Presale:

Jersey Mike's Funding LLC (Series 2021-1)

November 29, 2021

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Preliminary Ratings

Class(i)	Preliminary rating	Balance (mil. $)	Anticipated repayment date	Legal final maturity date
A-2-I	BBB (sf)	250	February 2027	February 2052
A-2-II	BBB (sf)	250	February 2029	February 2052

Note: This presale report is based on information as of Nov. 29, 2021. The rating shown is preliminary. Subsequent information may result in the assignment of a final rating that differs from the preliminary rating. Accordingly, the preliminary rating should not be construed as evidence of a final rating. This report does not constitute a recommendation to buy, hold, or sell securities. (i)Our analysis does not address post-ARD-additional interest. ARD-–Anticipated repayment date.

Executive Summary

Jersey Mike's Funding LLC's series 2021-1 issuance is a $500 million corporate securitization of Jersey Mike's Franchise Systems Inc.'s (Jersey Mike's or the company) business. The company will use the proceeds from the debt issuance for dividend payments and general corporate purposes. Total debt outstanding after the series 2021-1 issuance will be $1 billion by the master issuer.

The series 2021-1 note issuance will result in 5.4x leverage on a total debt-to-adjusted EBITDA basis, as reported by the issuer for the 12 months ended Sept. 30, 2021. EBITDA, as calculated by the indenture, is adjusted to remove certain non-operating and non-recurring charge items, such as discretionary compensation and retrofit remodel expenses.

Key credit features of the transaction include the following:

- Jersey Mike's business is 99% franchised, which we believe results in a less volatile cash flow stream compared with businesses that have a lower proportion of franchised restaurants.
- The backup manager's ability to maintain cash flow continuity in the event of a manager bankruptcy.
- The company's long operating history: it was originally founded in 1956 and began franchising in 1987.
- The company's strong historical performance metrics, with 16 consecutive years of positive same-store sales growth, and total systemwide sales increasing at a 20% cumulative average growth rate since 2006.
- The modest cash flow cushion observed in cash flow stress scenarios.

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- The diverse franchisee base, with the average franchisee operating approximately four units and the top 10 franchisees comprising approximately 18% of the system units.
- The securitization structure, with Midland Loan Services, a division of PNC Bank N.A. (the servicer) acting as the control party, and the servicer's obligation to make interest and collateral protection advances to the extent deemed recoverable.
- The performance trigger, including the rapid amortization and cash trap tests.

Transaction Timeline/Participants

Transaction Timeline

Expected closing date	Dec. 9, 2021.
First interest payment date	May 16, 2022.
A-2-I ARD	Feb. 16, 2027.
A-2-II ARD	Feb. 16, 2029.
Legal maturity date	Feb. 15, 2052.
Note payment frequency	Quarterly.

ARD – Anticipated repayment date

Participants

Issuer	Jersey Mike's Funding LLC.
Guarantors	A Sub Above LLC, JM'75 LLC, and JM SPV Guarantor LLC.
Trustee	Citibank N.A.
Manager	Jersey Mike's Franchise Systems Inc.
Servicer	Midland Loan Services, a division of PNC Bank N.A.
Back-up manager	FTI Consulting Inc.
Arranger	Guggenheim Securities LLC.

Rating Rationale

The preliminary ratings assigned to Jersey Mike's Funding LLC's $500 million class A-2 senior secured notes series 2021-1 reflect our assessment of the following:

- The Jersey Mike's brand's strength and its perceived ability to survive a bankruptcy of Jersey Mike's and, provided that adequate servicing remains in place, the brand's resulting capacity to continue generating sufficient cash flows from business operations.
- The business is 99% franchised.
- The projected cash flows supporting the notes have a debt service coverage ratio (DSCR) of 2.0x in the base case and 1.5x in the downside scenario.
- There is a fully funded reserve account (or LOC equivalent) equal to three-months of interest payments.
- The transaction's back-up manager, FTI Consulting Inc. (FTI) is able to replace the current manager in the event of a manager termination event to assume sales, general, and administrative (SG&A) functions. We believe the business' cost structure relative to the management fee size is adequate should FTI need to step in.
- The control structure, whereby the servicer bears the responsibility as the control party.
- The transaction structure and the isolation of the assets.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considered the potential exposure of the transaction to ESG credit factors, 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, Jersey Mike'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 coronavirus 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, Jersey Mike's has partially offset this with its mobile application launched in 2019 and increased delivery penetration. In addition, restaurants are vulnerable to food borne illness, labor shortage, and increased costs should there be an increase to the federal minimum wage.

