Presale:

Jersey Mike's Funding LLC (Series 2019-1)

December 4, 2019

PRIMARY CREDIT ANALYST

Christine Dalton
New York
(1) 212-438-1136
christine.dalton
@spglobal.com

SECONDARY CONTACTS

Jesse R Sable, CFA
New York
(1) 212-438-6719
jesse.sable
@spglobal.com

James Yu, CFA
New York
212-438-0336
james.yu1
@spglobal.com

Matthew R Howard
Chicago
+ 1 (312) 233 7035
Matthew.Howard
@spglobal.com

Craig J Nelson
New York
+ 1 (212) 438 8124
craig.nelson
@spglobal.com

ANALYTICAL MANAGER

Kate R Scanlin
New York
(1) 212-438-2002
kate.scanlin
@spglobal.com

Preliminary Ratings

Class	Preliminary rating	Balance (mil. $)	Anticipated maturity	Legal maturity (years)
A-2	BBB (sf)	500	February 2027	30

Note: This presale report is based on information as of Dec. 4, 2019. The rating shown is preliminary. Subsequent information may result in the assignment of a final rating that differs from the preliminary rating. Accordingly, the preliminary rating should not be construed as evidence of a final rating. This report does not constitute a recommendation to buy, hold, or sell securities.

Executive Summary

Jersey Mike's Funding LLC's series 2019-1 issuance is a corporate securitization of Jersey Mike's Franchise Systems Inc.'s business, comprising $500 million in senior term ABS notes. The company will use the proceeds from the debt issuance to repay existing debt in its credit facilities; fund a $125 million system enhancement account to fund investment in the business, including contributions towards the remodeling of more than 1,500 stores; fund a $215 million dividend and bonus payment; and pay transaction fees and expenses. The remaining proceeds will be used for general corporate purposes.

The series 2019-1 note issuance will result in leverage of 6.4x on a total debt-to-EBITDA adjusted basis, as reported by the issuer, as of the 12 months ended Sept. 31, 2019. EBITDA, as calculated by the indenture, is adjusted to remove certain items, including nonoperating and nonrecurring charges, such as a portion of bonuses and payroll.

Key credit features of the transaction include the following:

- Jersey Mike's business is 99% franchised, which we believe results in a less volatile cash flow stream compared with businesses that have a lower proportion of franchised restaurants.
- The backup manager's ability to maintain cash flow continuity in the event of a manager bankruptcy.
- The company's long operating history: it was originally founded in 1956 and began franchising in 1987.
- The company's strong historical performance metrics, with 23 consecutive quarters of positive same-store sales growth, and total systemwide sales reflecting a cumulative average growth rate of approximately 19% since 2006.
- The modest cash flow cushion observed in cash flow stress scenarios.

- The diverse franchisee base, with the average franchisee operating approximately three units and the top 10 franchisees comprising approximately 19% of the system units.
- The securitization structure, with Midland Loan Services (the servicer) acting as the control party, and the servicer's obligation to make interest and collateral protection advances to the extent deemed recoverable.
- The performance tests, including the rapid amortization and cash trap tests.

Transaction Timeline/Participants

Transaction Timeline

Expected closing date	Dec. 23, 2019.
First interest payment date	May 15, 2020.
Anticipated repayment date	Feb. 15, 2027.
Legal maturity date	Feb. 15, 2050.
Note payment frequency	Quarterly, beginning in May 2020.

Participants

Sole structuring advisor	Guggenheim Securities LLC.
Manager	Jersey Mike's Franchise Systems Inc.
Backup manager	FTI Consulting Inc.
Master issuer	Jersey Mike's Funding LLC.
Guarantors	A Sub Above LLC, JM'75 LLC, and JM SPV Guarantor LLC.
Trustee	Citibank N.A.
Servicer	Midland Loan Services (a division of PNC Bank N.A.).

Rating Rationale

The preliminary ratings assigned to Jersey Mike's Funding LLC's $500 million class A-2 senior secured notes series 2019-1 reflect our assessment of:

- The strength of the Jersey Mike's brand and its perceived ability to survive a bankruptcy of Jersey Mike's Franchise Systems Inc. and, provided that adequate servicing remains in place, the brand's resulting capacity to continue generating sufficient cash flows from its business operations.
- The replaceable manager. The manager's responsibilities are generally limited to sales, general, and administrative (SG&A) functions, which we believe increases the likelihood of successful replacement following a termination of the current manager. Additionally, the transaction's backup manager, FTI Consulting Inc., which will be established at the transaction's closing, reviewed the business' cost structure relative to the sizing of the management fee and believes the cost structure is adequate.
- The legal isolation of the assets. The manager will not own substantially all of the business'

cash-generating assets at the transaction's closing. They have been sold through a true sale to the securitization issuer and guarantors, which are bankruptcy-remote entities. This should decrease the likelihood that existing Jersey Mike's creditors could disrupt cash flow to the securitization following a manager bankruptcy. Legal opinions related to true sale and nonconsolidation have been, or will be, provided before closing.

