Presale:

Arby's Funding LLC (Series 2020-1)

July 20, 2020

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Preliminary Ratings

Class	Preliminary rating(i)	Balance (mil. $)	Anticipated maturity	Legal maturity (years)
A-1	BBB- (sf)	150.00	July 2025(ii)	30
A-2	BBB- (sf)	825.00	July 2027	30

Note: This presale report is based on information as of July 20, 2020. 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 rating does not address post-ARD additional interest. (ii)The series 2020-1 class A-1 notes includes two optional one-year extensions through July 2027. ARD--Anticipated repayment date.

Executive Summary

Arby's Funding LLC's (the issuer) series 2020-1 issuance is a $975.0 million whole business securitization of the Arby's Funding LLC business, out of its existing securitization vehicle formed in 2015. Proceeds from the 2020-1 issuance and cash on hand will be used to repay the existing series 2015-1 class A-2 notes ($608 million, with an additional make-whole payment of $12 million), the outstanding series 2015-1 class A-1 notes (if any) and the series 2016-1 class A-1 notes (if any), and pay transaction expenses ($13 million), with excess proceeds of $193 million. Currently the series 2015-1 and 2016-1 variable-funding notes, with availability up to $50 million and $100 million, respectively, are undrawn, although we consider them to be fully drawn in our analysis. Both will be replaced by the $150 million undrawn series 2020-1 class A-1 variable-funding notes.

Arby's Funding LLC and/or certain subsidiaries is the franchisor or operator of more than 3,500 branded restaurants in 48 states and six foreign countries with systemwide sales near $4 billion. Founded in 1964, the company is the second-largest limited-service sandwich chain in the U.S.

Arby's Funding LLC is owned by Mavericks Inc. (Mavericks, formerly known as Inspire Brands Inc., formerly known as ARG Holding Corp.), which in addition to Arby's, also owns Buffalo Wild Wings, Sonic, Rusty Taco, and Jimmy John's restaurants, and is one of the largest restaurant companies in the U.S.

The transaction is collateralized by existing and future franchise and company royalties, rental revenue, and product license fees.

Key credit features of the transaction include:

- A long operating history of over 55 years;
- Arby's limited franchise base at 66% franchised (down from 70% at the time of the 2015 transaction);
- Stable historical systemwide sales, with nine consecutive years of same-store sales growth and a 3% systemwide sales CAGR (compound annual growth rate) between fiscal-year 1995 and March 29, 2020;
- An insignificant increase in leverage on the Mavericks level, which remains at 5.9x (not including the undrawn variable-funding notes), since the proceeds will be used to retire existing debt and increase cash on Mavericks' balance sheet;
- An increase in leverage on the Arby's level to 6.6x after the close of the transaction (not including the undrawn variable funding notes) from 5.0x before the close of the 2020-1 transaction;
- Geographic concentration, with the three largest states accounting for 21% of the global total annualized domestic royalties;
- Moderate franchisee concentration, with the top 10 franchisees accounting for approximately 25% of the global total annualized royalties; and
- Strong management teams at both Inspire Brands and Roark Capital, the equity sponsor.

Transaction Timeline/Participants

Transaction Timeline

Expected closing date	July 31, 2020
First payment date	Oct. 30, 2020
Class A-2 ARD	July 30, 2027
Legal maturity date	July 30, 2050
Note payment frequency	Quarterly

ARD--Anticipated repayment date.

Participants

Manager	Arby's Restaurant Group Inc.
Backup manager	FTI Consulting Inc.
Servicer/control party	Midland Loan Services, a division of PNC Bank N.A.
Trustee	Citibank N.A.
LOC provider	Cooperatieve Rabobank U.A., New York branch.
Sole structuring adviser and sole book-running manager	Barclays Capital Inc.
Issuer	Arby's Funding LLC.
Guarantors	Arby's Franchisor LLC, Arby's IP Holder LLC, Arby's Properties LLC, and Arby's SPV Guarantor LLC.

LOC--Letter of credit.

Rating Rationale

The preliminary rating assigned to Arby's Funding LLC's $975 million senior secured notes series 2020-1 reflects our assessment of:

- Brand strength: The strength of the Arby's brand, the likelihood for the brand to survive through bankruptcy, and the brand's resulting capacity to continue generating sufficient cash flows from business operations, provided that adequate servicing remains in place.
- 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. Additionally, the transaction has a backup manager--FTI Consulting Inc. (established at the transaction's closing)--who has reviewed the business' cost structure relative to the sizing of the management fee, and believes it is adequate should they need to step in.
- Legal isolation of the assets: The business' cash-generating assets are no longer owned by the manager. 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 Arby's existing 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 restaurants will likely continue to generate cash flow following the manager's bankruptcy because individual franchisees generally operate independently from the manager (aside from SG&A functions, which we believe can be transferred to a backup manager).
- Cash flow coverage: Given the brand's strength, the replaceable nature of the manager, and the legal isolation of the assets from the manager, we have projected long-term cash flows for the business. Our analysis incorporates cash flow haircuts reflecting our view of how the business' assets could weaken in adverse economic conditions. Under these conditions, our analysis shows the cash flows generated by the business are sufficient to meet all debt service obligations of the rated notes.
- Liquidity: A reserve account funded with three months of interest expenses and/or a letter of credit.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research at www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The class A-1 variable-funding secured senior notes pay interest at three-month LIBOR plus a fixed margin. In 2017, the Financial Conduct Authority, which oversees LIBOR administration, announced that it will not compel banks to continue providing LIBOR quotes after December 2021. In 2019, the Federal Reserve's Alternative Reference Rates Committee (ARRC) published recommended guidelines for fallback language in new securitizations, and the language in this transaction is generally consistent with its key principles: trigger events, a list of alternative rates, and a spread adjustment. We will continue to monitor reference rate reform and review changes specific to this transaction when appropriate.

