S&P Global Ratings

Research

Presale:

Five Guys Funding LLC (Series 2022-1)

April 12, 2022

PRIMARY CREDIT ANALYST

Christine Dalton

New York

+ 1 (212) 438 1136

christine.dalton@spglobal.com

SECONDARY CONTACT

Jesse R Sable, CFA

New York

+ 1 (212) 438 6719

jesse.sable@spglobal.com

ANALYTICAL MANAGER

Jay Srivats

San Francisco

+ (347) 266-5103

jay.srivats@spglobal.com

Preliminary Ratings

Class	Preliminary rating	Balance (mil. $)	Anticipated maturity	Legal maturity (years)
A-2	BBB- (sf)	200.00	July 2028	30

Note: This presale report is based on information as of April 12, 2022. 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. We assume a full draw on the variable-funding notes amount in our analysis.

Executive Summary

Five Guys Funding LLC's series 2022-1 issuance is a $200.00 million corporate securitization of the Five Guys Holdings Inc. (Five Guys) business. The issuance consists of $200.00 million in class A-2 fixed-rate notes. The company stated it intends to use the proceeds to fund the purchase of approximately 89 remaining stores of their 107 store acquisition from its largest franchisee, Encore Restaurants LLC (Encore). Upon closing, $120.2 million will be placed in a pre-funding account to be used only for the acquisition of these stores and to cover a make-whole payment associated with an optional prepayment if any of the phases do not close. The final phase is scheduled to close July 1, 2022. The total note issuance will result in a trailing 12-month total debt to adjusted EBITDA of 6.8x. Debt repayment is supported by U.S. and Canadian (North American) franchisee payments, bakery subsidiary revenues, international intellectual property (IP) fees up to fourth-quarter 2024, and profits from contributed company-owned stores. There were 1,733 locations in the Five Guys system as of Dec. 31, 2021.

The transaction's key credit features include:

- The manager's long operating history of over 30 years.
- Brand recognition and geographic diversity.
- That a sizeable portion of the transaction revenues are derived from company-operated restaurant operating profit, which may be subject to additional volatility during stressful periods.
- The stable growth in historical systemwide sales, with a five-year compound average growth rate (CAGR) of 13.0%.
- Geographic concentration, with the three largest U.S. states accounting for approximately 23% of the North American systemwide store count as of December 2021.

- Strong positive performance in 2021. North American same-store sales increased by 20.0% in 2021 after a 0.8% increase in 2020, and 5.1% in 2019. Same-store sales were positive from June 2020 onward following the impact of -24.0% same-store sales in March and April of 2020.
- That throughout the coronavirus pandemic, the network has relied on take-out and delivery sales to offset the temporary closures and capacity restrictions, and has partnered with several of the major third-party delivery providers.

Encore Restaurant Acquisition

In March 2022, Five Guys entered into an acquisition agreement to purchase approximately 107 stores from their largest franchisee, Encore, located in Texas, California, Colorado, Oklahoma, and Massachusetts. These are desirable locations because, on average, Encore's stores have higher EBITDAs than the Five Guys company-owned stores. Five Guys has stated its intent to continue operating the acquired stores. Thus far, 18 of the stores have closed and the remaining will be staggered over three phases, with approximately 30 stores being purchased May 1, 2022; approximately 27 stores on June 1, 2022; and approximately 32 stores closing on July 1, 2022. If any of the phases do not close, the funds will be returned to investors with make-whole pre-payment premium.

Impact On Leverage

	Current(i)	Pro forma(ii)	Pro forma with fully drawn VFN(iii)
ABS debt (mil. $)	597	797	847
SNCF (mil. $)	161	180	180
ABS debt to SNCF	3.7	4.4x	4.7x

(i)As of April 12, 2022. (ii)Assumes a $200 million issuance. (iii)Series 2021-1 class A-1 $50 million VFN. VFN--Variable funding notes. ABS--Asset-backed securities. SNCF—Securitized net cash flow. Source: Five Guy's Funding LLC.

Expected Securitization Maturity Schedule

Issue	Principal balance (mil. $)(i)	Anticipated repayment date	Legal final maturity date
Series 2017-1 class A2	397	July 2024	July 2047
Series 2021-1 class AI	50	July 2026	July 2051
Series 2021-1 class A2	200	September 2029	July 2051
Series 2022-1 class A2 (i)	200	July 2028	April 2052

(i)Outstanding principal balance as of April 12, 2022. Source: Five Guys Funding LLC.

Transaction Timeline/Participants

Transaction Timeline

Expected closing date	April 21, 2022.
First payment date	July 2022.
A-2 anticipated repayment date	July 2028.
A-2 legal maturity date	April 2052
Note payment frequency	Quarterly.