- Asset performance is not fully correlated with manager performance. A system of franchised restaurants will likely continue to generate cash flow following the manager's bankruptcy because individual franchisees generally operate independently from the manager (aside from SG&A functions, which we believe can be transferred to a backup manager).
- Cash flow coverage. Given the brand's strength, the replaceable nature of the manager, and the legal isolation of the assets from the manager, we have projected long-term cash flows for the business. Our analysis incorporates cash flow haircuts reflecting our view of how the business' assets could weaken in adverse economic conditions. Under these conditions, our analysis shows the cash flows generated by the businesses are sufficient to meet all debt service obligations of the rated notes.
- The available liquidity. The transaction includes a reserve account funded with three months of interest expenses, and the servicer is obligated to make interest and collateral protection advances if deemed recoverable.

Key Credit Metrics And Peer Comparisons

Table 1

Key Metrics and Peer Comparisons

Brands	Series	S&P Global Ratings' credit rating(i)	Store count (no.)	AUV (mil. $)	Franchised (%) (iii)	International (%)(iii)	Operating history (from founding)	Concept type	Leverage (total debt/adj. EBITDA) (iv)	Min. base-case DSCR (v)	Min. downside DSCR (v)
Jersey Mike's(ii)	2019-1	BBB (sf)	1,615	0.8	99	0.3	Over 30 years	QSR	6.4	2.2	1.7
Planet Fitness	2019-1	BBB (sf)	1,899	2.1	96	2.7	27 years	Fitness	6.5	1.7	1.3
Domino's	2019-1	BBB+ (sf)	16,528	0.9	98	64	Over 30 years	QSR	5.9	1.8	1.4
SERVPRO	2019-1	BBB- (sf)	1,719	1.5	100	0	Over 30 years	Remediation/reconstruction	7.1	1.7	1.3
Wendy's	2019-1	BBB (sf)	6,710	1.6	95	8	Over 30 years	QSR	6.6	1.7	1.4
Driven Brands	2019-2	BBB- (sf)	2,702	1.3	86	15	Over 30 years	Automotive services	6.8	1.5	1.3
Jack in the Box	2019-1	BBB (sf)	2,240	1.5	94	0	Over 30 years	QSR	4.9	1.9	1.6
Applebee's/IHOP	2019-1	BBB (sf)	3,652	2.2	98	7	Over 30 years	Casual dining	6	1.7	1.4
Dunkin' Brands	2019-1	BBB (sf)	20,912	0.8	100	43	Over 30 years	QSR	6.2	1.6	1.4
Taco Bell	2018-1	BBB (sf)	6,505	1.6	91	6	Over 30 years	QSR	5.3	1.6	1.5

Table 1

Key Metrics and Peer Comparisons (cont.)

Brands	Series	S&P Global Ratings' credit rating(i)	Store count (no.)	AUV (mil. $)	Franchised (%) (iii)	International (%)(iii)	Operating history (from founding)	Concept type	Leverage (total debt/adj. EBITDA) (iv)	Min. base-case DSCR (v)	Min. downside DSCR (v)
Focus Brands	2018-1	BBB (sf)	6,191	0.3-1.7	98	22	Range between 1934 and 2000	QSR, casual dining, coffee, etc.	5.8	1.6	1.5
Hardee's/Carl's Jr.	2018-1	BBB (sf)	3,873	1.2	96	22	Over 30 years	QSR	6.1	1.9	1.6
Sonic	2018-1	BBB (sf)	3,587	1.3	94	0	Over 30 years	QSR	4.8	2	2.5
Jimmy John's	2017-1	BBB (sf)	2,690	0.8	98	0	Over 30 years	QSR	5.2	1.8	1.7
Cajun Global	2017-1	BBB- (sf)	1,588	0.7	85	32	Over 30 years	QSR	5.2	1.8	1.4
Five Guys	2017-1	BBB- (sf)	1,437	1.2	69	5	Over 30 years	QSR	6.7	1.6	1.5
TGIF	2017-1	BB+(sf)	903	2.7	94	48	Over 30 years	Casual dining	5.6	1.6	1.3
Arby's	2015-1	BBB-(sf)	3,335	1	72	1	Over 30 years	QSR	5.3	1.6	1.2

