S&P Global
Ratings

Research

Presale:

Servpro Master Issuer LLC (Series 2024-1)

January 10, 2024

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Preliminary Rating

Class	Preliminary rating	Balance (mil. $)	Anticipated maturity	Legal maturity (years)
A-1	BBB- (sf)	$95(i)	January 2029(ii)	30
A-2	BBB- (sf)	$400(iii)	January 2031	30

Note: This presale report is based on information as of Jan. 10, 2023. 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)At closing, the class is expected to be undrawn. However, in our analysis, we assume a full draw on the $95 million commitment. (ii)Subject to two optional one-year extensions to 2031. (iii)The aggregate class A-2 amount will be at least $400 million. In our analysis, we assumed an additional $170 million.

Executive Summary

Servpro Master Issuer LLC's (Servpro) series 2024-1 issuance is a $495 million whole business securitization of Servpro's business, with a maximum available upsize of $665 million, representing an approximately 52% maximum increase in the company's securitized debt. The transaction proceeds, net of fees and expenses, will be used to refinance the 2019-1 A-1 variable funding note (VFN) and for general corporate purposes, which may include a return of capital to shareholders. The series 2024-1 note issuance will increase leverage to approximately 7.3x (total debt to adjusted EBITDA as of the trailing 12 months (TTM) ended Sept. 30, 2023) if the series 2024-1 class A-1 variable funding note is fully drawn (or to approximately 6.9x if it is not drawn). Including the proposed maximum $570 million series 2024-1 A-2 notes and assuming a full draw of the series 2024-1 class A-1 VFN, total debt outstanding for the Servpro Master Issuer LLC master trust is expected to be approximately $1.664 billion as of the closing date.

The transaction's key credit features include:

- Servpro's 100% franchised business;
- Servpro's strong brand recognition;
- The expectation that the backup manager would be able to maintain cash flow continuity in the event of a manager bankruptcy;
- Servpro's long operating history of over 50 years;
- The company's stable historical performance metrics, including a compound annual growth rate of 13% since 1998 and positive same-store sales growth over the past 15 years;

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- The business' limited geographic concentration, with the three largest states comprising approximately 23% of annualized systemwide sales as of the TTM ended Jun. 30, 2023; and
- The company's high adjusted leverage of over 7x.

As adjusted capitalization

	Sept. 30, 2023	As-adjusted
Capitalization		
Series 2019-1 class A-1(i)	95	0
Series 2019-1 class A-2(ii)	489.6	489.6
Series 2021-1 class A-2(ii)	253.5	253.5
Series 2022-1 class A-2(ii)	255.5	255.5
Series 2024-1 class A-1	0	95
Series 2024-1 class A-2	0	570
Cash flow(iii)		
Servpro adjusted EBITDA	228	228
Servpro SNCF	243	243
Leverage		
Servpro debt-to-adjusted EBITDA(iv)	4.8	7.3
Servpro funded ABS debt-to-SNCF	4.1	6.5
Servpro ABS debt capacity to SNCF(iv)	4.5	6.9

(i)Undrawn after October 2023 payment date. (ii)October 2023 ending balance. (iii)As per the last four quarters ending Sept. 30, 2023. (iv)Assumes full draw on the $95 million Series 2024-1 class A-1 VFN. VFN-Variable Funding Notes. SNCF-Securitized net cash flow. Servpro Master Issuer LLC. Source: Servpro Master Issuer LLC

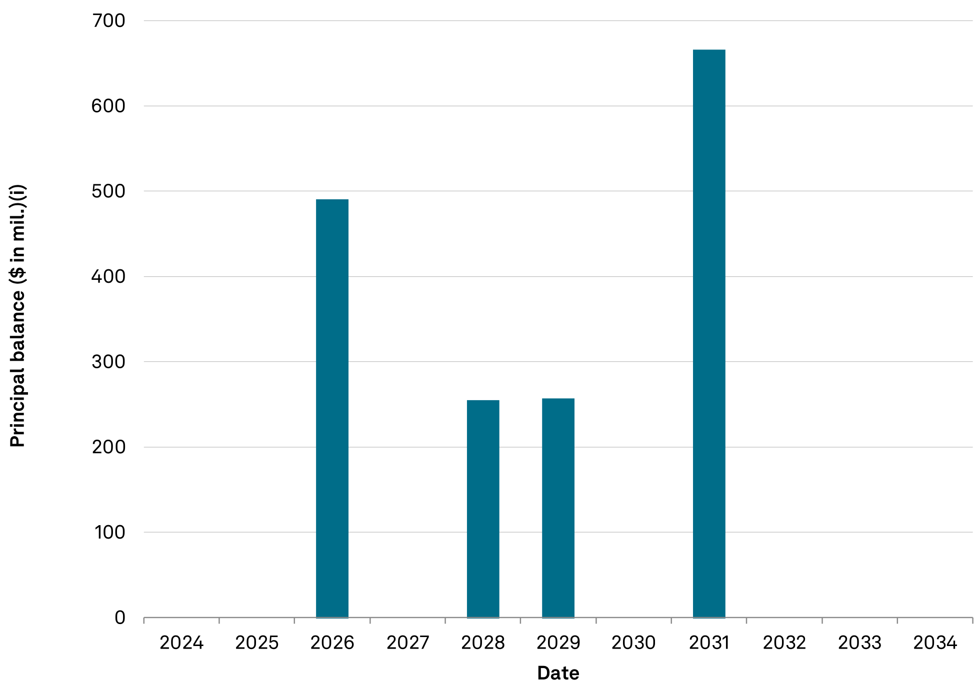
Expected securitization maturity schedule

Issue	Principal balance (mil. $)(i)	Anticipated repayment date	Legal final maturity date
Series 2019-1 class A-2	489.6	October 2026	October 2049
Series 2021-1 class A-2	253.5	April 2028	April 2051
Series 2022-1 class A-2	255.45	January 2029	January 2052
Series 2024-1 class A-1	95.0	January 2029(ii)	January 2054
Series 2024-1 class A-2	570.0	January 2031	January 2054

(i)Expected January 2024 balance. (ii)Subject to two optional one-year extensions to 2031.

