S&P Global Ratings

Research

Presale:

Wendy's Funding LLC (Series 2022-1)

March 21, 2022

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Preliminary Ratings

Class	Preliminary rating	Balance (mil. $)	Anticipated repayment date	Legal final maturity date
A-2-I(i)	BBB (sf)	250.00	March 2029	March 2052
A-2-II(i)	BBB (sf)	250.00	March 2032	March 2052

Note: This presale report is based on information as of March 21, 2022. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)The individual tranche sizes are preliminary. The aggregate class A-2 amount will be at least $500 million, and we assumed an additional $100 million in our analysis. We also assumed a full draw on the $300 million series 2021-1 class A-1 variable-funding notes.

Executive Summary

Wendy's Funding LLC's series 2022-1 issuance is a $500.00 million corporate securitization of The Wendy's Co. (Wendy's) business. In our analysis, we assumed an additional $100 million of the aggregate class A-2 notes. Founded in 1969 in Columbus, Ohio, Wendy's is a quick-service restaurant (QSR) company in the hamburger sandwich segment, engaged in the business of operating, developing and franchising a system of restaurants. As of Jan. 2, 2022, 94% of Wendy's 6,949 restaurants were franchised, with 328 franchisees operating 6,541 restaurants. With restaurants in all 50 states and 31 foreign countries and U.S. territories, Wendy's global systemwide sales totaled $12.5 billion in 2021.

The series 2022-1 senior notes will be the sixth series issued by Wendy's Funding LLC (the master issuer) since 2015. Table 1 shows the series 2022-1 issuance's impact on leverage, while table 2 and chart 1 show the expected maturity schedule for Wendy's Funding LLC's outstanding series.

Debt repayment is supported by franchisee payments, license payments, net rental income, and profits from contributed company-owned stores.

Impact On Leverage

	Current(i)	Pro forma(ii)	Pro forma with fully drawn VFN(iii)
ABS debt (mil. $)	2,333	2,933	3,233
SNCF (mil. $)	525	525	525

Impact On Leverage (cont.)

	Current(i)	Pro forma(ii)	Pro forma with fully drawn VFN(iii)
ABS debt to SNCF	4.4x	5.6x	6.2x

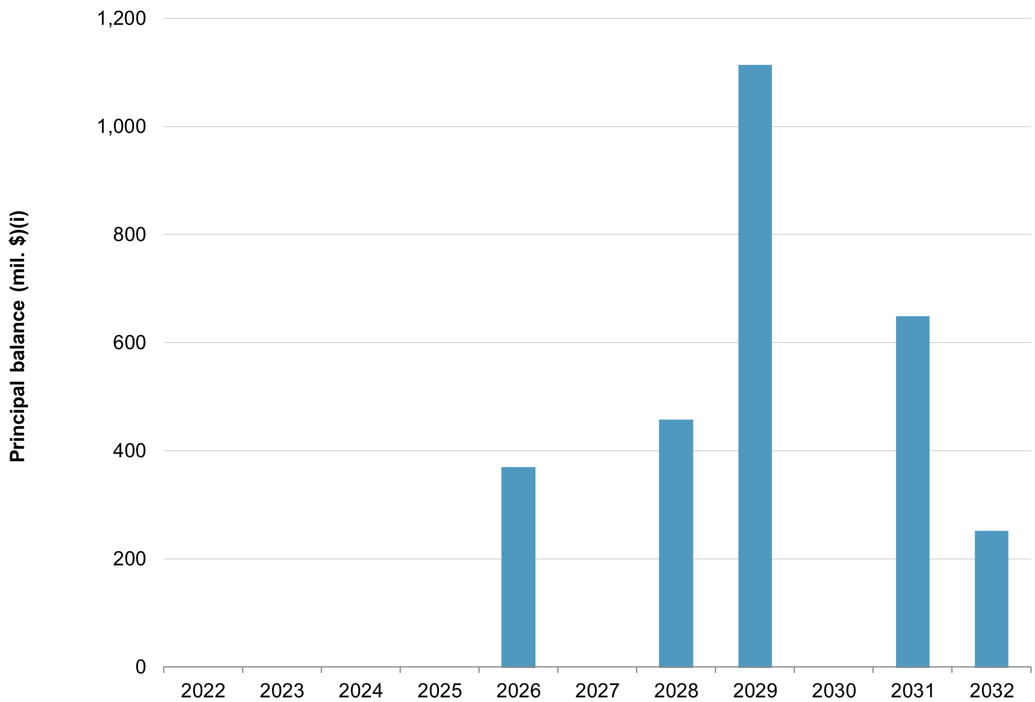
(i)As of Jan. 2, 2022 (ii)Assumes a $600 million issuance. (iii)Series 2021-1 class A-1 $300 million VFN. VFN--Variable funding notes. ABS--Asset-backed securities. SNCF—Securitized net cash flow. Source: The Wendy's Co.

