Revenue Recognition Implementation & Other Income Statement Reclassifications

February 21, 2018

Forward-Looking Statements

- *Certain information contained in this presentation, particularly information regarding future economic performance, finances, and expectations and objectives of management constitutes forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and generally contain words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates” or “anticipates” or similar expressions. Our forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected or implied by the forward-looking statement.*

- *Forward-looking statements are based on current expectations and assumptions and currently available data and are neither predictions nor guarantees of future events or performance. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We do not undertake to update or revise any forward-looking statements after they are made, whether as a result of new information, future events, or otherwise, except as required by applicable law. For discussion of some of the important factors that could cause these variations, please consult the “Risk Factors” section of the Company’s most recent Annual Report on Form 10-K.*

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Executive Summary

- The purpose of the presentation is to provide details of financial statement changes that will occur beginning in 2018, to help financial statement users understand the comparability of actual 2017 results to 2018 guidance.
- The Company has elected the modified retrospective approach for the implementation of the new revenue recognition accounting standard (ASC 606), which is effective January 1, 2018. This approach allows for prior years to remain unchanged from previous filings with a cumulative effect adjustment made through beginning retained earnings on the balance sheet in the year of implementation.
- We are providing this supplemental information to illustrate the impact as if the prior periods were fully recast for revenue recognition in order to enhance the investor community's understanding of the change.
- We are also making other income statement reclassifications to improve transparency of results.

Executive Summary - Continued

- Financial statement changes include:
  - Revenue recognition (ASC 606)
    - Franchise fees, which were historically recognized upfront, will now be deferred and amortized over the life of the related franchise agreement. This will result in lower revenues each year, but a more consistent revenue stream with less volatility into the future.
    - National advertising funds will now be consolidated into the income statement. The objective of the funds is to spend what is collected, but to the extent there is a surplus or deficit it will impact our reported results. However, the impact of consolidating the advertising funds will be excluded from adjusted EBITDA, adjusted EBITDA margin and adjusted EPS.
  - Other income statement reclassifications
    - Beginning in Q1 2018, there will be a separate line item, “Franchise support and other costs,” in the income statement to reflect costs associated with “Franchise royalty revenue and fees” that will be reclassified from “Other operating expense (income), net” and “General and administrative.”
    - The Company also identified certain restaurant operational costs (certain training and other restaurant support costs) that will be reclassified to “Cost of sales” from “General and administrative.”

New Revenue Recognition Standard (ASC 606) Impacts and Transition

New Revenue Recognition Standard (ASC 606) Impacts and Transition

- Impacted:
  - Certain franchise fees, including technical assistance fees and renewal fees (Note: these fees are recorded in the “Franchise royalty revenue and fees” caption on the Income Statement)
  - National advertising funds’ income statement presentation

- Not impacted:
  - Company-operated restaurant sales
  - Royalty revenue
  - Rental income
  - Expense recognition
  - Balance sheet classification

Franchise Fees: Current State vs Future State

Fee type	Current (2017)	Future (2018)	Comments
New Build Technical Assistance Fee ("TAF") Accounting treatment	$40,000 Upfront recognition	$50,000 Recognized over agreement term	Fee is used to defray some of the costs related to training, start-up and transitional services related to the development and opening of new restaurants. Currently a 25 year term*.
Renewal Fees Accounting treatment	$10,000 Upfront recognition	$12,500 Recognized over agreement term	Generally provide for a 10 year term (fee amount represents 25% of the then current TAF). Under current Image Activation incentive program, franchisees can get renewal term up to 20 years.
Franchise Flip Advisory Fee Accounting treatment	$- N/A	$20,000 Upfront recognition	Fee for valuation services and for sourcing and selecting a pre-approved buyer for the transaction. Paid by the seller. Recognized at closing of transaction.
Franchise Flip TAF ** Accounting treatment	$40,000 Upfront recognition	$20,000 Recognized over agreement term	Fee to facilitate franchisee-to-franchisee transfer. Paid by the buyer. Provides buyer with new 20 year franchise agreement and assistance to execute a successful transition of restaurants.

Note that the fees described above are on a per restaurant basis and relate only to North America. International new build TAF structure and amounts vary by country. Franchise Flip transactions are generally limited to North America. There are also franchisee to franchisee transfers that the Company does not facilitate, but to which the company provides consent. There is a nominal fee for these transfers which is recognized immediately.

*Beginning in 2017, up to an additional 5 years was added to the franchise agreement term as part of the New Build Incentive Program. The additional 5 years may not be available upon the expiration of the Incentive Program.