Participants

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

Rating Rationale

The preliminary ratings assigned to Five Guys Funding LLC's senior secured notes series 2022-1 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 sales and general and administrative (SG&A) functions, which we believe increases the likelihood of successful replacement following a termination of the current manager. In addition, the transaction has a backup manager, FTI Consulting Inc. (established in the initial series 2017-1 securitization), 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 of the initial series 2017-1 transaction, the manager no longer owns substantially all of the business' North American 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 Five Guys creditors could disrupt cash flow to the securitization following a manager bankruptcy. Legal opinions related to true sale and nonconsolidation have been or will be provided before 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).

- 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.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considered the potential exposure of the transaction to ESG credit factors, for Five Guys we consider our ESG indicator as neutral, which, in our view is in line with others in the corporate securitization sector. We have generally accounted for these ESG factors, along with other factors, in our business volatility score and cash flow assumptions.

Under the 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 opinion, 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 have an impact on 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 partially offset this with off-premise sales and increased delivery penetration. In addition, restaurants are vulnerable to foodborne illnesses, labor shortages, and increased costs should there be an increase to the federal minimum wage.

Under the governance credit factors, we consider how Five Guys executes and monitors its overall strategy, along with its internal controls and risk management, within our operational risk assessment framework. In our view, Five Guys' experienced management team, with its strong track record through multiple economic and business cycles and demonstrated resilience during recessions, contributes to the company's operational strength.

Table 1

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)
Five Guys(v)(vi)	2022-1	BBB- (sf)(vi)	1,733	1.7(vii)	65	16	Over 30 years	QSR	6.8	1.94	1.54
Wendy's	2022-1	BBB- (sf)	6,949	1.8	95	14	Over 30 years	QSR	6.9	1.64	1.33
Jimmy John's	2022-1	BBB (sf)	2,674	0.8	98	0	Over 30 years	QSR	6.2	1.83	1.53
Servpro	2022-1	BBB- (sf)	1,923	1.7	100	0	Over 30 years	QSR	7.0	1.70	1.40
Jack in the Box	2022-1	BBB (sf)	2,218	1.9	93	0	Over 30 years	QSR	5.6	1.84	1.44
Planet Fitness	2022-1	BBB- (sf)	2,193	1.7	90	3	Over 30 years	Fitness	7.7	2.00	1.30
Jersey Mike's	2021-1	BBB (sf)	2,027	1.1	99	0	Over 30 years	QSR	5.4	2.00	1.50
Dunkin' Brands	2021-1	BBB (sf)	20,552	1.0	100	43	Over 30 years	QSR	6.7	1.70	1.40
Driven Brands	2021-1	BBB- (sf)	3,331	1.1	84	19	Over 30 years	Auto services	5.5	1.80	1.40
Taco Bell	2021-1	BBB (sf)	6,895	1.8	93	9	Over 30 years	QSR	4.9	1.84	1.62
Sonic	2021-1	BBB (sf)	3,524	1.7	92	0	Over 30 years	QSR	6.5	1.79	1.62
ServiceMaster Brands	2021-1	BBB- (sf)	2,624	1.2	99	31	Over 30 years	Restoration services	8.0	1.80	1.40
Five Guys	2021-1	BBB- (sf)	1,684	1.3	73	18	Over 30 years	QSR	7.8	1.70	1.50
Hardee's/Carl's Jr.	2021-1	BBB (sf)	3,834	1.3	94	26	Over 30 years	QSR	7.2	1.80	1.40
Wendy's	2021-1	BBB (sf)	6,838	1.8	95	14	Over 30 years	QSR	6.9	1.76	1.45
Domino's	2021-1	BBB+ (sf)	17,644	0.9	98	64	Over 30 years	QSR	6.4	1.80	1.40
SERVPRO	2021-1	BBB- (sf)	1,860	1.5	100	0	Over 30 years	Restoration services	8.1	1.70	1.40
Arby's	2020-1	BBB- (sf)	3,520	1.2	66	0	Over 30 years	QSR	5.9	1.50	1.30
Planet Fitness	2019-1	BBB- (sf)	1,899	2.1	96	3	29 years	Fitness	6.5	1.70	1.30
Jack in the Box	2019-1	BBB (sf)	2,240	1.5	94	0	Over 30 years	QSR	4.9	1.90	1.60

Table 1

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)
Applebee's/IHOP	2019-1	BBB (sf)	3,652	2.2	98	7	Over 30 years	CDR	6.0	1.70	1.40
Jimmy John's	2017-1	BBB+ (sf)	2,690	0.8	98	0	Over 30 years	QSR	5.2	1.80	1.70
Cajun Global	2017-1	BBB- (sf)	1,588	0.7	85	32	Over 30 years	QSR	5.2	1.80	1.40
TGIF	2017-1	B (sf)	903	2.7	94	48	Over 30 years	CDR	5.6	1.30	1.00

(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.

