S&P Global
Ratings

Research

Presale:

SEB Funding LLC (Series 2024-1)

March 14, 2024

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Preliminary ratings

Class	Preliminary rating	Balance (mil. $)(i)	Anticipated repayment date(ii)	Legal final maturity date
2024-1 A-1-VFN	BBB- (sf)	230(iii)	April 2029	April 2054
2024-1 A-2	BBB- (sf)	300(iii)	April 2029	April 2054

Note: This presale report is based on information as of March 14, 2024. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. (i)The tranche sizes are preliminary. Up to three years from the closing date and if certain conditions are met, the issuer has the option to issue up to an additional $40 million of notes, which may consist of either 2024-1 A-1-VFN and 2024 A-2 notes. (ii)The 2024-1 A-1-VFN is not subject to optional extensions. (iii)The total debt amount for the series 2024-1 notes can be upsized by $40 million, which is what we used in our analysis. The individual class size is preliminary. We also assumed a full draw on the series 2024-1 class A-1-VFN. VFN--Variable-funding note.

Executive Summary

SEB Funding LLC's series 2024-1 issuance is a $530 million corporate securitization of Self Esteem Brands LLC's (SEB's) business. The series 2024-1 issuance consists of a $230 million class A-1 variable-funding note (VFN) and a $300 million class A-2 note (which can be upsized to $340 million on the closing date). An additional issuance of up to $40 million of the 2024-1 A-1 note may occur up to three years from the closing date, if certain conditions are met.

SEB's ultimate parent (Anytime Worldwide LLC) and Ultimate Fitness Holdings LLC have entered into a merger agreement to form the largest health and wellness franchisor in the world. Ultimate Fitness Holdings LLC is the parent of Orangetheory Fitness (OTF), which previously issued a nonpublic series of 2019-1 securitization notes (referred to below as the OTF 2019-1 notes); the OTF 2019-1 notes will not become obligations of the issuer. The business combination will form TGR Intermediate LLC, which will be the parent of SEB Funding LLC.

SEB is a franchisor of Anytime Fitness, Basecamp Fitness, Waxing The City, and The Bar Method. Anytime Fitness is a franchise of health and fitness clubs. Basecamp Fitness is a fitness brand that offers high-intensity workouts. The Bar Method offers low-impact barre class workouts. Waxing The City is a waxing brand that offers wax and skin care services. Orangetheory is the world's largest studio fitness brand specializing in full-body, heart rate-based training.

The series 2024-1 notes will be issued by SEB Funding LLC. The proceeds of this transaction will be used to fund the repayment of the OTF 2019-1 notes or, if the business combination effective date does not occur on or prior to the 2024-1 issuance, to fund an escrow account (which on the

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business combination effective date will be used to repay the outstanding principal amount of the OTF 2019-1 notes), for fees and expenses incurred with the issuance of the 2024-1 notes, and for general corporate purposes. If the business combination does not occur by the closing date, the proceeds of the transaction will be used to fund the escrow account. If the business combination effective date then occurs prior to the escrow account end date, the proceeds of the issuance will be released from escrow and will be used as described above. In addition, if the business combination effective date occurs on or prior to the series 2024-1 closing date, the issuer expects to make an initial draw on the series 2024-1 class A-1-VFN notes on the series 2024-1 closing date in an amount equal to approximately $180 million. The OTF assets are currently pledged as collateral for the 2019 OTF notes; on the business effective combination date (to the extent occurring on the closing date or on or prior to the escrow account end date), occurring on or after the 2024-1 issuance date, the OTF notes will be paid off and the OTF assets would be transferred without further encumbrance to SEB Funding LLC.

If the business combination does not occur at the end of the escrow period, then the funds in the 2024-1 escrow account and 2024-1 escrow reserve account will be transferred to a 2024-1 distribution account, the 2024-1 A-2 notes will be fully redeemed and the 2024-1 A-1-VFN would terminate. The 2021-1 notes would remain outstanding.

Debt repayment is supported primarily by domestic and international franchise royalties, technology and renewal fees, rebate revenue, the product sales margin, and heart rate monitor and fitness equipment profit.

The transaction's key credit features include:

- SEB and OTF have a 99% franchised system. We believe this results in a less-volatile cash flow stream compared with businesses that have a lower proportion of franchised fitness stores.
- The backup manager's ability to maintain cash flow continuity in the event of a manager bankruptcy.
- SEB and OTF have both had positive unit growth since 2012, with SEB experiencing a compound annual growth rate of 10% and OTF having a compound annual growth rate of 46%.
- SEB and OTF experienced positive growth in systemwide sales and same-store growth since 2012, except in 2020, due to the COVID-19 pandemic.
- We observed modest cash flow cushions in the cash flow stress scenarios.
- Both systems have fairly diverse franchisee bases. For SEB, 34% of franchisees own one unit, 35% own two to five units, and 31% own six or more units. For OTF, 7% of franchisees own one unit, 29% own two to five units and 63% own six or more units.

Table 1

As-adjusted capitalization

	Sept. 30, 2023	As-adjusted
Capitalization (mil. $)		
Series 2019-1 OTF(i)	451	0
Series 2021-1 class A-2	484	484
Series 2021-1 class A-1-LR	6	16
Series 2021-1 class A-1-VFN	20	20
Series 2024-1 class A-1-VFN(ii)	0	230

Table 1

As-adjusted capitalization (cont.)

	Sept. 30, 2023	As-adjusted
Series 2024-1 class A-2	0	300
Cash flow(iii) (mil. $)		
SEB-adjusted EBITDA	77	151
SEB SNCF	110	200
Leverage (%)		
SEB debt-to-adjusted EBITDA ratio	6.6	7.0
SEB funded ABS debt-to-SNCF ratio	4.5	4.9(v)
SEB ABS debt capacity-to-SNCF ratio(iv)	4.6	5.3

(i)On the series 2024-1 closing date, all amounts outstanding under the existing OTF term notes will be repaid and the associated credit indenture will be terminated. (ii)There are no optional one-year extensions on the 2024-1 VFN. We assumed full draws on the $230 million series 2024-1 class A-1-VFN. (iii)As per the last four quarters ending Sept. 30, 2023. (iv)Assumes full draw on the $230 million series 2024-1 class A-1-VFN. (v)Assumes $180 million draw on the 2024-1 A-1-VFN. VFN--Variable funding notes. SNCF--Securitized net cash flow. OTF--Orangetheory Fitness. SEB--Self Esteem Brands. Source: Self Esteem Brands LLC.

Table 2

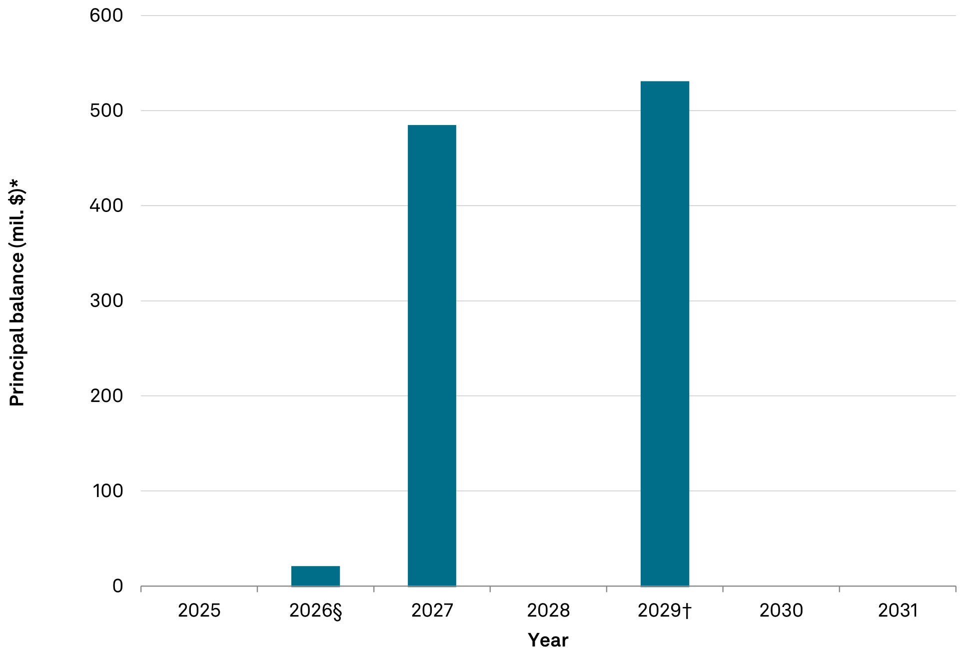
Expected securitization maturity schedule(i)

Issue	Principal balance (mil. $)	Anticipated repayment date	Legal final maturity date
Series 2021-1 class A-2(ii)	484	January 2027	January 2052
Series 2021-1 class A-1-VFN (iii)	20	January 2026	January 2052
Series 2021-1 class A-1-LR	16	N/A	April 2054
Series 2024-1 class A-1-VFN(iii)	230	April 2029	April 2054
Series 2024-1 class A-2	300	April 2029	April 2054

(i)Pro forma after completion of the business combination. (ii)Outstanding principal balance as of Dec. 22, 2023. (iii)There is an optional one-year extensions on the 2021-1 A-1-VFN and no extension on the 2024-1 A-1-VFN. We assumed full draws on the $20 million series 2021-1 A-1-VFN and $230 million series 2024-1 class A-1-VFN. VFN--Variable-funding note. N/A--Not applicable. Source: Self Esteem Brands LLC.