**Formerly known as "Buy and Flip".

Franchise Fees – Illustrative Example

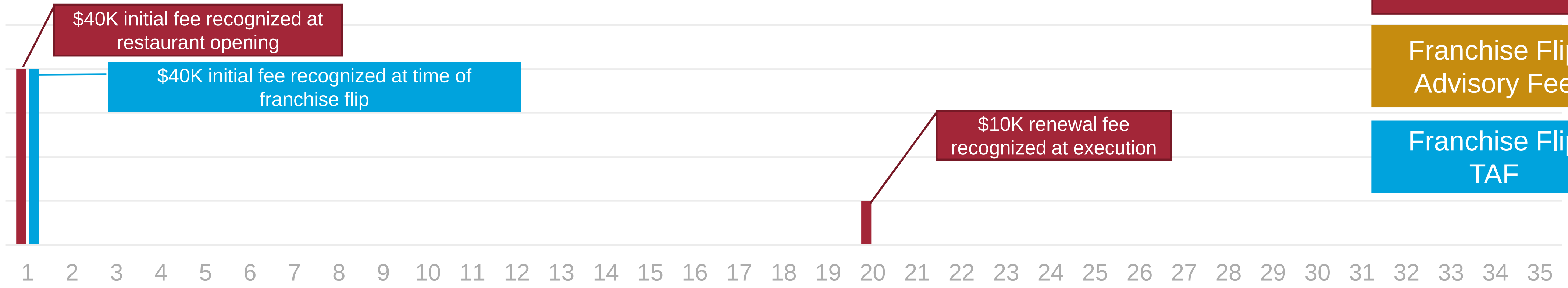
Legend

New Build TAF

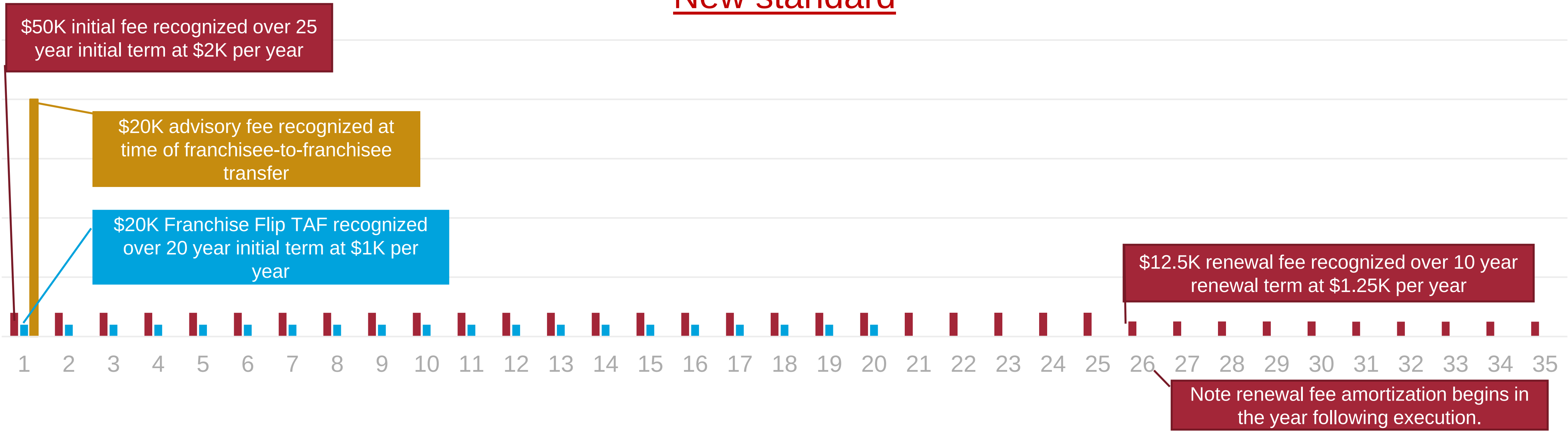
Franchise Flip Advisory Fee

Franchise Flip TAF

Current standard



New standard

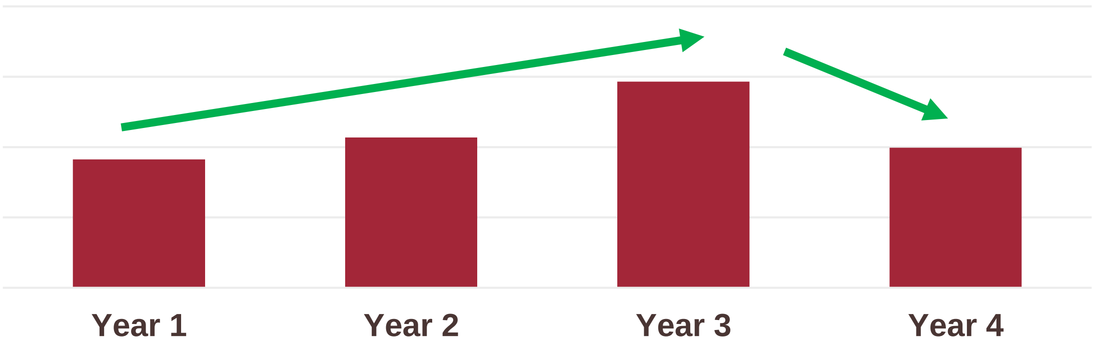


New standard results in more consistent revenue stream over time

Future franchise fee revenue growth will be driven by new restaurant development and Franchise Flip transactions

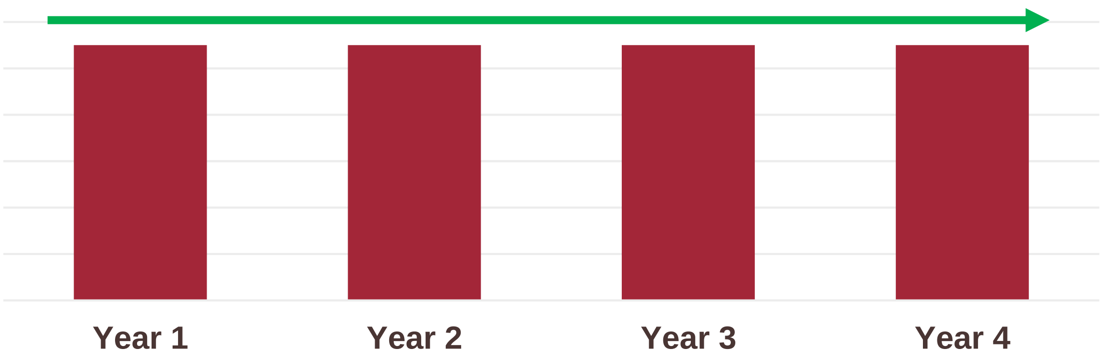
The current standard allows for upfront recognition of certain franchise fees, which creates more volatility depending on the volume of new development, re-franchising and Franchise Flip activity in a given year.

Current standard – recognize upfront



The new standard results in less volatility and more consistency over time.

New standard – recognize over time



Note: If a franchise agreement is terminated prior to its agreed upon term (e.g. due to the closing of a restaurant, Franchise Flip, etc.), the amortization of any remaining deferred revenue will be accelerated and recognized at that time.

National Advertising Funds – Current Financial Statement Presentation

- Current guidance:
  - Revenue and expenses of national advertising funds excluded from our income statement as Company acts as an agent based on franchisor specific guidance.
  - Currently presented as "Advertising funds restricted assets" and "Advertising funds restricted liabilities" on the balance sheet.
  - No impact on cash flows.

National Advertising Funds – New Financial Statement Presentation

- New guidance (ASC 606):
  - As we can no longer be considered an agent (or pass-through entity) for the advertising funds, we must follow existing rules of consolidation.
