S&P Global
Ratings

Research

Presale:

Five Guys Funding LLC (Series 2023-1)

November 9, 2023

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Preliminary ratings

Class	Preliminary rating	Balance (mil. $)(i)	Anticipated repayment date(ii)	Legal final maturity date
A-1	BBB- (sf)	50.0(iii)	January 2029	January 2054
A-2	BBB- (sf)	450.0	January 2029	January 2054

Note: This presale report is based on information as of Nov. 9, 2023. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)The tranche sizes are preliminary. (ii)Subject to two optional one-year extensions to 2031. (iii)At closing, this class is expected to be undrawn. However, in our analysis, we assumed a full draw on the $50 million commitment.

Executive Summary

Five Guys Funding LLC's series 2023-1 issuance is a whole business securitization of Five Guys Holdings Inc's (Five Guys) business. The series 2023-1 issuance consists of a $50.0 million class A-1 variable funding note (VFN), and a $450.0 million class A-2 note. Proceeds from the series 2023-1 class A-2 notes issuance will be used to fully repay the series 2017-1 class A-2 notes ($389 million as of Sept. 23, 2023), repay the series 2021-1 class A-1 VFN ($25 million as of Sept. 23, 2023), pay transaction expenses, and for general corporate purposes. The existing series 2021-1 class A-1 VFNs will be retired upon the 2023-1 notes' closing date. As a result, the total debt quantum for Five Guys will increase by $53 million, or 6.3% of total potential debt.

Five Guys Funding LLC, as a subsidiary of Five Guys, is the franchisor or operator of 1,835 branded restaurants in 49 states, and 25 countries and territories (including the U.S. and Canada) with systemwide sales near $3.2 billion over the last 12 months ended in June 2023. Debt repayment is supported by U.S. and Canadian franchisee payments, bakery subsidiary revenues, international intellectual property (IP) fees through October of 2024 and profits from contributed company-owned stores.

The transaction's key credit features include:

- Five Guys' long operating history of 37 years;
- The scale and geographic diversity of Five Guys' system, with restaurants in 49 U.S. states and an international presence in 25 countries and territories including the U.S. and Canada (only the North American business is included in the securitization);
- The largely franchised nature of the Five Guys business (67.0% franchised as of September

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2023), which results in a less volatile cash flow stream;

- Long tenor of franchise contracts with significant remaining contract terms of 11 years on average;
- Robust system metrics, with global systemwide sales growing in 16 of the past 17 years, with the only year of negative systemwide sales growth being 2020;
- The Five Guys Bakery LLC business provides a stable and high margin additional revenue stream;
- Legal isolation of the securitization assets, accomplished through a true sale to the bankruptcy-remote securitization entities (issuer and guarantors).

As-adjusted capitalization

	April 21, 2022	As-adjusted
Capitalization		
Series 2017-1 class A-2	397	0
Series 2021-1 class A-1	25	0
Series 2021-1 class A-2	200	198.5
Series 2022-1 class A-2	200	198.5
Series 2023-1 class A-1	0	50
Series 2023-1 class A-2	0	450
Cash flow(i)		
Five Guys Adjusted EBITDA	125	114
Five Guys SNCF	180	198
Leverage		
Five Guys debt-to-adjusted EBITDA	6.4	7.7
Five Guys-funded ABS debt-to-SNCF	4.4	4.3
Five Guys ABS debt capacity to SNCF(ii)	4.7	4.5

(i)As per the last four quarters ending Sept. 30, 2023. (ii)Assumes full draw on the $50 million series 2023-1 class A-1 VFN. VFN-Variable funding notes. SNCF-Securitized net cash flow. Five Guys-Five Guys Holding Inc. Source: Five Guys Enterprises LLC.

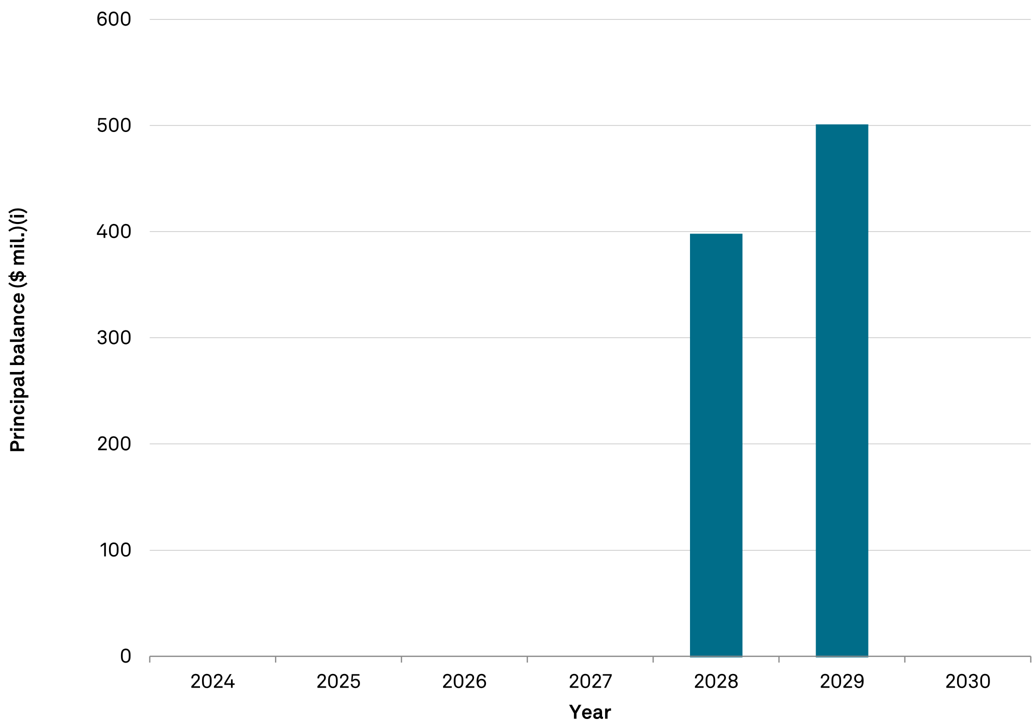
Expected securitization maturity schedule

Issue	Principal balance (mil. $)	Anticipated repayment date	Legal final maturity date
Series 2021-1 class A-2	198.5	July 2028	July 2051
Series 2022-1 class A-2	198.5	July 2028	April 2052
Series 2023-1 class A-1	50.0	January 2029(i)	January 2054
Series 2023-1 class A-2	450.0	January 2029(i)	January 2054

(i)Subject to two optional one-year extensions to 2031.

