.A., as Trustee and Series 2022-1 Securities Intermediary, incorporated herein by reference to Exhibit 4.2 of The Wendy's Company Current Report on Form 8-K filed on April 4, 2022 (SEC file no. 001-02207).   |
| 4.6                | Amended and Restated Base Indenture, dated as of April 1, 2022, by and between Wendy's Funding, LLC, as Master Issuer, and Citibank, N.A., as Trustee and Securities Intermediary, incorporated herein by reference to Exhibit 4.1 of The Wendy's Company Current Report on Form 8-K filed on April 4, 2022 (SEC file no. 001-02207).  |

| <u>EXHIBIT<br/>NO.</u> | <u>DESCRIPTION</u>   |
|------------------------|--|
| 4.7                    | Description of Securities of the Registrant, incorporated herein by reference to Exhibit 4.13 of The Wendy's Company Form 10-K for the fiscal year ended January 2, 2022 (SEC file no. 001-02207).   |
| 10.1                   | Wendy's/Arby's Group, Inc. 2010 Omnibus Award Plan, incorporated herein by reference to Annex A of the Wendy's/Arby's Group, Inc. Definitive 2010 Proxy Statement (SEC file no. 001-02207).**  |
| 10.2                   | First Amendment to Wendy's/Arby's Group, Inc. 2010 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.2 to The Wendy's Company Current Report on Form 8-K filed on June 2, 2015 (SEC file no. 001-02207).**  |
| 10.3                   | Second Amendment to The Wendy's Company 2010 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.3 to The Wendy's Company Current Report on Form 8-K filed on June 2, 2015 (SEC file no. 001-02207).**  |
| 10.4                   | Form of Nonqualified Stock Option Award Agreement under The Wendy's Company 2010 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Form 10-Q for the quarter ended October 1, 2017 (SEC file no. 001-02207).**               |
| 10.5                   | Form of Long-Term Performance Unit Award Agreement for 2020 under The Wendy's Company 2010 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Form 10-Q for the quarter ended March 29, 2020 (SEC file no. 001-02207).**      |
| 10.6                   | Form of Restricted Stock Unit Award Agreement under The Wendy's Company 2010 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.9 of The Wendy's Company Form 10-K for the fiscal year ended December 29, 2019 (SEC file no. 001-02207).**             |
| 10.7                   | The Wendy's Company 2020 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on May 28, 2020 (SEC file no. 001-02207).**  |
| 10.8                   | Form of Nonqualified Stock Option Award Agreement under The Wendy's Company 2020 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.2 of The Wendy's Company Current Report on Form 8-K filed on May 28, 2020 (SEC file no. 001-02207).**              |
| 10.9                   | Form of Restricted Stock Unit Award Agreement under The Wendy's Company 2020 Omnibus Award Plan (Cliff Vesting), incorporated herein by reference to Exhibit 10.3 of The Wendy's Company Current Report on Form 8-K filed on May 28, 2020 (SEC file no. 001-02207).**  |
| 10.10                  | Form of Restricted Stock Unit Award Agreement under The Wendy's 2020 Omnibus Award Plan (Ratable Vesting), incorporated herein by reference to Exhibit 10.4 of The Wendy's Company Current Report on Form 8-K filed on May 28, 2020 (SEC file no. 001-02207).**        |
| 10.11                  | Form of Non-Employee Director Restricted Stock Award Agreement under The Wendy's Company 2020 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.5 of The Wendy's Company Current Report on Form 8-K filed on May 28, 2020 (SEC file no. 001-02207).** |
| 10.12                  | Form of Long-Term Performance Unit Award Agreement for 2021 under The Wendy's Company 2020 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Form 10-Q for the quarter ended April 4, 2021 (SEC file no. 001-02207).**       |
| 10.13                  | Form of Long-Term Performance Unit Award Agreement for 2022 under The Wendy's Company 2020 Omnibus Award Plan, incorporated herein by reference to Exhibit 10.3 of The Wendy's Company Form 10-Q for the quarter ended April 3, 2022 (SEC file no. 001-02207).**       |
| 10.14                  | Wendy's International, LLC Executive Severance Pay Policy, effective as of December 14, 2015, incorporated herein by reference to Exhibit 10.41 to The Wendy's Company Form 10-K for the fiscal year ended January 3, 2016 (SEC file no. 001-02207).**                 |