  - When certain criteria are met (primarily having the power to direct the activities of the advertising funds), the results of the advertising funds must be consolidated within the income statement.
  - Gross up of revenues and expenses with new captions as shown here and in Appendix A.
  - <u>Note</u>: Facts and circumstances of advertising funds can vary by company, which can result in different financial statement presentation.

Income statement impacts

	Revenues:
	Sales
	Franchise royalty revenue and fees
	Franchise rental income
New caption	Advertising funds revenue
	Costs and expenses:
	Cost of sales
	Franchise support and other costs
	Franchise rental expense
New caption	Advertising funds expense
	General and administrative
	Depreciation and amortization
	System optimization losses (gains), net
	Reorganization and realignment costs
	Impairment of long-lived assets
	Other operating expense (income), net
	Operating profit

National Advertising Funds – P&L Impact

- The objective of the advertising funds is to spend the contributions collected each year, so generally there should be little to no impact to our P&L.
- To the extent timing of collections versus spend creates a surplus or deficit, there could be an impact reflected in our reported results.
- However, as we do not believe this impact would be reflective of our ongoing operating performance, we will exclude it from adjusted EBITDA, adjusted EBITDA margin and adjusted EPS as shown in Appendix A.
- Note that during the interim periods no surplus or deficit will impact our reported results due to an interim accounting policy election on the national advertising funds.