Key Ratings Considerations

Based on 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 1,733 restaurants located in 49 states and 22 countries and territories.
- The system is 65% franchised with the inclusion of approximately 107 Encore restaurants. Without the inclusion of Encore, Five Guys is a 71% franchised system. The company's goal is to return to 70% by 2024 through opening new U.S. franchise stores.
- The legal isolation of the securitization assets, which is accomplished through a true sale to the bankruptcy-remote securitization entities (issuer and guarantors).

Weaknesses

- Five Guys operates in a highly competitive industry with relatively low barriers to entry.
- Of the retained collections (including all 107 Encore stores as company-owned), 46% are sourced from non-royalty-based revenues (e.g., company-owned store EBIDTA, bread, etc.), which can exhibit more volatility.

- Five Guys' international presence in 22 countries exposes the company to various currency, commodity, and supply chain risks.
- The transaction has a long legal maturity of 30 years, which is typical in this asset class.

Mitigating factors

- Five Guys believes it can ensure superior quality over its competitors by using higher quality items, including "never frozen" beef burgers.
- Five Guys' seasoned franchisee base and growing system sales have provided stability to non-royalty-based revenues.
- Commodity price hedging has tamed supply chain and inflation issues.
- Under our stress scenario, the notes would receive timely interest and ultimate principal payments by maturity.

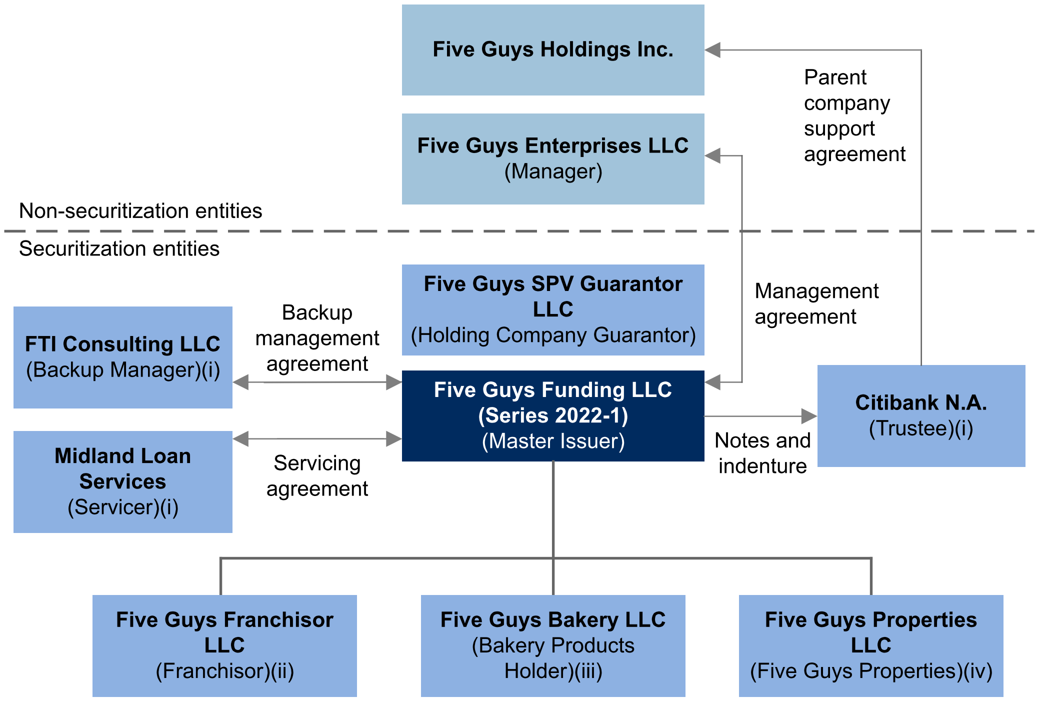
Industry Outlook

The restaurant industry is highly competitive in price and product offerings. Many operators focus on altering the menu mix and introducing new products toward value offerings to drive guest traffic. Leading into 2020, the sector's performance was mixed due to tepid economic conditions and meaningful weakness at certain restaurant operators. Amid the COVID-19 pandemic, there was a large shift toward delivery options as consumers sought to comply with stay-at-home orders. This led to an increase in delivery orders and ticket sizes due to more people working from home. However, with the rollout of several vaccines globally and the easing of pandemic-induced lockdowns, the shift to delivery slowed in 2021.