| <u>EXHIBIT<br/>NO.</u> | <u>DESCRIPTION</u>   |
|------------------------|--|
| 10.15                  | Wendy's International, LLC Deferred Compensation Plan, effective as of January 1, 2017, incorporated herein by reference to Exhibit 10.34 to The Wendy's Company Form 10-K for the fiscal year ended January 1, 2017 (SEC file no. 001-02207).**   |
| 10.16                  | Wendy's/Arby's Group, Inc. 2009 Directors' Deferred Compensation Plan, effective as of May 28, 2009, incorporated herein by reference to Exhibit 10.6 to Wendy's/Arby's Group's Form 10-Q for the quarter ended June 28, 2009 (SEC file no. 001-02207).**  |
| 10.17                  | Amendment No. 1 to the Wendy's/Arby's Group, Inc. 2009 Directors' Deferred Compensation Plan, effective as of May 27, 2010, incorporated herein by reference to Exhibit 10.9 to Wendy's/Arby's Group's Form 10-Q for the quarter ended July 4, 2010 (SEC file no. 001-02207).**  |
| 10.18                  | Amendment No. 2 to the Wendy's/Arby's Group, Inc. 2009 Directors' Deferred Compensation Plan, incorporated herein by reference to Exhibit 10.6 of The Wendy's Company Form 10-Q for the quarter ended June 30, 2013 (SEC file no. 001-02207).**  |
| 10.19                  | Amendment No. 3 to the Wendy's/Arby's Group, Inc. 2009 Directors' Deferred Compensation Plan, incorporated herein by reference to Exhibit 10.7 to The Wendy's Company Form 10-Q for the quarter ended June 28, 2020 (SEC file no. 001-02207).**  |
| 10.20                  | 2018-1 Class A-2 Note Purchase Agreement, dated as of December 6, 2017, by and among The Wendy's Company, the subsidiaries of The Wendy's Company party thereto and Guggenheim Securities, LLC and Citigroup Global Markets Inc., each acting on behalf of itself and as the representatives of the initial purchasers, incorporated herein by reference by Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on December 6, 2017 (SEC file no. 001-02207).   |
| 10.21                  | 2019-1 Class A-2 Note Purchase Agreement, dated as of June 13, 2019, by and among The Wendy's Company, the subsidiaries of The Wendy's Company party thereto and Guggenheim Securities, LLC and Citigroup Global Markets Inc., each acting on behalf of itself and as the representatives of the initial purchasers, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on June 13, 2019 (SEC file no. 001-02207).   |
| 10.22                  | 2021-1 Class A-2 Note Purchase Agreement, dated as of June 15, 2021, by and among The Wendy's Company, the subsidiaries of The Wendy's Company party thereto and Guggenheim Securities, LLC and Jefferies LLC, each acting on behalf of itself and as the representatives of the initial purchasers, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on June 16, 2021 (SEC file no. 001-02207).   |
| 10.23                  | Class A-1 Note Purchase Agreement, dated as of June 22, 2021, by and among Wendy's Funding, LLC, as Master Issuer, each of Quality Is Our Recipe, LLC, Wendy's Properties, LLC and Wendy's SPV Guarantor, LLC, as Guarantors, Wendy's International, LLC, as Manager, the conduit investors party thereto, the financial institutions party thereto, certain funding agents, and Coöperatieve Rabobank, U.A., New York Branch, as L/C Provider, Swingline Lender and Administrative Agent, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on June 23, 2021 (SEC file no. 001-02207). |
| 10.24                  | 2022-1 Class A-2 Note Purchase Agreement, dated as of March 23, 2022, by and among The Wendy's Company, the subsidiaries of The Wendy's Company party thereto and Barclays Capital Inc. and Jefferies LLC, each acting on behalf of itself and as a representative of the initial purchasers, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on March 24, 2022 (SEC file no. 001-02207).   |
| 10.25                  | Guarantee and Collateral Agreement, dated as of June 1, 2015, by and among Quality Is Our Recipe, LLC, Wendy's Properties, LLC, Wendy's SPV Guarantor, LLC, each as a Guarantor, in favor of Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.2 to The Wendy's Company Current Report on Form 8-K filed on June 2, 2015 (SEC file no. 001-02207).  |