Chart 1

Master issuer's anticipated repayment date schedule



(i)Outstanding principal balance as of Sept 24, 2023. Source: Five Guys Funding LLC.

Transaction Timeline/Participants

Transaction timeline

Expected closing date	Nov. 30, 2023.
First payment date	April 25, 2024.
Anticipated repayment date	Jan. 25, 2031.
Legal maturity date	Jan. 25, 2054.
Note payment frequency	Quarterly.

Participants

Master issuer	Five Guys Funding LLC.
Manager	Five Guys Enterprises LLC.
Back-up manager	FTI Consulting Inc.
Arranger	Guggenheim Securities LLC.
Servicer/control party	Midland Loan Services, a division of PNC Bank N.A.
Trustee	Citibank N.A.
Guarantors	Five Guys SPV Guarantor LLC, Five Guys Properties LLC, Five Guys Bakery LLC, and Five Guys Franchisor LLC.

Rationale

The preliminary ratings assigned to Five Guys Funding LLC's series 2023-1 $500 million senior secured notes reflect our assessment of:

- The brand strength: This includes the strength of the Five Guys brand, the likelihood for the brand to survive through a Five Guys bankruptcy, and the brand's resulting capacity to continue generating sufficient cash flows from business operations, provided that adequate servicing remains in place.
- The replaceable manager: The manager's responsibilities are generally limited to selling, general, and administrative (SG&A) functions, which we believe increases the likelihood of a successful replacement following a termination of the current manager. In addition, the transaction has a backup manager, FTI Consulting Inc. (FTI), that has reviewed the business' cost structure relative to the sizing of the management fee and believes it is adequate should FTI need to step in.
- The legal isolation of the assets: As of the initial series 2017-1 transaction, the manager no longer owns substantially all of the business' cash-generating assets. They have been sold through a true sale to the securitization issuers and guarantors, which are bankruptcy-remote entities. This should decrease the likelihood that existing Five Guys' creditors could disrupt cash flow to the securitization following a manager bankruptcy. Legal opinions related to true sale and nonconsolidation will be provided before this transaction's closing.
- Asset performance that 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 that reflect our view of how the business' assets could weaken in adverse economic conditions. Under these conditions, our analysis shows that the cash flows the business generates are sufficient to meet all debt service obligations of the rated notes.
- Liquidity: The liquidity comprises a reserve account funded with three months of interest expenses and/or a letter of credit.
- Payment structure: Although these notes are rated to their legal final maturity, the anticipated repayment dates provide for early repayment.

Environmental, Social, And Governance

Our rating analysis considered the transaction's potential exposure to environmental, social, and governance (ESG) credit factors. We believe our ESG indicators for Five Guys are in line with others in the corporate securitization sector. We accounted for these ESG indicators, and other factors, in our business volatility score and cash flow assumptions.

Under environmental credit factors, we consider the additional costs restaurant chains would face due to increased environmental regulations or climate events, such as extreme storms or floods. In our view, Five Guys' supply chain is not an outlier in greenhouse gas emissions or pollutants, and every branded restaurant is subject to a variety of federal, state, and local environmental laws and regulations.

Under the social credit factors, we consider the exposure restaurant chains have to public health risks and changes in demographic trends. The poignant example of the COVID-19 pandemic demonstrates how health and safety fears can cause widespread temporary disruptions to businesses, which in turn, could affect the collateral performance backing the securitization. The restaurant industry is dependent on consumer discretionary spending, which can materially diminish during economic downturns. However, Five Guys has addressed this with its focus on high quality and the customer dining experience and offering a lower cost option to a full sit down restaurant. Restaurants are also vulnerable to foodborne illness, labor shortage, and increased costs, including any increase to the federal minimum wage.

Under governance credit factors, we consider how Five Guys executes and monitors its overall strategy, along with internal controls and risk management, within our operational risk assessment framework. Five Guys has an experienced management team, with a strong track record through multiple economic and business cycles and demonstrated resilience during recessions, examples of its operational strength.

Five Guys faces regulatory requirements, such as traceability of primary food products supplied to all company-owned stores and franchised locations, and the elimination of certain chemicals in packaging over the next three years. The company has created a Compliance Committee led by the General Counsel, comprising a cross-functional team of employees to address these issues and develop mitigation plans.

Key Considerations

In our review of Five Guys' operations and performance history, we considered the following transaction strengths, weaknesses, and mitigating factors.

Strengths

- Five Guys has a long operating history (over 30 years), which spans multiple economic downturns.
- Five Guys' system benefits from scale and geographic diversity, with 1,835 restaurants located in 25 countries and territories (including the U.S. and Canada) and across 49 U.S. states.
- The system is 67.0% franchised, which generates significant free cash flow. The company's goal is to return to and maintain being about 70.0% franchised by 2024 through opening new U.S. franchised stores.
- Long tenor of franchised contracts with significant remining contract terms, averaging 11 years.
- Robust system metrics, with global systemwide sales growing in 16 of the past 17 years, with the only year of negative systemwide sales growth being 2020 due to global COVID-19 pandemic factors.
- Legal isolation of the securitization assets, accomplished through a true sale to the bankruptcy-remote securitization entities (issuer and guarantors).
- The bakery business provides a stable and high margin of additional revenue stream.

Weaknesses

- Five Guys' operates in a highly competitive industry with relatively low barriers to entry.
- Five Guys' has a rigid menu offering, high prices compared to other burger-based fast casual dining restaurants and no loyalty programs, which is a strategy that does not adapt to consumer preferences or inflationary concerns.
- Nearly forty percent of retained collections are sourced from non-royalty-based revenues (company-owned store EBIDTA and bread), which can exhibit more volatility.
- Five Guys' international presence in 24 countries and territories other than the U.S. (the international restaurants are not included in the securitization other than from Canada) exposes the company to various currency, commodity, and supply chain risks.
- Rising beef prices and labor costs continue even after the COVID-19 pandemic. Beef is the most expensive component of the company's supply chain annual spend, while potato supply issues have also increased costs in 2023. Labor costs have continued to rise year-over-year for the company and across the casual restaurant sector.
- Long legal maturity of 30 years for the securitization debt, which is typical in this asset class.