New Revenue Recognition Standard (ASC 606) Transition

- Transition:
  - Allows for full retrospective presentation or modified retrospective.
  - Full retrospective presentation would recast all prior years presented for the related impacts of the new standard.
  - Modified retrospective presentation allows for prior years to remain unchanged from previous filings with a cumulative effect adjustment made through beginning retained earnings on the balance sheet in the year of implementation.
  - We have elected modified retrospective presentation in our financial statements, but for purposes of providing comparability to the investor community, we have provided income statements recast for FY2017 by quarter and FY2016 in Appendix A.

Other Income Statement Reclassifications

Other Income Statement Reclassifications

- As the company completed its transition to 95% franchise ownership at the end of 2016, we wanted to increase transparency into the components of “Franchise revenues” as reported on the income statement. In order to do this, we separated “Franchise royalty revenue and fees” from “Franchise revenues” and presented them as separate captions on the face of the income statement.
- While historically costs associated with franchise royalty revenue and fees were not material and separate disclosure was not required, in order to be consistent with the more detailed presentation of the components of revenue, we will now also present these costs separately on the face of the income statement.

Other Income Statement Reclassifications

- Beginning in Q1 2018, the company will have a separate line item, “Franchise support and other costs”, in the income statement.
- The related reclassifications will be made from “Other operating expense (income), net” and “General and administrative.”
- In addition, the company identified certain restaurant operational costs that will be reclassified to “Cost of sales” from “General and administrative.” The costs include certain training and other restaurant support costs.
- Details of the reclassifications are presented in Appendix A.

Income statement impacts

Revenues:
- Sales
- Franchise royalty revenue and fees
- Franchise rental income
- New caption → Advertising funds revenue

Costs and expenses:
- Cost of sales ← Reclass impact
- New caption → Franchise support and other costs
- Franchise rental expense
- New caption → Advertising funds expense
- General and administrative ← Reclass impact
- Depreciation and amortization
- System optimization losses (gains), net
- Reorganization and realignment costs
- Impairment of long-lived assets
- Other operating expense (income), net ← Reclass impact

Appendix A

	Page Number
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The Wendy's Company and Subsidiaries
Condensed Consolidated Statement of Operations
Fiscal Year Ended December 31, 2017 (a)
(In Thousands Except Per Share Amounts)
(Unaudited)

Recast

	As reported	Franchise fees	Advertising funds	Other income statement reclassifications	Recast
Revenues:					
Sales	$ 622,802	$ —	$ —	$ —	$ 622,802
Franchise royalty revenue and fees	410,503	(16,288)	—	—	394,215
Franchise rental income	190,103	—	—	—	190,103
Advertising funds revenue	—	—	324,458	—	324,458
	1,223,408	(16,288)	324,458	—	1,531,578
Costs and expenses:					
Cost of sales	512,947	—	—	4,988	517,935
Franchise support and other costs	—	—	—	16,325	16,325
Franchise rental expense	88,015	—	—	—	88,015
Advertising funds expense	—	—	327,214	—	327,214
General and administrative	208,581	—	—	(4,988)	203,593
Depreciation and amortization	125,687	—	—	—	125,687
System optimization losses, net	39,076	—	—	—	39,076
Reorganization and realignment costs	22,574	—	—	—	22,574
Impairment of long-lived assets	4,097	—	—	—	4,097
Other operating expense (income), net	7,673	—	—	(16,325)	(8,652)
	1,008,650	—	327,214	—	1,335,864
Operating profit	214,758	(16,288)	(2,756)	—	195,714
Interest expense, net	(118,059)	—	—	—	(118,059)
Other income, net	4,320	—	—	—	4,320
Income before income taxes	101,019	(16,288)	(2,756)	—	81,975
Benefit from income taxes	93,010	(4,271)	(235)	—	88,504
Net income	$ 194,029	$ (20,559)	$ (2,991)	$ —	$ 170,479
Net income per share:					
Basic	$ .79	$ (.08)	$ (.01)	$ —	$ .70
Diluted	.77	(.08)	(.01)	—	.68

(a) The condensed consolidated statement of operations reflects updates for the implementation of the new revenue recognition standard as if the full retrospective approach was adopted, as well as the impact of the other income statement reclassifications.