Chart 1

Master issuer's anticipated repayment date schedule



(i)Outstanding principal balance as of September 2023. (ii)Series 2024-1 class A-1 shown with both one-year extensions and fully drawn. Source: Servpro Master Issuer LLC.

Transaction timeline

Expected closing date	Week of Jan. 22, 2024.
First interest payment date	April 25, 2024
Class A-1/A-2 anticipated repayment date	January 2029(i)/January 2031
Legal maturity date	January 2054
Note payment frequency	Quarterly.

(i)Subject to two optional one-year extensions to 2031.

Participants

Sole structuring advisor and sole book-running manager	Barclays Capital Inc.
Manager	Servpro Industries LLC.
Co-Manager	Blackstone Advisory Partners L.P.
Backup manager	FTI Consulting Inc.
Master issuer	Servpro Master Issuer LLC.

Participants (cont.)

Guarantors	Servpro SPV Guarantor LLC, Servpro Franchisor LLC, Servpro Distribution LLC, and Servpro Assets LLC.
Trustee	Citibank N.A.
Servicer	Midland Loan Services (a division of PNC Bank N.A.).

Rationale

The preliminary ratings assigned to Servpro's senior secured class A-1 and A-2 series 2024-1 notes reflect our view of:

- The strength of the Servpro brand, including the likelihood of the brand surviving a Servpro bankruptcy and the brand's capacity to continue generating sufficient cash flow from business operations, provided adequate servicing remains in place.
- The replaceable manager. The manager's responsibilities are generally limited to sales, general, and administrative (SG&A) functions, which we believe increases the likelihood of a successful replacement if the current manager is terminated. The transaction also has a backup manager, FTI Consulting Inc. (FTI), which will be established at the transaction's closing. FTI has reviewed the business' cost structure relative to the sizing of the management fee and believes the cost structure is adequate should FTI need to step in.
- The legal isolation of the assets. Substantially all of the business' cash-generating assets sold through a "true sale" to the securitization issuer and guarantors, which are bankruptcy-remote entities. This should decrease the likelihood that existing Servpro creditors could disrupt cash flow to the securitization following a manager bankruptcy. Legal opinions related to true sale and nonconsolidation are expected to be provided by the transaction's closing.
- Asset performance not fully correlating with manager performance. A system of restoration services will likely continue to generate cash flow following the manager's bankruptcy because individual franchisees generally operate independently from the manager (except SG&A functions, which we believe can be transferred to a backup manager).
- The cash flow coverage of debt service in a stress scenario. Given the brand's strength, the replaceable manager, and the legal isolation of the assets from the manager, we projected long-term cash flow 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 that the cash flow the business generates is sufficient to meet the rated notes' debt service obligations.
- The liquidity available in the form of a reserve account and/or a letter of credit sized to cover three months of interest expenses.

Our analysis incorporates audited and unaudited financial results. These include audited financials through Dec. 31, 2022, as well as quarterly servicer reports through Sept. 30, 2023, and management certificates for October 2023 and November 2023, which are preliminary and have not yet been audited. We also considered additional information from management, based on a cash-accounting basis. Our final ratings could differ from the preliminary ratings if there is a material difference between the reported metrics and the audited financials for the TTM period considered.

Environmental, Social, And Governance

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, along with other factors, in our business volatility score and cash flow assumptions.

Under environmental credit factors, we consider the energy and greenhouse emissions, waste and recycling, water usage and chemical disposal of Servpro's current 2,204 locations as of Sept. 30, 2023, as well as the environmental impact of its vehicle fleet.

Under social credit factors, we consider how employees in the restoration sector may be exposed to public health risks, particularly those involved in the neutralization of biohazards, including mold, mildew, and surfaces potentially contaminated with viruses and bacteria. However, we note that Servpro employees utilize personal protective equipment and are properly trained to mitigate these risks.

Under governance credit factors, we consider how Servpro executes and monitors its overall strategy, as well as internal controls and risk management, which are covered within our operational risk assessment framework.

Key Considerations

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

Strengths

- Servpro has a long operating history (over 50 years), which spans multiple economic downturns.
- Servpro's system benefits from scale and geographic diversity with 2,204 locations (2,183 of the U.S. locations are included in the securitization).
- The system is 100% franchised.
- The system metrics are robust, with positive sales growth over the last 24 years and positive same-stores sales growth over the last 15.
- The securitization assets are legally isolated, accomplished through true sales to the bankruptcy-remote securitization entities (issuer and guarantors).

Weaknesses

- Servpro operates in an industry with low barriers to entry.
- Most of the business relies on referral from insurance carriers.
- A large portion (70%) of the franchisees operate only one or two locations, which, coupled with a low upfront investment of $90,000, may make the franchisee less incentivized to renew the contract.
- The company has a high adjusted leverage (over 7x).