Expected Securitization Maturity Schedule

Issue	Principal balance (mil. $)(i)	Anticipated repayment date	Legal final maturity date
Series 2018-1 class A-2-II	456	March 2028	March 2048
Series 2019-1 class A-2-I	368	September 2026	June 2049
Series 2019-1 class A-2-II	414	September 2029	June 2049
Series 2021-1 class A-2-I	448	March 2029	June 2051
Series 2021-1 class A-2-II	647	June 2031	June 2051
Series 2022-1 class A-2-I(ii)	250	March 2029	March 2052
Series 2022-1 class A-2-II(ii)	250	March 2032	March 2052

(i)Outstanding principal balance as of Jan. 2, 2022 (ii)The aggregate class A-2 amount will be at least $500 million. In our analysis, we assumed an additional $100 million. Individual tranche sizes are preliminary. Source: The Wendy's Co.

Securitization Anticipated Repayment Date Schedule



(i)Outstanding principal balance as of Jan. 2, 2022. Source: The Wendy's Co.

Transaction Timeline/Participants

Transaction Timeline

Expected closing date	April 1, 2022.
First payment date (interest)	June 15, 2022.
First payment date (principal)	Sept. 15, 2022.
Class A-2-I ARD	March 15, 2029.
Class A-2-II ARD	March 15, 2032.
Class A-2-I legal maturity date	March 15, 2052.
Class A-2-II legal maturity date	March 15, 2052.
Note payment frequency	Quarterly.

ARD--Anticipated repayment date.

Participants

Master issuer	Wendy's Funding LLC.
Guarantors	Quality Is Our Recipe LLC, Wendy's Properties LLC, and Wendy's SPV Guarantor LLC.
Trustee	Citibank N.A.
Servicer/control party	Midland Loan Services (a division of PNC Bank N.A.).
Manager	Wendy's International LLC.
Backup manager	FTI Consulting Inc.
Lead arranger	Barclays Capital Inc.

Rating Rationale

The preliminary ratings assigned to Wendy's Funding LLC's senior secured notes series 2022-1 reflect our assessment of:

- The brand strength. This includes the strength of the Wendy's brand, the likelihood for the brand to survive through a Wendy's 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 2015-1 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 2015-1 transaction, 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 Wendy's creditors could disrupt cash flow to the securitization following a manager bankruptcy. Legal opinions related to true sale and nonconsolidation have been or will be provided before this transaction's closing.
- The asset performance 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).
- The 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 liquidity. The transaction is supported by 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 transaction's potential exposure to 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 restaurant chains would face due to increased environmental regulations or climate events, such as extreme storms or floods. In our view, Wendy's supply chain is not an outlier in greenhouse gas emissions or pollutants, and every branded restaurant is subject to a variety of federal, state, and local environmental laws and regulations.

Under the social credit factors, we consider the exposure restaurant chains have to public health risks and changes in demographic trends. The poignant example of the COVID-19 pandemic demonstrates how health and safety fears can cause widespread temporary disruptions to businesses, which, in turn, could affect the collateral performance backing the securitization. The restaurant industry is dependent on consumer discretionary spending, which can materially diminish during economic downturns. However, Wendy's has addressed this with its diverse menu tailoring to all dayparts and focus on its digital footprint. Restaurants are also vulnerable to foodborne illness, labor shortage, and increased costs, including any increase to the federal minimum wage.

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

Key Ratings Considerations

Based on our review of Wendy's operations and performance history, we considered the following transaction strengths, weaknesses, and mitigating factors.