Chart 1

Securitization anticipated repayment date schedule



*Outstanding principal balance as of September 2023. §Assumes that the extension option on the series 2021-1 A-1-VFN notes is not exercised. †The series 2024-1 A-1-VFN notes are fully drawn and do not have an optional one-year extension.

Transaction Timeline/Participants

Table 3

Transaction timeline

Expected closing date	April 2, 2024.
First payment date (interest)	July 30, 2024.
First payment date (principal)	July 30, 2024.
2024 class A-1-VFN anticipated repayment date	April 30, 2029.
2024 class A-2-I anticipated repayment date	April 30, 2029.
2024 class A-1-VFN legal maturity date	April 30, 2054.
2024 class A-2-I legal maturity date	April 30, 2054.
Note payment frequency	Quarterly.

VFN--Variable funding note.

Table 4

Participants

Master issuer	SEB Funding LLC.
Guarantors	Healthy Contributions SPV LLC, SEB Systems LLC, SEB Distribution LLC, PV Distribution LLC, OTF Product Sourcing LLC, SEB Guarantor LLC, Anytime Fitness Franchisor LLC, Waxing The City Franchisor LLC, Basecamp Fitness Franchisor LLC, The Bar Method Franchisor LLC and OTF Franchisor LLC.
Trustee	Citibank N.A.
Manager	Anytime Fitness LLC.
Sub-manager	Ultimate Fitness Group LLC.
Back-up manager	FTI Consulting Inc.
Control party	Drivetrain Agency Services LLC.
Joint structuring advisors	Barclays Capital Inc and Morgan Stanley & Co. LLC.

Rationale

The preliminary ratings assigned to SEB Funding LLC's series 2024-1 senior secured notes reflect our assessment of:

- The brand strength. This includes the strength of the Self Esteem and OTF brands, the likelihood for the brands to survive through an SEB/OTF bankruptcy, and the brands' 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 sales and 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., that has reviewed the business' cost structure relative to the sizing of the management fee and believes it is adequate should it need to step in.
- The legal isolation of the assets, as the manager will no longer own substantially all of the business' cash-generating assets. 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 SEB/OTF creditors could disrupt cash flow to the securitization following a manager bankruptcy. Legal opinions related to true sale and non-consolidation have been or will be provided before this transaction's closing.
- Asset performance not fully correlated with manager performance. A system of franchised fitness clubs 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).
- 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.

- The short-term anticipated repayment dates (ARD) compared to the 30-year legal final maturity of the bonds. The structure goes into rapid amortization upon reaching any note reaching their ARD.
- The liquidity reserve account and liquidity reserve note. These two enhancements can be used for servicer advances or debt service. While there is reliance on the availability to make servicer advances, we did not explicitly model any servicer advances or use of these facilities in our analysis.
- The interest reserve account. An interest reserve account is backed by an interest reserve letter of credit to cover three months of interest.

Environmental, Social, And Governance

Our rating analysis considered the transaction's potential exposure to environmental, social, and governance (ESG) credit factors, which, in our view, is in line with other corporate securitizations. We generally accounted for these ESG factors, and other factors, in our business volatility score and cash flow assumptions.

Under the environmental credit factors, we consider the additional costs fitness clubs would face due to increased environmental regulations or climate events, such as extreme storms and floods. In our view, the supply chains for SEB and OTF are not outliers in greenhouse gas emissions or pollutants, and every branded fitness club is subject to a variety of federal, state, and local environmental laws and regulations.

Under the social credit factors, we consider the fitness sector's exposure to public health risks and changes in demographic trends. The COVID-19 pandemic is a poignant example of how health and safety fears can cause widespread temporary disruptions to businesses, which in turn could affect the collateral backing the securitization.

Under governance credit factors, we consider how SEB and OTF execute and monitor their overall strategy, along with internal controls and risk management, within our operational risk assessment framework.

Key Rating Considerations

Based on our review of SEB and OTF's operations and performance history, we considered certain transaction strengths, weaknesses, and mitigating factors.

Strengths

- With a combined 6,995 units (5,471 units for SEB and 1,524 for OTF) across 50 states and 41 foreign countries and territories, the system benefits from scale and geographic diversity.
- As of Q3 2023, the combined system reported sales of approximately $3.6 billion ($2.3 billion for SEB and $1.3 billion for OTF). The chains exhibit a sizeable operating footprint and strong chain-wide sales figure.
- Both SEB and OTF businesses are highly franchised (approximately 99% franchised), which reduces the volatility of the cash flow stream. In addition, 35% and 54% of the combined units

have been open for more than 10 and seven years, respectively.

- The franchisees are well diversified. For SEB, 34% of franchisees own one unit, 35% own two to five units, and 31% own six or more. For OTF, 7% of franchisees own one unit, 29% own two to five, and 63% own six or more.
- Certain performance tests are included, namely rapid amortization and cash trap tests.
- After the ARD, the issuer will be required to start paying down the balance of the notes.
- The securitization assets are legally isolated, which is accomplished through a true sale to the bankruptcy-remote securitization entities (issuer and guarantors).

Weaknesses

- There is a risk of difficulty in implementing a cohesive business plan post-merger of SEB and OTF.
- Both SEB and OTF were dramatically impacted by the COVID-19 pandemic in 2020. Same-store sales decreased 27% for SEB and 52% for OTF. Although both systems returned to positive same-store sales by 2021, this showed a vulnerability to this type of risk.
- Both SEB and OTF have a lower membership count and systemwide sales than Planet Fitness. The combined system will have about five million members as of the trailing 12-month (TTM) period ended second-quarter 2023 compared to Planet Fitness's 18 million members as of the same period. SEB and OTF have combined second-quarter 2023 systemwide sales of $3.5 billion, compared to Planet Fitness's $4.23 billion in the same period.
- OTF is a boutique brand, which makes it more niche compared to low-cost, no-frills offerings. OTF's monthly membership fees range from $80 to $180 versus low-cost providers' fees of $25 to $49. Anytime Fitness operates a fixed-fee franchise model that limits upside potential without expansion; in our view, this results in lower margins compared to competitor franchisors.
- The international presence of SEB and OTF creates foreign currency exposure.
- OTF has increased cyber risk due to having customer's personal health data obtained from a heart rate monitor.
- The liquidity reserve notes do not have a replacement liquidity reserve lender (the liquidity reserve lender is currently Barclays Bank PLC).
- In the event the merger is not completed, the notes would be supported by a smaller and less-diversified business than otherwise, which could result in an overall business profile that is not as strong.

Mitigating factors

- The experienced combined management team will be well-equipped to ensure there is synergy between both SEB and OTF after the merger.
- There is a strong presence of personal training/group services, most notably in OTF's class-based system, which encourages customer retention.
- The seasoned franchisee base and growing system sales of SEB and OTF have provided stability to non-royalty-based revenues.

- Both SEB and OTF are highly franchised system (99%), so the impact of a decline on store profitability would not have an immediate impact on the highly revenue-based securitized net cash flows.
- SEB and OTF have shown their ability to grow even during economic downturns, as the number of stores for both systems increased in 2020.
- OTF confirmed that the data provided to them by customers does not fall under federal laws restricting release of medical information. Also, the data collected isn't shared with third parties.
- Under our stress scenario, the notes would receive timely interest and ultimate principal payments by maturity.
- The payment structure is set up to make principal payments totaling 1% of the issuance amount prior to the ARD rather than paying all at once.
- If the merger is not completed, the issuer would repay the outstanding amount of the 2024-1 A2 notes and terminate the 2024-1 A-1-VFN, which would result in a less-levered transaction.