Mitigating factors

- Five Guys focuses on higher quality "never frozen" beef burgers, and by focusing on only a few items, the company believes it can ensure superior quality over its competitors.
- The open kitchen concept, secret shopper program, and strict food safety practices contribute to strong customer satisfaction and repeat store traffic.
- Five Guys' seasoned franchisee base and growing system sales have provided stability in addition to non-royalty-based revenues.
- Despite increased cost pressures, Five Guys continues to see increased year-over-year systemwide sales, supporting positive securitized cashflow.
- Commodity price hedging has tamed supply chain and inflation issues, and the diversification among currency exposures has limited currency risk.
- Under our stress scenario, the notes would receive timely interest and ultimate principal payments by maturity.

Key Credit Metrics And Peer Comparisons

Table 1

Peer comparison

Brands	Series	S&P Global Ratings' current credit rating (i)	Store count (no.)	AUV (mil. $)	Franchised (%)(ii)	International (%)(ii)	Operating history (from founding)	Concept type	Leverage (total debt/adjusted EBITDA)(iii)	S&P Global Ratings' min. base-case DSCR(iv)	S&P Global Ratings' min.downside DSCR(iv)
Five Guys	2023-1	BBB- (sf)	1,502	1.8	67	18	Over 30 years	QSR/burger	7.7	1.7	1.4
Focus Brands	2023-2	BBB (sf)	6,487	0.6	99	25	22 years	QSR/multi	7.1	1.7	1.4
Applebee's/IHOP	2023-1	BBB (sf)	3,596	2.4	100	8	Over 30 years	CDR	6.4	1.8	1.5
Arby's(i)	2020-1	BBB- (sf)	3,597	1.4	69	5	Over 30 years	QSR/sandwich	7.0	1.8	1.4
Dunkin' Brands	2023-1	BBB (sf)	20,844	0.7	99	44	Over 30 years	QSR/beverage	7.0	1.7	1.4
Driven Brands	2022-1	BBB- (sf)	3,444	1.2	83	18	Over 30 years	Auto services	6.2	1.5	1.3
Domino's	2022-1	BBB+ (sf)	19,294	0.9	98	66	Over 30 years	QSR/pizza	6.4	1.9	1.5
Wendy's	2022-1	BBB- (sf)	6,949	1.8	95	14	Over 30 years	QSR/burger	6.5	1.6	1.3
Jimmy John's	2022-1	BBB (sf)	2,674	0.8	98	0	Over 30 years	QSR/sandwich	6.5	1.8	1.5
Jack in the Box	2022-1	BBB (sf)	2,218	1.9	93	0	Over 30 years	QSR/burger	5.6	1.8	1.4
Planet Fitness	2022-1	BBB- (sf)	2,193	1.7	90	3	Over 30 years	Fitness	7.9	2.0	1.3
Servpro	2022-1	BBB- (sf)	1,923	1.7	100	0	Over 30 years	Restoration services	7.3	1.7	1.4
Jersey Mike's	2021-1	BBB (sf)	2,027	1.1	99	0	Over 30 years	QSR/sandwich	5.4	2.0	1.5
Sonic	2021-1	BBB (sf)	3,524	1.7	92	0	Over 30 years	QSR/burger	6.6	1.8	1.6
Taco Bell	2021-1	BBB (sf)	6,895	1.8	93	9	Over 30 years	QSR/Mexican	4.9	1.8	1.6
ServiceMaster Brands	2021-1	BBB- (sf)	2,624	1.2	99	31	Over 30 years	Restoration services	8.7	1.8	1.4
Hardee's/Carl's Jr.	2021-1	BBB (sf)	3,834	1.3	94	26	Over 30 years	QSR/burger	7.0	1.8	1.4
TGIF	2017-1	B (sf)	903	2.7	94	48	Over 30 years	CDR	7.0	1.3	1.0

(i)Rating for the senior-most securitization note issued (closed transactions). (ii)Percentage of total store count. (iii)As reported. (iv)As of each series' closing date unless otherwise noted. (v)Preliminary. (vi)Figures are inclusive of all 107 Encore Restaurants LLC stores. (vii)AUV of all system stores. AUV--Average unit volume. DSCR--Debt service coverage ratio. QSR--Quick-service restaurant. CDR--Casual dining restaurant. R/R--Remediation/reconstruction. Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. Funding LLC. Driven Brands--Driven Brands Funding LLC (Maaco, Meineke, and others). Sonic--Sonic Capital LLC. 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. Jack in the Box--Jack in the Box Funding LLC. 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 variable-funding note). Taco Bell--Taco Bell Funding 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.

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. With the world moving away from the COVID-19 pandemic and returning to a new normal, corporate securitization portfolio systems are either maintaining or growing their retained collections.

S&P Global Ratings expects inflation to continue to decline for the remainder of 2023 and approach the Federal Reserve's 2.0% mandate in 2024, trading off with a rise in the unemployment rate to near 5.0%, following the long and steady run of 4.0%-4.5%. We believe the higher-for-longer interest rate scenario, the lingering effects of high inflation, and rising unemployment will ultimately lead consumers to trade down the value chain among dining options, creating tailwinds for quick-service restaurants (QSRs) and headwinds for casual dining. Nevertheless, S&P Global Ratings' economic base case now includes the occurrence of a "soft landing" with no recession, including slow growth and interest rate cuts over the next two years.

Summary Of The Business

Five Guys was founded in 1986 and is currently based in Alexandria, Va., where it continues to operate and franchise a chain of casual dining restaurants in the U.S., Canada, Europe, Asia, and the Middle East. Five Guys aims to provide fresh and high-quality food with a menu focus primarily on burgers, fries, and milkshakes.

As of September 2023, the Five Guys system includes 1,835 systemwide restaurants, with 1,502 North American stores, 249 international joint-venture stores, 69 international franchised stores, and 15 international company-owned stores. Only the North American franchised and company-owned stores are included in the securitization.