Key Credit Metrics And Peer Comparisons

Table 1

Key Credit Metrics And Peer Comparisons

Brands	Series	S&P Global Ratings' credit rating(i)	Store count (no.)	AUV (mil. $)	Franchised (%)(iii)	International (%)(iii)	Operating history (from founding)	Concept type	Leverage (total debt/adjusted EBITDA)(iv)	S&P Global Ratings' min. base-case DSCR(v)	S&P Global Ratings' min. downside DSCR(v)
Arby's(ii)	2020-1	BBB- (sf)	3520	1.2	66%	0.2	Over 50 years	QSR	5.9	1.5	1.3
Wendy's	2020-1	BBB (sf)	6,885	1.6	94	1	Over 30 years	QSR	7.6	1.5	1.3
Driven Brands	2020-1	BBB- (sf)	3245	1.1	85	20	Over 30 years	Automotive services	6.5	1.8	1.5
Sonic	2020-1	BBB (sf)	3583	1.3	94	0	Over 30 years	QSR	5.9	1.8	1.6
Jersey Mike's	2019-1	BBB (sf)	1615	0.8	99	0.3	Over 30 years	QSR	6.4	2.2	1.7
Planet Fitness	2019-1	BBB (sf)	1899	2.1	96	2.7	27 years	Fitness	6.5	1.7	1.3
Domino's	2019-1	BBB+ (sf)	16528	0.9	98	64	Over 30 years	QSR	5.9	1.8	1.4
SERVPRO	2019-1	BBB- (sf)	1719	1.5	100	0	Over 30 years	R/R	7.1	1.7	1.3
Jack in the Box	2019-1	BBB (sf)	2240	1.5	94	0	Over 30 years	QSR	4.9	1.9	1.6
Applebee's/IHOP	2019-1	BBB (sf)	3652	2.2	98	7	Over 30 years	CDR	6	1.7	1.4
Dunkin' Brands	2019-1	BBB (sf)	20912	0.8	100	43	Over 30 years	QSR	6.2	1.6	1.4
Taco Bell	2018-1	BBB (sf)	6505	1.6	91	6	Over 30 years	QSR	5.3	1.6	1.5
Hardee's/Carl's Jr.	2018-1	BBB (sf)	3873	1.2	96	22	Over 30 years	QSR	6.1	1.9	1.6
Jimmy John's	2017-1	BBB (sf)	2690	0.8	98	0	Over 30 years	QSR	5.2	1.8	1.7
Cajun Global	2017-1	BBB- (sf)	1588	0.7	85	32	Over 30 years	QSR	5.2	1.8	1.4
Five Guys	2017-1	BBB- (sf)	1437	1.2	69	5	Over 30 years	QSR	6.7	1.6	1.5

Table 1

Key Credit Metrics And Peer Comparisons (cont.)

Brands	Series	S&P Global Ratings' credit rating(i)	Store count (no.)	AUV (mil. $)	Franchised (%)(iii)	International (%)(iii)	Operating history (from founding)	Concept type	Leverage (total debt/adjusted EBITDA)(iv)	S&P Global Ratings' min. base-case DSCR(v)	S&P Global Ratings' min. downside DSCR(v)
TGIF	2017-1	B+ (sf)	903	2.7	94	48	Over 30 years	CDR	5.6	1.3	1.0

(i)S&P Global Ratings' credit rating--Rating is for the senior-most securitization note issued. (ii)Preliminary. (iii)International. % of total store count. (iv)Leverage (total debt/adj. EBITDA). As reported. (v)As of each series' closing date unless otherwise noted. (vi)Leverage reflected from preliminary rating. Arby's--Arby's 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 VFN). Taco Bell--Taco Bell Funding LLC. Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. 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. AUV--Average unit volume. DSCR--Debt service coverage ratio. QSR--Quick-service restaurant. CDR--Casual dining restaurant. VFN--Variable funding note. R/R--Remediation/reconstruction.

Industry Outlook

As we noted in "As The North American Retail And Restaurant Sector Braces For Another Wave Of Downward Rating Actions, A Few Subsectors See Signs Of Hope," published July 16, 2020: "Historically, QSRs [quick-service restaurants] have shown resilience to economic downturns as consumers carefully watch their spending and trade down from full-service dining experiences. This dynamic bodes well for QSRs given the slow economic recovery we expect although offsetting risks include a weak breakfast daypart because of altered commuting habits and high unemployment. We believe credit metrics could be restored for QSRs in the first half of 2021, but casual diners will likely need until late 2022 to bring back credit measures."

Summary Of The Business

Arby's, which has been in operation for over 55 years, is a global sandwich brand that operates in a blend of both the quick-service and fast-casual restaurant segments. Since the original transaction closed in 2015, Arby's has added 185 stores and, as of March 2020, the brand operates 3,520 restaurants in six countries, including 48 states throughout the U.S., as well as Canada, Turkey, and Qatar (see charts 1 and 2). Arby's also has 19 international stores in Egypt, Japan, and South Korea that are not included in the securitization.

Arby's differentiates itself from its competitors through both the quality of its product offerings, and by being the only major sandwich chain in the U.S. to offer drive-thru service at a majority of its locations. The menu includes a variety of offerings, namely the brand's flagship roast beef sandwiches and signature curly fries. The large percentage of sales from take-out and drive-thrus has been a main driver in the system's recovery from the social distancing measures due to the COVID-19 pandemic (see chart 3).

The locations are open throughout the day, but specialize primarily in lunch and dinner--over 61% of sales are at lunchtime and the afternoon, and 25% of sales are at dinnertime (see chart 4). Arby's does not compete in the QSR breakfast market, a strategy that may benefit the system given the weakness in the breakfast daypart since the beginning of the pandemic, which we assume has been at least partially driven by the shift in commuter habits.

Arby's was the original brand of Mavericks (formerly known as Inspire Brands Inc., formerly known as ARG Holding Corp.), which in addition to Arby's, includes Buffalo Wild Wings, Sonic, Rusty Taco, and Jimmy John's restaurants worldwide. Mavericks is one of the largest restaurant companies in the U.S., with $14.4 billion in systemwide sales for the 12-month period ended March 29, 2020. As of March 29, 2020, the system consists of 11,111 restaurants across all 50 U.S. states and 15 countries. Eighty-one percent of the Inspire Brands' system is franchised.