Mitigating Factors

- Being a Servpro franchisee comes with substantial competitive advantages, including strong brand awareness supported by a well-funded advertising fund (Brand Fund) and established relationships with insurance providers. This makes Servpro franchisees more noticeable to end-user consumers compared to competitors in the industry.

- Through the exclusive Account Participation Program which has been in place for nearly 20 years, Servpro has established relationships with seven of the top ten property and casualty companies. While these are annual contracts, most are auto-renewed each year.
- The services offered by Servpro act as a strong incentive for operators to continue their association with the company. This includes established relationships with insurance companies through Account Participation Agreements, which contribute to 80% of inbound leads. As a result, franchises experience a renewal rate of approximately 98%.
- The stability and growth of cashflows due to the essential non-discretionary nature of the business, coupled with the decrease in management fee has resulted in an increase in cashflows available to service the debt.

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 (%)(ii)	International (%)(ii)	Operating history (from founding)	Concept type	Leverage (total debt/adj. EBITDA)(iii)	Min. base-case DSCR(iv)	Min. downside DSCR(iv)
Servpro 2024-1(vi)	2024-1	BBB- (sf)	2,204	2.1	1.0	0.0	Over 30 years	Restoration services	7.3(vii)	1.64	1.42
Five Guys	2023-1	BBB- (sf)	1,502	1.8	0.7	0.2	Over 30 years	OSR/burger	7.7	1.68	1.39
Focus Brands	2023-2	BBB (sf)	6,487	0.6	1.0	0.3	22 years	QSR/multi	7.1	1.68	1.44
Applebee's/IHOP	2023-1	BBB (sf)	3,596	2.4	1.0	0.1	Over 30 years	CDR	6.4	1.75	1.53
Arby's	2020-1	BBB- (sf)	3,597	1.4	0.7	0.1	Over 30 years	QSR/sandwich	7.0	1.80	1.40
Dunkin' Brands	2023-1	BBB (sf)	20,844	0.7	1.0	0.4	Over 30 years	QSR/beverage	7.0	1.73	1.44
Driven Brands	2022-1	BBB- (sf)	3,444	1.2	0.8	0.2	Over 30 years	Auto services	6.2	1.50	1.30
Domino's	2022-1	BBB+ (sf)	19,294	0.9	1.0	0.7	Over 30 years	QSR/pizza	6.4	1.90	1.50
Wendy's	2022-1	BBB- (sf)	6,949	1.8	1.0	0.1	Over 30 years	QSR/burger	6.5	1.64	1.33
Jimmy John's	2022-1	BBB (sf)	2,674	0.8	1.0	-	Over 30 years	QSR/sandwich	6.5	1.83	1.53
Jack in the Box	2022-1	BBB (sf)	2,218	1.9	0.9	-	Over 30 years	QSR/burger	5.6	1.84	1.44
Planet Fitness	2022-1	BBB- (sf)	2,193	1.7	0.9	0.0	Over 30 years	Fitness	7.9	2.00	1.30
Jersey Mike's	2021-1	BBB (sf)	2,027	1.1	1.0	0.0	Over 30 years	QSR/sandwich	5.4	2.00	1.50

Table 1

Key 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/adj. EBITDA)(iii)	Min. base-case DSCR(iv)	Min. downside DSCR(iv)
Sonic	2021-1	BBB (sf)	3,524	1.7	0.9	-	Over 30 years	QSR/burger	6.6	1.79	1.62
Taco Bell	2021-1	BBB (sf)	6,895	1.8	0.9	0.1	Over 30 years	QSR/Mexican	4.9	1.84	1.62
ServiceMaster Brands	2021-1	BBB- (sf)	2,624	1.2	1.0	0.3	Over 30 years	Restoration services	8.7	1.80	1.40
Hardee's/Carl's Jr.	2021-1	BBB (sf)	3,834	1.3	0.9	0.3	Over 30 years	QSR/burger	7.0	1.80	1.40
TGIF	2017-1	B (sf)	903	2.7	0.9	0.5	Over 30 years	CDR	7.0	1.30	1.00

(i)Rating for the senior-most securitization note issued (closed transactions). (ii)Percentage of total store count. (iii)As reported. (iv)As of each series' closing date unless otherwise noted. (v)Preliminary. (vi)As of September 2023. (vii)Assumes full draw on the $95 million Series 2024-1 class A-1 VFN. AUV--Average unit volume. DSCR--Debt service coverage ratio. QSR--Quick-service restaurant. CDR--Casual dining restaurant. R/R--Remediation/reconstruction. Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. Funding LLC. Driven Brands--Driven Brands Funding LLC (Maaco, Meineke, and others). Sonic--Sonic Capital LLC. Jersey Mike's--Jersey Mike's Funding LLC. Planet Fitness--Planet Fitness Master Issuer LLC. Domino's--Domino's Pizza Master Issuer LLC. ServPro--ServPro Master Issuer LLC. Wendy's--Wendy's Funding LLC. Jack in the Box--Jack in the Box Funding LLC. Applebee's/IHOP--Applebee's Funding LLC/IHOP Funding LLC (Dine Brands Global). Dunkin' Brands--DB Master Finance LLC (AUV represents domestic for both brands, leverage assumes no variable-funding note). Taco Bell--Taco Bell Funding LLC. Jimmy John's--Jimmy John's Funding LLC. Cajun Global--Cajun Global LLC (Church's Chicken). Five Guys--Five Guys Funding LLC. TGIF--TGIF Funding LLC. Arby's--Arby's Funding LLC.