(i)Rating is for the senior-most securitization note issued. (ii)Preliminary. (iii)% of total store count. (iv)As reported. (v)As of each series' closing date unless otherwise noted. Jersey Mike's -- Jersey Mike's Funding LLC Planet Fitness--Planet Fitness Master Issuer LLC. Domino's--Domino's Pizza Master Issuer LLC. ServPro--ServPro Master Issuer LLC. Wendy's--Wendy's Funding LLC. Driven Brands--Driven Brands Funding LLC (Maaco, Meineke, and others). Jack in the Box Funding LLC (Jack in the Box). Applebee's/IHOP--Applebee's Funding LLC/IHOP Funding LLC (Dine Brands Global). Dunkin' Brands--DB Master Finance LLC (AUV represents domestic for both brands, leverage assumes no VFN). Taco Bell--Taco Bell Funding LLC. Focus Brands--Focus Brands Funding LLC (Carvel, Cinnabon, Auntie Anne's, and others). Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. Funding LLC. Sonic--Sonic Capital LLC. Jimmy John's--Jimmy John's Funding LLC. Cajun Global--Cajun Global LLC (Church's Chicken). Five Guys--Five Guys Funding LLC. TGIF--TGIF Funding LLC. Arby's—Arby's Funding LLC. AUV--Average unit volume. DSCR--Debt service coverage ratio. QSR--Quick-service restaurants. VFN--Variable funding note.

Industry Outlook

The restaurant industry is highly competitive in price and product offerings. Many operators focus on altering the menu mix and new products toward value offerings to drive guest traffic. The sector's performance has been mixed with meaningful weakness at certain restaurant operators. Quick-service restaurants have been performing well overall, while casual dining restaurants continue to face challenges due to oversaturation and changing dining habits, among other pressures. The ability to take share will drive revenue and profit growth, as limited domestic unit growth is expected. The U.S. economy is forecast to grow at 2.3% in 2019 and 1.7% in 2020. We expect that slowing economic growth will continue to limit guest traffic gains. Additionally, we believe that increasing consumer demand for convenience, when combined with the prevalence of third-party delivery services, will result in delivery and off-premises sales outpacing the growth of dine-in sales in the foreseeable future. In our view, delivery cost pressure and other sources of cost inflation--namely higher minimum wages--will not be passed fully along to customers, adding strain to operating margins. However, the impact may not be meaningful for highly franchised models.

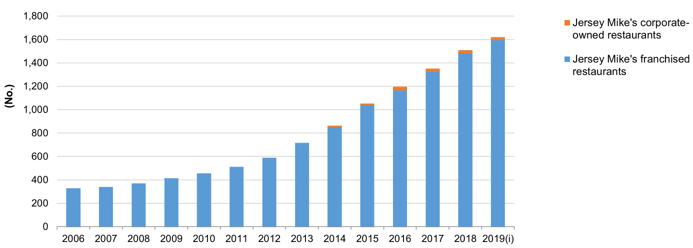
Summary Of The Business

Jersey Mike's, which is headquartered in Manasquan, N.J., is a quick-service restaurant that specializes in premium subs and sandwiches. The company was founded in 1956, was purchased by the current CEO, Peter Cancro, in 1975, and began its franchising initiatives in 1987. Jersey Mike's is currently 100% privately owned by Peter Cancro.

As of Sept. 30, 2019, the Jersey Mike's system included 1,615 restaurants, all of which operate in the casual quick-service restaurant industry (see chart 1). The company operates as a single brand of restaurants in 46 states and Washington D.C. Jersey Mike's also has a small presence in Canada and Australia, though these restaurants are not included in the current securitization. Within the U.S., the company has modest geographic diversity, with the top three states accounting for 36% of annualized sales as of Sept. 30, 2019 (see chart 2).

Chart 1

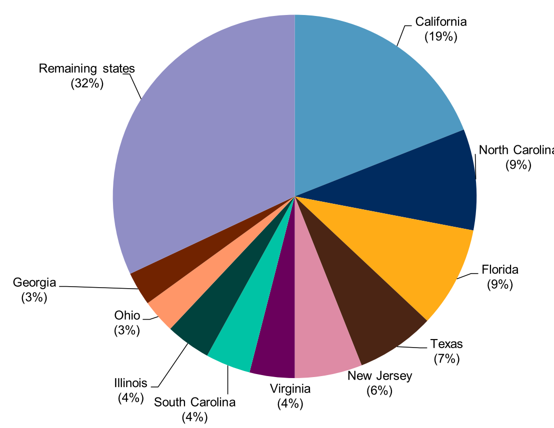
Historical Store Count



(i)Thirty-nine weeks ended Sept. 30. Source: Jersey Mike's Franchise Systems Inc.

Chart 2

Geographic Concentration
Based on percentage of last-12-month annualized systemwide sales



Source: Jersey Mike's Franchise Systems Inc.

Jersey Mike's has expanded significantly over the past decade. The company has added 1,307 units since 2006 (net after accounting for the closure of 196 underperforming units) for a cumulative average growth rate of 13.4%. In 2006, the company's system included 324 units, all of which were franchised concepts. As of Sept. 30, 2019, there were 1,615 units in the Jersey Mike's system. The company expects to continue its current rate of expansion, with an additional 700-plus units under contract in the development pipeline.