Table 5

Key credit metrics and peer comparison

Brands	Series	S&P Global Ratings' 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)
Self Esteem Brands(v)	2024-1	BBB- (sf)	6,995	0.5	99	41(vi)	23 years	Fitness	7.0	1.6	1.3
Focus Brands	2023-2	BBB (sf)	6,523	0.6	99	25	22 years	QSR/multi	6.6	1.8	1.5
Five Guys	2023-1	BBB- (sf)	1,493	1.8	67	27	Over 30 years	QSR/burger	4.4	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	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

Table 5

Key credit metrics and peer comparison (cont.)

Brands	Series	S&P Global Ratings' 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)
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. (ii)Percentage of total store count. (iii)As reported. (iv)As of each series' closing date unless otherwise noted. (v)Preliminary. (vi)This excludes Anytime Fitness Canadian directly franchised locations. FOCUS--FOCUS Brands Funding LLC (Carvel, Cinnabon, Auntie Anne's, and others). Self Esteem Brands--SEB Funding LLC. Five Guys--Five Guys Funding LLC. Wendy's--Wendy's Funding LLC. Jimmy John's--Jimmy John's Funding LLC. ServPro--ServPro Master Issuer LLC. Jack in the Box--Jack in the Box Funding LLC. Planet Fitness--Planet Fitness Master Issuer LLC. Jersey Mike's--Jersey Mike's Funding LLC. Dunkin' Brands--DB Master Finance LLC. Driven Brands--Driven Brands Funding LLC (Maaco, Meineke, and others). Taco Bell--Taco Bell Funding LLC. Sonic--Sonic Capital LLC. ServiceMaster Brands--ServiceMaster Funding LLC. Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. Funding LLC. Domino's--Domino's Pizza Master Issuer LLC. Arby's—Arby's Funding LLC. Applebee's/IHOP--Applebee's Funding LLC/IHOP Funding LLC (Dine Brands Global). TGIF--TGIF Funding LLC. AUV--Average unit volume. DSCR--Debt service coverage ratio. VFN--Variable funding note. QSR--Quick-service restaurants. CDR--Casual dining restaurants.

Industry Outlook

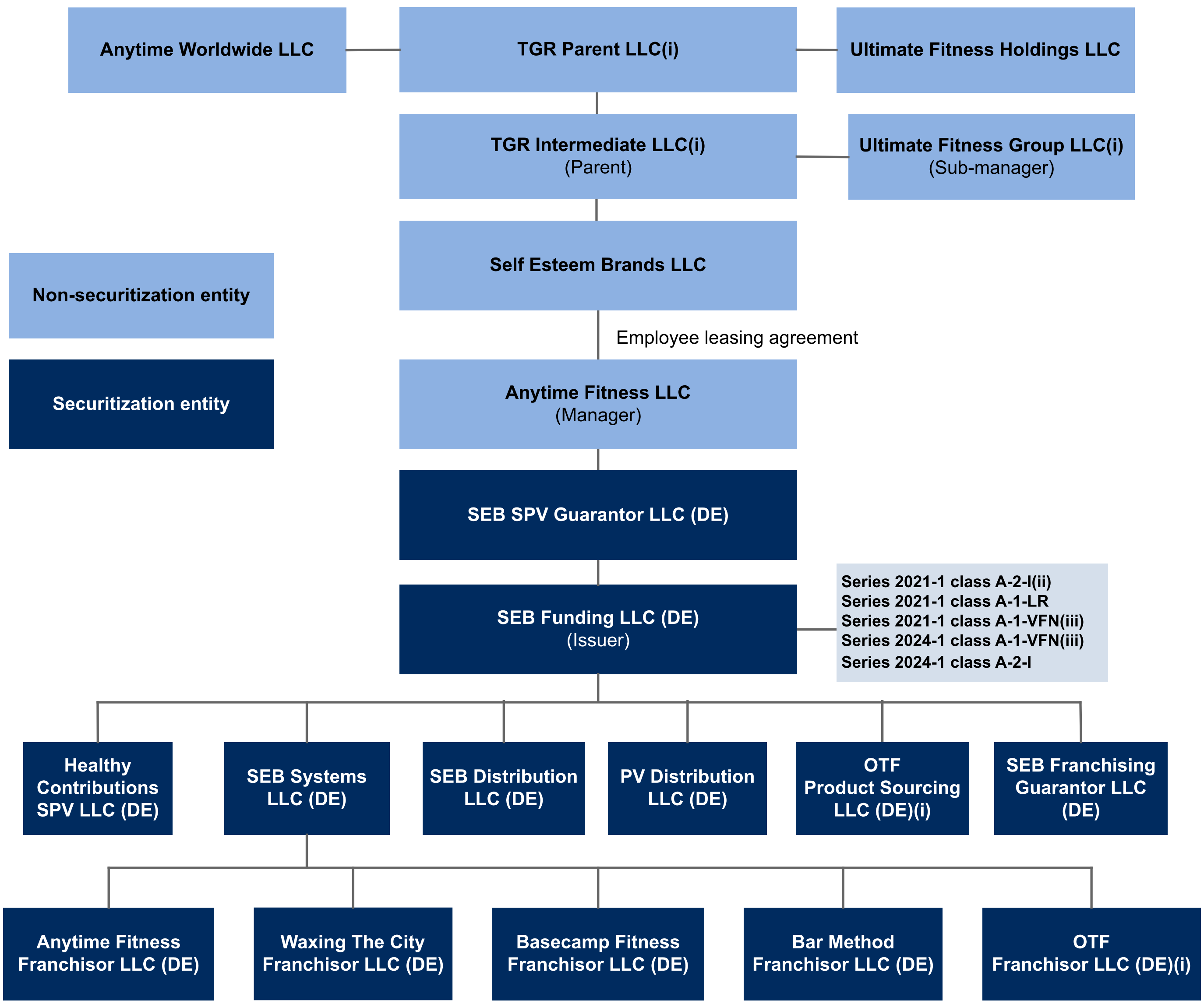
The fitness industry is highly competitive in price and product offerings. Our current base-case economic forecast for U.S. consumer spending growth will likely support same-store revenue growth for rated fitness issuers. Higher interest rates are eating into cash flows and making it more difficult/expensive to take on debt to grow.

S&P Global Ratings expects the U.S. economy to expand 1.5% in 2024 on an annual average basis. However, businesses are facing higher capital costs , which will lower capital expenditure and hiring. The unemployment rate will likely rise in the next two years--from 3.9% currently to 4.3% in 2024. As normalization in the product and labor markets continues, disinflation will endure, albeit unevenly. S&P Global Ratings continues to forecast core inflation (excluding volatile food and energy prices) to fall closer to levels consistent with the Federal Reserve's target of 2.0% on a sustained basis by the middle of 2024. S&P Global Ratings also forecasts that the Fed will begin rate cuts in mid-2024.

Transaction Diagram

Chart 2

Transaction structure



(i)Pro forma after completion of the business combination. (ii)Outstanding principal balance as of Dec. 22, 2023. (iii)There is an optional one-year extension on the 2021-1 A-1-VFN and no extension on the 2024-1 A-1-VFN. We assumed full draws on the $20 million series 2021-1 A-1-VFN and $230 million series 2024-1 A-1-VFN. VFN--Variable-funding note. LR--Liquidity reserve. Source: Self Esteem Brands LLC.

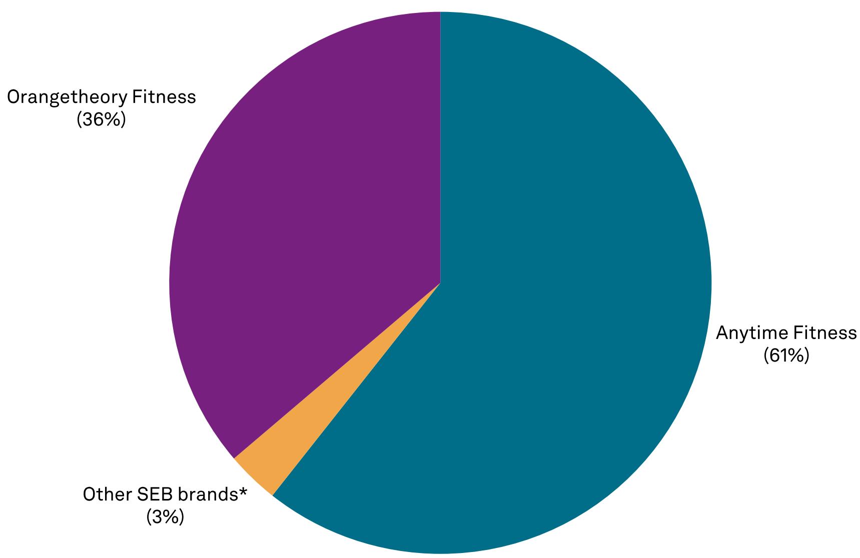
Summary Of The Business

SEB, which is headquartered in Woodbury, M.N., is a franchisor of health and wellness brands and was founded in 2002. SEB is the parent company of Anytime Fitness, The Bar Method, Basecamp

Fitness, and Waxing The City. Founded in 2010, OTF is the world's largest studio fitness brand, offering an innovative full body, heart rate-based group workout claiming to combine a trifecta of science, technology, and coaching. Charts 3 and 4 show each brand's contribution to total systemwide sales and unit count for the combined system.