Industry Overview

The restoration and reconstruction services industry is highly competitive with low barriers to entry. The market is highly fragmented, consisting of mostly smaller, regional firms. Service time and the ability to respond to jobs quickly is a key factor to overall customer satisfaction.

Servpro Business Overview

Servpro is a leading franchisor in the restoration and reconstruction services industry. The company is based in Gallatin, Tenn. and has national franchising platforms in the U.S. and Canada. Servpro's 100% franchised system consists of 821 franchisees across approximately 2,204 locations, 21 of which locations are international and not included in the securitization, as of Sept. 30, 2023.(see charts 3 and 4). Systemwide sales were approximately $4.440 billion as of Sept. 30, 2023, and the average unit volume per annum was approximately $2.1 million (see charts 4 and 5).

Servpro's franchisee base operates in 49 states, with 43% of franchisees owning approximately one license. The franchise network has modest revenue concentration with the top ten largest franchisees generating about 14% of system sales as of the TTM ended Sept. 30, 2023. With the rapid growth of the Servpro system, the portfolio is relatively young with roughly 51% of locations in business for less than five years, however the majority of these operators have been with Servpro for over 10 years. During the TTM ended Sept. 30, 2023, Servpro's blended franchise gross royalty rate was 4.9%. Servpro previously utilized franchise area developers that act as recruiters and trainers for new franchisees on its behalf. As of Dec. 31, 2021, Servpro closed the buy-out of all area developer contracts, and all services are now provided and managed by Servpro.

Servpro has established relationships with national and regional insurance companies and commercial accounts nationwide. These accounts function to provide convenient services to insurance companies and commercial accounts. Insurance referrals and accounts make up roughly 80% of SERVPRO's business leads, while 20% comes directly from consumers reaching out. Under Servpro's national accounts program there are currently programs in place with 7 out of the top 10 property and casualty insurance companies and 109 insurance companies in total. This program is fully funded by Franchisee Brand Fund contributions through the national account fee, which is equal to 0.5% of each franchisee's sales. Servpro's national accounts team solicits and negotiates national and regional agreements for services of the Servpro system, primarily with insurance carriers and commercial property owners and managers.

Chart 2

Transaction structure

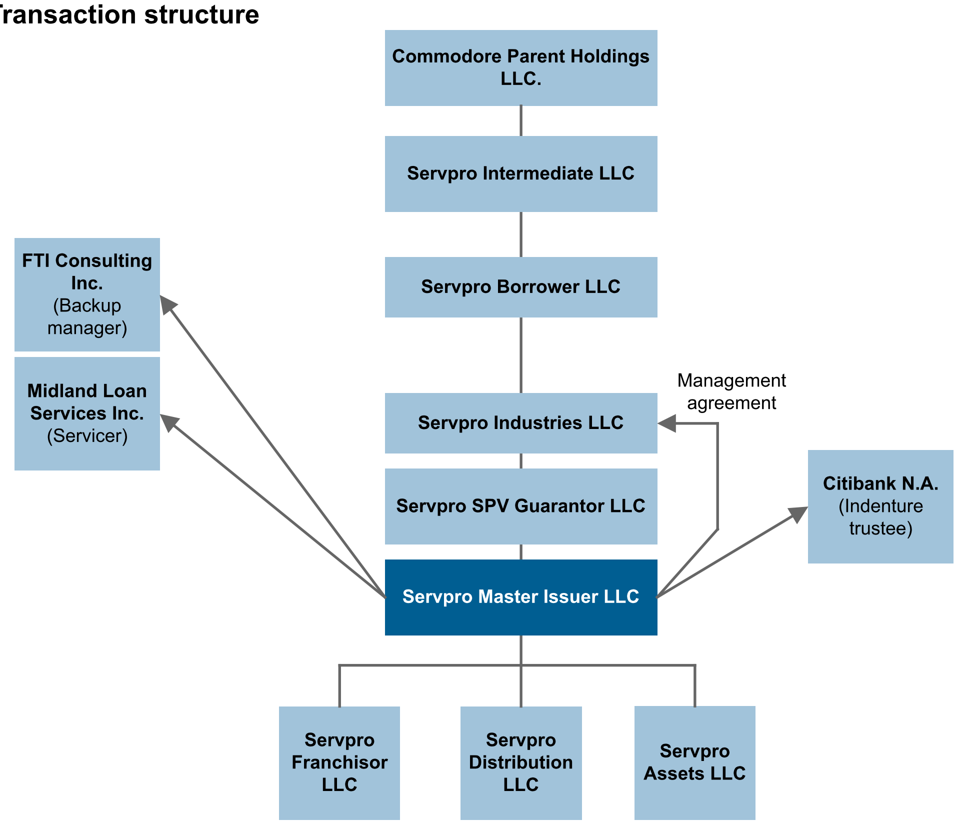
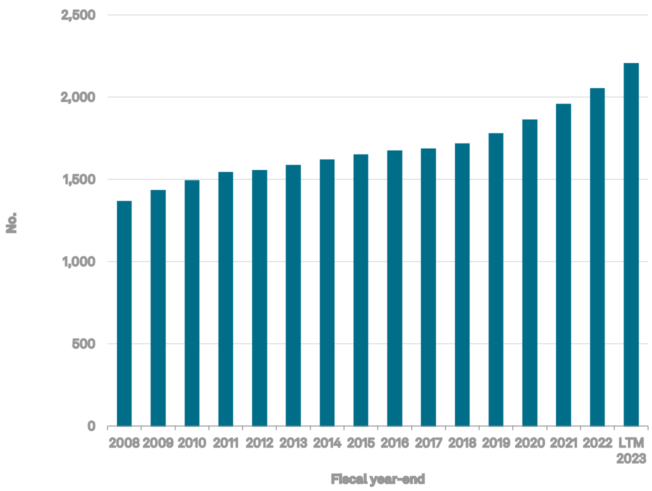