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

Key Credit Metrics And Peer Comparisons

Table 1

Key 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/adj. EBITDA) (iv)	Min. base-case DSCR (v)	Min. downside DSCR (v)
Jersey Mike's (ii)	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

Table 1

Key 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/adj. EBITDA) (iv)	Min. base-case DSCR (v)	Min. downside DSCR (v)
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
Wendy's	2021-1	BBB (sf)	6,838	1.8	95.0	14.0	Over 30 years	QSR	6.9	1.8	1.5
Domino's	2021-1	BBB+ (sf)	17,644	0.9	98.0	64.0	Over 30 years	QSR	6.4	1.8	1.4
SERVPRO	2021-1	BBB- (sf)	1,860	1.5	100.0	--	Over 30 years	Restoration services	8.1	1.7	1.4
Arby's	2020-1	BBB- (sf)	3,520	1.2	66.0	0.2	Over 30 years	QSR	5.9	1.5	1.3
Planet Fitness	2019-1	BBB- (sf) (vi)	1,899	2.1	96.0	2.7	29 years	Fitness	6.5	1.7	1.3
Jack in the Box	2019-1	BBB (sf)	2,240	1.5	94.0	--	Over 30 years	QSR	4.9	1.9	1.6
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
Jimmy John's	2017-1	BBB+ (sf) (vii)	2,690	0.8	98.0	--	Over 30 years	QSR	5.2	1.8	1.7
Cajun Global	2017-1	BBB- (sf)	1,588	0.7	85.0	32.0	Over 30 years	QSR	5.2	1.8	1.4
TGIF	2017-1	B (sf)	903	2.7	94.0	48.0	Over 30 years	CDR	5.6	1.3	1.0

(i)Rating is for the senior-most securitization note issued. (ii)Preliminary. (iii)% of total store count. (iv)As reported. (v)As of each series' closing date unless otherwise noted. 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. Driven Brands--Driven Brands Funding LLC (Maaco, Meineke, and others). Jack in the Box Funding LLC (Jack in the Box). 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. Focus Brands--Focus Brands Funding LLC (Carvel, Cinnabon, Auntie Anne's, and others). Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. Funding LLC. Sonic--Sonic Capital 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. 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 towards 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 because consumers obeyed 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 the COVID-19 pandemic-induced lockdowns, the shift to delivery has slowed in 2021.

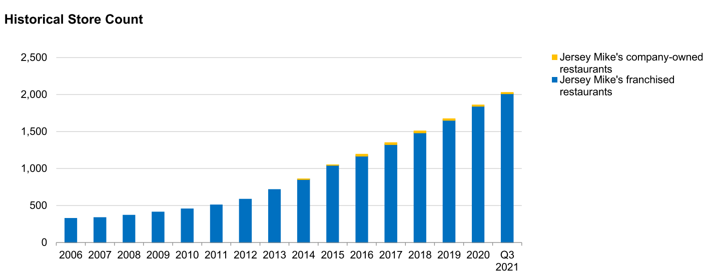
In addition, many independently owned businesses closed during the lockdowns, creating opportunities for larger players to increase their market share. However, we don't expect this trend to continue as restrictions ease. Quick-service restaurants have been performing well overall, while casual dining restaurants continue to face challenges. We expect slow domestic economic growth will continue to limit gains in restaurants' guest traffic and, while labor inflation will affect store profits, the impact may not be as meaningful for the highly franchised models. Cost inflation will also pressure operating margins over the near term because it is unlikely that it will be fully passed along to customers. Additionally, we believe restaurants' abilities to increase market share will drive their revenue and profit growth, and those with an international presence will have more expansion opportunities in various markets.

Summary Of The Business

Jersey Mike's, which is headquartered in Manasquan, N.J., is a quick-service restaurant that specializes in premium subs and sandwiches. The company was founded in 1956, was purchased by the current CEO, Peter Cancro in 1975, and began its franchising initiatives in 1987. Peter Cancro currently holds 100% of Jersey Mike's voting shares.