Since 2006, Jersey Mike's has been a 99% franchised system, which remains the target proportion of franchised stores in the pool. CEO Peter Cancro controls 53 units, which are considered "franchised" according to the terms of the securitization. If these units were to be considered corporate owned, 96% of the system would still be franchised.

Jersey Mike's franchisee base is diverse, with 485 franchisees operating an average of approximately three restaurants each, and the largest franchisee operating 3.5% of the total branded restaurants. Of these 485 franchisees, 220 are single-store operators. The top 10 franchisees in the U.S. have an average tenure of approximately 11 years and operate an average of 30 restaurants each. The company typically executes and agrees on 10-year franchise agreements with its franchisees, with the option to renew for an additional 10-year term. The royalty rate has remained steady over the past five years, averaging near 6.3%.

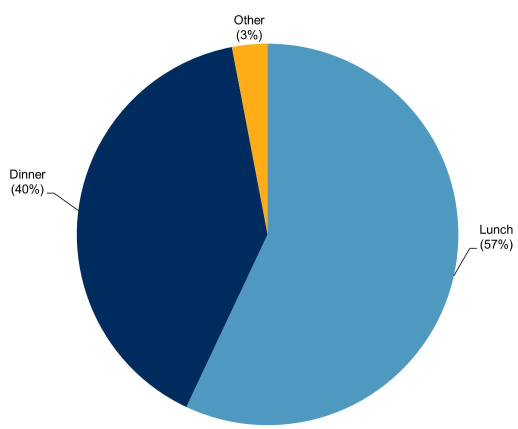
Jersey Mike's recruits certain franchisees, former franchisees, and other persons with experience in the Jersey Mike's System to become area directors to grow Jersey Mike's business in designated geographic areas. These area directors assist the company in recruiting new franchisees and guiding them through the process of opening new restaurants. In return for this, the area directors receive payments based on new openings, trainings conducted, and a percentage of sales of restaurants under the area director. These fees are taken directly out of collections and have been accounted for in our cash flow modelling.

Jersey Mike's menu mix primarily consists of hot and cold sandwiches, which are offered at a premium price and made with high quality produce and ingredients. The subs are prepared in shop, with produce and meats sliced directly in front of the customer, serving as a visual example of the "freshness" of the company's offerings.

Similar to other sandwich concepts, Jersey Mike's daypart breakdown has considerable intraday concentration, with approximately 57% of sales generated during the lunchtime hours (see charts 3 and 4). The company's current strategic initiatives include enhancements in customer experiences with third-party delivery providers, improvements in marketing and loyalty programs, as well as a store remodeling initiative. Although the store renovations are technically the responsibility of the franchisee, they are being paid with the proceeds from this transaction. This is due to management's desire to show support for franchisees, free up the franchisees' cash for future growth, and expedite the remodel implementation.

Chart 3

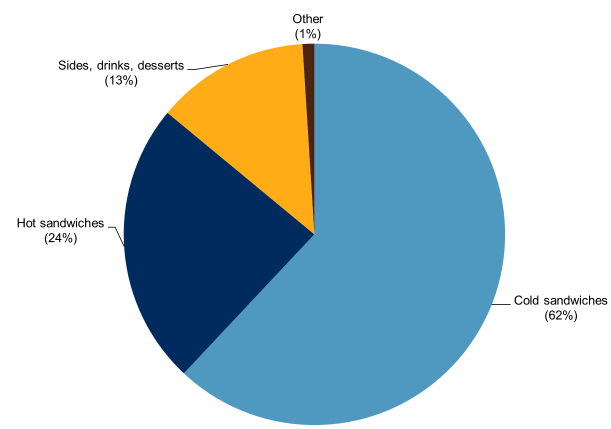
Daypart Mix



Source: Jersey Mike's Franchise Systems Inc.

Chart 4

Menu Mix



Source: Jersey Mike's Franchise Systems Inc.

Historically, Jersey Mike's has exhibited stable performances, with positive same-store sales growth every year since 2006 (see charts 5 and 6), and its average unit volume (AUV) levels have also increased steadily due to a combination of increased check size and customer traffic (see chart 7). Between 2006 and Sept. 30, 2019, Jersey Mike's AUV grew at a compound annual growth rate of 5.6%. Although we expect that the company will continue to expand, we recognize that some of the recent positive performance may be partially due to increased market share availability in the sandwich space, primarily resulting from Subway's increased store closures in the recent years. Regardless, S&P Global Ratings' cash flow does not assume that Jersey Mike's will continue to exhibit growth.