Strengths

- Wendy's has a long operating history (over 50 years), which spans multiple economic downturns.
- Wendy's system benefits from scale and geographic diversity, with 6,949 restaurants located in 31 countries and U.S. territories.
- A diverse menu mix that offers customers options in all dayparts.
- The system is 94% franchised, and the top 10 franchisees have an average tenure of 26 years.
- The company's established digital presence. In 2021, membership in Wendy's digital loyalty reward program increased 75% year over year in the U.S., and digital sales comprised approximately 8.5% of global sales.
- The robust system metrics, with global systemwide sales growing in 25 of the past 27 years.
- The legal isolation of the securitization assets, accomplished through a true sale to the bankruptcy-remote securitization entities (issuer and guarantors).

Weaknesses

- Wendy's operates in a highly competitive industry with relatively low barriers to entry.
- Twenty-five percent of retained collections are sourced from non-royalty-based revenues, which can exhibit more volatility.
- Wendy's international presence in 31 countries and U.S. territories exposes the company to various supply chain and currency risks.
- Longer-term pressure on store profitability from labor shortages and inflation could degrade the system.

Mitigating Factors

- Wendy's focus on higher quality "never frozen" beef burgers and diverse menu mix increases the company's reach to consumers.
- Wendy's seasoned franchisee base and growing system sales have provided stability to non-royalty-based revenues.
- Wendy's scale, geographic diversity, and contracts that lock in commodity prices on an annual or multiyear basis, mitigate supply chain and currency risks.
- Wendy's is a highly franchised system (94%), therefore the impact on store profitability would not have an immediate impact on the highly revenue-based securitized net cash flows.

Table 1

Key Credit Metrics And Peer Comparisons

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)
Wendy's(v)	2022-1	BBB (sf)	6,949	1.8	94.1	14.5	Over 30 years	QSR	5.8	1.7	1.4
Jimmy John's	2022-1	BBB (sf)	2,674	0.8	98.0	-	Over 30 years	QSR	6.2	1.8	1.5
ServPro	2022-1	BBB- (sf)	1,923	1.7	100.0	-	Over 30 years	QSR	7.0	1.7	1.4
Jack in the Box	2022-1	BBB (sf)	2,218	1.9	93.0	-	Over 30 years	QSR	5.6	1.8	1.4
Planet Fitness	2022-1	BBB- (sf)	2,193	1.7	90.0	2.9	Over 30 years	Fitness	7.7	2.0	1.3
Jersey Mike's	2021-1	BBB (sf)	2,027	1.1	99.0	0.1	Over 30 years	QSR	5.4	2.0	1.5
Dunkin' Brands	2021-1	BBB (sf)	20,552	1.0	100.0	43.0	Over 30 years	QSR	6.7	1.7	1.4
Driven Brands	2021-1	BBB- (sf)	3,331	1.1	84.0	19.0	Over 30 years	Auto services	5.5	1.8	1.4
Taco Bell	2021-1	BBB (sf)	6,895	1.8	93.0	8.9	Over 30 years	QSR	4.9	1.8	1.6
Sonic	2021-1	BBB (sf)	3,524	1.7	92.0	-	Over 30 years	QSR	6.5	1.8	1.6
ServiceMaster Brands	2021-1	BBB- (sf)	2,624	1.2	99.0	31.0	Over 30 years	Restoration services	8.0	1.8	1.4
Five Guys	2021-1	BBB- (sf)	1,684	1.3	73.0	18.0	Over 30 years	QSR	7.8	1.7	1.5
Hardee's/Carl's Jr.	2021-1	BBB (sf)	3,834	1.3	94.0	26.0	Over 30 years	QSR	7.2	1.8	1.4
Domino's	2021-1	BBB+ (sf)	17,644	0.9	98.0	64.0	Over 30 years	QSR	6.4	1.8	1.4

Table 1

Key Credit Metrics And Peer Comparisons (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)
Arby's	2020-1	BBB- (sf)	3,520	1.2	66.0	0.2	Over 30 years	QSR	5.9	1.5	1.3
Applebee's/IHOP	2019-1	BBB (sf)	3,652	2.2	98.0	7.0	Over 30 years	CDR	6.0	1.7	1.4
Focus Brands	2018-1	BBB (sf)	6,191	1.7	96.0	24.0	Over 30 years	CDR	5.8	1.6	1.5
TGIF	2017-1	B (sf)	903	2.7	94.0	48.0	Over 30 years	CDR	5.6	1.3	1.0

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

Industry Outlook

The restaurant industry is highly competitive in price and product offerings. Many operators focus on altering the menu mix and new products toward value offerings to drive guest traffic. 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.