Chart 3

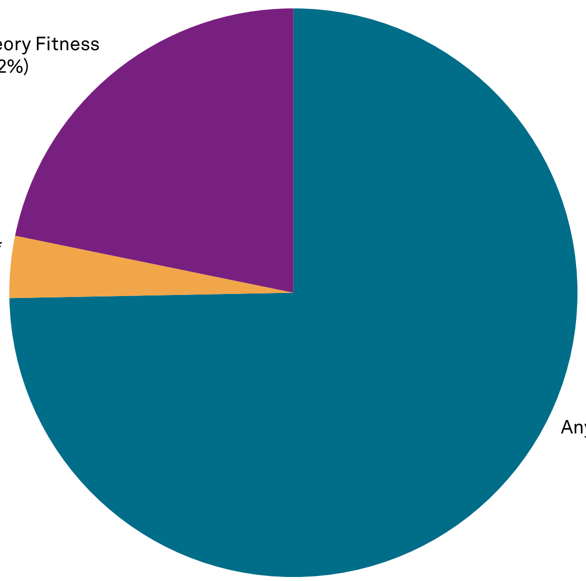
Brand as a percentage of systemwide sales
Q3 2023



(i)Other brands include Basecamp Fitness, The Bar Method, and Waxing The City. SEB--Self Esteem Brands.
Source: Self Esteem Brands LLC and Ultimate Fitness Group LLC.

Chart 4

Brand as a percentage of the total unit count
Q3 2023



*Other brands include Basecamp Fitness, The Bar Method, and Waxing The City. SEB--Self Esteem Brands.
Source: Self Esteem Brands LLC and Ultimate Fitness Group LLC.

The combined company has a diverse portfolio of leading fitness brands that serve consumers through a variety of formats, including small-format gyms, boutique fitness units, and ancillary wellness brands. The combined company appeals to a wide range of consumers across age, gender, income-level, and fitness experience. It has approximately five million members, 10,000 coaches, and 315 million annual workouts completed at the combined company's branded units.

Anytime Fitness

Anytime Fitness was founded in 2002 as the first fitness club franchise concept open 24 hours a day, with its small format clubs being convenient and accessible. Its clubs are approximately 4,000 to 6,000 sq. ft. for domestic units, located close to where members work and live. The gyms feature exercise equipment, including cardio and strength training equipment and free weights. Members have access to high-quality in-person and virtual training and expert support, including personal and group training and health coaching with certified coaches. As of Q3 2023, Anytime Fitness had over 5,200 units serving more than four million members.

Basecamp Fitness

Basecamp Fitness is a fitness brand that offers high-intensity strength and cardio workouts across 21 locations in 12 states, and was founded in 2013 and acquired by SEB in 2018.

The Bar Method

Founded in 2001 and acquired by SEB in 2019, The Bar Method is a boutique studio fitness brand offering safe and effective low-impact barre class workouts. The Bar Method has 75 locations (99% franchised) across 19 states and Canada.

Waxing The City

Founded in 2003 and acquired by SEB in 2012, Waxing The City is the second-largest hair-removal waxing brand in the U.S. with 150 units (100% franchised) across 32 states and the District of Columbia.

Orangetheory Fitness

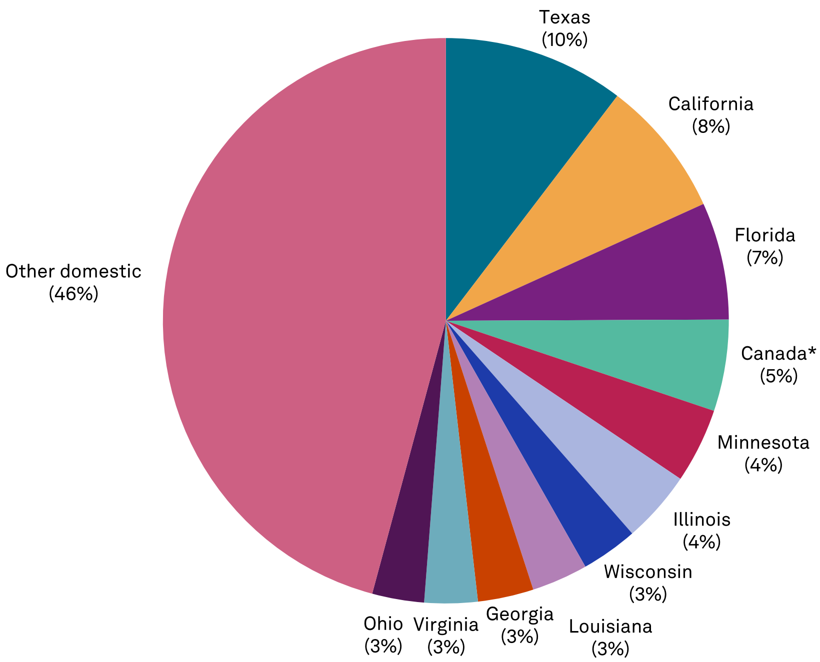
Founded in 2010, OTF is the world's largest studio fitness brand with over 1,500 units serving close to 950,000 members as of Q3 2023. OTF delivers a unique, full-body group fitness experience focused on heart rate-based training. Each day a new, proprietary 60-minute workout is curated that combines exercises using a treadmill, rowing machine, dumbbells, and body weight movements scientifically designed to improve endurance, strength, and power. Members use an OTF-proprietary heart rate monitor that measures second-by-second heart rate data alongside telemetry data from connected treadmills and rowers, displaying personalized metrics in real-time and allowing coaches to provide individualized feedback.

The combined company

As of Sept. 30, 2023, there were 6,995 units in the combined system. Ninety-nine percent of the total system is franchised, with locations in all 50 U.S. states and 41 foreign countries and territories serving more than five million members (see charts 5 and 6). The business combination will enhance the combined company's diversification across brands, franchisees, and geographies.

Chart 5

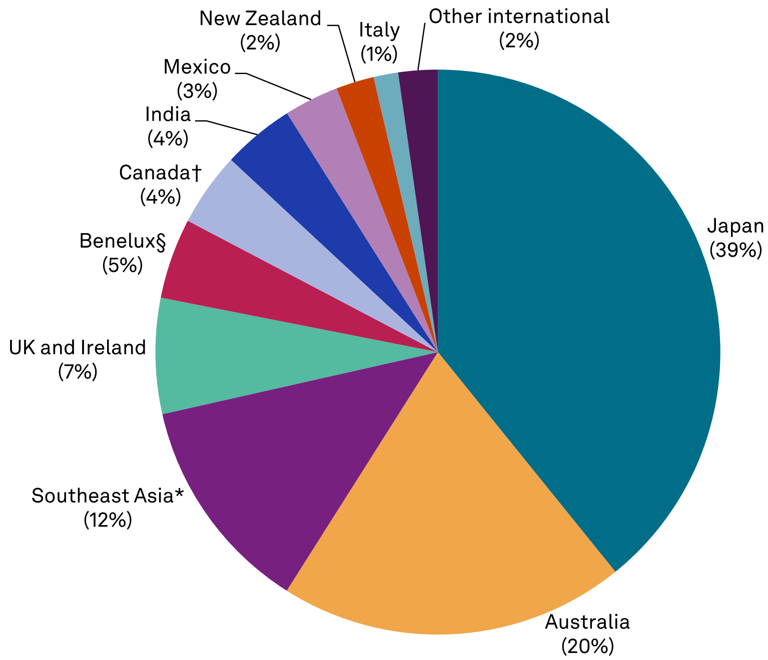
Domestic concentration by total unit count
Q3 2023



*Includes only Anytime Fitness Canadian domestic-franchised locations. Source: Self Esteem Brands LLC and Ultimate Fitness Group

Chart 6

International concentration by total unit count
Q3 2023



*Includes Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Taiwan, and Thailand. §Includes Belgium, Netherlands, and Luxembourg. †Canadian stores are for Orangetheory Fitness only. Source: Self Esteem Brands LLC and Ultimate Fitness Group LLC.