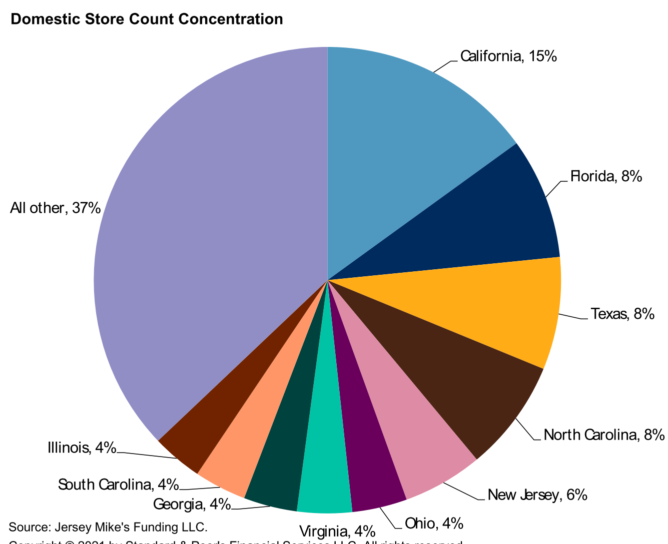
As of Sept. 30, 2021, the Jersey Mike's system included 2,025 domestic restaurants, all of which operate in the casual quick-service restaurant industry (see chart 1). The company operates as a single brand of restaurants in 48 states and Washington D.C. Jersey Mike's also has a small presence in Canada, though these restaurants are not included in the current securitization. Within the U.S., the company has modest geographic diversity, with the top three states accounting for 31% of all domestic restaurants (see chart 2).

Chart 1



Source: Jersey Mike's Funding LLC.

Chart 2



Source: Jersey Mike's Funding LLC.

Jersey Mike's has expanded significantly over the past decade. Since 2006, the company has grown to 2,025 units in the U.S. from 324 units with a cumulative average growth rate of approximately 13%. Net restaurant openings during the 24 months ending Sept. 30, 2021, was 410 units, a pace little affected by the COVID-19 pandemic. The company expects to continue its current rate of expansion, with a committed development pipeline of over 1000 restaurants, of which 250 are expected to open in 2022.

Since 2006, Jersey Mike's has been a 99% franchised system, which remains the target proportion of franchised restaurants in the pool. CEO Peter Cancro and his family control 60 units, which are considered "franchised" according to the terms of the securitization. If these units were to be considered corporate owned, 96% of the system would still be franchised.

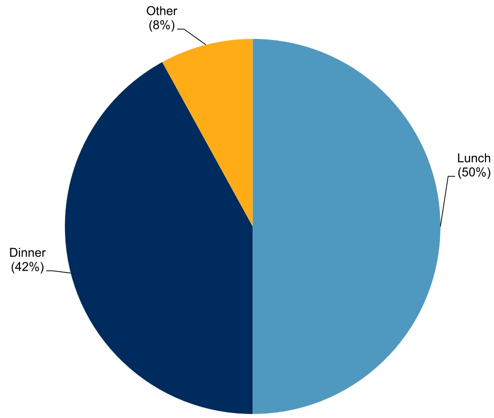
Jersey Mike's franchisee base is diverse, with 536 U.S. franchisees operating an average of approximately four restaurants each, and the largest franchisee operating approximately 3% of the total branded restaurants. Of these 536 franchisees, 201 are single-restaurant operators. The top 10 franchisees in the U.S. have an average tenure of approximately 10 years and operate an average of 36 restaurants each. The company typically executes and agrees on 10-year franchise agreements with its franchisees, with the option to renew for an additional 10-year term. The royalty rate has remained steady over the past five years, averaging near 6.5%.

Jersey Mike's recruits certain franchisees, former franchisees, and other persons with experience in the Jersey Mike's system to become area directors to grow Jersey Mike's business in designated geographic areas. These area directors assist the company in recruiting new franchisees and guiding them through the process of opening new restaurants. In return for this, the area directors receive compensation based on new openings, trainings conducted, and a percentage of sales of restaurants under the area director. These fees are taken directly out of collections and have been accounted for in our cash flow modelling.

Jersey Mike's has positioned the brand as a premium sandwich shop with high quality produce and ingredients. Its menu mix primarily consists of hot and cold sandwiches. The subs are prepared in shop, with produce and meats sliced directly in front of the customer, serving as a visual example of the "freshness" of the company's offerings. Similar to other sandwich concepts, Jersey Mike's daypart breakdown has considerable intraday concentration, with approximately 50% of sales generated during the lunch hours (see charts 3 and 4).