Chart 3

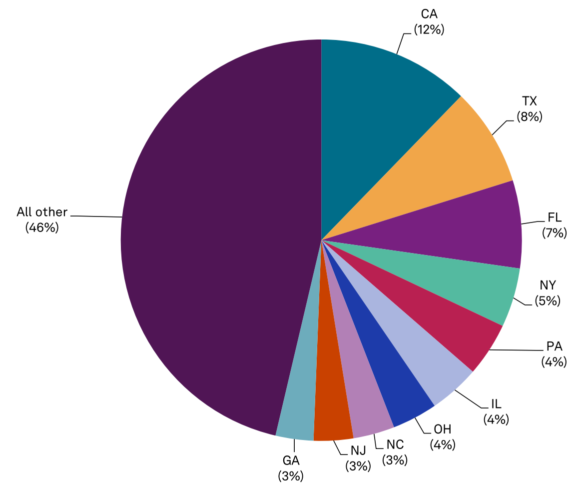
Total store count



As of Sept. 30, 2023. Source: Servpro Master Issuer LLC.

Chart 4

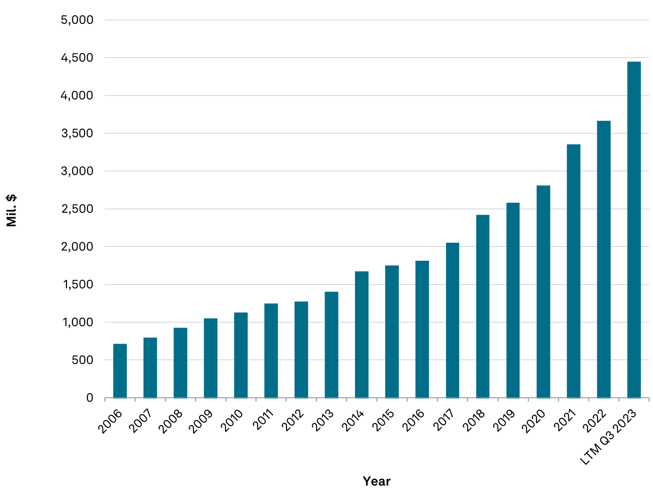
Domestic store count concentration(i)



(i)As of June 30, 2023. Source: Servpro Master Issuer LLC.

Chart 5

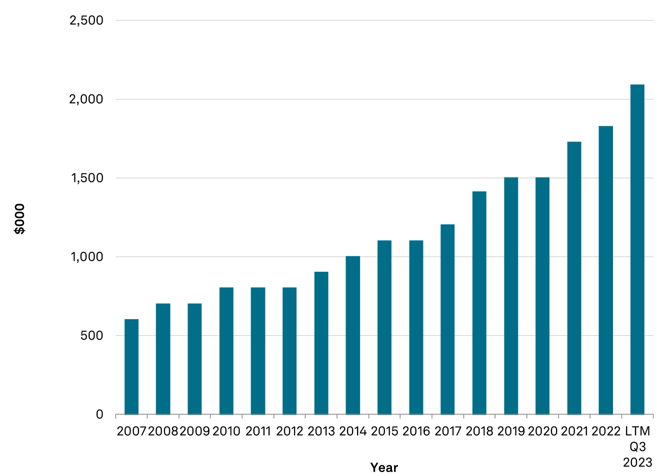
Total systemwide sales(i)



(i)As of Sept. 30, 2023. Source: Servpro Master Issuer LLC.

Chart 6

Average unit volume(i)



(i)As of Sept. 30, 2023. Source: Servpro Master Issuer LLC.

Lines of business

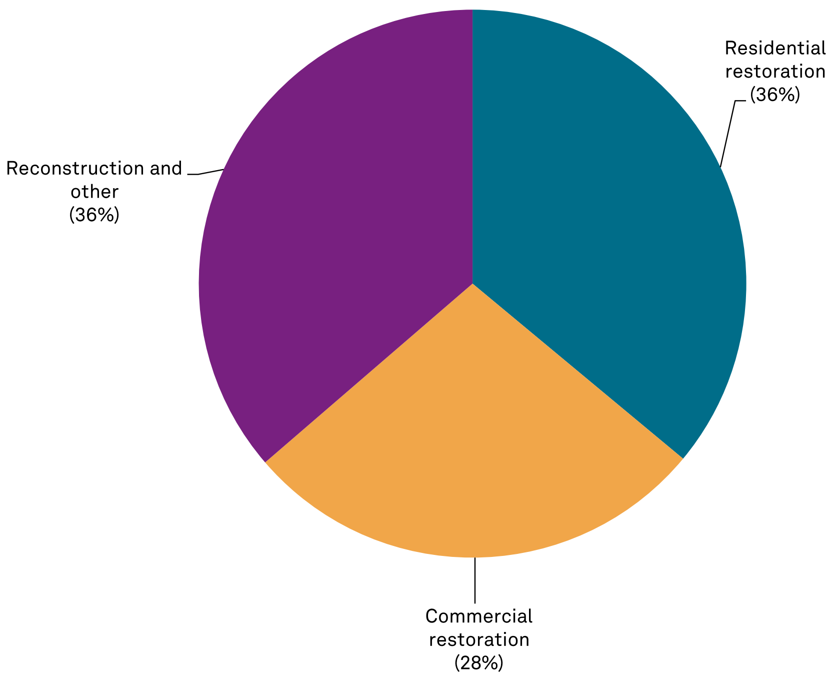
Servpro provides restoration and cleaning services to residential and commercial customers following loss events or disasters. The company derives most of its business from "everyday loss" events, which represent approximately 90% of sales (see chart 7). These losses include broken pipes, flooding, and small house fires. Servpro also provides services to "large loss" events, which represent approximately 10% of systemwide sales, and result from catastrophic events, such as hurricanes, tornados, or large-scale flooding. Servpro leverages its relationships with insurance companies to generate approximately 80% of its leads and most of its residential claims reimbursement. As of Sept. 30, 2023, Servpro had programs with 109 insurance companies, including seven of the top 10 property and casualty insurance companies.