The combined company has a large, stable, and diversified franchised system that is approximately 99% franchised, which consists of approximately 7,000 franchised units and over 1,500 domestic franchisees as of Q3 2023. These franchise units span across 50 U.S. states and 41 foreign countries and territories (with no U.S. region representing more than 27% of total units as of Q3 2023). Anytime Fitness domestic franchisees pay a fixed royalty fee of $649 to $699 per month. Basecamp franchisee royalty fees are paid weekly at 8% of gross revenue. The Bar Method franchisees must pay monthly royalty fees of 6% of gross revenue. Waxing The City franchisees pay the greater of $100 and 6% of gross sales weekly in royalty fees.

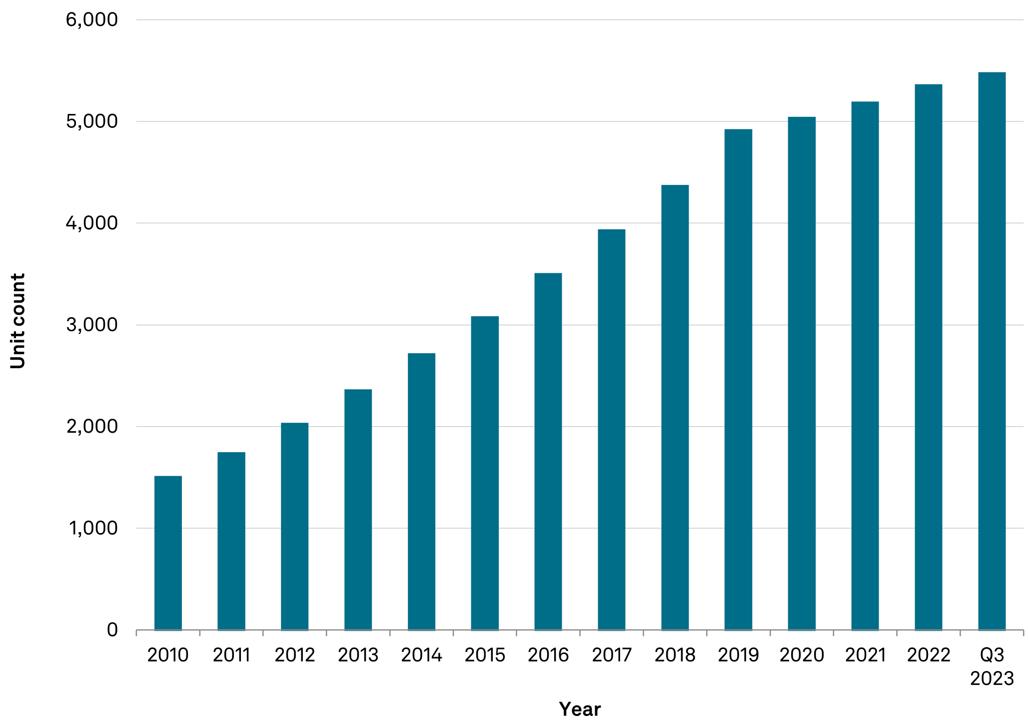
OTF's royalty rate has historically been 6% to 7%, increasing to 8% in 2017. As franchisees renew their contracts (the initial term is 10 years), the average royalty rate across the system will approach 8%.

As of Q3 2023, approximately 35% and 54% of the combined units have been open for more than 10 and seven years, respectively, demonstrating the longevity and endurance of the combined company's franchise portfolio. There is no overlap in ownership of SEB and OTF franchisees.

Over the years, SEB's systemwide unit count has increased both organically and through acquisitions, with the most recent being the acquisition of The Bar Method in 2019 (see chart 7). Since 2010, SEB's unit count has grown by a compounded annual growth rate of 10.5%.

Chart 7

SEB historical systemwide unit count

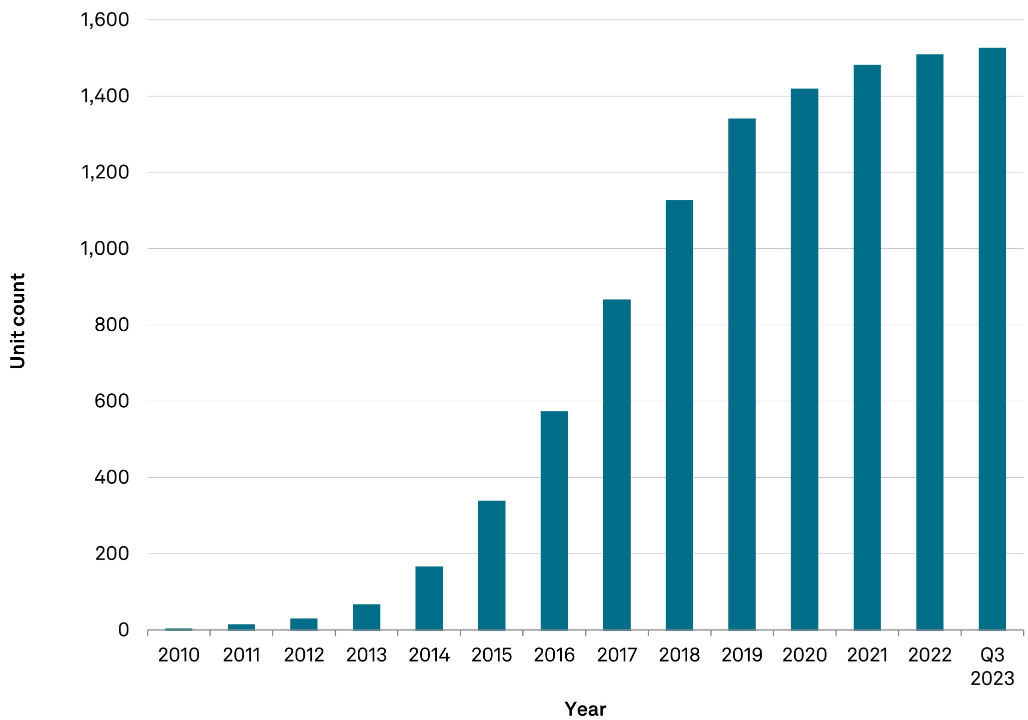


SEB--Self Esteem Brands. Source: Self Esteem Brands LLC.

OTF's unit count has grown by a compounded annual growth rate of 75.7% (see chart 8).

Chart 8

OTF historical systemwide unit count

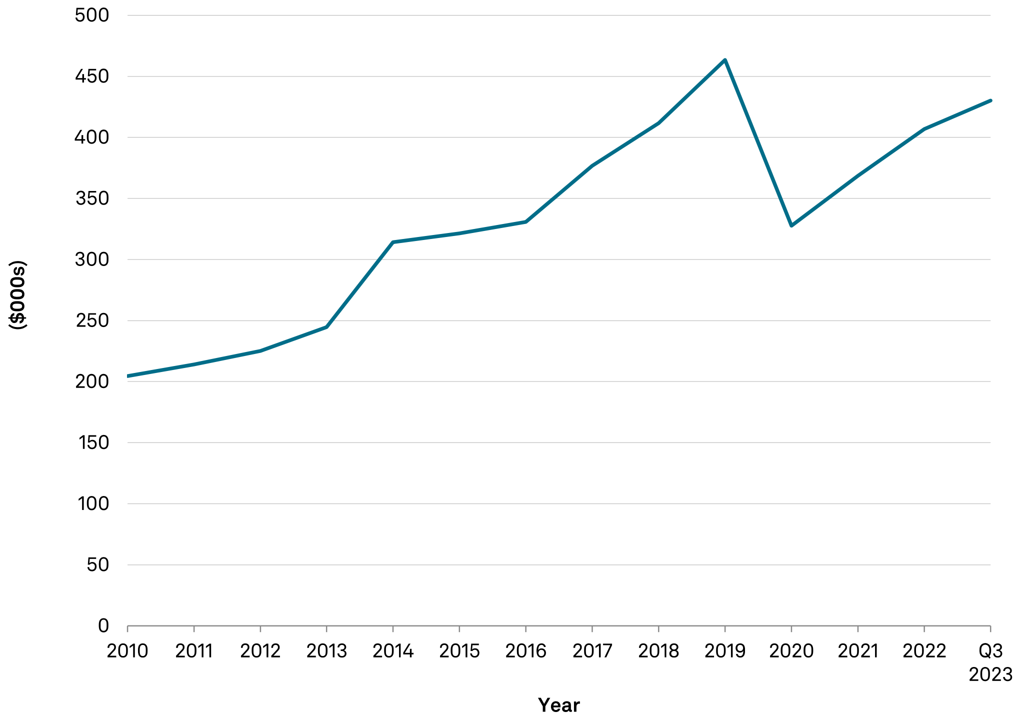


OTF--Orangetheory Fitness. Source: Ultimate Fitness Group LLC.

