

Krispy Kreme Inc. (DNUT)

Entry Price: \$3.82

This contains backwards looking information. This short was initiated on April 23rd, 2026 at \$3.82, before Q1 2026 earnings (reported May 7, 2026), and it is now being prepared to be publicized as of May 28th, 2026.

EXECUTIVE SUMMARY

Krispy Kreme is an 89-year-old doughnut brand operating in 42 countries with ~\$2B of systemwide sales and ~\$1.5B of FY25 net revenue across three segments: U.S. (~60% of revenue), International (~35%), and Market Development (~5%). JAB Holding took DNUT private in 2016, levered the balance sheet to fund expansion (including Insomnia Cookies), and re-IPO'd in July 2021 as a partial exit, retaining ~38%. The growth story rested on the hub-and-spoke Delivered Fresh Daily (DFD) model and a McDonald's partnership across 9,000+ U.S. locations that the market read as validation. That model collapsed in 2025: McDonald's terminated the partnership effective July 2, 2025 on unsustainable unit economics, and the stock fell from ~\$11 to a ~\$2.50 low. A four-pillar turnaround (re-franchise international for cash, outsource U.S. delivery to 3PL, close 1,400 low-volume DFD doors for 1,100 higher-volume ones, cut CapEx) produced a Q4 2025 beat (EBITDA \$55.6M, +19% vs consensus; FCF +\$27.9M) and a 34% surge to \$3.44. At ~10.7x BF EV/EBITDA on consensus FY26 EBITDA of ~\$140M, the Street is pricing a successful deleveraging and full turnaround. **I recommend a SHORT with a 12-month price target of \$2.30 (-37%) on three pillars:**

- 1) Lack of demand, not lack of penetration:** Management frames the problem as under-penetration that new doors will fix; I see insufficient demand for a premium impulse treat. DNUT sells at ~3x private-label price to a lower/middle-income base being squeezed by macro, the product's only differentiator (fresh-off-the-line) evaporates the moment it leaves the hub, and GLP-1 adoption is a secular headwind (users cut sweet-bakery ~11% within six months; ~23% of U.S. households already have a user). FY25 net revenue fell 13.8%, per-door organic growth was negative even after closures, and sales per hub have declined three straight years.
- 2) Re-franchising is a lose-lose:** It's the only realistic path to the 5.5x leverage target, but it sells the highest-margin growth engine. International grew +3.3% y/y (vs -3.5% U.S., -5.7% Market Dev), earns ~20% EBITDA margins, and is ~55% of EBITDA. Each deal converts a ~20%-margin company store into a ~5-8% royalty stream: Japan (\$75M revenue, 19% margins, ~\$14M EBITDA) was sold for a one-time \$65M plus ~\$4M annual royalties. A ~\$10M/year EBITDA loss that left net leverage essentially unchanged (numerator and denominator fall together). As international assets run out, DNUT is left with declining revenue, a shrinking EBITDA base, and a March 2028 debt wall of \$818M, a profile that should re-rate well below 11x (a large premium to leveraged QSRs)
- 3) Worst-in-class unit economics, misdiagnosed by management:** Management frames ~25% network utilization as room to add doors; the unit economics say demand is the ceiling. Hubs run ~1.8% EBIT margin and DNUT carries -20% ROIC (worst in its QSR peer group), with 70 hubs running zero spokes. McDonald's was the definitive test: thousands of high-traffic locations still couldn't cover delivery costs, ending in \$407M of impairment. Each pillar of the turnaround narrative has a clean rebuttal, management offers only surface-level detail, and an active securities-fraud class action against the company and CEO adds a governance overhang. With thin analyst coverage, the Street is taking guidance at face value.