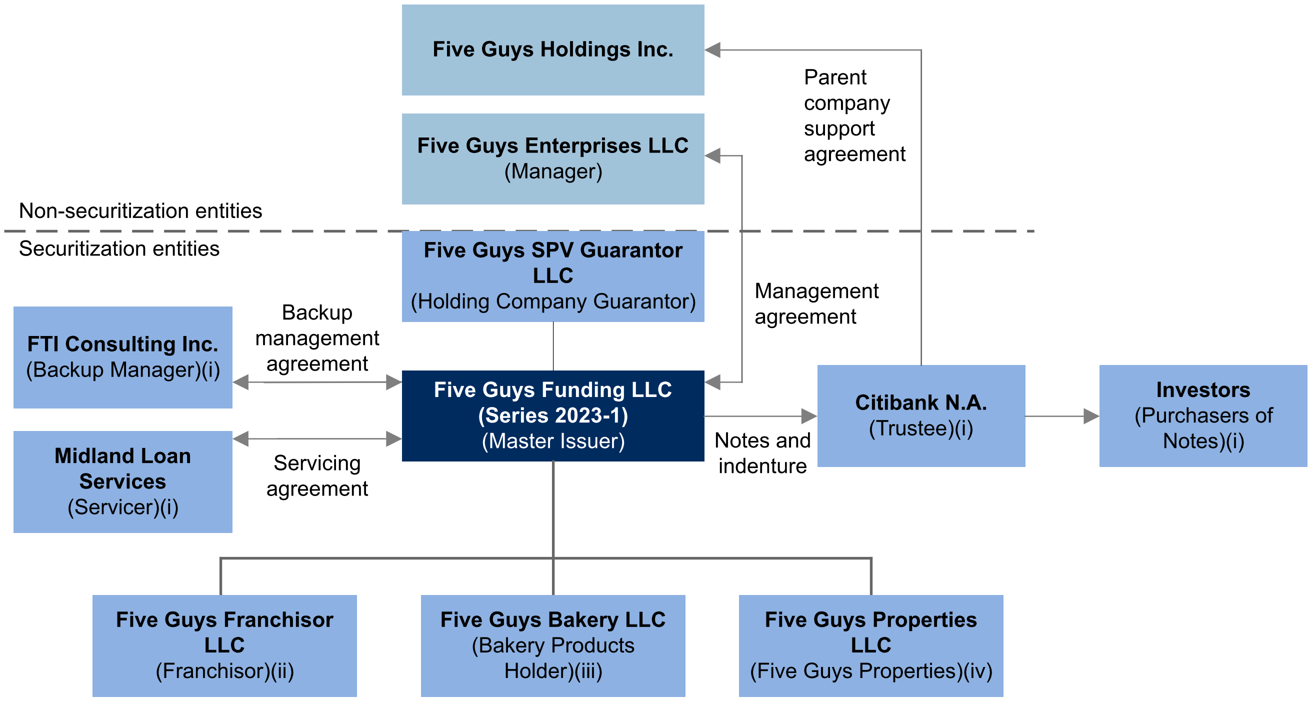
As of September 2023, approximately 67% of Five Guys restaurants were franchised and each franchised location in North America operates under a franchise agreement that requires an initial franchise fee payment to Five Guys in addition to the recurring royalty revenue fee of approximately 6% of gross sales. The recurring royalty revenue fee of the company-owned stores is also contractually 6% of gross sales. The company also owns and operates Five Guys Bakery LLC, which manufactures and distributes all bakery products to every restaurant in the Five Guys system.

Cash flows from Five Guys' restaurant business are derived from North American franchisee payments, bakery subsidiary revenues, IP fees, and profits from contributed company-owned stores.

Systemwide store count has continued to grow year-over-year and although this growth rate previously had moderated somewhat in 2019 and 2020, the pace of new store openings is expected to return to pre-COVID-19 pandemic expectations by 2024. Systemwide sales have also seen consistent long-term growth in 16 of the last 17 years.

Chart 2

Transaction Structure

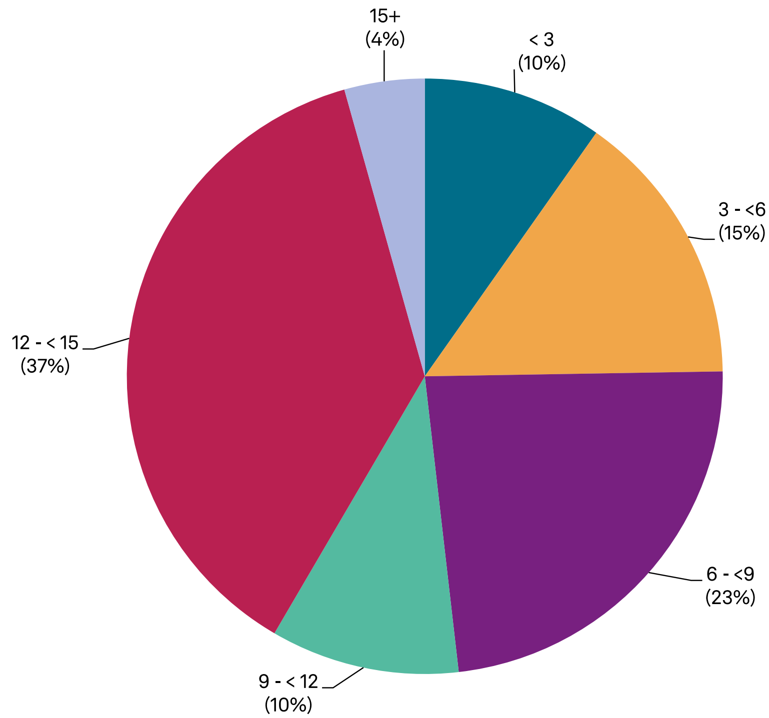


(i)Third-party entities. (ii)Owns all securitized franchise agreements, development agreements, franchisor IP, and international trust certificate A, and will receive payments under the international buy-in agreement. (iii)Owns all securitized bakery sales agreements, securitized bakery IP agreements, and the bakery IP. (iv)Owns the securitized company restaurants. IP--Intellectual property.