The average unit volumes for both SEB and OTF have stayed steady or increased over the years. While both systems have recovered from the decline observed in 2020 caused by the onset of the COVID-19 pandemic (see chart 9, 10, and 11); for OTF the average unit volumes have not reached their pre-pandemic levels. SEB made investments in its digital infrastructure to improve its coaching dashboard, smart engagement, mobile apps, and digital key fobs and embarked on a brand refresh program to increase membership engagement and retention. OTF focused on creating workouts based on science, expanded its coaching network, and invested in its digital platform.

Chart 9

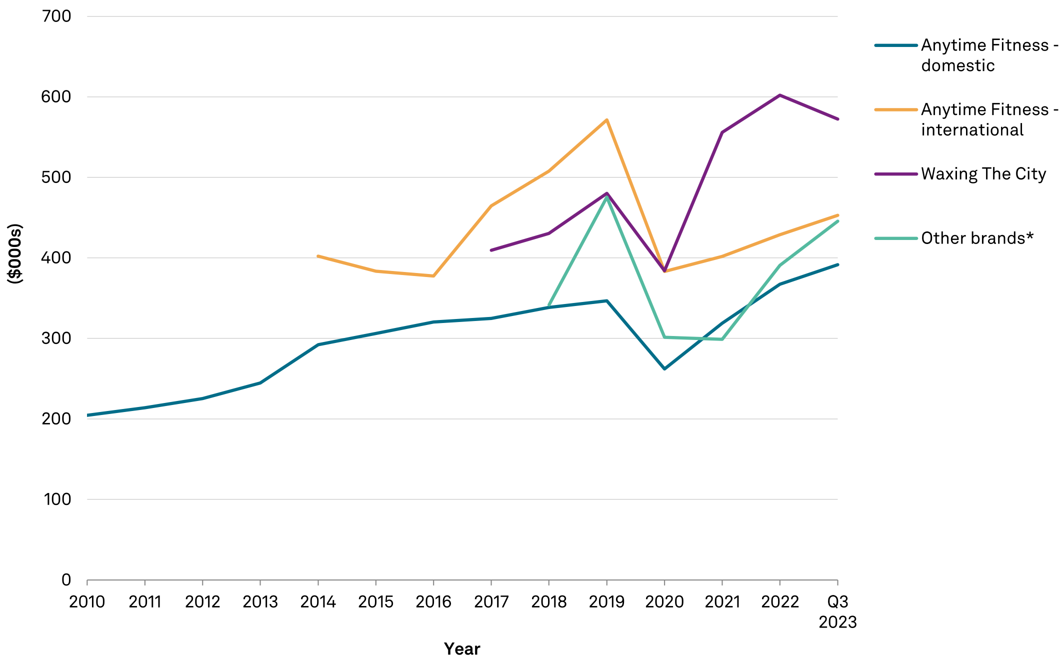
SEB historical AUV



SEB--Self Esteem Brands. AUV--Average unit volume. Source: Self Esteem Brands LLC.

Chart 10

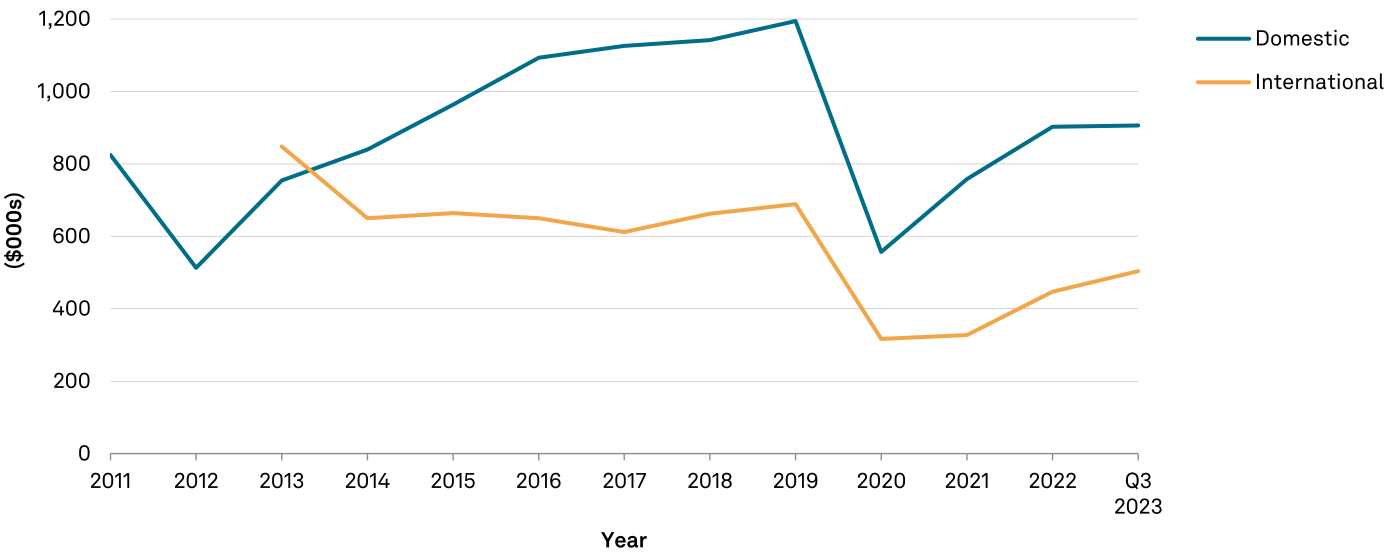
SEB historical AUV by brands



*Other brands include Basecamp Fitness and The Bar Method. SEB--Self Esteem Brands. Source: Self Esteem Brands LLC.

Chart 11

OTF historical AUV

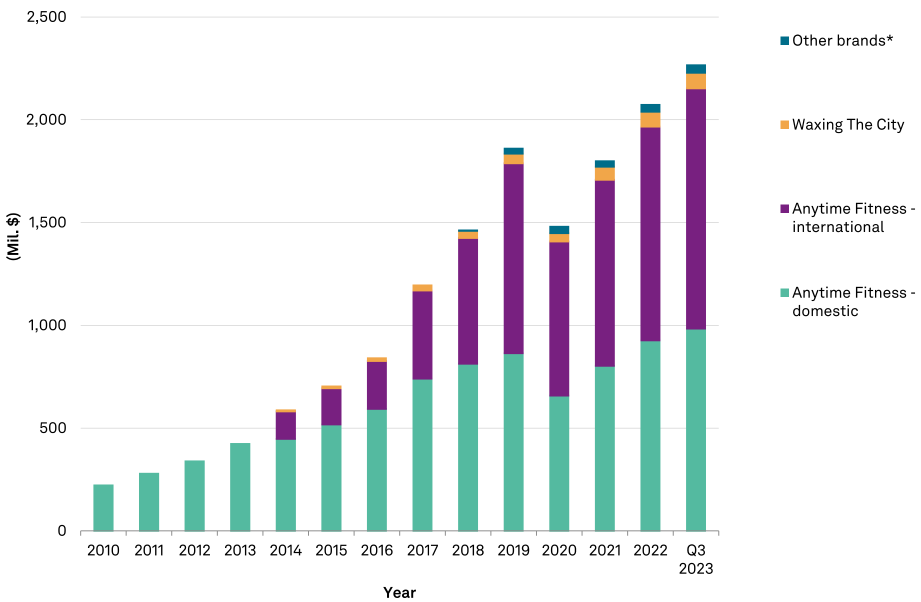


OTF--Orangetheory Fitness. AUV--Average unit volume. Source: Ultimate Fitness Group LLC

SWS for SEB have grown in 13 of the past 14 years due to SEB's system growth and investments in technology to enhance the customer experience and to retain members (see chart 12). SWS for OTF have also grown in 13 of the past 14 years. OTF's system has shown tremendous growth during this period as it uses its science and hear rate-based workouts to attract and retain new members. Even though the SWS have been recovering from the pandemic, they have not returned to its pre-pandemic level (see chart 13).