Servpro's major business lines include the core residential restoration and mitigation, commercial restoration and mitigation, and reconstruction businesses (see chart 7).

The residential restoration and mitigation business comprised approximately 36% of systemwide sales as of the TTM ended Sept. 30, 2023. Common residential losses include storm, fire, and water damage. Servpro is considered the industry leader in the residential restoration and reconstruction sector, based on systemwide sales and a compound annual growth rate (CAGR) of 7% since 2008.

Chart 7

Business line as a % of systemwide sales



Source: Servpro Master Issuer LLC.

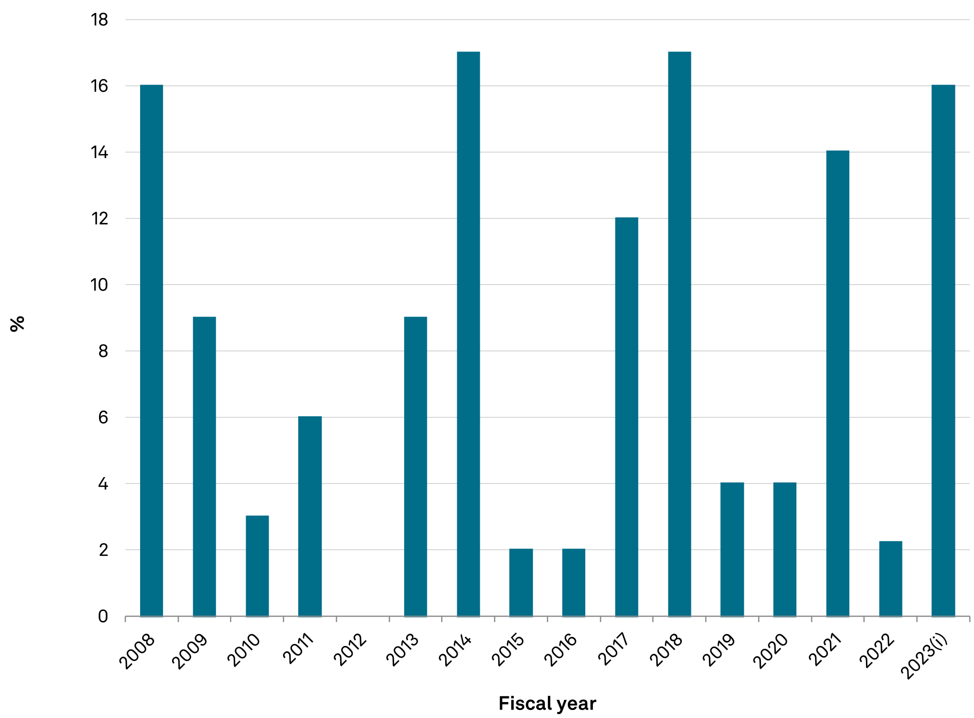
Servpro's commercial restoration and mitigation business, which was formally created in 2012, comprised approximately 28% of systemwide sales as of the TTM ended Sept. 30, 2023. In 2016, Servpro introduced its commercial business growth initiative through the commercial accounts participation agreement program (CAPA). For the period between fiscal year 2016 and the TTM ended Sept. 30, 2023, the commercial business had a CAGR of 17%. The CAPA program is designed to educate franchisees on the commercial business, specifically targeting advertising and national account management. Since implementing the CAPA program, Servpro's same-store sales have remained positive, with a CAGR of 12% over the past five years (see chart 8).

Servpro's reconstruction business contributed approximately 36% of systemwide sales as of the TTM ended Sept. 30, 2023, and it has been identified as a key focus for future growth. Servpro's reconstruction business is utilized after initial restoration services have been provided, and it is intended to return a customer's home or business to its pre-loss condition. The services offered include drywall installation, kitchen and bath remodeling, insulation, and painting, among others. Although the reconstruction segment is a lower-margin business, the average project size (approximately $15,000) is almost twice that of the mitigation segment. In 2018, Servpro introduced the reconstruction accounts participation agreement (RAPA) program, which serves as an introduction to national insurance carriers for the reconstruction business.

Systemwide same-store sales growth spiked in 2014 due to a major polar vortex, according Servpro management. The increase after 2017 was driven by the launch of the CAPA and RAPA programs, and the increase in 2021 was primarily driven by growth in the commercial restoration segment, which has been Servpro's fastest-growing line of business since the introduction of the CAPA program (see chart 8). A major driver of growth in recent years was the facilitation of a resale program, which replaces older, less sophisticated franchises with newer, better equipped franchises. Resold locations averaged 130% growth in the 12 months following the resale, improving the average revenue per location. We also note that inflation-driven increases in product pricing have likely contributed to the systemwide sales metrics within the recent period. However, the impact of inflation is partially mitigated by Servpro's use of pricing software that accounts for long-term trends in market data for labor, equipment, and consumables, rather than short-term fluctuations in these inputs.