As of March 29, 2020, approximately 66% of Arby's stores were franchised--an amount that has remained relatively constant since the initial issuance in 2015 (see chart 5). Arby's has 292 franchisees, each of which operates an average of eight restaurants per franchisee. Since the 2015 transaction, Arby's has continued to consolidate stores under larger franchisees to create a closer alignment with Arby's vision. In 2015, there were 163 franchisees that operated single units and 150 with two to five units. The numbers have since decreased, and currently there are 109 single-unit operators and 115 with two to five units. The top 10 franchisees generate approximately 25% of total global annualized royalties.

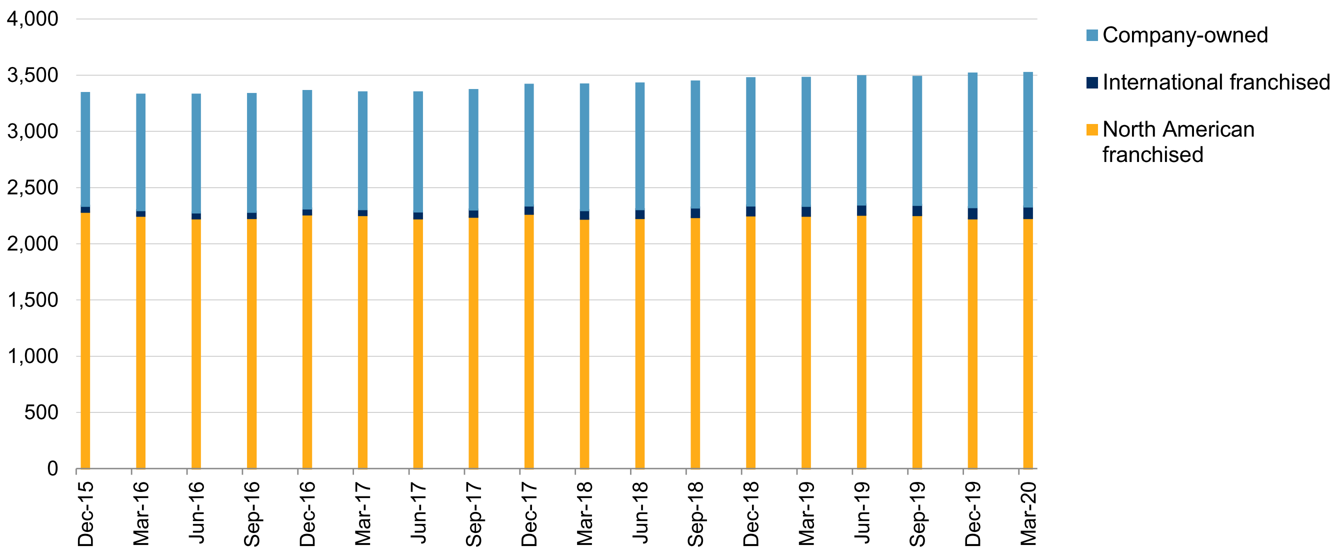
The top franchisee is Flynn Restaurant Group (Flynn), the largest franchise operator in the U.S. with over $2 billion in sales and 1,250 stores in multiple systems. Currently, Flynn operates 368 Arby's restaurants and contributes 9.7% of sales. Flynn was recently downgraded to 'B-' from 'B', which, as we noted in "Research Update: Flynn Restaurant Group LP Downgraded To 'B-' On Lower Revenues From COVID-19 And Recession Impact; Outlook Negative," published June 12, 2020, "reflects the company's high debt burden and the mixed results to date at the borrowing group, which has been exacerbated by the COVID-19 fallout." The next largest franchisee represents only 2.5% of sales.

Every franchised Arby's unit operates under a franchise agreement that requires payments to Arby's. Payments consist of an initial franchise fee and a royalty fee based on a fixed percentage of gross revenues outlined in the initial franchise agreement (see chart 6). New franchised stores are expected to open under the current standard license agreement. The number of franchised Arby's units has increased slightly since the initial issuance in 2015 and there has been steady improvement in same-store sales and average unit volume (AUV).

Although company-owned store EBITDA is not included in the securitization, it is an important metric for the health of the system. Restaurant-level EBIDTA has improved by 280 basis points at company-owned stores since 2014, driven mostly by reduced food costs as the Arby buying group cooperative is affiliated with Mavericks' buying power. We do not receive detail on franchise restaurant-level EBITDA.

Chart 1

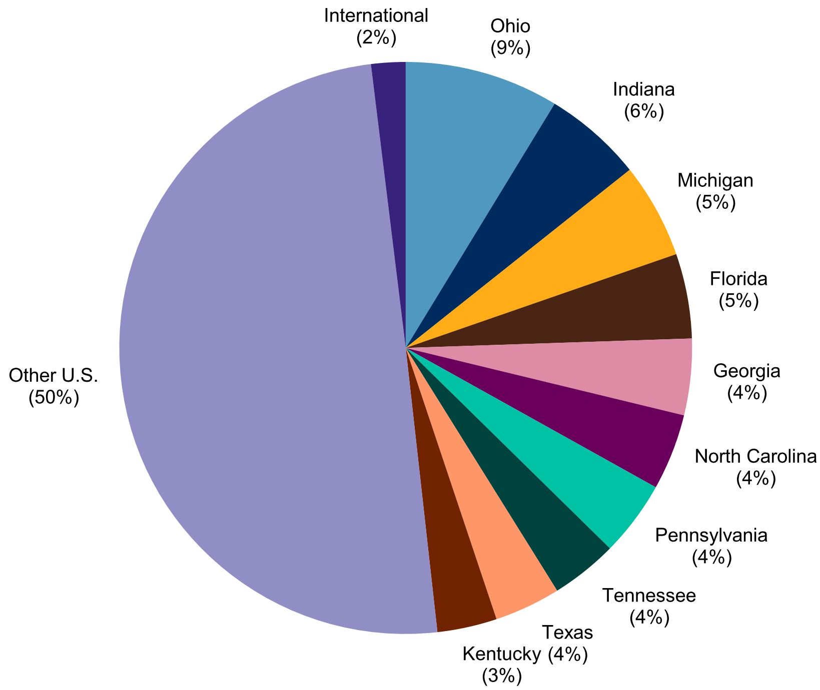
Historical Systemwide Store Count



Source: Arby's Restaurant Group Inc. As of first-quarter 2020.