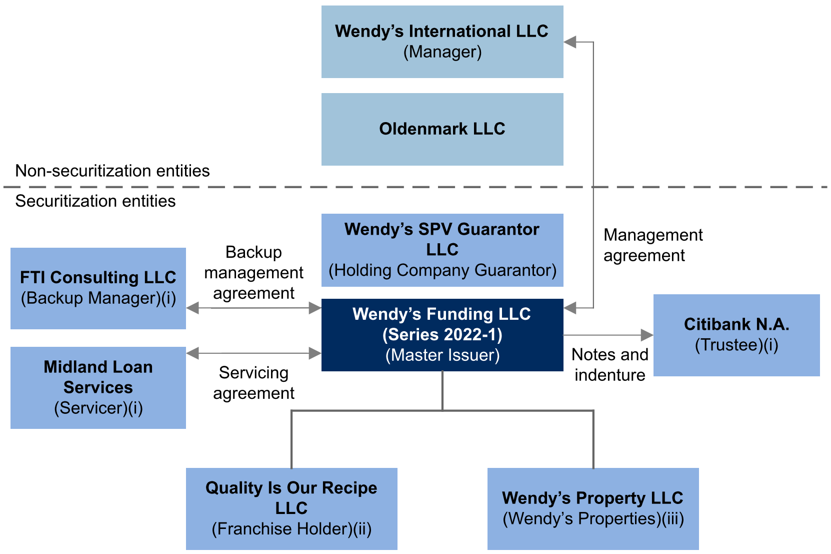
The restaurant industry stands to benefit from increase customer spending this year due to the high savings levels, tight job market, and possibility of declining COVID-19 cases. Still, pent-up demand for in-person dining will likely decline over time and consumer spending will eventually return to pre-pandemic 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 of 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.

Transaction Diagram

Chart 1 shows the transaction structure.

Chart 1

Transaction Structure



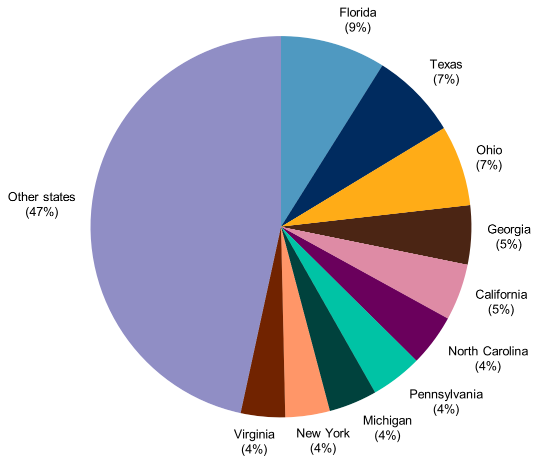
(i)Third-party entities. (ii)Owns the franchise agreements, development agreements, and securitization intellectual property.
(ii)Owns the real estate assets and contributed restaurants.

Summary Of The Business

Wendy's is the second-largest QSR company in the hamburger sandwich segment in the U.S. The company is primarily engaged in operating, developing, and franchising a system of distinctive QSRs, with an emphasis on fresher ingredients than many of its traditional QSR competitors. Wendy's opened its first restaurant in Columbus, Ohio in 1969. As of Jan. 2, 2022, there were 6,949 restaurants in the Wendy's system, with 94% of the total system (6,541 restaurants) franchised. The franchised restaurants are located in all 50 states in the U.S. (5,535 restaurants) and 31 foreign countries and U.S. territories (1,006 restaurants) (see charts 2 and 3). Wendy's operates 408 company-owned restaurants.