The restaurant industry stands to benefit from increased customer spending in 2022 due to consumers' higher savings levels, a tight job market, and the possibility of declining COVID-19 cases. Still, pent-up demand for in-person dining will likely decline over time and consumer spending will eventually return to pre-pandemic levels. Further, commodity cost inflation and wage increases will continue to pressure restaurant margins. In the face of these market dynamics, customers will likely trade down from full-service restaurant offerings to more affordable quick-service options. Overall, we expect restaurant operators will see strong performance in first-half 2022 before it returns to pre-pandemic levels in the second half, though surges in COVID-19 cases due to variants could affect this outlook.

Chart 1

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.

Summary Of The Business

Founded in 1986 and based in Lorton, Va., Five Guys Holdings Inc. operates and franchises a chain of quick-service restaurants (QSRs) in the U.S., Canada, Europe, Asia, and the Middle East. Five Guys aims to deliver fresh and quality food with a focus on burgers, fries, and milkshakes.

The Five Guys system includes 1,733 total restaurants as of Dec. 31, 2021, in the U.S. and across multiple countries, with 979 North American franchised locations, 496 company-operated locations (17 of these in international markets and are not included in the securitization), 211 joint venture owned-and-operated locations in the U.K, France, Spain, and Germany, and 47 international franchisees. (None of these are included in the securitization.) Following the final phase of the approximately 107-store Encore acquisition, the Five Guys system will be comprised of 603 company-operated locations (17 of the company-owned stores are in international markets [not included in the securitization]), 872 franchised locations, and 211 joint venture international locations, and 47 international franchisees (see chart 2). Approximately 84% of restaurants are located in the U.S. and Canada, primarily concentrated in the Northeast and South (see chart 3). The company also operates and owns Five Guys Bakery LLC, which manufactures and distributes all bakery products to every restaurant in the Five Guys system.

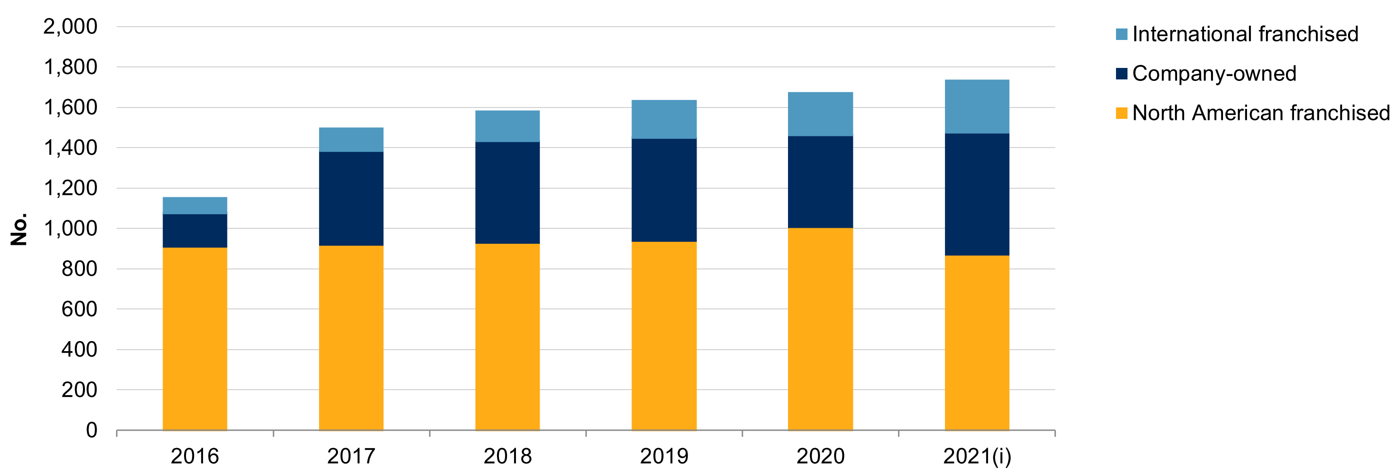
Cash flows from Five Guys' restaurant business are derived from U.S. and Canadian franchisee payments, bakery subsidiary revenues, IP fees, and profits from contributed company-owned stores.

Approximately 71% of Five Guys restaurants were franchised as of Dec. 31 2021. Post-acquisition, approximately 65% of Five Guys' restaurants will be franchised as of July 1, 2022. Each franchised location in North America operates under a franchise agreement that requires an initial franchise fee payment to Five Guys and a recurring royalty fee of approximately 6% of gross sales.