| <u>EXHIBIT<br/>NO.</u> | <u>DESCRIPTION</u>  |
|------------------------|---|
| 10.26                  | Management Agreement, dated as of June 1, 2015, by and among Wendy's Funding, LLC, Quality Is Our Recipe, LLC, Wendy's Properties, LLC, Wendy's SPV Guarantor, LLC, Wendy's International, LLC, as Manager, and Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.3 to The Wendy's Company Current Report on Form 8-K filed on June 2, 2015 (SEC file no. 001-02207).                            |
| 10.27                  | Management Agreement Amendment, dated as of January 17, 2018, by and among Wendy's Funding, LLC, as Master Issuer, certain subsidiaries of Wendy's Funding, LLC party thereto, Wendy's International, LLC, as Manager, and Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.2 of The Wendy's Company Current Report on Form 8-K filed on January 17, 2018 (SEC file no. 001-02207).             |
| 10.28                  | Second Amendment to the Management Agreement, dated as of June 26, 2019, by and among Wendy's Funding, LLC, as Master Issuer, certain subsidiaries of Wendy's Funding, LLC party thereto, Wendy's International, LLC, as Manager, and Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.2 of The Wendy's Company Current Report on Form 8-K filed on June 26, 2019 (SEC file no. 001-02207).     |
| 10.29                  | Third Amendment to the Management Agreement, dated as of January 3, 2021, by and among Wendy's Funding, LLC, as Master Issuer, certain subsidiaries of Wendy's Funding, LLC party thereto, Wendy's International, LLC, as Manager, and Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.31 of The Wendy's Company Form 10-K for the fiscal year ended January 3, 2021 (SEC file no. 001-02207). |
| 10.30                  | Fourth Amendment to the Management Agreement, dated as of June 22, 2021, by and among Wendy's Funding, LLC, as Master Issuer, certain subsidiaries of Wendy's Funding, LLC party thereto, Wendy's International, LLC, as Manager, and Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.2 of The Wendy's Company Current Report on Form 8-K filed on June 23, 2021 (SEC file no. 001-02207).     |
| 10.31                  | Fifth Amendment to the Management Agreement, dated as of April 1, 2022, by and among Wendy's Funding, LLC, as Master Issuer, certain subsidiaries of Wendy's Funding, LLC party thereto, Wendy's International, LLC, as Manager, and Citibank, N.A., as Trustee, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Current Report on Form 8-K filed on April 4, 2022 (SEC file no. 001-02207).      |
| 10.32                  | Assignment of Rights Agreement between Wendy's International, Inc. and Mr. R. David Thomas, incorporated herein by reference to Exhibit 10(c) of the Wendy's International, Inc. Form 10-K for the fiscal year ended December 31, 2000 (SEC file no. 001-08116).  |
| 10.33                  | Form of Guaranty Agreement dated as of March 23, 1999 among National Propane Corporation, Triarc Companies, Inc. and Nelson Peltz and Peter W. May, incorporated herein by reference to Exhibit 10.30 to Triarc's Annual Report on Form 10-K for the fiscal year ended January 3, 1999 (SEC file no. 001-02207).  |
| 10.34                  | Separation Agreement, dated as of April 30, 2007, between Triarc Companies, Inc. and Nelson Peltz, incorporated herein by reference to Exhibit 10.3 to Triarc's Current Report on Form 8-K filed on April 30, 2007 (SEC file no. 001-02207).**  |
| 10.35                  | Letter Agreement dated as of December 28, 2007, between Triarc Companies, Inc. and Nelson Peltz., incorporated herein by reference to Exhibit 10.2 to Triarc's Current Report on Form 8-K filed on January 4, 2008 (SEC file no. 001-02207).**  |