The restaurant portfolio is seasoned, with average seasoning of the domestic stores of 10.5 years.

Chart 3

Domestic restaurant seasoning (by count)



As of September 2023, Five Guy's system is 67.0% franchised with 913 restaurants being operated by franchisees and 589 restaurants being company-owned in North America. Of the franchised stores, 41.0% have been open for more than 12 years and half of the stores have been open for over nine years.

Five Guys began opening international stores in 2013 and has seen significant store openings in more countries and territories as a part of their global growth strategy. Store counts grew in all three components (U.S. franchised, company-owned, and international franchised and joint-venture) even in 2020 despite pandemic pressures. Presently, only the North American stores are included in the securitization.

Chart 4

Historical store count

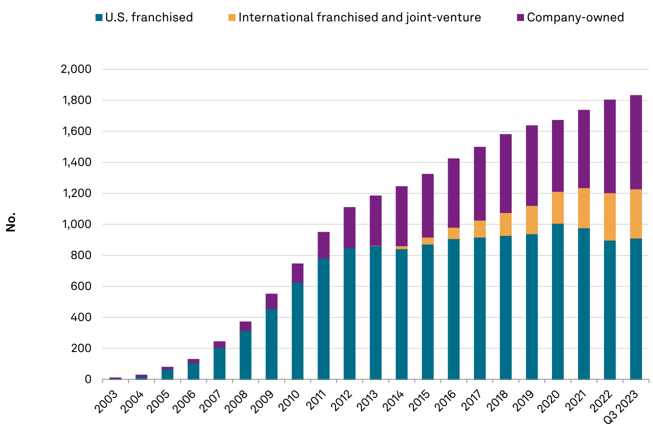
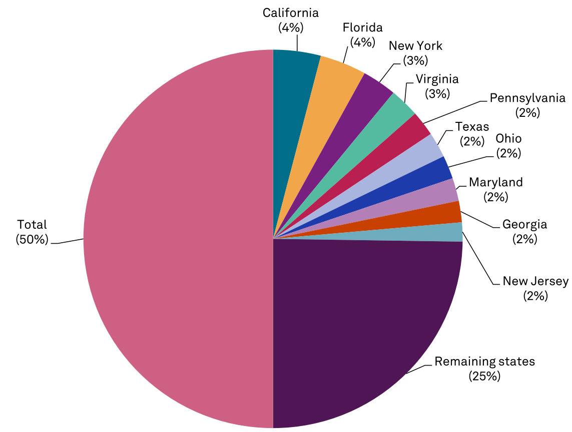


Chart 5

State concentrations in North America (by count)



Systemwide sales in 2021 exceeded their pre- COVID-19 pandemic 2019 levels and have continued to grow steadily since then through the first half of 2023.

Chart 6

Historic systemwide sales

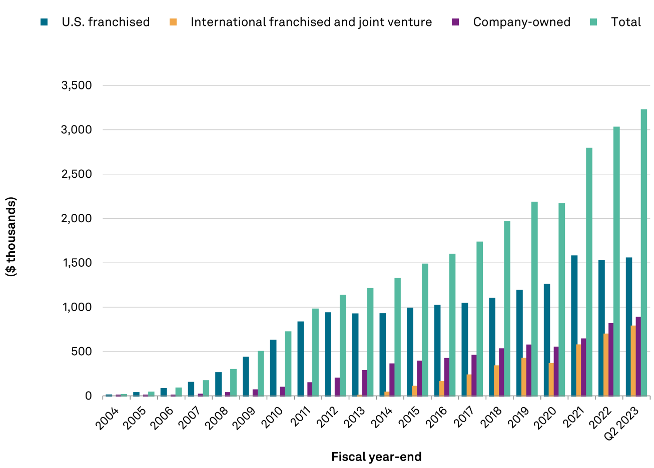
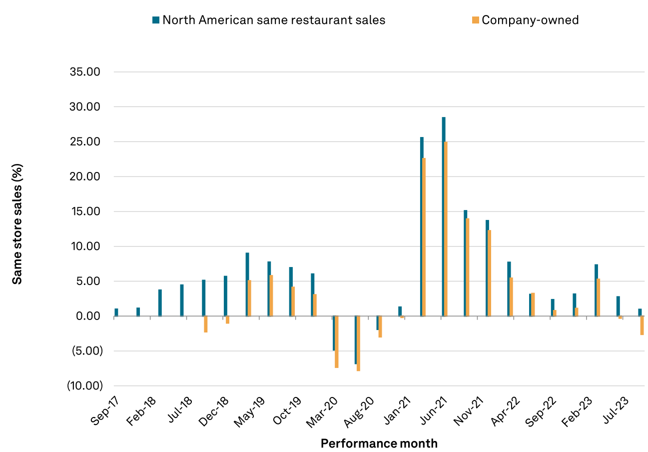