Chart 2

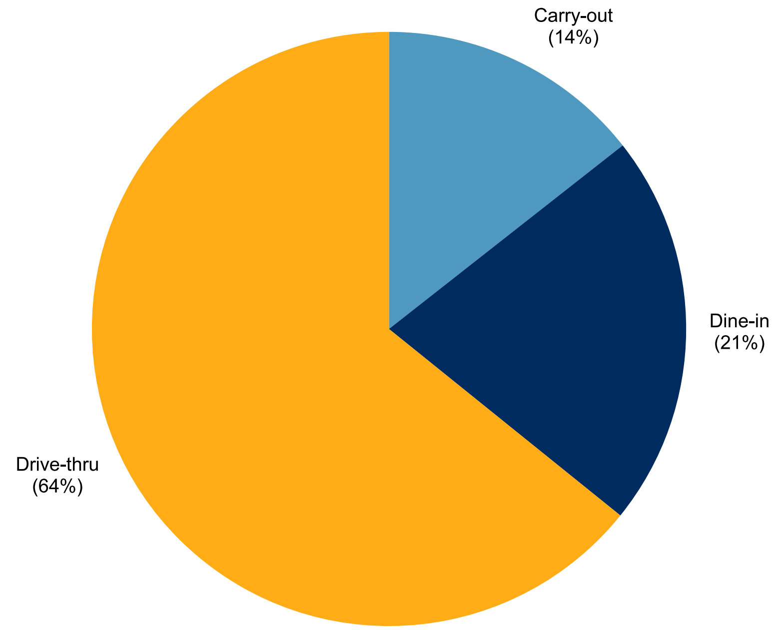
Top 10 States By U.S Sales
% of annualized U.S. systemwide sales



Source: Arby's Restaurant Group Inc. As of first-quarter 2020. Total may not equal 100% due to rounding.

Chart 3

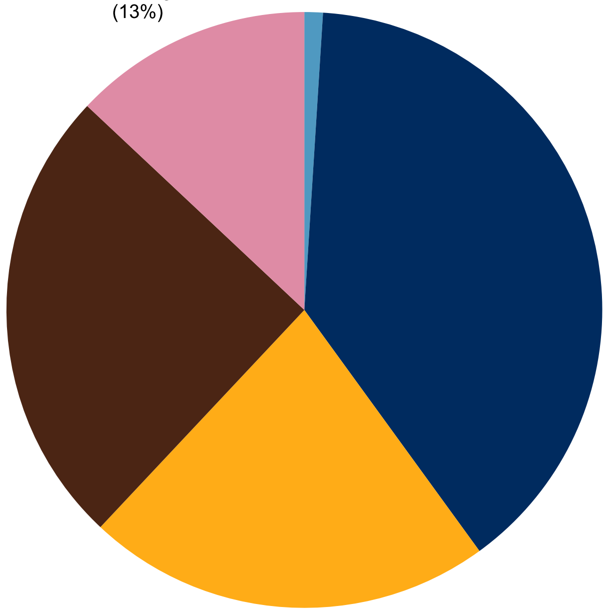
Location Sales Mix



Source: Arby's Restaurant Group Inc. As of first-quarter 2020. Total may not equal 100% due to rounding.

Chart 4

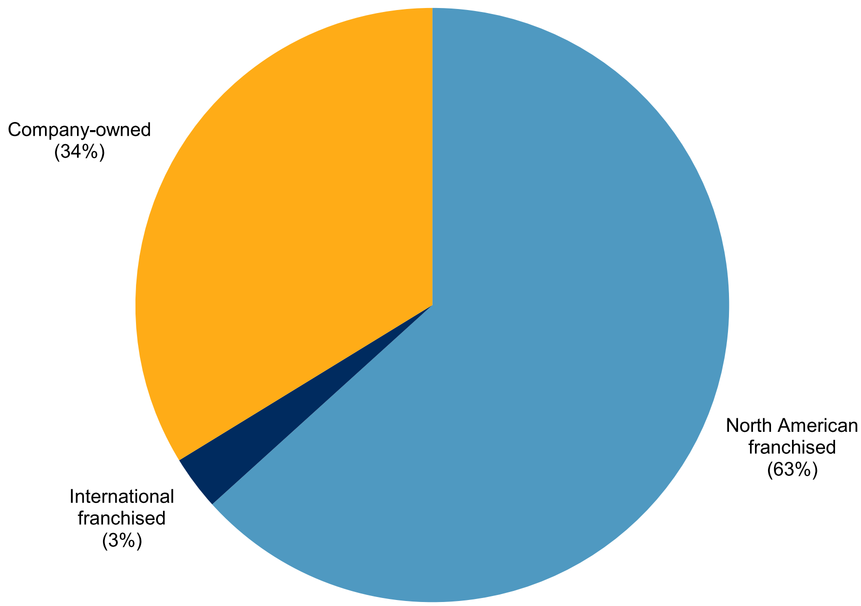
Daypart Mix



Source: Arby's Restaurant Group Inc. As of first-quarter 2020. Total may not equal 100% due to rounding.