The Wendy's Company and Subsidiaries
Condensed Consolidated Statement of Operations
Fiscal Year Ended January 1, 2017 (a)
(In Thousands Except Per Share Amounts)
(Unaudited)

Recast

	As reported	Franchise fees	Advertising funds	Other income statement reclassifications	Recast
Revenues:					
Sales	$ 920,758	$ —	$ —	$ —	$ 920,758
Franchise royalty revenue and fees	371,545	(14,240)	—	—	357,305
Franchise rental income	143,115	—	—	—	143,115
Advertising funds revenue	—	—	306,622	—	306,622
	1,435,418	(14,240)	306,622	—	1,727,800
Costs and expenses:					
Cost of sales	744,701	—	—	7,378	752,079
Franchise support and other costs	—	—	—	6,885	6,885
Franchise rental expense	67,760	—	—	—	67,760
Advertising funds expense	—	—	309,456	—	309,456
General and administrative	245,869	—	—	(9,083)	236,786
Depreciation and amortization	122,704	—	—	—	122,704
System optimization gains, net	(71,931)	—	—	—	(71,931)
Reorganization and realignment costs	10,083	—	—	—	10,083
Impairment of long-lived assets	16,241	—	—	—	16,241
Other operating income, net	(14,789)	—	—	(5,180)	(19,969)
	1,120,638	—	309,456	—	1,430,094
Operating profit	314,780	(14,240)	(2,834)	—	297,706
Interest expense, net	(114,802)	—	—	—	(114,802)
Other income, net	1,712	—	—	—	1,712
Income before income taxes	201,690	(14,240)	(2,834)	—	184,616
Provision from income taxes	(72,066)	5,447	114	—	(66,505)
Net income	$ 129,624	$ (8,793)	$ (2,720)	$ —	$ 118,111
Net income per share:					
Basic	$ .49	$ (.03)	$ (.01)	$ —	$ .45
Diluted	.49	(.03)	(.01)	—	.44

(a) The condensed consolidated statement of operations reflects updates for the implementation of the new revenue recognition standard as if the full retrospective approach was adopted, as well as the impact of the other income statement reclassifications.

The Wendy's Company and Subsidiaries
Condensed Consolidated Statements of Operations
Fiscal Year 2017 by Quarter (a)
(In Thousands Except Per Share Amounts)
(Unaudited)

Recast

	Three Months Ended			
	April 2, 2017	July 2, 2017	October 1, 2017	December 31, 2017
Revenues:				
Sales	$ 148,212	$ 160,859	$ 158,843	$ 154,888
Franchise royalty revenue and fees	91,687	104,392	99,552	98,584
Franchise rental income	42,917	46,935	50,275	49,976
Advertising funds revenue	78,182	83,229	82,583	80,464
	360,998	395,415	391,253	383,912
Costs and expenses:				
Cost of sales	124,543	130,581	133,631	129,180
Franchise support and other costs	3,643	3,789	3,690	5,203
Franchise rental expense	18,868	21,897	24,076	23,174
Advertising funds expense	78,182	83,229	82,583	83,220
General and administrative	51,314	50,059	51,716	50,504
Depreciation and amortization	29,165	31,309	31,216	33,997
System optimization (gains) losses, net	(1,407)	41,050	106	(673)
Reorganization and realignment costs	181	17,699	2,888	1,806
Impairment of long-lived assets	510	253	1,041	2,293
Other operating income, net	(1,718)	(2,089)	(2,021)	(2,824)
	303,281	377,777	328,926	325,880
Operating profit	57,717	17,638	62,327	58,032
Interest expense, net	(28,975)	(28,935)	(29,977)	(30,172)
Other income (expense), net	389	2,844	(125)	1,212
Income (loss) before income taxes	29,131	(8,453)	32,225	29,072
(Provision for) benefit from income taxes	(8,646)	2,550	(18,476)	113,076
Net income (loss)	$ 20,485	$ (5,903)	$ 13,749	$ 142,148
Net income (loss) per share:				
Basic	$ .08	$ (.02)	$ .06	$ .59
Diluted	.08	(.02)	.05	.57

(a) The condensed consolidated statements of operations reflect updates for the implementation of the new revenue recognition standard as if the full retrospective approach was adopted, as well as the impact of the other income statement reclassifications.