Chart 7

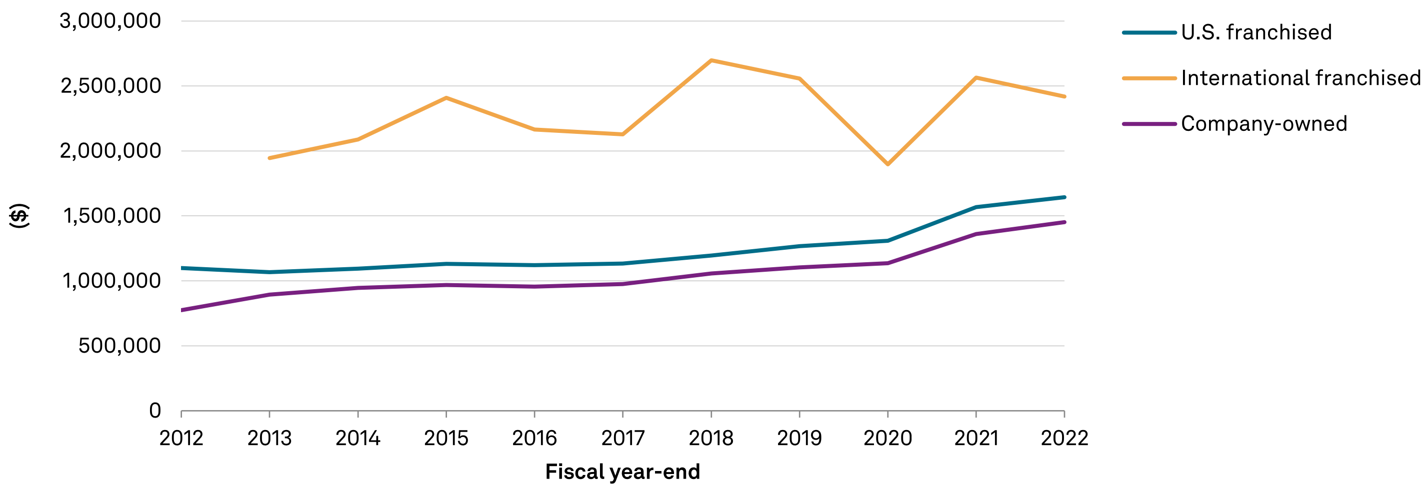
Same store sales



Average unit volume (AUV) for U.S. stores has increased since 2020 with a steeper rise in 2021 and more moderate increase in 2022. This growth was mostly attributed to some return to in-restaurant dining and price increases. Overall dine-in traffic has rebounded some from 2020; however, it is still not as robust as in 2019, with stable overall traffic the past two years. Sales growth since the COVID-19 pandemic can attributed to price increases leading to check size increases on average of approximately 4.5% at company-owned stores and 6.3% at franchised stores in June 2023 compared to June 2022.The AUV for company-owned stores has seen some more progressive year-over-year growth, which has maintained a more even pace looking back over the last 10 years.

Chart 8

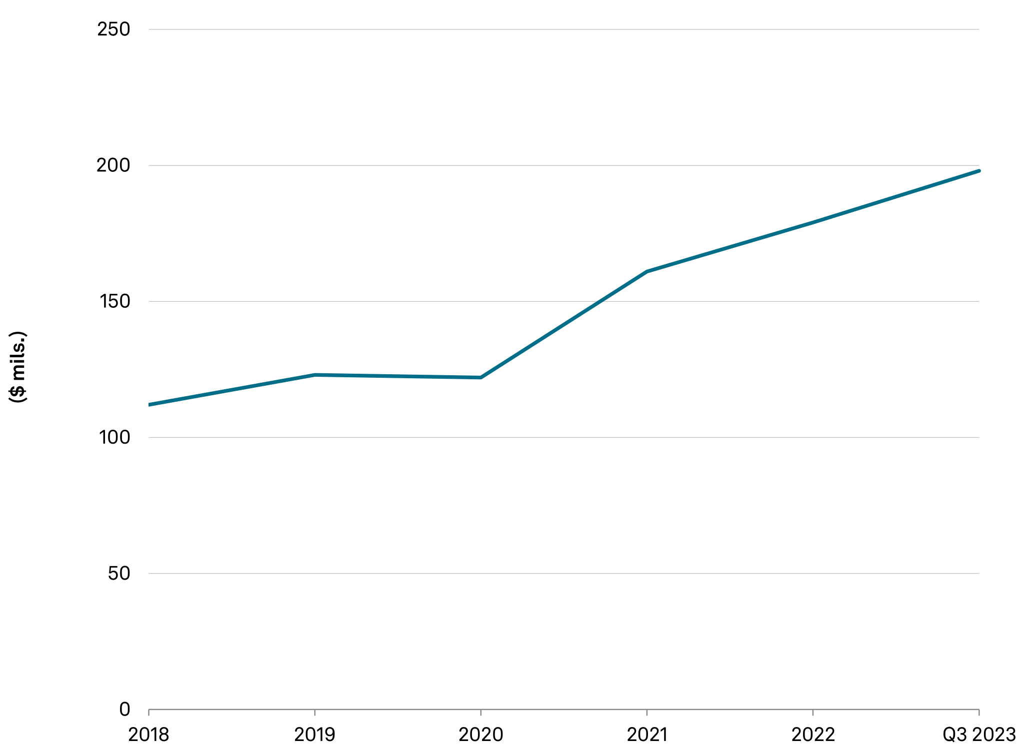
Average unit volume



Royalties for the system have remained stable for both the franchised and company-operated stores. Another large source of securitized cash flow is profit from the company-operated restaurants. Although this profit has increased some over the last 12 months, the contribution to securitized net cash flows has been somewhat flat and contributed about 39.0% of retained collections on average over that period. Bakery profits have been a stable revenue source year-to-year, accounting for another approximately 7.0% of cash flows.

Chart 9

Securitized net cash flows



Collateral

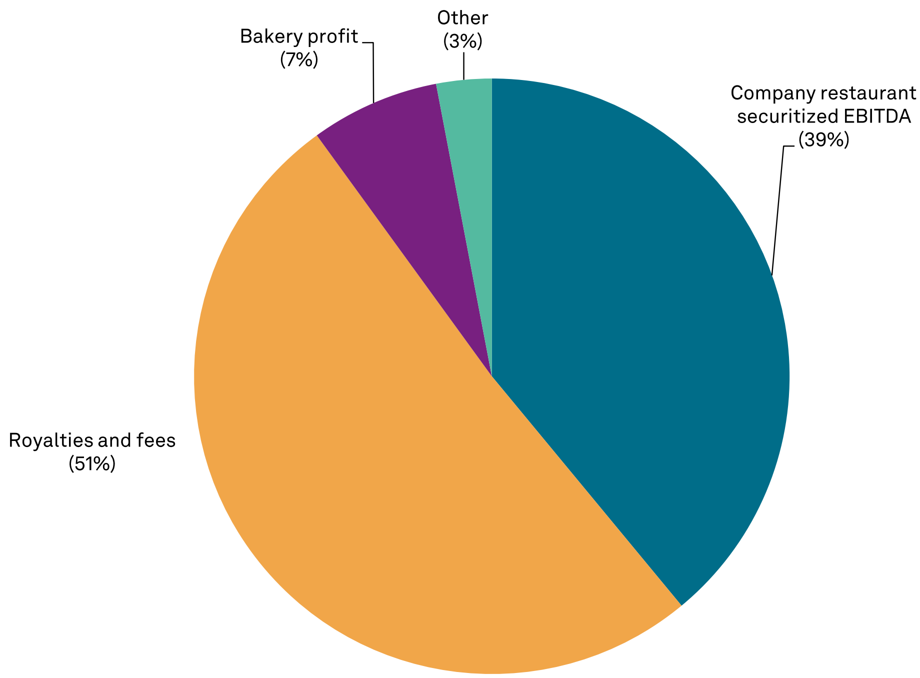
The notes will be secured by a security interest in substantially all of the assets of the co-issuers and guarantors, and will include:

- Contributed and new franchise and development agreements, and the related franchisee payments (North America including Canadian international arrangements);
- Royalties and operating profit on existing and future company-owned restaurants
- Securitization IP and IP license agreements;
- International IP license fees (the only international asset backing the issuance), which terminate in October 2024;
- Transaction accounts;
- Any interest reserve and/or letter of credit; and
- Bakery income.

Chart 10 illustrates the approximate contributions of the various cash flow streams to the transaction.

Chart 10

Securitizations by revenue type



Credit Analysis And Assumptions

Table 2

Key credit considerations

Credit consideration	Discussion
Long operating history	Five Guys has a long operating history (the first store opened in 1986), which spans multiple economic downturns.
Majority franchise percentage	As of Sept. 30, 2023, 67% of the Five Guys system is operated by franchisees. While lower than other systems we rate, we believe that high franchised percentages provide better cash flow stability and independence from the manager than a lower percentage of franchised stores.
Moderate domestic geographic concentrations	Geographic concentration in the three largest states (Florida, California, and New York) accounts for approximately 23% of the company's total U.S. restaurants.

Credit Rating Methodology

The following table details our specific conclusions for each of the five analytical steps in our ratings process for the Five Guys Funding LLC's series 2023-1 transaction.

Table 3

Credit rating step

Step	Result	Discussion
Step one		
Eligibility analysis	Pass	We believe that a system of franchised restaurants will continue to generate cash flow following the manager's bankruptcy because individual franchisees generally operate somewhat independently from the manager (aside from general and administrative functions, which we believe can be transferred to a backup manager). As long as the brand has sufficient customer loyalty, royalty revenue will 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. We do not believe that substantially all cash flow from the system will be at risk following the bankruptcy of the manager. Additionally, the transaction contains an interest reserve account with three months of interest, rapid amortization, and cash sweep, which provides sufficient liquidity.
Step two		
Business risk profile	5(i)	Five Guys Holding Inc.'s BRP is weak, which maps to an unadjusted BVS of 5(i).
BVS	4	We adjusted the BVS upward by one notch to 4 because the cash flows are revenue-based and the system has demonstrated stability for more than 20 years.
Cash flow assumptions	See table 4 below	
Min. base DSCR(ii)	1.69x	Principal and interest are fully paid in this scenario.
Anchor	'bb+'	Determined per table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Min. downside run DSCR(ii)	1.39x	Principal and interest are fully paid in this scenario.
Step three		
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 four		
Modifier analysis	No adjustment	Although this structure is currently on the higher end for leverage, it is not an outlier. The anticipated repayment dates, as well as liquidity and deleveraging triggers, are all comparable to other rated transactions.
Step five		
Comparable rating analysis	1 notch downward adjustment	Five Guys' franchised percent (67%) and total store count (1,835) are low relative to corporate securitizations that are rated 'BBB' and are more in line with the 'BBB-' peer group.

(i)The mappings from BRP to BVS are: excellent=1; strong=2; satisfactory=3; fair=4; weak=5; and vulnerable=6. (ii)We considered the maximum commitment amount of $50 million of the series 2023-1 class A-1 notes in our analysis. BVS--Business volatility score. BRP--Business risk profile. DSCR--Debt service coverage ratio.

Table 4

Cash flow assumptions

	Cumulative decline (%)		
Asset cash flow category	**Base case**	**Downside case**	**Description**
Royalty revenue and fees	0	15	Franchise and company-owned store royalties, which comprise most of the overall projected cash flow, are a function of restaurant count, AUV, and royalty rates.
All other securitization collections	0	30	This category represents all other securitization collections.
Foreign exchange rates	0	Foreign currency depreciation rates consistent with our criteria(i)	Royalties collected from Canadian restaurants.

(i)"Foreign Exchange Risk In Structured Finance--Methodology And Assumptions," published April 21, 2017. AUV--Average unit volume.

Sensitivity Analysis

Sensitivity run 1: Management fee stress

Using the base-case assumptions in table 4 above, we determined that the management fee could be increased by as much as approximately 97% (translating to an approximately 52% 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 date. Furthermore, in our opinion, the additional management fee stresses could occur if Five Guys experienced a manager transition event or bankruptcy. While the management fee is currently outlined in the transaction documents, we believe that it may be possible that such fees might be renegotiated in a potential bankruptcy scenario.

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 after fees is approximately 51%. We examined several event risks associated with cash flow losses, including royalty losses from the top three geographies by store count and from the top 10 franchisees. Under these scenarios, our analysis showed that the transaction could pay timely interest and full principal by the legal final maturity date.

Sensitivity run 3: Class A-2 non-amortization test

The transaction has a class A-2 non-amortization test, which requires principal payments of 1.0% per year if leverage (securitization debt over securitized net cash flow) exceeds a threshold of 5.0%. As the transaction's leverage is expected to be 4.4x (when considering the series 2023-1 class A-1 VFN to be fully drawn to its maximum commitment amount) at the time of closing, these payments are currently not being made and are not expected to be made going forward. As such the rating scenario for our review, in addition to no growth, considered no amortization before the ARD of each respective series. However, the rating committee considered the impact of this amortization, if it were to occur, on the minimum DSCR. The minimum base-case DSCR improves to 1.79x and the minimum downside DSCR improves to 1.46x when cash flows incorporate this amortization.

Structural Protection Summary

The structural features and credit enhancements (summarized in table 5) are generally consistent with those of other recently rated corporate securitizations.