Systemwide store count growth has steadily increased over the last few years, with a CAGR of 4.0% since 2017 (see chart 4). This has moderated from the rapid growth rate in previous years when the system grew to 1,495 stores in 2017 from 25 stores in 2004. In first-quarter 2021, North American and international franchised stores grew by six and five locations, respectively, from year-end 2020.

Chart 2

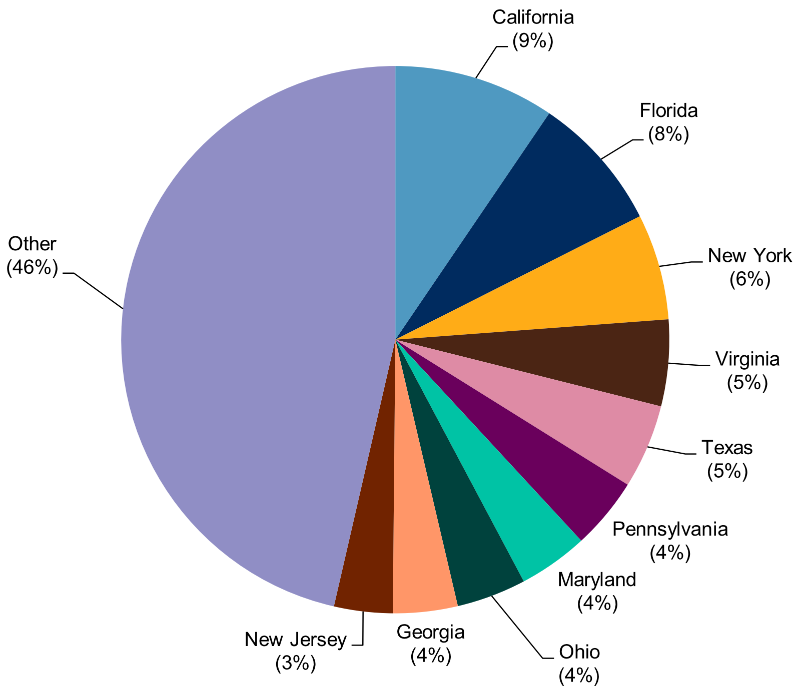
Historical Store Counts
Systemwide restaurant count



Source: Five Guys Funding LLC. (i)Figures assume the acquisition of 107 Encore Restaurants (to be completed July 1, 2022).

Chart 3

State Concentrations In North America
Top 10 states by total North American restaurant store count(i)

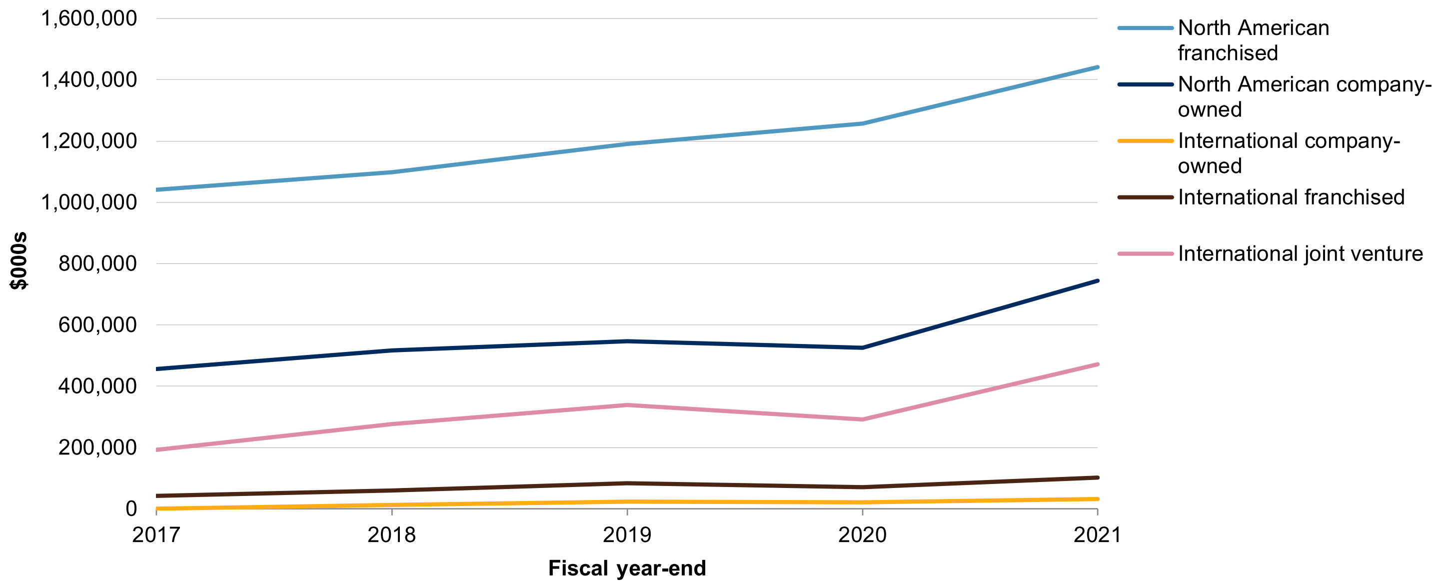


Source: Five Guys Funding LLC. (i)Figures assume the acquisition of 107 Encore Restaurants (to be completed July 1, 2022).