Chart 12

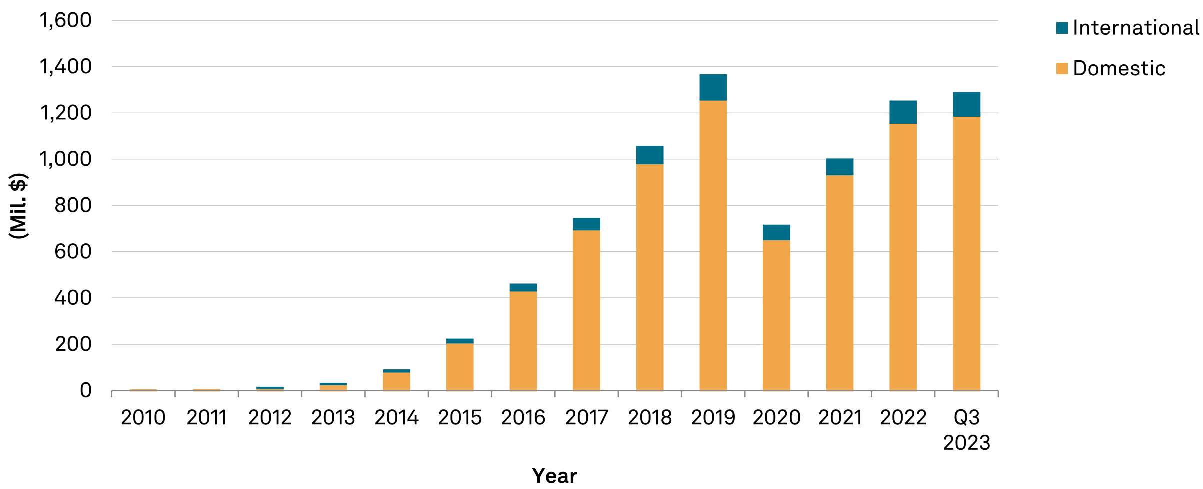
SEB historical systemwide sales



*Other brands include The Bar Method (acquired in 2019) and Basecamp Fitness (acquired in 2018). SEB--Self Esteem Brands. Source: Self Esteem Brands LLC.

Chart 13

OTF historical systemwide sales



OTF--Orangetheory Fitness. Source: Ultimate Fitness Group LLC.

Collateral

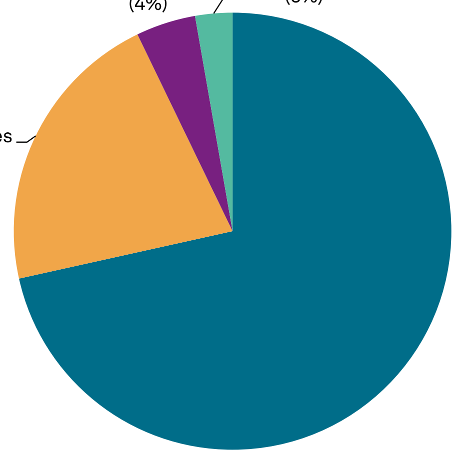
The 2024-1 and 2021-1 notes will be serviced by:

- Existing and future franchise agreements;
- Royalties and fees (including technology and renewal fees);
- Vendor rebate revenue;
- The product sales margin;
- Heart rate monitor and fitness equipment profit;
- Intellectual property;
- Transaction accounts and pledge of equity interests in the issuer and its subsidies;
- Other fees and incomes; and
- The liquidity reserve.

Chart 14 shows the relative initial contributions of the various cash flow streams to the transaction (see the Cash Flow Assumptions section).

Chart 14

Securitized net cash flow
LTM Q3 2023



*Includes royalties, franchise fees, technology fees (net of monitoring service costs associated with the technology fees), and royalties from company-operated locations. Also includes member billing rebates and rebates from other vendors providing equipment and other goods and services to franchisees. §Represents product sales less product cost of goods sold. Distribution sales primarily relate to the sale of key fobs, heart rate monitors, fitness equipment, and wax and other supplies to franchisees and company-operated locations. †Includes initial franchise fees, master franchise fees, renewal fees, and other franchisee payments to the extent not included in other line items. ‡Includes membership dues from Bar Online and revenue from Healthy

Credit Analysis And Assumptions

Key credit considerations

Table 6 shows our key credit considerations for the transaction.

Table 6

Key credit considerations

High franchised percentage	As of Sept. 30, 2023, approximately 99% of Self Esteem and Orangetheory Fitness system is operated by franchisees. We believe a high-franchised percentage provides better cash flow stability and independence from the manager than a lower percentage of franchised stores.
Diversified brand portfolio and franchise network	Rural, suburban and urban markets make up 26%, 45%, and 29% of the combined system respectively. Approximately 88% of the franchisees have been involved with the system for at least five years and 75% are multi-unit operators.
Unhedged revenue from international operations	Revenue from international operations is not hedged for foreign exchange fluctuation, leaving cash flows vulnerable to potential swings in exchange rates. As of Q3 2023, international operations made up 52% of SEB's systemwide sales and 7.7% of Orangetheory Fitness' systemwide sales.

Table 6

Key credit considerations (cont.)

Geographic concentration	The three largest states (Texas, California, and Florida) account for 25% of domestic units for the combined system, and the three largest regions (Japan, Australia, and Southeast Asia(i)) account for 70% of international units. As of Sept. 29, 2023, international sales accounted for approximately 36% of total systemwide sales.

(i)Includes Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Taiwan, Vietnam, and Thailand. SEB--Self Esteem Brands LLC.

Rating methodology

Table 7 shows our specific conclusions for each of the five analytical steps in our ratings process.

Table 7

Credit rating step

Step	Result	Comment
Step 1		
Eligibility analysis	Pass	We believe that a system of franchised fitness clubs 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. Therefore, our subsequent analysis quantifies the impact of the correlated cash flow decline from the combined system and compares that to ongoing required interest and principal payments to the rated debt.
Step 2		
BRP	Fair	SEB's BRP, assuming the merger is completed, is fair.
Cash flow assumptions	See table 8	
Step 3		
Minimum base-case DSCR	1.59x	Principal and interest are fully paid in this scenario.
BVS	3	SEB Funding LLC's BRP is fair, which maps to an unadjusted BVS of 4(i). We adjusted the BVS upward by one notch to 3 because most of the cash flows are revenue-based, and the system, which is 99% franchised, has demonstrated stability through multiple economic downturns.
Anchor	'bbb-'	Determined according to table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Minimum downside DSCR	1.30x	Principal and interest are fully paid in this scenario.
Resiliency score	Satisfactory	Determined according to table 3 of our corporate securitization criteria.
Resiliency adjusted anchor	'bbb'	Determined according to table 4 of our corporate securitization criteria.

Table 7

Credit rating step (cont.)

Step	Result	Comment
Step 4		
Modifier analysis	No adjustment	
Step 5		
Comparable rating analysis	One notch	We applied a one-notch reduction to address the lack of longevity of the brands, the ongoing merger, and a number two position in an industry dominated by a larger, low-cost provider. This adjustment results in a 'BBB- (sf)' rating and is in line with other similarly rated transactions.

(i)The mappings from BRP to BVS are: Excellent=1, Strong=2, Satisfactory=3, Fair=4, Weak=5, and Vulnerable=6. SEB--Self Esteem Brands LLC. BRP--Business risk profile. DSCR--Debt service coverage ratio. BVS--Business volatility score.

Cash flow assumptions

Table 8

Cash flow assumptions

	Cumulative decline (%)		
Asset cash flow category	**Base case**	**Downside case**	**Description**
Royalty revenue and fees	0	25	Franchise and company-owned store royalties, which comprise most of the overall projected cash flow, are a function of store count, AUV, and royalty rates.
All other securitization collections	0	45	All other securitization collections.
Foreign exchange rates	0	Foreign currency depreciation rates consistent with our criteria(i)	Royalties collected from international fitness clubs.

(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 8, we determined that the management fee could increase by up to 346% (translating to an approximately 46% 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. We believe the additional management fee stresses could occur if the combined system experiences a bankruptcy. While the management fee is outlined in the transaction documents, we believe it could be renegotiated in a 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 49.4%. We examined several event risks associated with cash flow losses, including royalty losses from the top three geographies by store count for the combined system (Texas, California, and Florida). Under these scenarios, our analysis showed that the transaction could pay timely interest and full principal by legal final maturity.