Chart 3

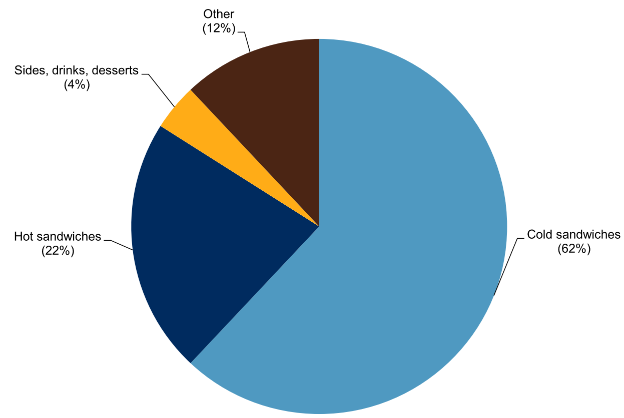
Daypart Mix



Source: Jersey Mike's Funding LLC.

Chart 4

Menu Mix



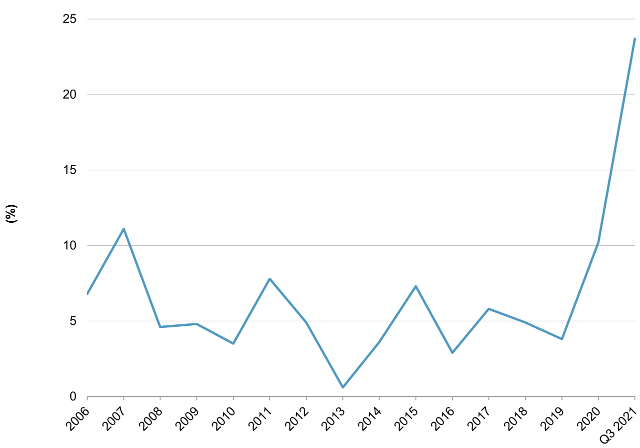
Source: Jersey Mike's Funding LLC.

Jersey Mike's key strategic initiatives to drive growth and increase brand awareness include new unit developments, marketing and loyalty program enhancements, national television advertisements, increasing delivery penetration through its mobile application, and a systemwide store remodel program that was largely completed by September 2021. Although restaurant renovations are technically the responsibility of the franchisee, the company's support from its SG&A helped expedite the remodel implementation and drive systemwide sales. Currently 14.3% of orders are made through the mobile app, up from 12.6% in 2020.

Historically, Jersey Mike's has exhibited stable performances. Its same-store sales growth has been positive every year since 2006 (see charts 5), and its average unit volume (AUV) levels have also increased steadily due to a combination of increased order size and customer traffic (see chart 6 and 7). Between 2006 and Sept. 30, 2021, Jersey Mike's AUV grew at a compound annual growth rate of 6.7%. The Sept. 30, 2021 AUV is around $1.1 million, a 31% increase since the issuance of the 2019-1 series. Although the company reported same-store sales declined 3.6% year-over-year in the first-quarter 2020 due to the impact of COVID-19, the decline was not as sharp or pronounced as other quick-service and fast-casual restaurants. In addition, we believe the persistent weakness at Subway has allowed Jersey Mike's to capture some market share in the sandwich space. Regardless, S&P Global Ratings' cash flow analysis assumed zero future growth in the base case.

Chart 5

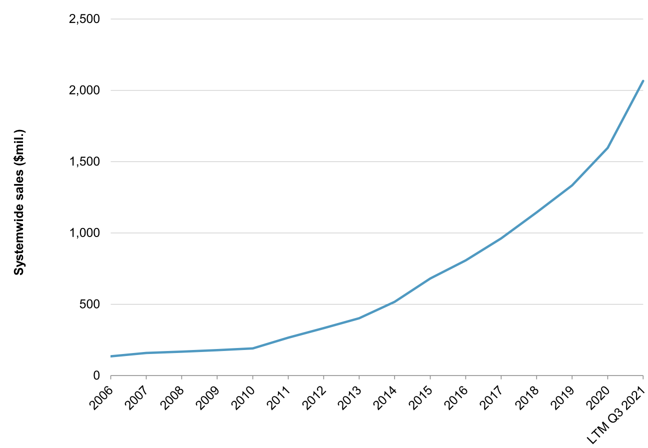
Historical Systemwide Same-Store Sales Growth



Source: Jersey Mike's Funding LLC.