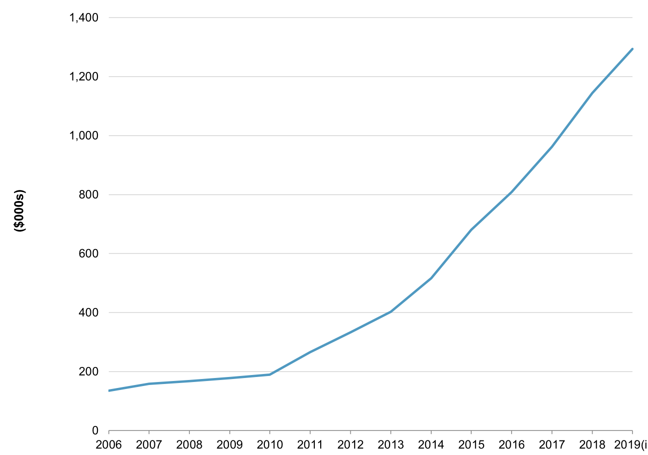
Chart 5

Historical Same-Store Sales Percent Growth/Decline

(i)Thirty-nine weeks ended Sept. 30. Source: Jersey Mike's Franchise Systems Inc.

Chart 6

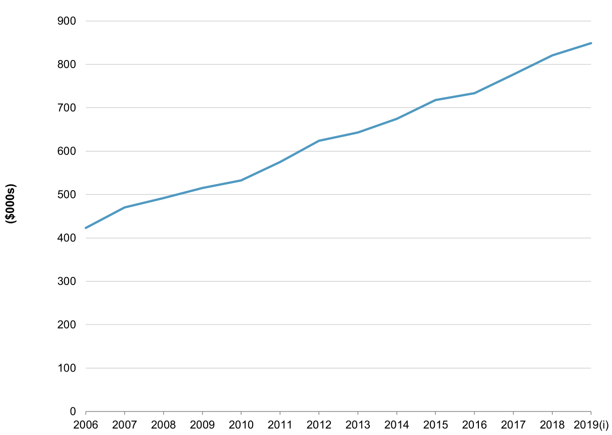
Annual Systemwide Sales



(i)Twelve months ended Sept. 30. Source: Jersey Mike's Franchise Systems Inc.

Chart 7

Systemwide Average Unit Volume



(i)Twelve months ended Sept. 30. Source: Jersey Mike's Franchise Systems Inc.

Collateral

The notes will be secured by a security interest in substantially all of the master issuers' and guarantors' assets and will include:

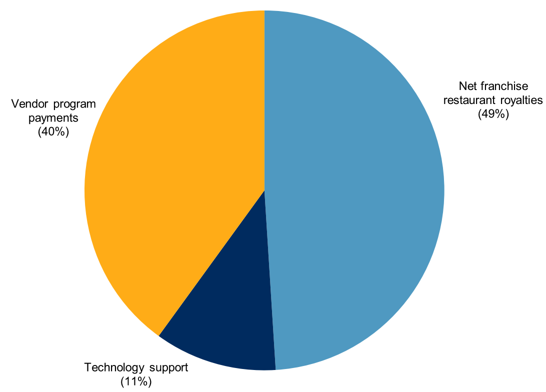
- Contributed and new franchise and development agreements and the related franchisee payments,

- Vendor arrangements and the securitized vendor program payments,
- Payments related to technology vendor arrangements;
- Intellectual property and license agreements,
- Royalties from company stores and transaction accounts,
- Membership interests in the securitization entities, and
- An interest reserve account.

Chart 8 illustrates the relative initial contributions of the various cash flow streams to the transaction.

Chart 8

Securitized Cash Flow Sources(i)



(i)Fifty-two weeks ended Sept. 30, 2019. Source: Jersey Mike's Franchise Systems Inc.

The largest contributor of cash flow is the royalty revenue, which is a combination of sales and the royalty rate. As mentioned above, sales have been increasing while the royalty rate has remained consistent.

The second-largest source of cash flow is from vendor program payments. Jersey Mike's has arrangements with third-party vendors that may include provisions for program payments, based on the volume of products sold or a percentage of sales. Information regarding vendor program payments that is required to be disclosed to franchise prospects by law is contained in the franchise disclosure document. The program payments contributed approximately 40% of securitization collections as of the 12 months ended Sept. 30, 2019. The top 10 program payments with rebate programs comprise 83% of the total vendor rebates. Although the arrangements are short term, all but one of these relationships are over 10 years. Additionally, seven of the vendors are investment grade (rated 'BBB-' or higher).

Many of the larger vendor payments come in annually. Therefore, to smooth out the cash available from vendors, payments over $2.5 million will be held in an account and distributed over the next four quarters if at the time of receipt the debt-service coverage ratio (DSCR) is less than 2.5x.