| <u>EXHIBIT<br/>NO.</u> | <u>DESCRIPTION</u>   |
|------------------------|--|
| 10.36                  | Separation Agreement, dated as of April 30, 2007, between Triarc Companies, Inc. and Peter W. May, incorporated herein by reference to Exhibit 10.4 to Triarc's Current Report on Form 8-K filed on April 30, 2007 (SEC file no. 001-02207).**   |
| 10.37                  | Letter Agreement dated as of December 28, 2007, between Triarc Companies, Inc. and Peter W. May, incorporated herein by reference to Exhibit 10.3 to Triarc's Current Report on Form 8-K filed on January 4, 2008 (SEC file no. 001-02207).**  |
| 10.38                  | Registration Rights Agreement dated as of April 23, 1993, between DWG Corporation and DWG Acquisition Group, L.P., incorporated herein by reference to Exhibit 10.36 to Wendy's/Arby's Group's Annual Report on Form 10-K for the fiscal year ended December 28, 2008 (SEC file no. 001-02207).  |
| 10.39                  | Agreement dated December 1, 2011 by and between The Wendy's Company and Trian Partners, L.P., Trian Partners Master Fund, L.P., Trian Partners Parallel Fund I, L.P., Trian Partners GP, L.P., Trian Fund Management, L.P., the general partner of which is Trian Fund Management GP, LLC, Nelson Peltz, Peter W. May and Edward P. Garden, who, together with Nelson Peltz and Peter W. May, are the controlling members of Trian GP, Trian Partners Strategic Investment Fund, L.P. and Trian Partners Strategic Investment Fund-A, L.P., incorporated herein by reference to Exhibit 10.1 to The Wendy's Company Current Report on Form 8-K filed on December 2, 2011 (SEC file no. 001-02207). |
| 10.40                  | Employment Letter between The Wendy's Company and Todd Penegor dated as of May 8, 2013, incorporated herein by reference to Exhibit 10.9 of The Wendy's Company Form 10-Q for the quarter ended June 30, 2013 (SEC file no. 001-02207).**  |
| 10.41                  | Employment Letter between The Wendy's Company and Liliana Esposito dated as of May 8, 2014, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Form 10-Q for the quarter ended June 29, 2014 (SEC file no. 001-02207).**  |
| 10.42                  | Employment Letter between The Wendy's Company and Kurt Kane dated as of March 27, 2015, incorporated herein by reference to Exhibit 10.8 of The Wendy's Company Form 10-Q for the quarter ended June 28, 2015 (SEC file no. 001-02207).**  |
| 10.43                  | Employment Letter between The Wendy's Company and Gunther Plosch dated as of April 7, 2016, incorporated herein by reference to Exhibit 10.2 of The Wendy's Company Form 10-Q for the quarter ended April 3, 2016 (SEC file no. 001-02207).**  |
| 10.44                  | Employment Letter between The Wendy's Company and E. J. Wunsch dated as of September 6, 2016, incorporated herein by reference to Exhibit 10.1 of The Wendy's Company Form 10-Q for the quarter ended October 2, 2016 (SEC file no. 001-02207).**  |
| 10.45                  | Employment Letter between The Wendy's Company and J. Kevin Vasconi dated as of September 28, 2020, incorporated herein by reference to Exhibit 10.45 of The Wendy's Company Form 10-K for the fiscal year ended January 3, 2021 (SEC file no. 001-02207).**  |
| 10.46                  | Amendment to Employment Letter between The Wendy's Company and J. Kevin Vasconi dated as of February 28, 2023.* **   |
| 10.47                  | Non-Compete and Confidentiality Agreement between The Wendy's Company and Abigail Pringle dated as of October 27, 2020, incorporated herein by reference to Exhibit 10.1 to The Wendy's Company Form 10-Q for the quarter ended September 27, 2020 (SEC file no. 001-02207).**   |
| 10.48                  | Non-Compete and Confidentiality Agreement between The Wendy's Company and M. Coley O'Brien dated as of October 27, 2020, incorporated herein by reference to Exhibit 10.2 to The Wendy's Company Form 10-Q for the quarter ended September 27, 2020 (SEC file no. 001-02207).**  |
| 10.49                  | Non-Compete and Confidentiality Agreement between The Wendy's Company and Leigh Burnside dated as of October 27, 2020, incorporated herein by reference to Exhibit 10.3 to The Wendy's Company Form 10-Q for the quarter ended September 27, 2020 (SEC file no. 001-02207).**  |
| 10.50                  | Form of Indemnification Agreement for officers and employees of Wendy's International, Inc. and its subsidiaries, incorporated herein by reference to Exhibit 10 of the Wendy's International, Inc. Current Report on Form 8-K filed on July 12, 2005 (SEC file no. 001-08116).**  |