Chart 6

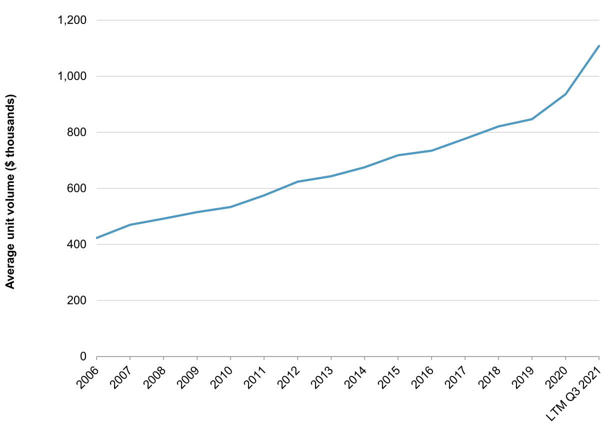
Annual Systemwide Sales



LTM--Last 12 months. Source: Jersey Mike's Funding LLC.

Chart 7

Historical Average Unit Volume



LTM--Last 12 months. Source: Jersey Mike's Funding LLC.

Collateral

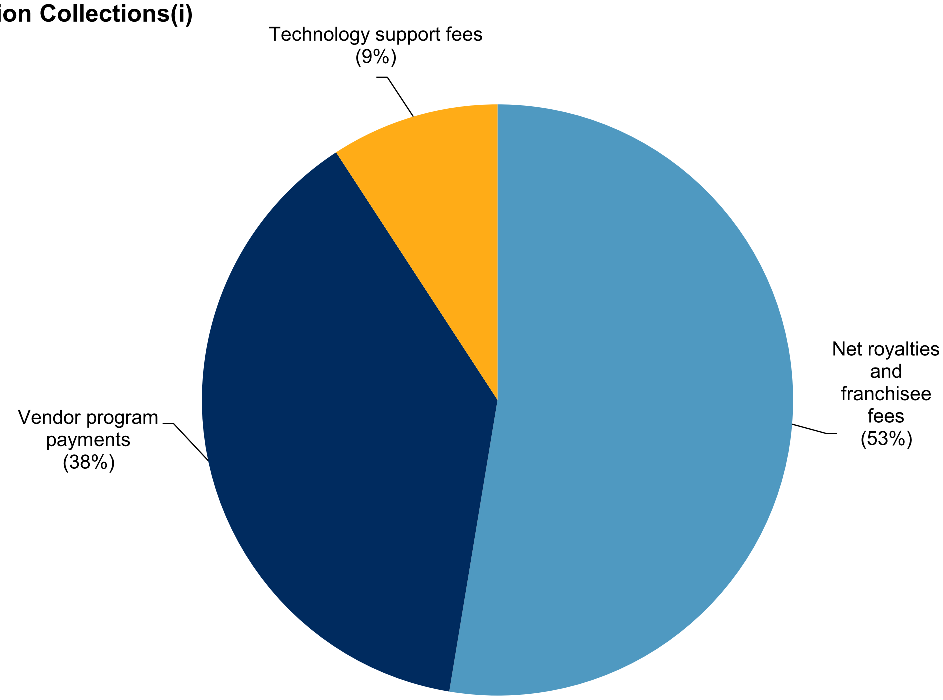
The notes will be secured by a security interest in substantially all of the master issuers' and guarantors' assets and will include:

- Existing and future franchise and development agreements;
- Other franchise and license fees;
- Vendor program payments; and
- Domestic intellectual property

Chart 8 illustrates the relative initial contributions of the transactions' securitization collections.

Chart 8

Securitization Collections(i)



(i)Last 12 months ended third-quarter 2021. Source: Jersey Mike's Funding LLC.

The largest contributor of cash flow is the royalty revenue, which is a combination of sales and the royalty rate. As mentioned above, sales have been increasing while the royalty rate has remained consistent.

The second-largest source of cash flow is from vendor program arrangements. Jersey Mike's has arrangements with third-party vendors that may include provisions for program payments, based on the volume of products sold or a percentage of sales. Key vendors provide meats, cheeses, beverages, snacks, and more. Information regarding vendor program payments that is required to be disclosed to franchise prospects by law is contained in the franchise disclosure document. The program payments contributed approximately 38% of securitization collections as of the 12 months ended Sept. 30, 2021. The top 10 vendors with rebate programs comprise 76% of the total vendor rebates. Although the arrangements are short term, the average relationship age of the top 10 vendors is 11 years.