 2352374

Key Credit Considerations

Table 2

Key Credit Considerations

Factor	Comment
Long operating history	The first Jersey Mike's restaurant was opened in 1956. The brand has survived multiple economic downturns and has built a loyal customer base. This supports the likelihood that brand loyalty and recognition (and thus sales) will continue even in the event Jersey Mike's Franchise System's Inc. is replaced as the manager.
High franchised percentage	As of Sept. 30, 2019, franchisees operated 99% of Jersey Mike's 1,610 systemwide stores in the U.S. We believe a high franchised percentage provides the transaction with better cash flow stability and independence from the manager than transactions with a lower percentage of franchised stores.
Stable performance metrics	Since 2014, The Jersey Mike's system has sustained 23 consecutive quarters of positive same store sales and experienced a compound annual growth rate of approximately 19% over the past 12 or more years.
Larger % of SNCF is from vendor payments	Vendor payments contribute approximately 40% of the securitization's net cash flow. Many of the larger vendors are investment-grade (rated 'BBB-' and above) and have been under contract for 10 years. The franchisees are made aware of these payments in the Franchise Disclosure Document. Additionally, in the downside case of the cash flow model, we reduced these payments by 30%, which is consistent with our criteria.
Contracted area directors	While contracted area directors have been used by other brands, Jersey Mike's relies on these non-employee directors to supervise over 50% of the stores. The practice of using contracted area directors was originally instituted to facilitate growth. These area directors receive an average of 1.8% of the royalty fees prior to the royalties being contributed to the securitization. This has been modeled into the transaction. We do not expect this practice to grow because contracted area directors are more expensive than area directors directly employed by the company. Although we believe that the use of contracted directors could lead to control issues with this structure, we are comfortable with this practice because the contracted directors have an average tenure of more than 10 years.
Single shareholder	Although the single shareholder model contributes to the company's ability to implement change more quickly, it also makes the company dependent on only one person's vision. However, Peter Cancro has been the owner and CEO for over 30 years; thus, we have a long track record to rely on.
Low AUV	The store AUV is $849,000, which is lower than many of the franchise systems that S&P Global Ratings rates. At this level, there is a risk that the franchise could lose its attractiveness to franchisees during a recession if the four-wall EBITDA drops below the 10%-15% range and generates a per store return of only $86,000 to $130,000. Jersey Mike's franchisees own three stores on average, which may provide them with a larger cushion to withstand recession pressure.
Limited daypart offerings	The sandwich-oriented menu creates a concentrated daypart mix for lunch and late afternoon periods, which comprise approximately 57% of the business' sales.
System size	Jersey Mike's 1,610 U.S. store count is considerably smaller than many of its rated peers in the quick-service restaurant space. Although store growth has nearly doubled since 2014, the system only exceeded 1,000 stores in 2015.

Credit Rating Methodology

Table 3 details our specific conclusions for each of the five analytical steps in our ratings process.

Table 3

Credit Rating Step

Step	Result	Comment
Step 1		
Eligibility analysis	Pass	We believe the system of franchised restaurants would likely continue to generate cash flow in the event of a manager bankruptcy because individual franchisees generally operate independently from the manager (aside from their reliance on the manager's SG&A functions, which we believe can be transferred to a backup manager). As long as a brand has sufficient customer loyalty, royalty revenues can continue to be available to service securitization debt, assuming the assets have been isolated via a true sale to a bankruptcy-remote special-purpose entity. Because we do not believe that substantially all cash flow from the system will be at risk in the event of a manager bankruptcy, our subsequent analysis quantifies the impact of the correlated cash flow decline from the system and compares that to ongoing required interest and principal payments to the rated debt.
Step 2		
Business volatility score (BVS)	4(i)	Jersey Mike's BRP is currently Weak, which maps to an unadjusted BVS of '5'(i). We adjusted that BVS upward by one notch to '4' because the cash flows are revenue based, and the system has demonstrated revenue stability for more than 30 years and through numerous economic cycles.
Cash flow assumptions	See table 4	
Minimum base DSCR	2.19x	Principal and interest are fully paid in this scenario.
Anchor	bbb-	Determined per table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Minimum downside run DSCR	1.71x	Principal and interest are fully paid in this scenario.
Step 3		
Resiliency score	Satisfactory	Determined per table 3 of the Corporate Securitization criteria.
Resiliency adjusted anchor	bbb	Determined per table 4 of the Corporate Securitization criteria.
Step 4		
Modifier analysis	No adjustment	Relative to Jersey Mike's peer group, this structure is not an outlier from a leverage perspective. The anticipated repayment date and the transaction structure are all comparable to similarly rated deals.
Step 5		
Comparable rating analysis	No adjustment	While Jersey Mike's store count is lower than in its peer group, the other characteristics of the pool, including its AUV, royalty rate, recent performance, and 99% franchised nature, are similar to that of its peer group. As such, we do not believe any upward or downward notching is necessary. Given that we did not make any adjustments in steps four or five, our preliminary rating is 'BBB' (sf).