| <u>EXHIBIT<br/>NO.</u> | <u>DESCRIPTION</u>   |
|------------------------|--|
| 10.51                  | Form of First Amendment to Indemnification Agreement between Wendy's International, Inc. and its directors and certain officers and employees, incorporated herein by reference to Exhibit 10(b) of the Wendy's International, Inc. Form 10-Q for the quarter ended June 29, 2008 (SEC file no. 001-08116).**  |
| 10.52                  | Form of Indemnification Agreement between Arby's Restaurant Group, Inc. and certain directors, officers and employees thereof, incorporated herein by reference to Exhibit 10.40 to Triarc's Annual Report on Form 10-K for the fiscal year ended December 30, 2007 (SEC file no. 001-02207).**  |
| 10.53                  | Form of Indemnification Agreement, between Wendy's/Arby's Group, Inc. and certain officers, directors, and employees thereof, incorporated herein by reference to Exhibit 10.47 to Wendy's/Arby's Group's Annual Report on Form 10-K for the fiscal year ended December 28, 2008 (SEC file no. 001-02207).**   |
| 10.54                  | Form of Indemnification Agreement of The Wendy's Company, incorporated herein by reference to Exhibit 10.5 of The Wendy's Company and Wendy's Restaurants, LLC Form 10-Q for the quarter ended October 2, 2011 (SEC file nos. 001-02207 and 333-161613, respectively).**   |
| 21.1                   | Subsidiaries of the Registrant.*   |
| 23.1                   | Consent of Deloitte & Touche LLP.*   |
| 31.1                   | Certification of the Chief Executive Officer of The Wendy's Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 31.2                   | Certification of the Chief Financial Officer of The Wendy's Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 32.1                   | Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*   |
| 101                    | The following financial information from The Wendy's Company's Annual Report on Form 10-K for the year ended January 1, 2023 formatted in Inline eXtensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. |
| 104                    | The cover page from The Wendy's Company's Annual Report on Form 10-K for the year ended January 1, 2023, formatted in Inline XBRL and contained in Exhibit 101.  |

\* Filed herewith.

\*\* Identifies a management contract or compensatory plan or arrangement.

Instruments defining the rights of holders of certain issues of long-term debt of the Company and its consolidated subsidiaries have not been filed as exhibits to this Form 10-K because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of each of such instruments to the Commission upon request.

### **Item 16. *Form 10-K Summary.***

None.





**THE WENDY'S COMPANY  
LIST OF SUBSIDIARIES AS OF  
January 1, 2023**

| <u>SUBSIDIARY</u>                                 | <u>STATE OR JURISDICTION<br/>UNDER WHICH ORGANIZED</u> |
|---|--|
| 256 Gift Card Inc.                                | Tennessee  |
| Adams Packing Association, Inc.                   | Delaware   |
| Citrus Acquisition Corporation                    | Florida  |
| Oldemark LLC                                      | Delaware   |
| Quality Is Our Recipe, LLC                        | Delaware   |
| SEPSCO, LLC                                       | Delaware   |
| The Wendy's National Advertising Program, Inc.    | Ohio   |
| TIMWEN Partnership (1)                            | Ontario  |
| TXL Corp.   | South Carolina   |
| Wendy Restaurant, Inc.                            | Delaware   |
| Wendy's Canadian Advertising Program Inc.         | Canada   |
| Wendy's Digital, LLC                              | Delaware   |
| Wendy's Funding, LLC                              | Delaware   |
| Wendy's Global Financing LP                       | Ontario  |
| Wendy's Global Financing Partner, LLC             | Delaware   |
| Wendy's Global Holdings C.V.                      | Netherlands  |
| Wendy's Global Holdings Partner, LLC              | Delaware   |
| Wendy's International Finance, Inc.               | Ohio   |
| Wendy's International, LLC                        | Ohio   |
| Wendy's Netherlands B.V.                          | Netherlands  |
| Wendy's Netherlands Holdings B.V.                 | Netherlands  |
| Wendy's Old Fashioned Hamburgers of New York, LLC | Ohio   |
| Wendy's Properties, LLC                           | Delaware   |
| Wendy's Restaurants of Canada Inc.                | Ontario  |
| Wendy's Restaurants of Mexico, S. DE R.L. DE C.V. | Mexico   |
| Wendy's Restaurants of New York, LLC              | Delaware   |
| Wendy's Restaurants of U.K. Limited               | England and Wales                                      |
| Wendy's Restaurants, LLC                          | Delaware   |
| Wendy's Singapore Pte. Ltd.                       | Singapore  |
| Wendy's SPV Guarantor, LLC                        | Delaware   |
| Wendy's Technology, LLC                           | Delaware   |

(1) 50% owned by Wendy's Restaurants of Canada Inc.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-167170 on Form S-8 and Registration Statement No. 333-261843 on Form S-3 of our reports dated March 1, 2023, relating to the financial statements of The Wendy's Company and the effectiveness of The Wendy's Company's internal control over financial reporting appearing in this Annual Report on Form 10-K of The Wendy's Company for the year ended January 1, 2023.