North American franchised and North American company-owned stores, which make up the vast majority of Five Guys' locations, have increased average unit volume (AUV) year over year since 2017 to $1.7 million in 2021 from $1.2 million in 2017. In 2021, there was a 20% increase in AUV driven by a double-digit increase in traffic, increase in pricing and an increase in delivery orders. The delivery sales include the pass-through third-party delivery service fees for which royalties are calculated on. We view this level of AUV to be sustainable going forward (see chart 5). The international locations have demonstrated a similar trend, with international franchised locations and international company-owned locations experiencing increases in the last few years but still remaining at a higher level than in the U.S. at $2.3 million. International joint venture AUVs experienced a slight decrease in fourth-quarter 2021 compared to 2019. International locations were more negatively impacted than the North American locations due to a greater level of COVID-19-related restrictions. We note that international assets are not included in the transaction.

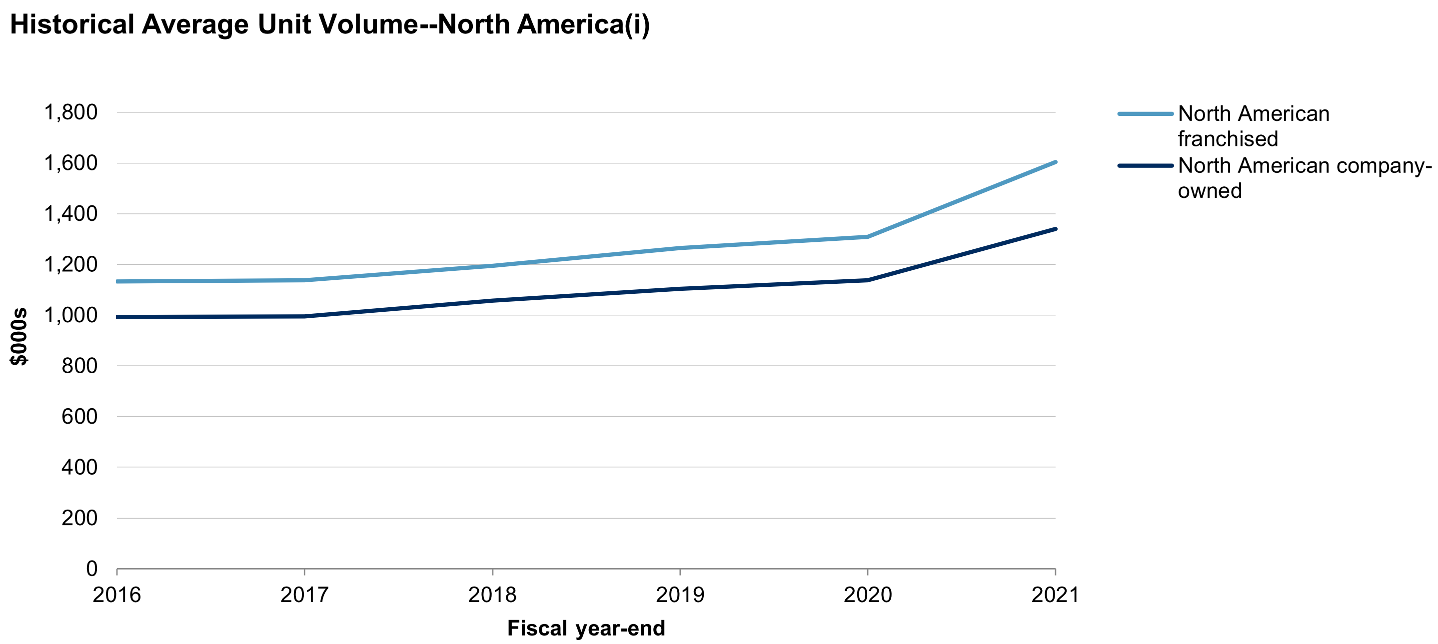
Chart 4

Historical Systemwide Sales Contribution(i)



Source: Five Guys Funding LLC. (i)Figures assume the acquisition of 107 Encore Restaurants (to be completed July 1, 2022).