Chart 2

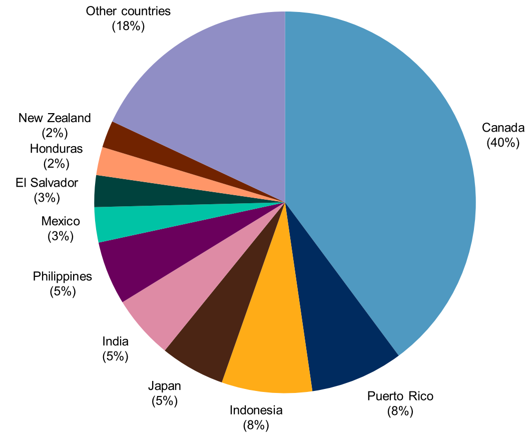
Top 10 U.S. States By Total Restaurants



Source: The Wendy's Co.

Chart 3

Top 10 International Concentration By Total Restaurants



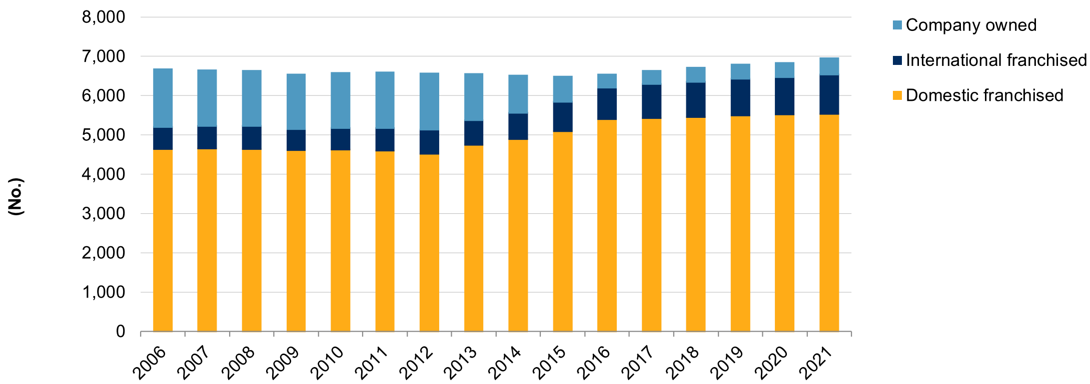
Source: The Wendy's Co.

Approximately 94% of Wendy's restaurants are franchised, and they are operated by 328 franchisees. Each franchised location operates under a franchise agreement that requires an initial franchise fee (unless waived) payment to Wendy's and a recurring royalty fee of approximately 4% for both U.S. and international locations. Globally, Wendy's franchisees operate an average of 20 restaurants. The 10 largest franchisees operate approximately 29% of the total franchised restaurants and have been in the Wendy's system for an average of 26 years. The largest franchisee operates fewer than 400 restaurants, or approximately 6% of total franchised restaurants.

Over the years, systemwide restaurant count has increased and became more franchised, driven by Wendy's system optimization initiative to reach and maintain 5% company ownership of the total system by shifting company-owned restaurants to franchisees (see chart 4). In 2021, Wendy's saw net new openings of four company-owned restaurants and 117 franchised restaurants. Wendy's also entered the U.K. market in 2021, opening five company-owned restaurants.

Chart 4

Historical Systemwide Restaurant Count

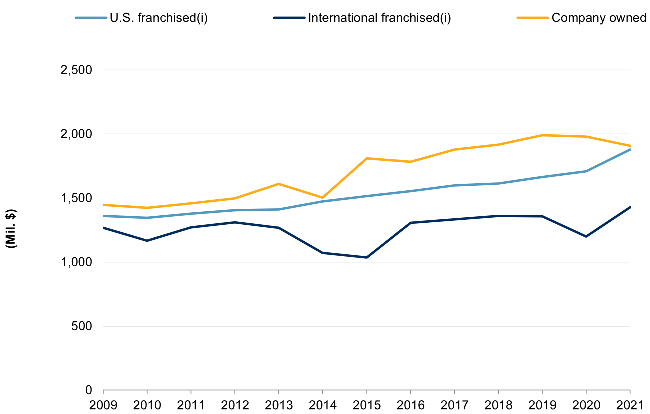


Source: The Wendy's Co.