/s/ Deloitte & Touche LLP  
Columbus, Ohio  
March 1, 2023

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER OF THE WENDY'S COMPANY, PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd A. Penegor, certify that:

1. I have reviewed this annual report on Form 10-K of The Wendy's Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2023

/s/ TODD A. PENEGOR  
\_\_\_\_\_  
Todd A. Penegor  
President and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER OF THE WENDY'S COMPANY, PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gunther Plosch, certify that:

1. I have reviewed this annual report on Form 10-K of The Wendy's Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2023

/s/ GUNTHER PLOSCH

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Gunther Plosch  
Chief Financial Officer

**CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of The Wendy's Company, a Delaware corporation (the "Company"), does hereby certify, to the best of such officer's knowledge, that in connection with the Annual Report on Form 10-K of the Company for the fiscal year ended January 1, 2023 (the "Form 10-K"):

1. the Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2023

*/s/ TODD A. PENEGOR*

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**Todd A. Penegor**  
**President and Chief Executive Officer**

Date: March 1, 2023

*/s/ GUNTHER PLOSCH*

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**Gunther Plosch**  
**Chief Financial Officer**

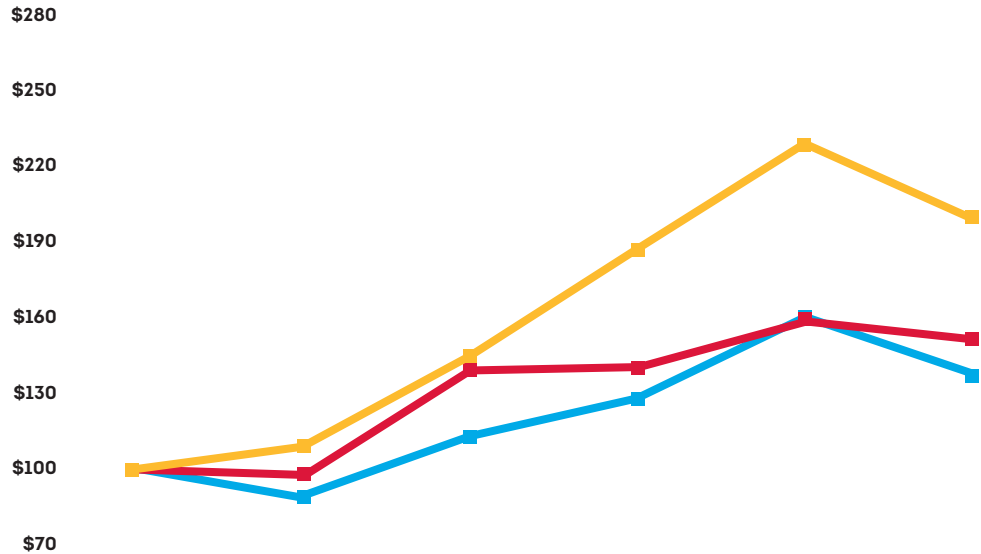
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# STOCK PERFORMANCE

The following performance graph shows The Wendy's Company's cumulative total stockholder return on its Common Stock relative to the returns of the S&P MidCap 400® Index and a customized peer group, whose individual companies are listed in footnote 1 below. The measurement points in the graph are the last trading days of our 2017, 2018, 2019, 2020, 2021, and 2022 fiscal years. The returns set forth below assume an initial investment of \$100 and reinvestment of all dividends when received.

## COMPARISON of 5-YEAR CUMULATIVE TOTAL RETURN\*

(The Wendy's Company vs. the S&P MidCap 400 Index and the Peer Group)



|                            | 12/29/17 | 12/28/18 | 12/27/19 | 12/31/20 | 12/31/21 | 12/30/22 |
|----------------------------|----------|----------|----------|----------|----------|----------|
| <b>The Wendy's Company</b> | \$100.00 | \$97.12  | \$140.66 | \$141.14 | \$156.66 | \$152.33 |
| <b>S&amp;P MidCap 400</b>  | \$100.00 | \$88.01  | \$112.15 | \$127.54 | \$159.12 | \$138.34 |
| <b>Peer Group</b>          | \$100.00 | \$109.37 | \$144.35 | \$187.40 | \$231.78 | \$201.06 |

(1) The 13 companies included in the Company's peer group are: Brinker International, Inc., Chipotle Mexican Grill, Inc., Darden Restaurants, Inc., Dine Brands Global, Inc., Domino's Pizza, Inc., Jack in the Box Inc., McDonald's Corporation, Papa John's International, Inc., Red Robin Gourmet Burgers, Inc., Restaurant Brands International Inc., Starbucks Corporation, The Wendy's Company and Yum! Brands, Inc.

\*This performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any filing by The Wendy's Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent The Wendy's Company specifically incorporates this performance graph by reference into such other filing.

Source: Nasdaq



2022