(i)The mappings from BRP to BVS are: Excellent = '1', Strong = '2', Satisfactory = '3', Fair = '4', Weak = '5', and Vulnerable = '6'. SG&A--Sales, general, and administrative. BRP--Business risk profile. DSCR--Debt service coverage ratio.

Table 4 shows our cash flow assumptions.

Table 4

Cash Flow Assumptions

	Cumulative decline (%)		
Asset cash flow category	Base case	Downside case(i)	Description
Royalty revenue and fees	0	15	Franchise and company-owned store royalties, which constitute most of the overall projected cash flow, are a function of store count, AUV, and royalty rates.
All other securitization collections	0	30	All other securitization collections.

(i)For AUV. AUV--Average unit volume.

Sensitivity Analysis

Sensitivity run 1: management fee stress

Using the base-case assumptions in table 4, we determined that the management fee could be increased by as much as 127% (translating to an approximately 37.7% reduction in net securitized cash flow relative to the base case) without any impact on the transaction's ability to pay timely interest and full principal payments by the legal final maturity. We believe the additional management fee mirrors what could occur if Jersey Mike's files for bankruptcy. While the management fee is currently outlined in the transaction documents, we believe it is possible that such fees would be renegotiated in the event of a hypothetical bankruptcy.

Sensitivity run 2: event-driven stress

Starting with the base-case scenario assumptions, we determined the maximum haircut to cash flow that would allow timely interest and full principal payments by the transaction's legal final maturity date. This haircut to cash flow is approximately 65%. We examined several event risks associated with cash flow losses, including the equivalent of royalty losses from the top three geographic locations by sales and the top 10 franchisees by units. The top three geographic locations by sales, namely California, Florida, and North Carolina, represent approximately 36% of total systemwide sales. The top 10 franchises contribute 19% of sales. Since the breakeven was 65% reduction, our analysis showed that the transaction could pay timely interest and full principal by legal final maturity if either event occurred.

Structural Protection Summary

The transaction's structural features and credit enhancements are generally consistent with those of other recent corporate securitizations rated by S&P Global Ratings (see table 5).

Table 5

Structural Features

Test	Result
Rapid amortization DSCR trigger (P&I)	1.20x
Rapid amortization systemwide sales trigger	Systemwide sales less than $650 million
Cash trapping DSCR trigger (P&I)	1.75x (50% trap) and 1.5x (100% trap)
ARD horizon(i)	Seven years
Scheduled amortization through ARD (%)	1.0
Manager termination DSCR trigger (IO)	1.2x
Event-of-default DSCR trigger (IO)	1.1x
Management fee	The management fee, which includes both fixed and variable components, is a function of retained collections. According to the transaction documents, the fixed component is assumed to be $14.5 million annually, and the variable component is assumed to be $17,000 per branded stores located in the U.S. The management fee is also subject to a 2% annual increase of the fixed component of the increased amount does not exceed 35% of retained collections in the preceding four quarterly collection periods.

(i) The failure to pay the offered notes in full by the series 2019-1 anticipated repayment date will be a rapid amortization event with respect to the offered notes, but it will not be an event of default. Given a rapid amortization event, pro rata rapid amortization will begin for all class A-2 tranches. DSCR--Debt service coverage ratio. P&I--Principal and interest. ARD--Anticipated repayment date. IO--Interest only.

Payment Priority

The series 2019-1 issuance will include one tranche of class A-2 notes that will pay interest and principal quarterly from weekly distributions in the priority shown in table 6. The transaction currently doesn't include any senior subordinated or subordinated notes, but it may issue these notes if certain conditions are met.

Table 6

Payment Priority

Priority	Payment
1	First, to reimburse the trustee then the servicer for unreimbursed advances; then to reimburse the manager for unreimbursed manager advances; and then, if during an amortization event, to prepay first the class A-1 notes pro rata and then senior notes not designated class A-1 until paid in full. If not during an amortization event, to prepay all senior notes designated class A-1 until paid in full, then to prepay senior subordinated notes until paid in full, and then to prepay subordinated notes until paid in full.
2	Expenses to reimburse the trustee; then to the servicer for any unreimbursed advances; then to the manager for any unreimbursed advances, manager advances, and accrued interest at the advance interest rate; and then to the servicer, all servicing fees, liquidation fees, if any, and workout fees
3	Successor manager transition expenses.
4	Weekly management fee to the manager.
5	Capped securitization operating expense amount and post-default capped trustee expenses amount.

Table 6

Payment Priority (cont.)