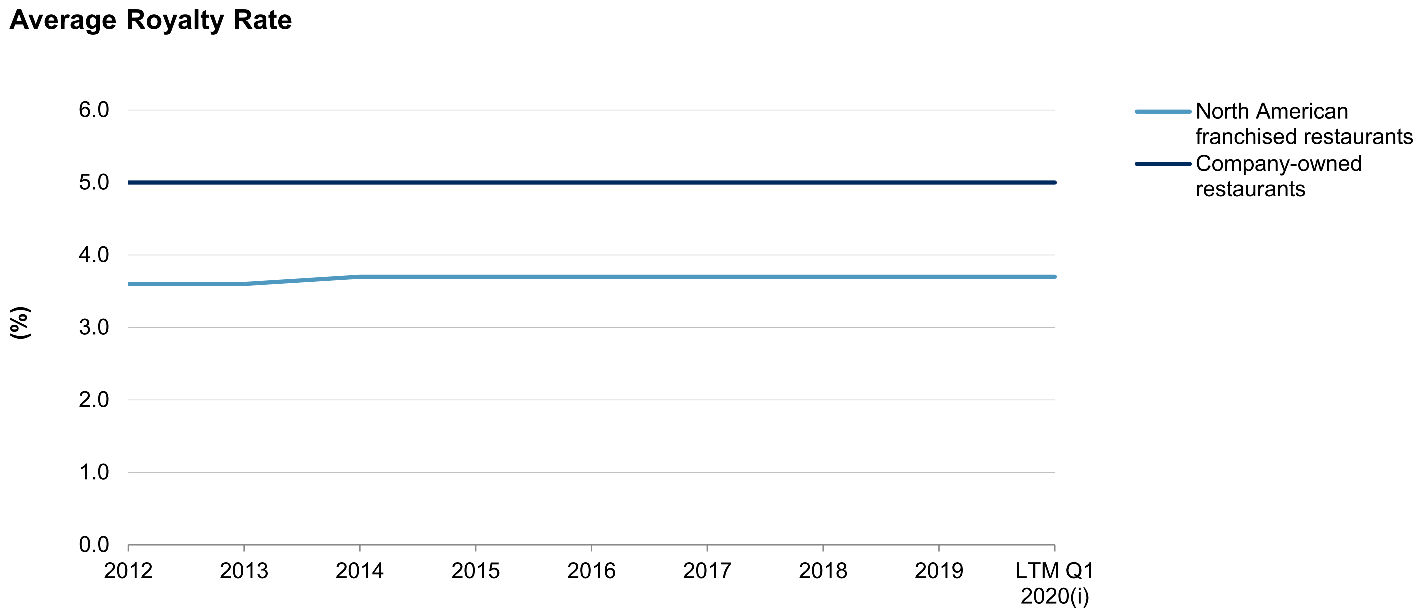
Chart 5

Store Ownership



Source: Arby's Restaurant Group Inc. As of first-quarter 2020. Total may not equal 100% due to rounding.

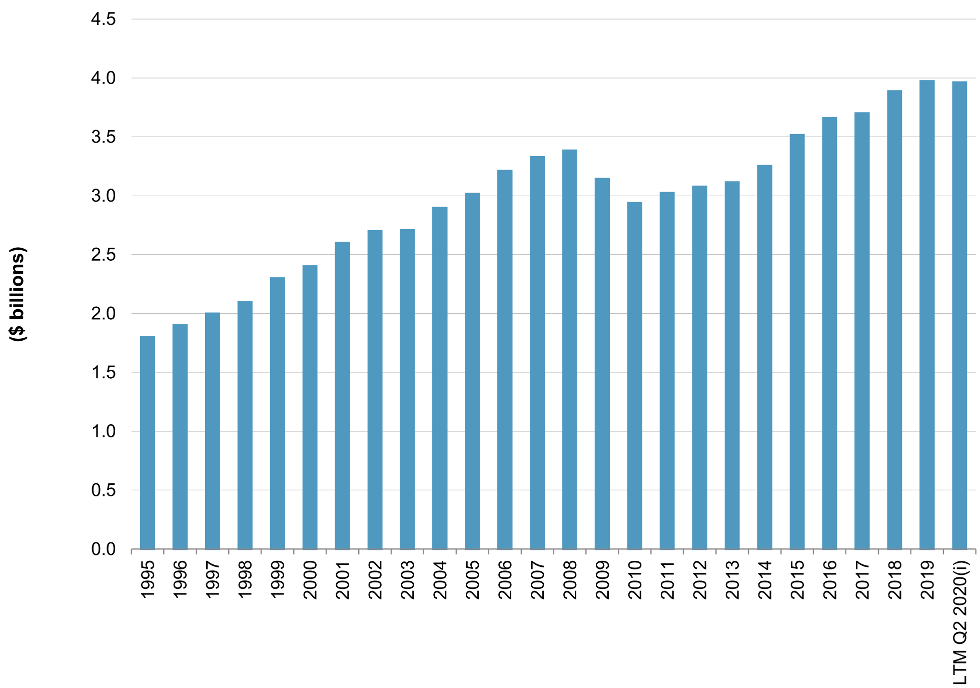
Chart 6



Source: Arby's Restaurant Group Inc. (i)LTM as of first-quarter 2020. LTM--Last 12 months.