Many of the larger vendor payments come in annually. Therefore, to smooth out the cash available from vendors, payments over $2.5 million will be held in an account and distributed over the next four quarters if at the time of receipt, the DSCR is less than 2.5x.

Key Credit Considerations

Table 2

Key Credit Considerations

Factor	Comment
Long operating history	The first Jersey Mike's restaurant was opened in 1956. The brand has survived multiple economic downturns and has built a loyal customer base. This supports the likelihood that brand loyalty and recognition (and thus sales) will continue even in the event Jersey Mike's Franchise Systems Inc. is replaced as the manager.
High franchised percentage	As of Sept. 30, 2021, franchisees operated 99% of the 2,025 systemwide Jersey Mike's restaurants in the U.S. We believe a high franchised percentage provides the transaction with better cash flow stability and independence from the manager than transactions with a lower percentage of franchised restaurants.
Stable performance metrics	Since 2006, Jersey Mike's has exhibited 16 consecutive years of positive same-store sales growth, and its total systemwide sales has increased at a 20% cumulative average growth rate.
Larger % of SNCF is from vendor payments	Vendor payments contribute approximately 38% of the securitization's net cash flow. Many of the larger vendors are investment-grade (rated 'BBB-' and above) and have been under contract for over 10 years. The franchisees are made aware of these payments in the franchise disclosure document. Additionally, in the downside case of the cash flow model, we reduced these payments by 30%, which is consistent with our criteria.
Contracted area directors	While contracted area directors have been used by other brands, Jersey Mike's relies on these non-employee directors to supervise over 60% of the restaurants. The practice of using contracted area directors was originally instituted to facilitate growth. These area directors receive an average of 2% of store sales, reducing the securitizations' retained collections. This has been modeled into the transaction. These area director payments have grown with same store sales and royalty revenue. Although we believe that the use of contracted directors could lead to control issues with this structure, we are comfortable with this practice because the contracted directors have an average tenure of more than 10 years.
Single shareholder	Although the single voting shareholder model contributes to the company's ability to implement change more quickly, it also makes the company dependent on only one person's vision. However, Peter Cancro has been the owner and CEO for over 40 years; therefore, we have a long track record to rely on.
Low AUV	The store AUV is $1.1 million, which is lower than many of the franchise systems that S&P Global Ratings rate.
Limited daytime offerings	The sandwich-oriented menu creates a concentrated daytime mix for lunch and late afternoon periods, which comprise approximately 50% of the business' sales.
System size	Jersey Mike's 2,025 U.S. restaurant count is considerably smaller than many of its rated peers in the quick-service restaurant space. Although restaurant growth has more than doubled since 2014, the system only exceeded 1,000 restaurants in 2015.

SNCF--Securitized net cash flow, AUV--Average unit volume.

Credit Rating Methodology

Table 3 details 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 the system of franchised restaurants would likely continue to generate cash flow in the event of a manager bankruptcy because individual franchisees generally operate independently from the manager (aside from their reliance on the manager's selling, general, and administrative functions, which we believe can be transferred to a backup manager). 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. Because we do not believe that substantially all cash flow from the system will be at risk in the event of a manager bankruptcy, our subsequent analysis quantifies the impact of the correlated cash flow decline from the system and compares that to ongoing required interest and principal payments to the rated debt.
Step 2		
BVS	4(i)	Jersey Mike's BRP is currently Weak, which maps to an unadjusted BVS of 5(i). We adjusted that BVS upward by one notch to 4 because the cash flows are revenue based, and the system has demonstrated revenue stability for more than 30 years and through numerous economic cycles.
Cash flow assumptions	See table 4	
Minimum base DSCR	2.02x	Principal and interest are fully paid in this scenario.
Anchor	bbb-	Determined per table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Minimum downside run DSCR	1.51x	Principal and interest are fully paid in this scenario.
Step 3		
Resiliency score	Satisfactory	Determined per table 3 of the Corporate Securitization criteria.
Resiliency adjusted anchor	bbb	Determined per table 4 of the Corporate Securitization criteria.
Step 4		
Modifier analysis	No adjustment	Relative to Jersey Mike's peer group, this structure is not an outlier from a leverage perspective. The anticipated repayment dates and the transaction structure are comparable to similarly rated deals.
Step 5		
Comparable rating analysis	No adjustment	While Jersey Mike's restaurant count is lower than in its peer group, the other characteristics of the pool, including its AUV, royalty rate, recent performance, and 99% franchised nature, are similar to that of its peer group. As such, we do not believe any upward or downward notching is necessary. Given that we did not make any adjustments in steps four or five, our preliminary rating is 'BBB' (sf).