Chart 8

Historical systemwide same-store sales growth



(i)Last 12 months ending Sept. 30, 2023. Source: Servpro Master Issuer LLC.

Collateral

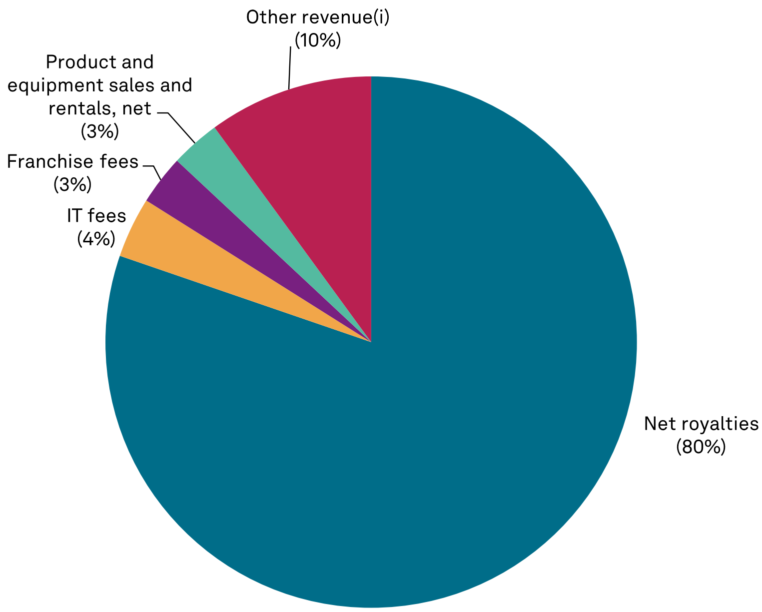
The notes will be secured by a security interest in substantially all of the guarantors' assets and include:

- Contributed and new franchise and development agreements and the related franchisee payments,
- Existing and future product supply contracts relating to vehicles and equipment,
- Securitization intellectual property (IP) and IP license agreements,
- Transaction accounts,
- Contributed and new product supply and related assets,
- Membership interests in the securitization entities, and
- Any interest reserve or letter of credit.

Chart 9 shows the various cash flow streams' relative initial contributions to the transaction.

Chart 9

Securitization collections



(i)Includes deposits from the franchisee convention account. Source: Servpro Master Issuer LLC.

Key Credit Considerations

Table 2

Key credit considerations

Long operating history	Servpro was founded in 1967. 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 if Servpro Industries LLC is replaced as the manager.
High franchised percentage	As of Sept. 30, 2023, franchisees operated 100% of Servpro's domestic franchise units. 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 units.
Stable performance metrics	Since 2008, the Servpro system has sustained consistent years of positive same-location sales and a compound annual growth rate of approximately 8% of systemwide sales. The company has over 20 consecutive years of positive systemwide sales growth.

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 franchised restoration locations would likely continue to generate cash flow if the manager files bankruptcy because individual franchisees generally operate independently from the manager (aside from their reliance on the manager's SG&A functions, which we believe can be transferred to a backup manager). As long as a brand has sufficient customer loyalty, royalty revenues should remain available to service securitization debt, assuming the assets have been isolated via a true sale to a bankruptcy-remote special-purpose entity. Because we do not believe that substantially all cash flow from the franchise system will be at risk if a manager bankruptcy occurs, our subsequent analysis quantifies the impact of the correlated cash flow decline from the franchise system and compares that to ongoing required interest and principal payments to the rated debt.
Step 2		
Business volatility score (BVS)	3(i)	Servpro's business risk profile assessment is fair. This maps to an unadjusted BVS of '4'(i), which we adjusted upward by one notch to '3' because the cash flow is revenue-based and the system has demonstrated stability for more than 30 years.
Cash flow assumptions	See table 4 below	
Minimum base DSCR	1.64x	Principal and interest are fully paid in this scenario.
Anchor	bbb	Determined based on table 1 of our Corporate Securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Minimum downside run DSCR	1.42x	Principal and interest are fully paid in this scenario.
Step 3		
Resiliency score	Satisfactory	Determined based on table 3 of the Corporate Securitization criteria.
Resiliency adjusted anchor	bbb	Determined based on table 4 of the Corporate Securitization criteria.
Step 4		
Modifier analysis	1 notch down	This structure is an outlier from a leverage perspective. However, the anticipated repayment dates and the liquidity and deleveraging triggers are comparable to those of other transactions.
Step 5		
Comparable rating analysis	None	Servpro is in a stable but fragmented industry. It has higher margins than other whole business concepts and is comparable to other nondiscretionary service providers such as ServiceMaster and Driven Brands.

(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. DSCR--Debt service coverage ratio. BVS--Business volatility score.

Table 4 shows our cash flow assumptions. We base our cash flow assumptions on the trailing twelve months (LTM) ending Nov. 30, 2023.

Table 4

Cash Flow Assumptions

	Cumulative decline (%)		
Asset cash flow category	Base case	Downside case(i)	Description
Royalty revenue and fees	0	20	Franchise store royalties, which comprise most of the overall projected cash flow, are a function of store count, AUV, and royalty rates.
All other securitization collections	0	30	All other securitization collections.