Sensitivity run 3: other brands stress

We included an additional sensitivity run where we did not include SEB's "other brands" in our cash flow runs. These other brands include Basecamp Fitness, The Bar Method, and Waxing The City. When this was done, the minimum base-case debt service coverage ratio (DSCR) was 1.53, and the minimum downside DSCR was 1.24.

Sensitivity run 4: SEB only

We modelled the transaction without OTF (see table 9 for assumed capital structure). This is assuming that the merger does not happen. In this situation, the 2024-1 A2 notes will be fully repaid and the 2024-1 VFN will be terminated. The liquidity reserve will also be reduced to $6.1 million. When this was done, the minimum base-case debt service coverage ratio (DSCR) was 2.50 and the minimum downside DSCR was 1.93. Such results are largely in line with a 'BBB-' rating.

Table 9

Projected capitalization for sensitivity 4

	Sept. 30, 2023	As-adjusted	Proforma assuming business combination does not close after escrow period ends (October 2024)
Series 2019-1 OTF(i)	451	0	0
Series 2021-1 class A-2	484	484	484
Series 2021-1 class A-1-LR	6	16	6
Series 2021-1 class A-1-VFN	20	20	20
Series 2024-1 class A-1-VFN(ii)	0	230	0
Series 2024-1 class A-2	0	300	0

(i)On the series 2024-1 closing date, all amounts outstanding under the existing OTF term notes will be repaid and the associated credit agreement will be terminated. (ii)There are no optional one-year extensions on the 2024-1 VFN. We assumed full draws on the $230 million series 2024-1 class A-1 VFN. VFN--Variable funding notes. OTF--Orangetheory Fitness. SEB--Self Esteem Brands.

Structural Protection Summary

The transaction's structural features and credit enhancements (see table 10) are generally consistent with those of other recently rated corporate securitizations.

Table 10

Structural features

Test	SEB Funding LLC (Series 2024-1 and Series 2021-1)
Rapid amortization DSCR trigger (P&I)	1.20x.
Rapid amortization systemwide sales trigger	Less than $865 million prior to the business combination effective date and less than $1.967 billion on and after the business combination effective date.
Cash flow sweep DSCR trigger (P&I)	Less than 1.75x (50% trap) and less than 1.50x (100% trap).
Senior leverage ratio non-amortization test	5.00x (no scheduled amortization if the senior leverage ratio is less than or equal to this level).
ARD horizon(i)	Six years for 2021 class A-2. Five years for 2024 class A-1-VFN. Five years for 2024 class A-2.
Scheduled amortization through ARD (%)	1.00.
Manager termination DSCR trigger (IO)	1.20x.
Event-of-default DSCR trigger (IO)	1.10x.
Management fee	The management fee includes both fixed and variable components. The fixed component is $7.6 million prior to the business combination effective date annually on and after the business combination date, and the variable component is $13,950 prior to the business combination effective date and $12,900 on and after the business combination effective date for every $100,000 of aggregate retained collections over the preceding four quarterly collection periods. The fixed component of the management fee is not subject to a 2% annual increase.

(i)Failure to pay the notes in full by their applicable ARDs constitutes a rapid amortization event but not 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

Following the series 2024-1 issuance, the transaction will include five class A notes that will pay interest and principal quarterly from weekly distributions in the priority shown in table 11. The transaction doesn't currently include any senior subordinated or subordinated notes, but it may issue these notes if certain conditions are met.

Table 11

Payment priority

Priority	Payment
1	With respect to indemnification amounts, release prices, insurance/condemnation proceeds and asset disposition proceeds on deposit in the collection account, first, to reimburse the trustee then the liquidity reserve lender 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	To reimburse the trustee, then the liquidity reserve lender, and then the back-up manager, for any unreimbursed advances, to reimburse the manager for any unreimbursed manager advances, then any control fees, any expenses and indemnities owing to control party (not to exceed $200,000), and workout specialist liquidation fees and workout fees.

Table 11

Payment priority (cont.)

Priority	Payment
3	Successor manager transition expenses if any.
4	Weekly management fee to the manager.
5	Capped securitization operating expense amount and post-default capped trustee expenses amount, which, on and after the series 2024-1 springing amendments implementation date, shall include the back-up manager.
6	Senior notes accrued quarterly interest payments, then the class A-1 notes accrued quarterly commitment fee amount, and then allocate to the hedge payment account.
7	Capped class A-1 notes administrative expenses amount, and then the senior subordinated notes interest reserve amount deficiency amount.
8	Senior subordinated note quarterly accrued interest, if any.
9	Senior notes quarterly interest reserve account deficiency amount and senior subordinated notes interest reserve account deficiency amount.
10	Senior notes accrued quarterly scheduled principal amount, any senior notes scheduled principal deficiency amount, and amounts then 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 and to deposit the outstanding principal amounts for the class A-1-VFN notes for which the class A-1-VFN notes' renewal date has not occurred.
11	Supplemental management fee (including any previously accrued and unpaid).
12	If the class A-1 notes have not been repaid on or before, 100% of the amounts remaining on deposit in the collection account to the senior notes principal payment account to allocate to the class A-1-VFN notes on a pro rata basis until the outstanding principal amount of the class A-1-VFN notes has reached zero.
13	As long as no rapid amortization event has occurred and is continuing and a weekly allocation date occurs during a liquidity reserve period, deposit the liquidity reserve amount, if any, into the liquidity reserve account on that weekly allocation date.
14	As long as no rapid amortization period is continuing and the weekly allocation date occurs during a cash sweeping period, allocate pro rata to the senior notes, then to the principal payment accounts of the senior subordinated notes, and then to the subordinated notes.
15	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.
16	If a rapid amortization event occurs, allocate 100% of amounts remaining in collection account to class A-1-VFN, then to the senior notes on a pro rata basis, and then to the senior subordinated notes.
17	As long as no rapid amortization period is continuing, allocate to the senior subordinated notes principal account an amount equal to the sum of the accrued scheduled principal payment amount, if any, and the senior subordinated notes account deficiency amount.
18	To the subordinated notes interest payment account, pro rata by amount due with each class of subordinated notes, an amount equal to the subordinated notes accrued quarterly interest
19	As long as no rapid amortization period is continuing, allocate to the subordinated notes principal account an amount equal to the sum of the notes principal amount and subordinated notes principal payment deficiency amount.
20	If a rapid amortization event has occurred, allocate 100% of the amounts remaining on deposit in the collection account to the subordinated notes principal payment account.
21	Deposit to the securitization operating expense account any accrued and unpaid securitization operating expenses in excess of the capped securitization operating expense amount after giving effect to priority(v), then pay the control party any expenses and indemnities.
22	To each class A-1 administrative agent pursuant to the applicable class A-1 note purchase agreement for payment, pro rata by amount due, of the excess class A-1 notes administrative expenses amounts.
23	To each class A-1 administrative agent pursuant to the applicable class A-1 note purchase agreement for payment, pro rata by amount due, of each class A-1 notes other amounts.

Table 11

Payment priority (cont.)

Priority	Payment
24	Allocate to the senior notes post-ARD additional interest account any senior notes accrued quarterly post-ARD additional interest amount.
25	Allocate to the senior subordinated notes post-ARD additional interest account, any senior subordinated notes accrued quarterly post-ARD additional interest amount.
26	Allocate to the subordinated notes post-ARD additional interest account any subordinated notes accrued quarterly post-ARD additional interest amount.
27	To deposit to the hedge payment account any accrued and unpaid series hedge payment amount and any other due and unpaid amounts payable to a hedge counterparty, pursuant to the applicable series hedge agreement, in each case pro rata to each hedge counterparty.
28	Allocate to the applicable principal payment accounts an amount equal to any unpaid make-whole prepayment consideration.
29	Pay the remaining funds, if any (the residual amount), at the direction of the master issuer.

VFN--Variable funding notes. LOCs--Letters of credit. 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.

While we believe the company's performance is an important part of the transaction, other factors, such as cash flow, debt reduction, and legal framework, also contribute to our analysis.

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: 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
- 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. Q1 2024: Cooling Off But Not Breaking, Nov. 27, 2023
- Economic Outlook Emerging Markets Q1 2024: Challenging Global Conditions Will Constrain Growth, Nov. 27, 2023
- Global Economic Outlook Q4 2023: Nearing The Rate Plateau, Sept. 27, 2023
- How The Next Slowdown Could Affect U.S. Corporate Securitizations, Aug. 16, 2023