Average Unit Volumes (AUV) have increased modestly since 2009, driven by increased customer count and check size (see chart 5). Wendy's recent introduction of its breakfast menu and use of alternative channels (such as digital) to reach a broader range of customers have led to the increase in customer traffic, while changes to price and item mix led to larger check size. Systemwide same-restaurant sales increased 10.0% year over year in 2021, with U.S. and international same-restaurant sales growing 9.2% and 17.6%, respectively. The U.S. same-restaurant sales growth of 9.2% in 2021 was driven by customer count (3.1%), item mix (3.1%), and price (3.0%). These factors have led to positive global same-restaurant sales growth in 14 of the past 16 years (see chart 6).

Chart 5

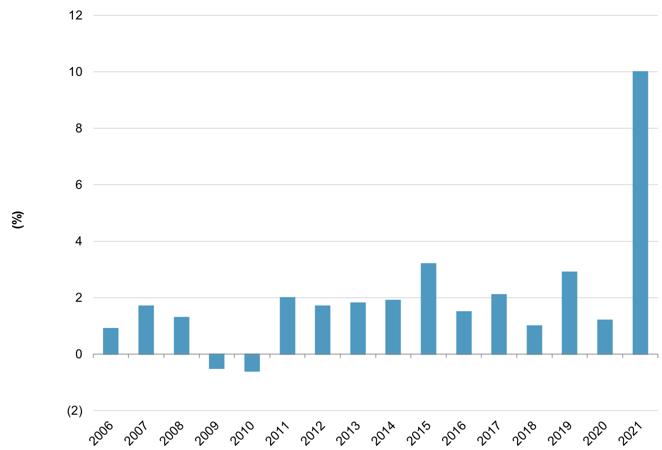
Historical Average Unit Volume



(i)In 2020, Wendy's transferred its Canadian operations from its North America reporting segment to its International reporting segment, and it then renamed the North America segment "U.S. reporting segment."
Source: The Wendy's Co.

Chart 6

Historical Systemwide Same-Restaurant Sales Growth

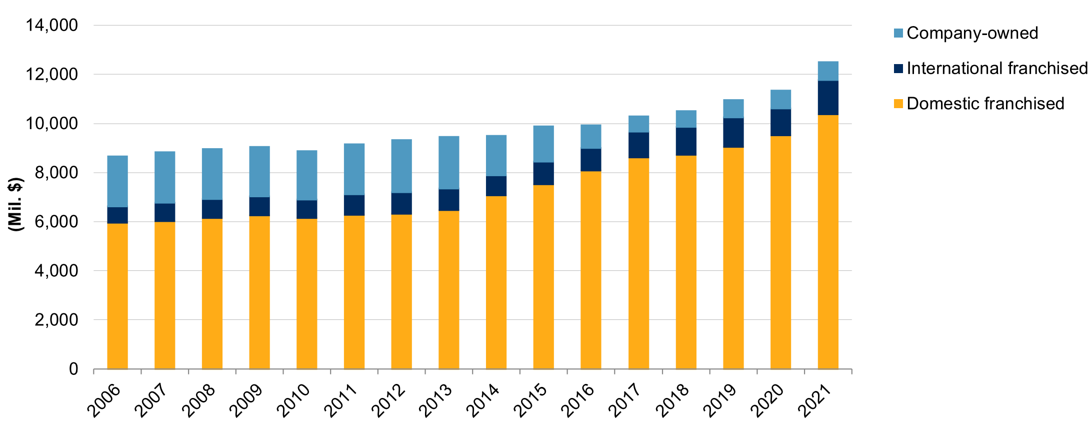


Source: The Wendy's Co.

Systemwide sales have grown in 15 of the past 16 years due to Wendy's system growth, an expanded menu with the introduction of the breakfast daypart, and investments in technology to enhance the customer experience through digital channels (see chart 7). The breakfast daypart, which was launched in the U.S. in 2020, represented approximately 7% of U.S. systemwide sales in 2021. Wendy's plans to launch breakfast in Canada in the second quarter of 2022. Global digital sales mix reached approximately 10% in 2021, up 75% from 2020, and Wendy's rewards loyalty program saw user growth of approximately 75% in 2021.

Chart 7

Historical Systemwide Sales



Source: The Wendy's Co.