(i)For AUV. AUV--Average unit volume.

Sensitivity Analysis

Sensitivity run 1: management fee stress

Using the base-case assumptions outlined in table 4, we determined that the management fee could increase by as much as 5.0x (equivalent to an approximate 49% reduction in net securitized cash flow relative to the base case) without any impact on the transaction's ability to make timely interest and full principal payments by the legal final maturity. We believe the additional management fee stresses could occur if Servpro experienced 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 is approximately 52%. We examined several event risks associated with cash flow losses, including the 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.

Sensitivity run 3: BBB- breakeven threshold analysis

We ran a third sensitivity where we derived the required immediate and permanent haircut to average unit volume in order for our rating runs to map to a BBB-, which was around 14%. This is meant to address the significant increase in debt (52%) with the current issuance. Although the debt increased by a large amount, we saw a significant increase in retained collections as well as a decrease in management fee, which together provide sufficient enhancement at the current rating level.

Structural Protection Summary

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

Table 5

Structural features

Test	Result
Rapid amortization DSCR trigger (P&I)	1.20x; system sales less than $1.135 billion.
Cash sweep DSCR trigger (P&I)	1.75x (50% sweep).
ARD horizon(i)	Seven years.
Scheduled amortization through ARD (%)	1.0%.
Senior leverage ratio non-amortization test (total debt/EBITDA)	5.00x (no scheduled amortization if the holding company leverage ratio is less than or equal to this level).
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 retained collections. According to the transaction documents, the fixed component is assumed to be $7.4 million annually, and the variable component is assumed to be $8,100 per $100,000 of retained collections over the preceding four most recently ended quarterly fiscal 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. ARD--Anticipated repayment date. IO--Interest only.

Payment Priority

Following the series 2024-1 issuance, the transaction will include class A-2 notes from four series (2019-1, 2021-1, 2022-1, and 2024-1), which will pay interest and principal quarterly from weekly distributions in the priority shown in table 6. The transaction currently does not include any senior subordinated or subordinated notes, these notes may be issued if certain conditions are met.

Table 6

Payment Priority

Priority	Payment
1	From indemnification, permitted asset dispositions, and insurance and 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 renewal date has occurred or a rapid amortization event has occurred and is continuing, pay the class A-1 notes; then pay all other senior notes; then to the senior subordinated notes, if any; and then to the subordinated notes, if any.
2	To the trustee; then to the servicer; then, on and after the 2021 springing amendments implementation date, to the backup manager for unreimbursed advances; then to the manager for unreimbursed advances; and then to the servicer for servicing, liquidation, and workout fees.

Table 6

Payment Priority (cont.)

Priority	Payment
3	Successor manager transition expenses, if any.
4	Monthly management fees.
5	Capped securitization operating expense amount; and then, and prior to the 2021 springing amendments implementation date, if an event of default has occurred and is continuing, the post-default capped trustee expense amount to the trustee.
6	Interest on the senior notes, the class A-1 note commitment fee amount, and the hedge payments, if any.
7	The capped class A-1 note administrative expense amount.
8	Interest on the senior subordinated notes, if any.
9	The senior note interest reserve account deficit amount and then the senior subordinated note interest reserve account deficit 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	On or after any class A-1 notes renewal date, if the class A-1 notes have not been repaid on or before such date, all remaining amounts to the class A-1 notes until their outstanding principal amount is reduced to zero.
13	If a rapid amortization has occurred and is continuing, all remaining amounts to pay down the class A-1 notes, then to pay down the remaining senior notes, and then to pay down any senior subordinated notes.
14	As long as no rapid amortization event has occurred and is continuing, any senior subordinated note accrued scheduled principal payment amount, and then any senior subordinated note scheduled principal payment deficiency amount.
15	Interest on the subordinated notes, if any.
16	As long as no rapid amortization event has occurred and is continuing, any subordinated note accrued scheduled principal payment amount, and then and any subordinated note scheduled principal payment deficiency amount.
17	If a rapid amortization has occurred and is continuing, all remaining amounts to pay down the subordinated notes, if any.
18	If a cash flow sweeping event has occurred, to the class A-2 and A-1 notes, pro rata, the lesser of the cash flow sweeping percentage of the available funds after items 1-17 in the payment waterfall are paid in full, and the aggregate class A-1 and A-2 outstanding balance.
19	Uncapped securitization operating expenses.
20	Uncapped class A-1 note administrative expenses amounts.
21	Class A-1 note other amounts.
22	After the ARD, post-ARD additional interest on the senior notes.
23	After the ARD, post-ARD additional interest on any senior subordinated notes.
24	After the ARD, post-ARD additional interest on any subordinated notes.
25	Hedge termination payments and any other unpaid hedge amounts, pro rata.
26	Any unpaid make-whole prepayment considerations.
27	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.

We view Servpro's performance as an important part of analyzing and monitoring the performance and risks associated with the transaction. While company performance will likely affect the transaction, we believe other factors, such as cash flow, debt reduction, and legal framework, also contribute to our overall analytical assessment.

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 2023: Slowdown Delayed, Not Averted, Sept. 25, 2023
- Scenario Analysis: How The Next Slowdown Could Affect U.S. Corporate Securitizations, Aug. 16, 2023
- Credit FAQ: A Closer Look At The Management Fee In U.S. Corporate Securitization, May 8, 2023
- Credit FAQ: The Key Ingredients For Whole Business Securitization Ratings, Feb. 22, 2019