(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. BVS--Business volatility score. BRP--Business risk profile. DSCR--Debt service coverage ratio. AUV--Average unit volume.

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 restaurant royalties, which constitute most of the overall projected cash flow, are a function of restaurant count, AUV, and royalty rates.
All other securitization collections	0	30	All other securitization collections, including vendor program rebates and technology support payments.

(i)For AUV. 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 be increased by as much as 213% (equivalent to an approximately 41% 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. We believe the additional management fee mirrors what could occur if Jersey Mike's files for bankruptcy. While the management fee is currently outlined in the transaction documents, we believe it is possible that such fees would be renegotiated in the event of a hypothetical bankruptcy or manager transition.

Sensitivity run 2: event-driven stress

Starting with the base-case scenario assumptions, we determined the maximum cash flow haircut that would allow timely interest and full principal payments by the transaction's legal final maturity date. We projected the cash flow haircut to be approximately 59%. We examined several event risks associated with cash flow losses, including the equivalent of royalty losses from the top geographic locations and franchisees by sales. Given the top three state concentration (California, North Carolina, and Florida) of 31% and top 10 franchisee concentration of 18%, we believe the cash flow cushion is sufficient to mitigate the risk if either event occurred.

Structural Protection Summary

The transaction's structural features and credit enhancements are generally consistent with those of other recent corporate securitizations rated by S&P Global Ratings (see table 5).

Table 5

Structural Features

Test	Result
Rapid amortization DSCR trigger (P&I)	1.20x.

Table 5

Structural Features (cont.)

Test	Result
Rapid amortization systemwide sales trigger	Systemwide sales less than $650 million.
Cash trapping DSCR trigger (P&I)	1.75x (50% trap) and 1.5x (100% trap).
ARD horizon(i)	Five to seven years.
Scheduled amortization through ARD	1.0% per annum.
Manager termination DSCR trigger (IO)	1.2x.
Event-of-default DSCR trigger (IO)	1.1x.
Management fee	The management fee, which includes both fixed and variable components, is a function of domestic restaurant count. According to the transaction documents, the fixed component is assumed to be $13.0 million annually, and the variable component is assumed to be $15,000 per unit up to the first 1,000 units, $10,000 for the 1,001 to the 2,000 units, $5,000 for the 2,001 to the 3,000 units, and $2,500 for each unit above 3,000. The management fee is subject to a 2% annual increase provided the fee does not exceed 35% of retained collections in the preceding four quarterly collection periods.

(i)The failure to pay the offered notes in full by the series 2021-1 anticipated repayment dates will be a rapid amortization event with respect to the offered notes, but it will not be 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.

The management fee definition has been revised since the series 2019-1 transaction. We have reviewed the updated terms and the itemized core expenses contemplated in the management fee formulation, and have incorporated the updated definition into our cash flow analysis. The updated terms were also reviewed by the backup manager, who is obligated to develop/implement a transition plan and serve as successor manager upon a manager termination event.

Payment Priority

The series 2021-1 issuance will include two tranches of class A-2 notes (senior notes) that will pay interest and principal quarterly from weekly distributions in the priority shown in table 6. The transaction currently doesn't include any class A-1, senior subordinated, or subordinated notes, but it may issue these notes if certain conditions arise.

Table 6

Payment Priority

Priority	Payment
1	First, to reimburse the trustee, and then, to the servicer for unreimbursed advances; then, to reimburse the manager for unreimbursed manager advances; and then, if during an amortization event, to prepay first the class A-1 notes pro rata; and then, senior notes not designated class A-1 notes until paid in full. If not during an amortization event, to prepay all senior notes designated class A-1 notes until paid in full; then, to prepay senior subordinated notes until paid in full; and then to prepay subordinated notes until paid in full.

Table 6

Payment Priority (cont.)