Collateral

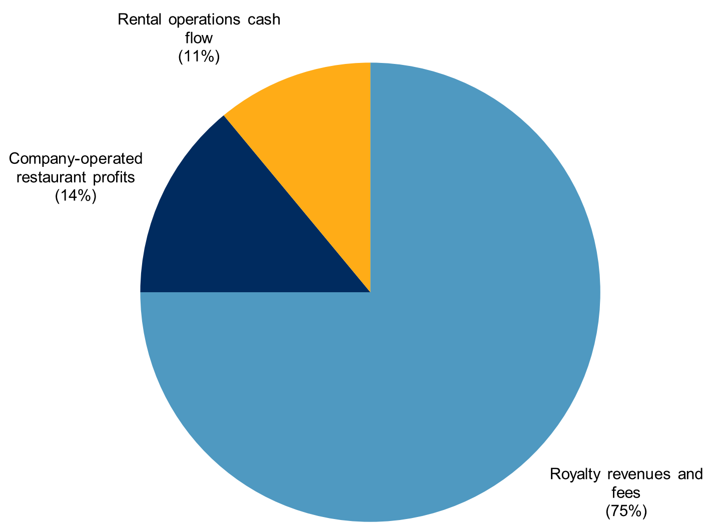
The series 2022-1 notes will be secured by a security interest in substantially all of the master issuer's guarantors' assets, which include:

- Contributed and new franchise and development agreements, and the related franchisee payments (domestic and international, excluding Canada);
- Securitization intellectual property (IP) and IP license agreements;
- Franchisee lease payments and, after the mortgages have been recorded, new and contributed owned real property;
- Transaction accounts;
- Any interest reserve letter of credit;
- Membership interests in the securitization entities;
- Identified contributed company-operated restaurants; and
- U.S. franchisee notes.

Chart 8 illustrates the relative initial contributions of the various cash flow streams to the transaction (see the Cash Flow Assumptions section below for more details on each category of securitization collections).

Chart 8

Securitized Net Cash Flow
Full-year 2021



Source: The Wendy's Co.

Credit Analysis And Assumptions

Key credit considerations

Table 2 shows our key credit considerations for the transaction.

Table 2

Key Credit Considerations

Long operating history	The first Wendy's restaurant opened in Columbus, Ohio in 1969, 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 Wendy's International LLC is replaced as the manager.
High franchised percentage	As of Jan. 2, 2022, approximately 94% of Wendy's system is operated by franchisees. The increase in franchised restaurants is part of Wendy's systemwide optimization initiative to strengthen the franchisee base and drive new restaurant growth. This involved the transfer of restaurants between franchisees and the disposition of company-operated restaurants to existing and new franchisees. We believe a high franchised percentage provides better cash flow stability and independence from the manager than a lower percentage of franchised stores.
Unhedged revenue from international operations	Revenues from international operations are not hedged for foreign exchange fluctuation, leaving cash flows vulnerable to potential swings in exchange rates.
Large geographic concentrations	Geographic concentration in the three largest states (Florida, Texas, and Ohio) account for 23% of U.S. restaurants, and three largest countries (Canada, Puerto Rico, Indonesia) account for 55% of international restaurants.

Rating methodology

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

Table 3

Credit Rating Step

Step	Result	Comment
Step 1		
Eligibility analysis	Pass	We believe that a system of franchised restaurants will continue to generate cash flow following the manager's bankruptcy because individual franchisees generally operate somewhat independently from the manager (aside from general and administrative functions, which we believe can be transferred to a backup manager). As long as the brand has sufficient customer loyalty, royalty revenue will continue to be available to service securitization debt, assuming the assets have been isolated via a "true sale" to a bankruptcy-remote special-purpose entity. We do not believe that substantially all cash flow from the system will be at risk following the bankruptcy of the manager. Therefore, our subsequent analysis quantifies the impact of the correlated cash flow decline from the Wendy's system and compares that to ongoing required interest and principal payments to the rated debt.
Step 2		
Business Risk Profile (BRP)	Fair	The Wendy's Co.'s BRP is fair.
Cash flow assumptions	See table 4, below	

Table 3

Credit Rating Step (cont.)