The Wendy's Company and Subsidiaries
Reconciliation of Net Income (Loss) to Adjusted EBITDA
Fiscal Year 2017 by Quarter (a) and Fiscal Year 2016
(In Thousands)
(Unaudited)

Recast

	Three Months Ended				Twelve Months Ended	
	April 2, 2017	July 2, 2017	October 1, 2017	December 31, 2017	December 31, 2017	January 1, 2017
Net income (loss)	$ 20,485	$ (5,903)	$ 13,749	$ 142,148	$ 170,479	$ 118,111
Provision for (benefit from) income taxes	8,646	(2,550)	18,476	(113,076)	(88,504)	66,505
Income (loss) before income taxes	29,131	(8,453)	32,225	29,072	81,975	184,616
Other (income) loss, net	(389)	(2,844)	125	(1,212)	(4,320)	(1,712)
Interest expense, net	28,975	28,935	29,977	30,172	118,059	114,802
Operating profit	57,717	17,638	62,327	58,032	195,714	297,706
Plus (less):						
Advertising funds revenue	(78,182)	(83,229)	(82,583)	(80,464)	(324,458)	(306,622)
Advertising funds expense	78,182	83,229	82,583	83,220	327,214	309,456
Depreciation and amortization	29,165	31,309	31,216	33,997	125,687	122,704
System optimization (gains) losses, net	(1,407)	41,050	106	(673)	39,076	(71,931)
Reorganization and realignment costs	181	17,699	2,888	1,806	22,574	10,083
Impairment of long-lived assets	510	253	1,041	2,293	4,097	16,241
Adjusted EBITDA	$ 86,166	$ 107,949	$ 97,578	$ 98,211	$ 389,904	$ 377,637
Revenues	$ 360,998	$ 395,415	$ 391,253	$ 383,912	$ 1,531,578	$ 1,727,800
Less:						
Advertising funds revenue	(78,182)	(83,229)	(82,583)	(80,464)	(324,458)	(306,622)
Adjusted revenues	$ 282,816	$ 312,186	$ 308,670	$ 303,448	$ 1,207,120	$ 1,421,178
Adjusted EBITDA margin	30.5%	34.6%	31.6%	32.4%	32.3%	26.6%

(a) The reconciliation of net income (loss) to adjusted EBITDA reflects updates for the implementation of the new revenue recognition standard as if the full retrospective approach was adopted, as well as the impact of the other income statement reclassifications.

The Wendy's Company and Subsidiaries
Reconciliation of Net Income (Loss) and Diluted Earnings (Loss) Per Share to Adjusted Income and Adjusted Earnings Per Share
Fiscal Year 2017 by Quarter (a) and Fiscal Year 2016
(In Thousands Except Per Share Amounts)
(Unaudited)

Recast

	Three Months Ended				Twelve Months Ended	
	April 2, 2017	July 2, 2017	October 1, 2017	December 31, 2017	December 31, 2017	January 1, 2017
Net income (loss)	$ 20,485	$ (5,903)	$ 13,749	$ 142,148	$ 170,479	$ 118,111
Plus (less):						
Advertising funds revenue	(78,182)	(83,229)	(82,583)	(80,464)	(324,458)	(306,622)
Advertising funds expense	78,182	83,229	82,583	83,220	327,214	309,456
Depreciation of assets that will be replaced as part of the Image Activation initiative	449	(2)	(261)	444	630	2,598
System optimization (gains) losses, net	(1,407)	41,050	106	(673)	39,076	(71,931)
Reorganization and realignment costs	181	17,699	2,888	1,806	22,574	10,083
Impairment of long-lived assets	510	253	1,041	2,293	4,097	16,241
Total adjustments	(267)	59,000	3,774	6,626	69,133	(40,175)
Income tax impact on adjustments	(34)	(20,002)	4,190	4,593	(11,253)	19,365
Tax reform	—	—	—	(129,673)	(129,673)	—
Total adjustments, net of income taxes	(301)	38,998	7,964	(118,454)	(71,793)	(20,810)
Adjusted income	$ 20,184	$ 33,095	$ 21,713	$ 23,694	$ 98,686	$ 97,301
Diluted earnings (loss) per share	$ .08	$ (.02)	$ .05	$ .57	$ .68	$ .44
Total adjustments per share, net of income taxes	—	.15	.04	(.48)	(.29)	(.08)
Adjusted earnings per share	$ .08	$ .13	$ .09	$ .09	$ .39	$ .36

(a) The reconciliation of net income (loss) and diluted earnings (loss) per share to adjusted income and adjusted earnings per share reflects updates for the implementation of the new revenue recognition standard as if the full retrospective approach was adopted, as well as the impact of the other income statement reclassifications.

Questions

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