Table 5

Structural features

Test	Five Guys Funding LLC (2023-1)
Rapid amortization DSCR trigger (P&I)	1.20x.
Cash flow sweeping DSCR trigger (P&I)	Less than 1.75x but equal to 1.5x (50% sweep); less than 1.5x (100% trap).
Securitization leverage ratio non-amortization test	5.00x (no scheduled amortization if the senior WBS leverage ratio (i) is less than or equal to this level).
Next ARD(ii)	July 2028 (Series 2021 and 2022 classes A-2)
Scheduled amortization through ARD (%)	1.0 per annum of the class A-2 notes, only if the securitization leverage ratio non-amortization test is not satisfied.
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 total stores in operation. The fixed component is assumed to be $25 million annually, and the variable component is $25,000 for each franchised store and $55,000 for each company store. The management fee is also subject to a 2% annual increase as long as it does not exceed 50% of the retained collections in the preceding four quarterly collection periods.

(i)The senior WBS leverage ratio is the ratio of (a) the aggregate outstanding principal amount of each series (considering the maximum commitment amount of the series 2023-1 class A-1 notes) including any eligible investments, interest reserves, advance funding reserves or cash trap reserves, or LOC over (b) the sum of the securitization's net cash flows for the preceding four quarters. (ii)Failure to pay the notes in full by their applicable ARDs constitutes a rapid amortization event, but not an event of default. DSCR--Debt service coverage ratio. P&I--Principal and interest. ARD--Anticipated repayment date. IO--Interest only. WBS—Whole business securitization.

Springing Amendments

Along with the issuance of the 2023 transaction, the transaction documents will include springing amendments that will become effective upon the full repayment of the series 2021 and 2022 notes (unless the control party designates an earlier effective date). Prior to closing the issuance of the series 2023-1 senior notes, consent is expected to be deemed from the holders of the series 2023-1 senior notes.

Many of the amendments allow for the change in roles and responsibilities for the servicer, back-up manager, and control parties. This is to subdivide the roles of the servicer, back-up manager, and control party or controlling class representative, and will allow for the replacement of the servicer in making debt service advances and collateral protection advances by the servicer with an advance funding facility or liquidity reserve facility upon satisfaction of the rating agency condition.

Payment Priority

Currently, the transaction includes no senior subordinated or subordinated notes; however, the transaction may issue these notes if certain conditions are met.

Table 6

Payment priority

Priority	Payment
1	Solely for amounts from indemnification, permitted asset dispositions, and insurance/condemnation payments: to the trustee and then the servicer for unreimbursed advances; to the manager for any unreimbursed advances; if a class A-1 note amortization event is continuing, to the class A-1 notes affected, pro rata; to the senior notes principal other than the class A-1 notes; then to prepay to permanently reduce the commitments under all class A-1 notes, pro rata; then to prepay all senior subordinated notes; and then to prepay all subordinated notes.
2	Reimburse the trustee then servicer for any unreimbursed advances; then reimburse the manager for any unreimbursed advances; then (a) prior to the advance funding effective date, pay the servicer and (b) on or after the advance funding effective date pay the advance funding provider fee cap, all third-party control party fees, any liquidation fees and any workout fees, pro rata.
3	Successor manager transition expenses, if any.
4	Management fees.
5	Capped securitization operating expense amount; if an event of default is continuing, to the trustee, the post-default capped trustee expense amount, pro rata.
6	Interest on the senior notes, the class A-1 note commitment fee amount, and hedge payments, if any.
7	The capped class A-1 note administrative expense amount.
8	Interest on the senior subordinated notes, if any.
9	The senior note interest reserve account deficiency amount; and then the senior subordinated note interest reserve account deficiency amount, if any.
10	The senior notes scheduled principal payment amount, any senior notes scheduled principal payment deficiency amount, and any letter of credit collateralization amounts.
11	Supplemental management fee, if any.
12	If no rapid amortization event is continuing but if the class A-1 note amortization event is continuing, to the class A-1 notes' principal.
13	If no rapid amortization event is continuing, first any advance funding reserve amount to the advance funding reserve account, if any; and second, any cash trapping amount to the cash-trap reserve account.
14	If a rapid amortization event is continuing and is continuing, all remaining amounts to pay down the class A notes; and then any senior subordinated notes.
15	If no rapid amortization event is continuing, any senior subordinated notes scheduled principal payment amount; and then senior subordinated notes scheduled principal payment deficiency amount, if any.
16	Uncapped securitization operating expenses.
17	Uncapped class A-1 note administrative expenses amounts.
18	Other class A-1 note amounts.
19	Interest on the subordinated notes, if any.
20	If no rapid amortization even has occurred, the subordinated notes scheduled principal payment amount; and then the subordinated notes scheduled principal payment deficiency amount, if any

Table 6

Payment priority (cont.)

Priority	Payment
21	If a rapid amortization event has occurred and is continuing, all remaining amounts to pay down the subordinated notes, if any.
22	After the ARD, post-ARD contingent interest on the senior notes.
23	After the ARD, post-ARD contingent interest on any senior subordinated notes.
24	After the ARD, post-ARD contingent interest on any subordinated notes.
25	Hedge termination payments and any other unpaid hedge amounts, pro rata
26	Any unpaid premiums and make-whole prepayment premiums on the senior notes.
27	Any unpaid premiums and make-whole prepayment premiums on any senior subordinated notes.
28	Any unpaid premiums and make-whole prepayment premiums on any subordinated notes.
29	Any remaining funds at the direction of the master issuer.

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 Five Guys' 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, other factors such as cash flow, debt reduction, and legal framework also contribute to our overall analytical opinion.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017

- Criteria | Structured Finance | General: Foreign Exchange Risk In Structured Finance--Methodology And Assumptions, April 21, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted, Sept. 25, 2023
- Scenario Analysis: How The Next Slowdown Could Affect U.S. Corporate Securitizations, Aug. 16, 2023
- Credit FAQ: A Closer Look At The Management Fee In U.S. Corporate Securitization, May 8, 2023
- Industry Top Trends 2023: Retail and Restaurants, Jan. 23, 2023
- Closing Time: The U.S. Retail Party Ends As Consumers Push Back On Inflation, May 23, 2022
- The Pandemic Persisted in 2021--And So Did U.S. Retailers and Restaurants, Feb. 25, 2022
- 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