Chart 7

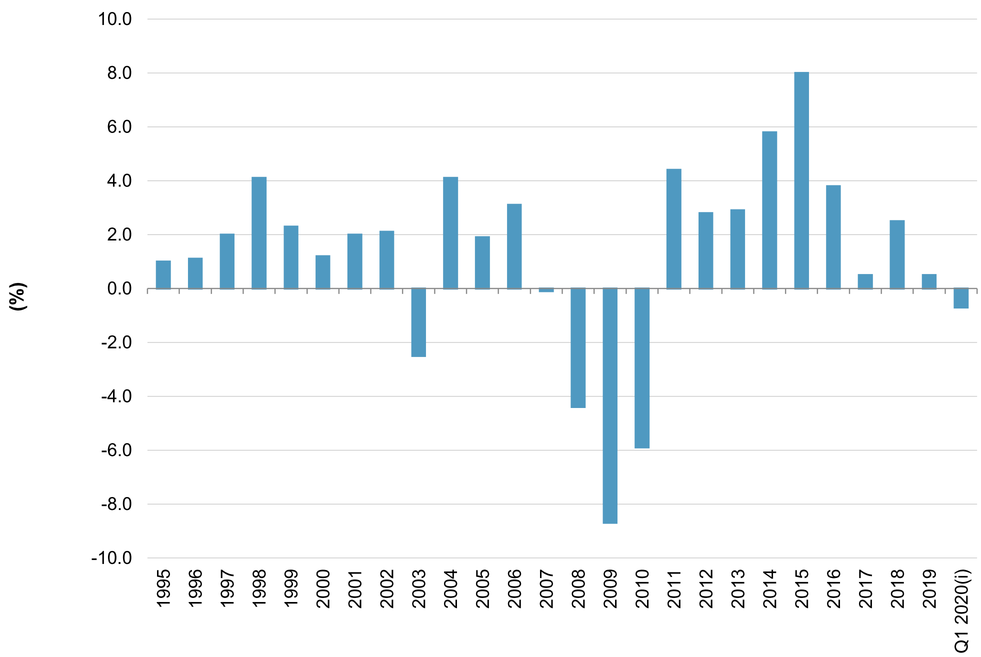
Systemwide Sales



Source: Arby's Restaurant Group Inc. (i)LTM ending second-quarter 2020. LTM--Last 12 months.

Chart 8

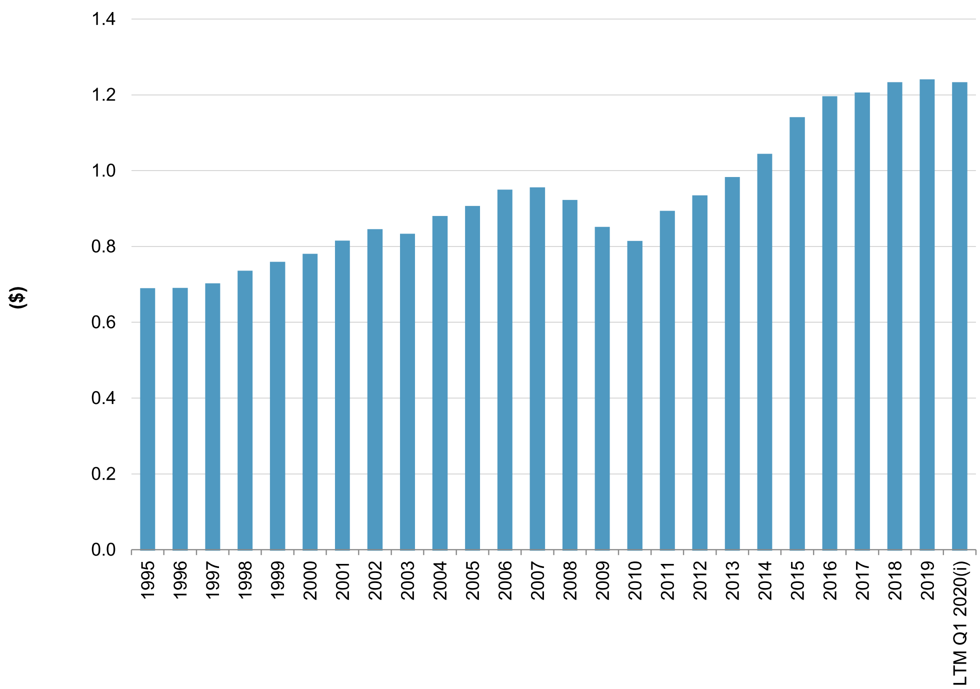
Same-Store Sales



Source: Arby's Restaurant Group Inc. (i)For the period ending second-quarter 2020, the same-store sales for only the company-owned stores were 1.2%. Q1--First-quarter.

Chart 9

Average Unit Volume



Source: Arby's Restaurant Group Inc. (i)LTM ending first-quarter 2020. LTM--Last 12 months.

Collateral

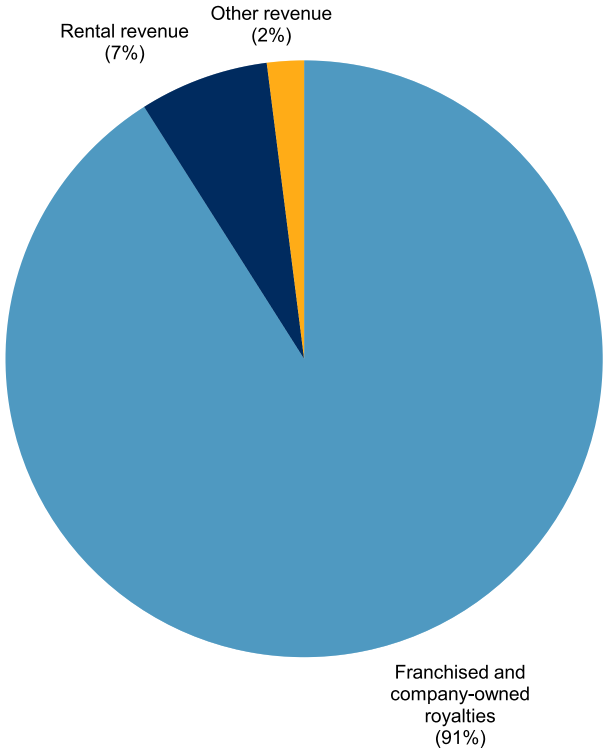
The notes will be secured by a security interest in substantially all of the assets of the issuer and guarantors and will include:

- Contributed and new franchise and development agreements and the related franchisee payments;
- Securitization intellectual property (IP) and IP license agreements;
- Contributed and new owned real property, as well as franchisee and company-owned restaurant lease payments, after the mortgages have been recorded following a mortgage recordation event;
- Transaction accounts;
- Any interest reserve letter of credit; and
- Membership interests in the securitization entities.

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

Chart 10

Securitization Retained Collections



Source: Arby's Restaurant Group Inc. As of first-quarter 2020. Total may not equal 100% due to rounding.