Priority	Payment
6	Senior notes accrued quarterly interest payments, then the class A-1 notes accrued quarterly commitment fee amount, and then serves hedge payment amount.
7	Capped class A-1 notes administrative expenses amount and then the senior subordinated notes interest reserve amount deficiency amount.
8	Senior subordinated note accrued interest, if any.
9	Senior notes interest reserve account deficiency amount.
10	Senior notes accrued quarterly scheduled principal amount, any senior notes quarterly scheduled principal deficiency amount, and amounts then unknown by the manager that will become due under each VFN purchase agreement prior to the immediately succeeding quarterly payment date with respect to the cash collateralization of LOCs issued under each VFN purchase agreement.
11	Supplemental management fee (including previously accrued and unpaid).
12	As long as no rapid amortization period is continuing, but a class A-1 amortization event occurred and is continuing, reduce, pro rata, the outstanding principal amount on class A-1 notes to zero and fully cash collateralize all outstanding LOCs on the next quarterly payment date (after giving effect to all deposits in the principal account to the class A-1 notes), using the principal account.
13	As long as no rapid amortization period is continuing and the weekly allocation date occurs during a cash trapping period, deposit the cash trapping amount into the cash trap reserve account.
14	As long as a rapid amortization period is continuing, pay the senior notes principal payment account and the outstanding principal amount of the class A notes until it reaches zero, then fully cash collateralize all outstanding LOCs on the next quarterly payment date, and then the senior subordinated notes principal payment account to reduce the outstanding principal amount to zero.
15	As long as no rapid amortization period is continuing, allocations to subordinated notes principal payment account, if any.
16	Deposit an amount equal to the accrued and unpaid securitization operating expenses (including those that are expected to be payable prior to the immediately following weekly allocation date) in excess of the capped securitization operating expense amount into the corresponding account.
17	Pro rata, based on amounts due under each VFN purchase agreement, pay the excess class A-1 administrative expenses amounts due under each VFN purchase agreement for that weekly allocation date to the related class A-1 administrative agent.
18	Pro rata, based on amounts due under each VFN purchase agreement, pay the class A-1 notes other amounts due under each VFN purchase agreement for that weekly allocation date to the related class A-1 administrative agent.
19	Pay the subordinated notes' accrued quarterly interest amount, using the corresponding account as the source.
20	As long as no rapid amortization period is continuing, allocate to the subordinated notes principal account and the subordinated notes accrued quarterly scheduled principal amount, and then the amount equal to the subordinated notes quarterly scheduled principal deficiency amount.
21	As long as no rapid amortization period is continuing, allocate to the subordinated notes principal payment account until the outstanding principal amount of the subordinated notes will be reduced to zero on the next quarterly payment date.
22	After the ARD, any senior notes accrued quarterly post-ARD contingent interest amount on the senior notes.
23	After the ARD, any senior subordinated notes accrued quarterly post-ARD contingent interest amount on the senior subordinated notes.
24	After the ARD, any subordinated notes accrued quarterly post-ARD contingent interest amount on the subordinated notes.

Table 6

Payment Priority (cont.)

Priority	Payment
25	Deposit to the hedge payment account any accrued and unpaid series hedge payment amount that constitutes a termination payment payable to the hedge counterparty, and any other amount payable to a hedge counterparty, pro rata, to each according to the amount due and payable to each of them.
26	Allocate an amount to the senior notes principal account equal to the unpaid premiums and make-whole prepayment premiums with respect to senior notes.
27	Allocate an amount to the senior subordinated notes principal account equal to the unpaid premiums and make-whole prepayment premiums with respect to senior subordinated notes.
28	Allocate an amount to the subordinated notes principal account equal to the unpaid premiums and make-whole prepayment premiums with respect to subordinated notes.
29	As provided in the relevant and related series supplement, to make any other payments to or for the benefit of the any and all notes outstanding.
30	Pay the remaining funds, if any (the residual amount), at the direction of the master issuer.

(i)The ratings do not address the likelihood of receiving post-ARD interest. VFN--Variable funding notes. LOCs--Letters of cred. ARD--Anticipated repayment date.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired. The purpose of surveillance is to assess whether the notes are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to S&P Global Ratings for maintaining continuous surveillance on the rated notes.

We view Jersey Mike's performance as an important part of analyzing and monitoring the performance and risks associated with the transaction. While company performance will likely have an effect on the transaction, we believe other factors such as cash flow, debt reduction, and legal framework also contribute to the overall analytical opinion.

Related Criteria

- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012

Related Research

- Credit FAQ: The Key Ingredients For Whole Business Securitization Ratings, Feb. 22, 2019
- Restaurant Securitizations Are Structured To Survive A Big Bite, Sept. 7, 2017
- Why Social Media Should Be A #trendingtopic In Corporate Securitization Analysis, June 9, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Counterparty Risk Framework: Methodology And Assumptions," March 8, 2019; "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.