Priority	Payment
2	Expenses to reimburse the trustee; then, to the servicer for any unreimbursed advances; then, to the manager for any unreimbursed advances, manager advances, and accrued interest at the advance interest rate; and then, to the servicer, all servicing fees, liquidation fees, if any, and workout fees.
3	Successor manager transition expenses.
4	Weekly management fee to the manager.
5	Capped securitization operating expense amount and post-default capped trustee expenses amount.
6	Senior notes accrued quarterly interest payments; then, to the class A-1 notes accrued quarterly commitment fee amount; and then, the serves hedge payment amount.
7	Capped class A-1 notes administrative expenses amount; and then, the senior subordinated notes interest reserve amount deficiency amount.
8	Senior subordinated note accrued interest, if any.
9	Senior notes interest reserve account deficiency amount; and then, senior subordinated notes interest reserve account deficiency amount, if any.
10	Senior notes accrued quarterly scheduled principal amount and any senior notes quarterly scheduled principal deficiency amount; and then, amounts unknown by the manager that will become due under each VFN purchase agreement prior to the immediately succeeding quarterly payment date with respect to the cash collateralization of LOCs issued under each VFN purchase agreement.
11	Supplemental management fee (including previously accrued and unpaid).
12	As long as no rapid amortization period is continuing, but a class A-1 amortization event occurred and is continuing, reduce, pro rata, the outstanding principal amount on class A-1 notes to zero and fully cash collateralize all outstanding LOCs on the next quarterly payment date (after giving effect to all deposits in the principal account to the class A-1 notes), using the principal account.
13	As long as no rapid amortization period is continuing and the weekly allocation date occurs during a cash trapping period, deposit the cash trapping amount into the cash trap reserve account.
14	As long as a rapid amortization period is continuing, pay the senior notes principal payment account and the outstanding principal amount of the class A notes until it reaches zero; then, fully cash collateralize all outstanding LOCs on the next quarterly payment date; and then, the senior subordinated notes principal payment account to reduce the outstanding principal amount to zero.
15	As long as no rapid amortization period is continuing, allocations to subordinated notes principal payment account, if any.
16	Deposit an amount equal to the accrued and unpaid securitization operating expenses (including those that are expected to be payable prior to the immediately following weekly allocation date) in excess of the capped securitization operating expense amount into the corresponding account.
17	Pro rata, based on amounts due under each VFN purchase agreement, pay the excess class A-1 administrative expenses amounts due under each VFN purchase agreement for that weekly allocation date to the related class A-1 administrative agent.
18	Pro rata, based on amounts due under each VFN purchase agreement, pay the class A-1 notes' other amounts due under each VFN purchase agreement for that weekly allocation date to the related class A-1 administrative agent.
19	Pay the subordinated notes' accrued quarterly interest amount, using the corresponding account as the source.
20	As long as no rapid amortization period is continuing, allocate to the subordinated notes principal account and the subordinated notes' accrued quarterly scheduled principal amount; and then, the amount equal to the subordinated notes' quarterly scheduled principal deficiency amount.
21	As long as no rapid amortization period is continuing, allocate to the subordinated notes' principal payment account until the subordinated notes' outstanding principal amount will be reduced to zero on the next quarterly payment date.

Table 6

Payment Priority (cont.)

Priority	Payment
22	After the ARD, any senior notes' accrued quarterly post-ARD contingent interest amount on the senior notes.
23	After the ARD, any senior subordinated notes' accrued quarterly post-ARD contingent interest amount on the senior subordinated notes.
24	After the ARD, any subordinated notes' accrued quarterly post-ARD contingent interest amount on the subordinated notes.
25	Deposit to the hedge payment account any accrued and unpaid series' hedge payment amount that constitutes a termination payment payable to the hedge counterparty, and any other amount payable to a hedge counterparty, pro rata, to each according to the amount due and payable to each of them.
26	Allocate an amount to the senior notes' principal account equal to the unpaid premiums and make-whole prepayment premiums with respect to senior notes.
27	Allocate an amount to the senior subordinated notes' principal account equal to the unpaid premiums and make-whole prepayment premiums with respect to senior subordinated notes.
28	Allocate an amount to the subordinated notes' principal account equal to the unpaid premiums and make-whole prepayment premiums with respect to subordinated notes.
29	As provided in the relevant and related series supplement, to make any other payments to or for the benefit of any and all notes outstanding.
30	Pay the remaining funds, if any (the residual amount), at the direction of the master issuer.

(i)The ratings do not address the likelihood of receiving post-ARD interest. VFN--Variable funding notes. LOCs--Letters of credit. ARD--Anticipated repayment date.

Surveillance

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

We view Jersey Mike'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, we believe other factors such as cash flow, debt reduction, and legal framework also contribute to the overall analytical opinion.

Related Criteria

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

- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook U.S. Q4 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
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- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016