Key Credit Considerations

Table 2

Key Credit Considerations

Credit consideration	Discussion
Fixed royalty rate structure	Each franchised Arby's restaurant operates under a franchise agreement that requires payments to Arby's consisting of an initial franchise fee and a royalty fee based on a fixed percentage of gross revenues. New franchised stores are expected to open under the current standard license agreement.
Moderate domestic geographic concentrations	Geographic concentration in the three largest states (Ohio, Indiana, and Michigan) accounts for approximately 21% of the company's global total annualized domestic royalties.
Long operating history	The Arby's brand was founded in 1964. In its over 55 years of operating history, the brand has built itself into a global chain known for quality, deli-style sandwiches. The system has survived multiple economic downturns and has built a loyal customer base. This supports the likelihood that brand loyalty, and thus sales, will continue even in the event that Arby's Restaurant Group Inc. is replaced as the manager.

Table 2

Key Credit Considerations (cont.)

Credit consideration	Discussion
Low franchised percentage, moderate concentration in the top 10 franchisees	As of March 29, 2020, 66% of Arby's systemwide stores are operated by franchisees. Since the 2015 transaction, Arby's has continued to consolidate stores under larger franchisees to create a closer alignment with Arby's vision. The top 10 franchisees generate approximately 25% of total global annualized royalties, presenting some concentration risk within the franchise system.

Credit Rating Methodology

The following table details our specific conclusions for each of the five analytical steps in our ratings process for Arby's Funding LLC's series 2020-1 transaction.

Table 3

Credit Rating Step

Step	Result	Discussion
Step one		
Eligibility Analysis	Pass	We believe that a system of franchised stores can continue to generate cash flows following the bankruptcy of the franchisor ("manager") because individual franchisees generally operate independently from the manager (notwithstanding their reliance on centralized general and administrative functions, which are transferable to a back-up manager). We believe that as long as a brand has sufficient customer loyalty, royalty revenues can continue to be available to service securitization debt, assuming the assets have been isolated via a "true sale" to a bankruptcy-remote special purpose entity. Given that we do not believe substantially all cash flows from the system will be at risk following the bankruptcy of the manager, the following analysis quantifies the impact of the correlated cash flow decline from the Arby's system and compares that to ongoing required interest and principal payments to the rated debt.
Step two		
BVS	4	Mavericks' BRP was changed to satisfactory (3) from fair (4) to reflect the 2019 acquisition of Jimmy John's. Before the acquisition, we historically used a one-notch downgrade to reflect the BVS of Arby's under Mavericks. As mentioned during the upgrade of Mavericks (IRB Holding Corp. (Inspire)), the BVS of the brands under Mavericks will not necessarily be upgraded as well, given that individual brands may not benefit from the Jimmy John's acquisition. It is our view that Arby's will not materially benefit from Mavericks' acquisition of Jimmy John's. As such, we maintain the current BVS score of 5 by applying a two-notch downgrade to Mavericks' BVS score of 3. From there, we apply a one-category positive adjustment because Arby's cash flows are revenue-based and the system has demonstrated stability over more than 50 years.
Cash flow assumptions	See table 4 below	
Min. base DSCR	1.56x	Principal and interest are fully paid in this scenario.
Anchor	'bb'	Determined per table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Min. downside run DSCR	1.31x	Principal and interest are fully paid in this scenario.
Step three		
Resiliency score	Satisfactory	Determined per table 3 of the corporate securitization criteria.

Table 3

Credit Rating Step (cont.)

Step	Result	Discussion
Resiliency adjusted anchor	'bbb-'	Determined per table 4 of the corporate securitization criteria.
Step four		
Modifier analysis	No adjustments	This structure is not an outlier from a leverage perspective. The anticipated repayment dates as well as liquidity and deleveraging triggers are all comparable to other rated transactions.
Step five		
Comparable rating analysis	No adjustments	Arby's overall profile, including its system size, AUV, royalty rates, franchised percentage, and recent performance, are typical of its peer group. The system is comparable with other names. No additional adjustment is applied.

(i)The mappings from BRP to BVS are: excellent=1; strong=2; satisfactory=3; fair=4; weak=5; and vulnerable=6. BVS--Business volatility score. BRP--Business risk profile. DSCR--Debt service coverage ratio. AUV--Average unit volume.

Table 4

Cash Flow Assumptions

	Cumulative decline (%)		
Asset cash flow category	**Base case**	**Downside case(i)**	**Description**
Royalty revenue and fees	0 (number of stores did not include the 2% temporarily closed due to COVID-19).	15 (number of stores did not include the 2% temporarily closed due to COVID-19).	Franchise and company-owned store royalties, which constitute a majority of the overall projected cash flow, are a function of store count, AUV, and royalty rates.
Other securitization revenues	0	30	Any other collections from franchisees and license fees.

(i)For the downside case, we applied periodic stresses to non-U.S. license income 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

All sensitivities were run assuming a 2% permanent reduction to the domestic franchised unit count. This level of closures is in line with the amount of pandemic-driven temporary closures that the system is experiencing at this point in time. However, management expects that the units that are currently closed will continue to reopen in the coming months.

Sensitivity run 1: Management fee stress

Using the base-case assumptions in table 4 above, we determined that the management fee could be increased by as much as 273% (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. Furthermore, in our opinion, the additional management fee stresses could occur if Arby's experienced a manager transition event of bankruptcy. While the management fee is currently outlined in the transaction documents, we believe that it may be possible that such fees might be renegotiated in a potential bankruptcy scenario.

Sensitivity run 2: Event-driven stress

Starting with the base-case scenario assumptions, we determined the maximum haircut to cash flow that would allow timely interest and full principal payments by the transaction's legal final maturity date. This haircut to cash flow after fees is approximately 52%. We examined several event risks associated with cash flow losses, including royalty losses from the top three geographies by store count and from the top 10 franchisees. Under these scenarios, our analysis showed that the transaction could pay timely interest and full principal by the legal final maturity date.