Chart 5



Source: Five Guys Funding LLC. (i)Figures are inclusive of all 107 Encore Restaurants LLC stores.

Collateral

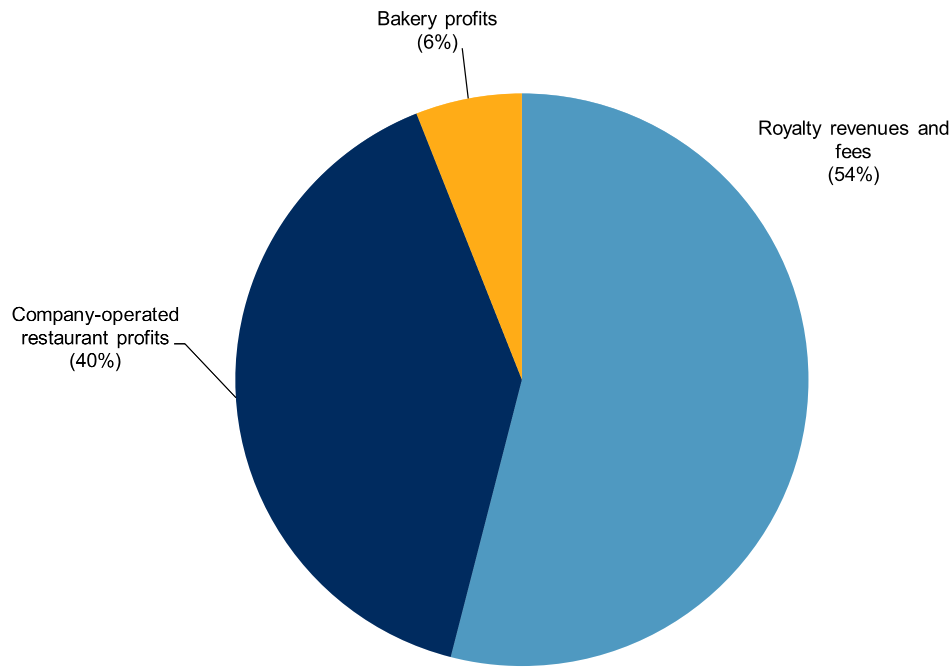
The notes will be secured by a security interest in substantially all of the issuer's and guarantors' revenue-generating assets and will include:

- Existing and future U.S. and Canadian franchise royalties and fees;
- Royalties and operating profit on existing and future company-owned restaurants (including approximately 107 Encore restaurants);
- Bakery income;
- Existing and future U.S. and Canadian IP;
- Certain transaction accounts;
- International IP license fees (the only international asset backing the issuance), which terminate in 2024; and
- A pledge of the equity interests in the issuer and its subsidiaries.

Chart 6 illustrates the relative initial contributions of the various cash flow streams to the transaction (see table 4 for more details on each category of securitization collections).

Chart 6

Securitized Net Cash Flows



Source: Five Guys Funding LLC. (i)Figures assume the acquisition of 107 Encore Restaurants (to be completed July 1, 2022).

Key Credit Considerations

Table 2 outlines the key credit factors we considered in our analysis.

Table 2

Key Credit Considerations

Long operating history	The first Five Guys opened in 1986, and the brand has survived multiple economic downturns and built a loyal customer base. This supports the likelihood that brand loyalty, and thus sales, will continue even if Five Guys International LLC is replaced as the manager.
High franchised percentage	As of Dec. 31, 2021, approximately 71% of Five Guys' system is operated by franchisees, which will decrease to 65% upon the closing of all of the 107 Encore Restaurants LLC stores. Management forecasts that this will return back to 70% level by 2024. We believe a high franchised percentage provides better cash flow stability and independence from the manager than a lower percentage of franchised stores.
Large domestic geographic concentrations	The geographic concentration in the three largest states accounts for 23% of the company's U.S. store count.

Credit Rating Methodology

Our conclusions for each of the five analytical steps in our rating process for the series 2022-1 transaction are shown in table 3.