Step	Result	Comment
Step 3		
Minimum base-case DSCR	1.71x	Principal and interest are fully paid in this scenario.
Business Volatility Score (BVS)	3	The Wendy's Co. 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 has demonstrated stability for more than 50 years.
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	1.39x	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.
Step 4		
Modifier analysis	No adjustment	This structure is not an outlier from a leverage perspective. The anticipated repayment dates and the liquidity and deleveraging triggers are comparable to those of similar rated transactions.
Step 5		
Comparable rating analysis	No adjustment	Wendy's overall profile, including its system size, AUV, royalty rates, franchised percentage, and recent performance are typical of its peer group. Therefore, we do not believe any upward or downward notching is necessary.

(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. Wendy's--The Wendy's Co. DSCR--Debt service coverage ratio. LTM--Last 12 months. AUV--Average unit volume. BRP--Business risk profile.

Cash flow assumptions

Table 4 shows our cash flow assumptions.

Table 4

Cash Flow Assumptions

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

Table 4

Cash Flow Assumptions (cont.)

Asset cash flow category	Cumulative decline (%) Base case	Downside case	Description
Foreign exchange rates	0	Foreign currency depreciation rates consistent with our criteria (i)	Royalties collected from international restaurants.

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

Sensitivity Analysis

Sensitivity run 1: management fee stress

Using the base-case assumptions in table 4, we determined that the management fee could increase by up to 136% (translating to an approximately 52% reduction in net securitized cash flow relative to the base case) without any impact on the transaction's ability to pay timely interest and full principal payments by the legal final maturity date. We believe the additional management fee stresses what could occur if Wendy's 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 53%. We examined several event risks associated with cash flow losses, including royalty losses from the top three geographies by store count (Florida, Texas, and Ohio) and from the top 10 domestic 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	Wendy's Funding LLC (Series 2022-1)
Rapid amortization DSCR trigger (P&I)	1.20x.
Cash flow sweep DSCR trigger (P&I)	1.75x (50% trap) and 1.50x (100% trap)

Table 5

Structural Features (cont.)

Test	Wendy's Funding LLC (Series 2022-1)
Senior ABS leverage ratio non-amortization test	5.00x (no scheduled amortization if the senior ABS leverage ratio is less than or equal to this level).
ARD horizon(i)	7 and 10 years for classes A-2-I and A-2-II, respectively.
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 $46 million annually, and the variable component is assumed to be $13,500 for each franchise and retained company store and $28,500 for each contributed store. The management fee is also subject to a 2% annual increase if the increased amount does not exceed 35% of the retained collections in the preceding four quarterly collection periods.

(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. ABS—Asset-backed securities. ARD--Anticipated repayment date. IO--Interest only.

Payment Priority

Following the series 2022-1 issuance, the transaction will include eight class A notes that will pay interest and principal quarterly from weekly distributions in the priority shown in table 6. The transaction doesn't 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 or condemnation payments: to the trustee and then the servicer for unreimbursed advances; then to the manager for any unreimbursed advances; then, if a class A-1 note amortization event is continuing, to the class A-1 notes; then to all other senior notes; then, if a class A-1 note amortization event is not continuing, to the class A-1 notes; then to the senior subordinated notes, if any; and then to the subordinated notes, if any.
2	To the trustee and then the servicer for unreimbursed advances; then to the manager for unreimbursed advances; and then to the servicer for servicing, liquidation, and workout fees, if any.
3	Successor manager transition expenses, if any.
4	Management fees.
5	Capped securitization operating expense amount; then the post-default capped trustee expense amount to the trustee; and then certain mortgage expenses.
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.

Table 6

Payment Priority (cont.)

Priority	Payment
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 has occurred and the class A-1 note amortization event is continuing, to the class A-1 notes' principal.
13	If no rapid amortization has occurred, 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 has occurred, any senior subordinated notes' scheduled principal payment amount; and then the senior subordinated notes' scheduled principal payment deficiency amount, if any.
16	Uncapped securitization operating expenses.
17	Uncapped class A-1 administrative expense amounts.
18	Other class A-1 amounts.
19	Interest on the subordinated notes, if any.
20	If no rapid amortization event has occurred, 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
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 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

- The Pandemic Persisted in 2021--And So Did U.S. Retailers and Restaurants, Feb. 25, 2022
- Industry Top Trends 2022: Retail and Restaurants, Jan. 25, 2022
- ESG Credit Indicator Report Card: Retail And Restaurants, Dec. 16, 2021
- Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off, Sept. 23, 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