Additional sensitivity runs: COVID-19-related stresses

As part of our review, we performed several analyses to determine the resilience of the structure given the economic stresses resulting from the COVID-19 pandemic. These included additional liquidity and break-even runs. S&P Global Ratings' analysis suggests that the decline in securitization collections would need to exceed 80% for an interest shortfall to occur over the coming six months. Given the break-even value, we believe it is unlikely that the transaction will experience an interest shortfall over that timeframe. Additionally, our analysis indicated that the transaction could withstand up to a 3.75% decline in retained collections over the life of the deal (assuming that we would round up the downside case to the nearest 1/10 of a percent, a decision that is made for each individual transaction at a specific time) before it would lead to a one-notch reduction in our resilience-adjusted anchor (without consideration of any modifier or comparable ratings adjustments).

Structural Protection Summary

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

Table 5

Structural Features

Test	
Rapid amortization DSCR trigger (P&I)	1.20x or systemwide sales < $1.95 billion on any quarterly calculation date.
Cash flow trapping DSCR trigger (P&I)	1.75x (50% trap); 1.5x (100% trap)
Senior WBS leverage ratio nonamortization test (total Arby's net senior securitization debt/Arby's securitization net cash flow)	5.00x (no scheduled amortization if the senior WBS leverage ratio is less than or equal to this level)
ARD horizon(i)	Seven years
Scheduled amortization through ARD (%)	1.0 per annum
Manager termination DSCR trigger (IO)	1.2x

Table 5

Structural Features (cont.)

Event-of-default DSCR trigger (IO)	1.1x
Management fee	The management fee, which includes both fixed and variable components, is a function of retained collections. According to the transaction documents, the management fee has a fixed component of $10.35 million annually, and the variable component is assumed to be $11,250 per $100,000 of retained collections. The management fee is subject to a 2% annual increase of the fixed component if the increased amount does not exceed 35% of 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. DSCR--Debt service coverage ratio. P&I--Principal and interest. ARD--Anticipated repayment date. IO--Interest only. WBS—Whole business securitization.

Payment Priority

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

Table 6

Payment Priority

Priority	Payment
1	Solely with respect to indemnification amounts, asset disposition proceeds and insurance/condemnation proceeds received, reimburse the trustee, then the servicer, for any unreimbursed advances, then reimburse the manager for any unreimbursed manager advances, then on and after any class A-1 notes renewal date (after giving effect to any extensions), prepay and permanently reduce the commitments under all related class A-1 notes, then, if a rapid amortization event has occurred and is occurring, prepay the outstanding principal amount of all senior notes, then prepay the outstanding principal amount of all senior subordinated notes, if any, then prepay the outstanding principal amount on all subordinated notes, if any.
2	Reimburse the trustee, then the servicer, then the backup manager for any unreimbursed advances, then reimburse the manager for any unreimbursed manager advances, then pay the servicer all servicer fees, liquidation fees, and workout fees.
3	Pay the successor manager transition expenses, if any.
4	Pay the weekly management fee to the manager.
5	Pay pro rata, capped securitization operating expenses amount, then if an event of default has occurred and is continuing, to the trustee to pay the post-default capped trustee expenses amount, then after a mortgage preparation event, mortgage preparation fees, and after a mortgage preparation event or mortgage recordation event, pay all mortgage trustee fees.
6	Pay senior notes accrued quarterly interest amount, to pay the class A-1 notes accrued quarterly commitment fees amount, and series hedge payment amount, if any.
7	Pay capped class A-1 notes administrative expenses amount.
8	Pay senior subordinated notes accrued quarterly interest amount, if any.
9	Pay the senior notes interest reserve account deficit amount, and the senior subordinated notes interest reserve account deficit amount, if any.
10	Pay the senior notes accrued scheduled principal payments amount, the senior notes scheduled principal payment deficiency amount, amounts that will become due under any class A-1 note purchase agreement, and for any series of class A-1 notes for which the renewal date has not occurred, any outstanding amounts due and payable in respect of principal for such series.
11	Pay the supplemental management fee, if any.
12	On or after any class A-1 note renewal date, all remaining funds to the class A-1 notes.

Table 6

Payment Priority (cont.)

Priority	Payment
13	If no rapid amortization event has occurred and is continuing, to the cash trap reserve account an amount equal to the cash trapping amount, if any.
14	If a rapid amortization has occurred, to pay down first, the class A-1 notes, then, the senior notes and then the senior subordinated notes, if any.
15	If no rapid amortization event has occurred, pay the senior subordinated notes accrued scheduled principal payments amount and the senior subordinated notes scheduled principal payment deficiency amount, if any.
16	Pay subordinated notes accrued quarterly interest amount, if any.
17	If no rapid amortization event has occurred and is continuing, pay the subordinated notes accrued scheduled principal payments amount and the subordinated notes scheduled principal payment deficiency amount, if any.
18	If a rapid amortization event has occurred and is continuing, to pay down the subordinated notes, if any.
19	Pay any securitization operating expense amount in excess of the capped securitization operating expenses amount after giving effect to step 5 above.
20	Pay the excess class A-1 notes administrative expense amounts, if any.
21	Pay the class A-1 notes other amounts.
22	After the ARD, pay senior notes accrued quarterly post-ARD additional interest amount.
23	After the ARD, pay senior subordinated notes accrued quarterly post-ARD additional interest amount.
24	After the ARD, pay subordinated notes accrued quarterly post-ARD additional interest amount.
25	Pay hedge termination payments and other amounts payable to a hedge counterparty, if any.
26	Pay any unpaid premiums and make-whole prepayment consideration.
27	Pay any remaining funds at the issuer's direction.

ARD--Anticipated repayment date.

Surveillance

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

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

Related Criteria

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

Related Research

- U.S. Whole Business Securitizations Under Stress From COVID-19, March 17, 2020
- Credit FAQ: The Key Ingredients for Whole Business Securitization Ratings, Feb. 22, 2019
- Restaurant Securitizations Are Structured To Survive A Big Bite, Sept. 7, 2017
- Why Social Media Should Be A #trendingtopic In Corporate Securitization Analysis, June 9, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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