EXPANDED THESIS

1) THE FUNDAMENTAL DEMAND PROBLEM

The turnaround assumes DNUT is under-penetrated and that new doors unlock untapped demand. That misdiagnoses the problem: consumers aren't short on access, they aren't buying enough to sustain the model. DNUT sells a premium impulse treat whose appeal depends entirely on being eaten fresh within minutes of production (a dozen sitting in a room-temperature spoke display is nearly indistinguishable from private label at one-third the price) so the product loses its only differentiator the moment it leaves the hub, and the entire DFD growth engine rests on selling "premium" with a cheaper substitute inches away. The core demographic skews lower/middle-income; exactly the cohort cutting non-essential impulse purchases as a \$17-20 box competes with \$5-7 private label, especially as elevated gas prices continue to add inflationary pressures. GLP-1 layers on a secular headwind: users cut sweet-bakery consumption ~11% within six months, ~23% of U.S. households already have a user, and GLP-1 users are projected at ~35% of food-and-beverage spend by 2030. With no protein-forward or healthier reformulation from DNUT to defend the category. The numbers already reflect it: FY25 net revenue -13.8%, negative per-door organic growth even after closing unprofitable POAs, and three consecutive years of declining sales per hub. The market expects U.S. organic growth to re-accelerate on higher-quality doors; the 3x price premium, hostile demand backdrop, and y/y deterioration point the other way.

2) WORST-IN-CLASS UNIT ECONOMICS AND MANAGEMENT THAT MISREADS THE PROBLEM

The turnaround is being run by a management team that has diagnosed the wrong disease, and the unit economics expose it. CEO Josh Charlesworth's framing on the Q4 call is that ~25% network utilization means "the ability to reach thousands more locations" with partners like Walmart and Target "under-penetrated". This treats accessibility as the binding constraint. JPM's restaurant lead analyst has the better read: "the company has overestimated demand by assuming accessibility was the barrier". The metrics side with the latter: hubs run a ~1.8% EBIT margin and DNUT carries roughly -20% ROIC, the lowest in its QSR peer group, with 70 hubs operating without a single spoke. The 75% of "unused capacity" is not an opportunity waiting to be unlocked, it is a demand ceiling that has already been tested. McDonald's was the definitive test: even with access to thousands of the highest-traffic foodservice locations in America, demand never covered delivery costs, and the deal terminated with \$407M in impairment charges. A consumer who visits 2-2.5x per year cannot justify daily-delivery economics regardless of door count.

What makes this a management problem and not just a model problem is the gap between the turnaround narrative and what it actually addresses. Each pillar has a clean rebuttal: re-franchising to hit the 5.5x leverage target destroys the earnings base the company is valued on; ROIC "improvement" via ~50% CapEx cuts and franchise-only expansion doesn't fix the structural inefficiency; "profitable U.S. expansion" runs against organic growth that has declined y/y across every segment, making systemwide-sales growth a near-meaningless headline metric; and the margin/3PL story collides with diesel costs up ~57% y/y. Management offers only surface-level detail on each point, and with thin analyst coverage the Street is taking guidance largely at face value. The overhang is worth flagging directly: there is an active securities-fraud class action against the company and CEO tied to disclosures around the McDonald's rollout; a governance and credibility risk layered on top of the operational one. The bull case needs U.S. organic growth to re-accelerate enough to delever from 6.7x toward 5.5x; that requires more revenue from the same network while utilization, ROIC, and input costs all move the wrong way, under a team still framing a demand problem as a distribution problem.

3) RE-FRANCHISING REALITY

Management frames re-franchising as a strategic shift to a capital-light model. The part they underplay: it's the only realistic path to the 5.5x leverage target, but executing it destroys the earnings power DNUT is valued on. Without re-franchising, DNUT doesn't generate enough FCF to address the \$818M of debt maturing in March 2028, the wall arrives before leverage can be meaningfully reduced, so the asset sales are a necessity, not a choice. Yet international is DNUT's strongest lever: +3.3% y/y organic (vs -3.5% U.S., -5.7% Market Dev), the highest segment EBITDA at \$83.1M in FY25, and ~55% of total EBITDA. Each transaction converts a ~20%-EBITDA-margin company store into a ~5–8% royalty stream — Japan (\$75M revenue, 19% margins, ~\$14M annual EBITDA) sold in March 2026 for a one-time \$65M plus ~\$4M annual royalties, a ~\$10M/year EBITDA loss with leverage essentially unchanged because numerator and denominator fell in equal proportion. The valuation impact is direct: at ~11x on ~\$140M consensus FY26 EBITDA, holding the multiple requires organic growth to fully offset the dilution. My model carries FY26 adjusted EBITDA at ~\$109M after re-franchising dilution; for the market to hold today's price on that base, it would need to pay ~14x: a multiple that a declining, half-franchised business does not warrant. If the Mexico and Australia deals strip ~\$30M of EBITDA in FY26, DNUT would need a comparable amount of incremental organic EBITDA just to stand still which is implausible given Theses 1 and 2. Once the international assets are gone, DNUT is a declining-revenue, increasingly franchised business with no growth engine; on the realistic ~\$109M EBITDA base, the re-rate is the source of the downside.