Table 3

Credit Rating Step

Step	Result	Comment
Step 1		
Eligibility analysis	Pass	We believe 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 their reliance on the manager's SG&A functions, which we believe can be transferred to a backup manager). As long as a brand has sufficient customer loyalty, royalty revenues can remain available to service securitization debt, assuming the assets have been isolated via a true sale to a bankruptcy-remote special-purpose entity. Because we do not believe substantially all cash flow from the system will be at risk following a manager bankruptcy, our subsequent analysis quantifies the impact of the correlated cash flow decline from the Five Guys system and compares that to ongoing required interest and principal payments to the rated debt.
Step 2		
BVS	4(i)	Five Guys' BRP is weak, which maps to an unadjusted BVS of 5(i). 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	Our cash flow assumptions account for the 107 restaurants that are to be completed by July 1,2022.
Min. base DSCR	1.94x	Principal and interest are fully paid in this scenario.
Anchor	'bbb-'	Determined according to table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Min. downside run DSCR	1.54x	Principal and interest are fully paid in this scenario.
Step 3		
Resiliency score	Satisfactory	Determined according to table 3 of our Corporate Securitization criteria.
Resiliency adjusted anchor		Determined according to table 4 of our Corporate Securitization criteria.
Step 4		
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 5		
Comparable rating analysis	1 notch downward adjustment	Five Guys' franchised percent (71%)/(65% post-acquisition) and total store count (1,733) 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. SG&A--Sales, general, and administrative. Five Guys--The Five Guys Enterprises LLC. DSCR--Debt service coverage ratio. BVS--Business volatility score. BRP-- Business risk profile.

Table 4 shows our cash flow assumptions.

Table 4

Cash Flow Assumptions

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

(i)For the downside case, we applied periodic stresses to non-U.S. store revenue to address the risk of foreign exchange rate volatility. We assumed foreign currency depreciation rates consistent with our criteria, "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, we determined that the management fee could increase by as much as 95.0% (translating to an approximately 59.0% 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 what could occur if Five Guys 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 55.0%. We examined several event risks associated with cash flow losses, including royalty losses from the top three geographies by store count (California, Florida, and New York) and from the top 10 franchisees. Under these scenarios, our analysis showed that the transaction could pay timely interest and full principal by legal final maturity.

Structural Protection Summary

The transaction's structural features and credit enhancements (see table 5) are generally consistent with those of other recently rated corporate securitizations.

Table 5

Structural Features

Test	Five Guys Funding LLC (Series 2022-1)
Rapid amortization DSCR trigger (P&I)	1.20x

Table 5

Structural Features (cont.)

Cash trap DSCR trigger (P&I)	Less than 1.75x but equal to or less than 1.50x (50% trap) and less than 1.5x (100% trap)
Securitization leverage ratio non-amortization test (total debt/EBITDA)	Less than or equal to 5.00x
ARD horizon(i)	6 years for 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, which includes both fixed and variable components, is a function of the total stores in operation. According to the transaction documents, the fixed component is assumed to be $25 million annually, and the variable component is assumed to be $25,000 for each franchise store and $55,000 for each company store. The management fee is also subject to a 2% annual increase if the increased amount does not exceed 50% of the retained collections in the preceding four quarterly collection periods.

(i)The 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.

Additional debt incurrence covenants

The transaction also includes the following debt incurrence covenants:

- The holding company leverage ratio must be less than or equal to 7.0x;
- The securitization leverage ratio must be less than 6.5x; and
- The DSCR must be greater than or equal to 2.0x, among other conditions.

Payment Priority

Following the series 2022-1 issuance, the transaction will include three series of class A-2 notes and one series of class A-1 notes that will pay interest and principal quarterly from weekly distributions in the priority shown in table 6. The transaction does not currently include any senior subordinated or subordinated notes, but it may issue these notes if certain conditions are met.

Table 6

Payment Priority

Priority	Payment
1	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; all other senior notes; if item no class A-1 note amortization event, to the class A-1 notes; to the senior subordinated notes, if any; and to the subordinated notes, if any.

Table 6

Payment Priority (cont.)

Priority	Payment
2	To the trustee, then to the servicer for unreimbursed advances; then to the manager for unreimbursed advances; and then to the servicer for servicing, liquidation, and workout fees.
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.
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 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 is continuing, any cash trapping amount to the cash-trap reserve account.
14	If a rapid amortization has occurred 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 event is continuing, the subordinated notes scheduled principal payment amount and then the subordinated notes scheduled principal payment deficiency amount, if any.
21	If a rapid amortization 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.

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: 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
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Economic Research: U.S. Biweekly Economic Roundup: A Break In The Action, May 21, 2021
- U.S. Restaurants And Foodservice Distributors Face A Jagged Recovery While Food And Beverage Fare Better, March 1, 2021
- Credit FAQ: The Key Ingredients For Whole Business Securitization Ratings, Feb. 22, 2019
- Restaurant Securitizations Are Structured To Survive A Big Bite, Sept. 7, 2017

- Why Social Media Should Be A #trendingtopic In Corporate Securitization Analysis, June 9, 2017
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, Dec. 16, 2016