VALUATION

The short rests on a re-rating of the EBITDA base the Street is capitalizing, not on multiple compression. Consensus pays ~11x on ~\$140M FY26 EBITDA; my model carries FY26 adjusted EBITDA closer to ~\$109M (re-franchising dilution plus no U.S. re-acceleration) and revenue of ~\$1,386M versus consensus ~\$1,459M (~5% below, driven by a ~9% lower U.S. estimate). Holding the multiple flat at 11x and applying it to the lower EBITDA base across three re-franchising scenarios (net of debt and cash across ~171M shares) drives the targets below. The scenarios differ by how much international EBITDA is sold off, not by the multiple.

- **Bear / least-downside:** ~\$3.56 (-7%) limited re-franchising; EBITDA base holds up better.
- **Base (Scenario 1, no further re-franchising):** ~\$2.71 (-29%) 11x on the realistic ~\$109M base.
- **Bull / most-downside:** ~\$1.86 (-51%) Mexico + Australia re-franchised, EBITDA base shrinks further.

12-month price target: \$2.71 (-29%).

CATALYSTS

- DNUT Q1 2026 earnings (May 7, 2026) — organic growth by segment, utilization, re-franchising cadence, quality of EBITDA adjustments, FY26 guide
- Re-franchising announcements (Mexico, Australia) and the implied EBITDA dilution
- Leverage trajectory toward/away from the 5.5x target
- Any JAB / strategic action (Scenario 3 monitor)
- March 2028 debt maturity (\$818M) as the structural backstop to the thesis

KEY RISKS AND SCENARIO ANALYSIS

The biggest risk we flagged is that management simply continues to guide down revenue as re-franchising assets hits the PnL, resulting in no penalty despite shrinking revenue and EBITDA. We believe that to sustain its current price, the multiple must expand to offset the decreasing EBITDA which is not plausible given DNUT already trades at current BF EV/EBITDA premium in a QSR peer group. Also another risk to flag is that our model shows a full turnaround in 2027; driven by international assets contributing to nearly ~35% reduction in operating expenses and therefore re-accelerating EBITDA higher than in 2025. Our model was built with maximum granularity using publicly available data, however we were forced to use conservative estimates to the impact of re-franchising on expenses due to a lack of information. With that being said, 2026 is set to be turbulent year and we believe the market is still pricing in a successful turnaround story with no bumps in the road, ignoring the fact that 2026 will show deterioration in their earnings base and an unfavorable macroeconomic environment continuing to pressure US organic growth re-acceleration.

- Scenario 1: Turnaround fails (our bull case / cover trigger). EBITDA misses, re-franchising delays, FY26 ends ~6x (above target); the demand problem becomes undeniable and equity trades down. We would cover into the resulting sell-off.
- Scenario 2: EBITDA-driven beat (the bear case against us). DNUT executes all four pillars with genuine organic growth, finishes below 5.5x, and equity re-rates up. We view this as least likely; alternative data shows a 5–15% y/y decline in foot traffic and observed sales YTD. The real risk inside this scenario is accounting: management has added 2–3 "one-time" EBITDA adjustments for three straight years, and the market may take adjusted EBITDA at face value and bid the stock despite underlying deterioration. We would cut and re-examine the thesis if this plays out.
- Scenario 3: JAB take-private (most dangerous to the short). A second take-private at a premium would spike the equity. We think the market is already pricing a "JAB safety net" that limits downside and helps the debt trade near par, but we view it as unlikely: DNUT has traded near \$2.50 over the past year, and JAB would have acted earlier if it intended to. The only rationale is JAB believing it can fix and re-sell the asset.
- Scenario 4: Re-franchising-driven beat (delayed bull / our likely path). DNUT hits its deleverage target via more asset sales while the EBITDA base shrinks, limping into FY27 with no international presence. Equity could go either way short-term: reward for hitting the target, or compression once the shrinking earnings base registers. We see Scenarios 1 and 4 as most likely, and would trim post-Q1/Q2 to lock in gains, then reassess whether the structural problem (weak U.S. sales, no assets left to sell, 2028 debt wall) carries the short further.