

Market Insights

Sector Intelligence | Corporate Securitization

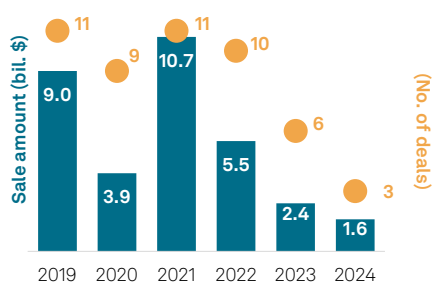
Apr. 22, 2024

This report does not constitute a rating action

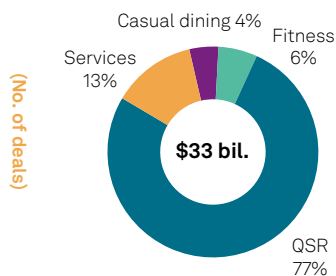
63 Deals outstanding*

\$33.0 bil. Rated outstanding bond balance

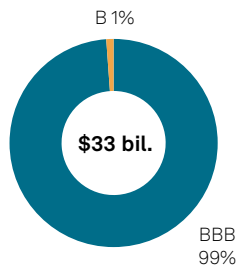
New issuance*



Distribution by type



Rating distribution



*All amounts assume fully drawn variable funding notes. QSR- Quick-service restaurants. Source: S&P Global Ratings.

Key takeaways

- In 2023, S&P Global Ratings rated six new transactions issued by DB Master Finance LLC (Dunkin Brands), Arby's Funding LLC (Arby's), Applebee's Funding LLC/IHOP Funding LLC (Dine Brands), GoTo Foods Funding LLC (GoTo Foods; formerly FOCUS Brands Funding LLC) and Five Guys Funding LLC (Five Guys). GoTo Foods had two separate transactions in 2023. Also, in 2023 we raised ratings on the notes from one issuer and affirmed all of the ratings on notes for three issuers.
- The \$2.44 billion of the six new issuances in 2023 comprised \$1.25 billion in variable-funding notes (VFNs) and \$1.19 billion in term debt. Historically, VFNs have been just a fraction of issuance, but, driven by the high rates in 2023 in the term market, issuers tapped their banking relationships in 2023.
- So far in 2024, S&P Global Ratings rated three new transactions issued by Servpro Master Issuer LLC (Servpro), SEB Funding LLC (Self Esteem Brands) and Hardee's Funding LLC/Carl's Jr. Funding LLC (Hardee's). Also, in 2024, we lowered the ratings on TGIF Funding LLC (TGIF).
- The \$1.57 billion of the three new issuances so far in 2024 comprised \$1.33 billion in term debt and \$240 million in VFNs (including an upsize of Hardee's 2018-1 A-1 notes by \$55 million).

A Primer On Corporate Securitizations

Corporate securitizations are generally backed by nearly all of an operating company's revenue-generating assets, including intellectual property, existing and future franchise and licensing agreements, royalties (domestic and international), supply chain profits, real estate, and company-owned store EBITDA. Four key factors allow for the differentiation of the credit risk of the operating company from the securitization debt: asset isolation, post-bankruptcy continuity of cash flow, establishment of a back-up manager, and a longer time horizon.

To determine the level of rating elevation above the company's creditworthiness, we consider various factors, including the entity's business risk profile (BRP) together with expected and stressed debt service coverage ratios (DSCRs), the transaction structure, and jurisdictional considerations, including bankruptcy regimes. In addition, we analyze the issuer's credit characteristics and performance relative to peers. Please see the criteria, presale reports, and other publications for detailed rating rationales.

Table 1 includes a list of the S&P Global Ratings-rated corporate securitization transactions and a few of their characteristics.

Table 1

Rated issuers

System name	Concept type	No. of stores	% franchised	% international	Adjusted BVS at last rating action	Current rating*
Applebee's Funding LLC	CDR	3,233	100	8†	3	BBB (sf)
Arby's Funding LLC	QSR/sandwich	3,620	70	4	3	BBB- (sf)
DB Master Finance LLC	QSR/beverage	21,545	100	45	2	BBB (sf)
Domino's Pizza Master Issuer LLC	QSR/pizza	20,591	99	67	2	BBB+ (sf)
Driven Brands Funding LLC	Services/auto	3,646	82	17	3	BBB- (sf)
Five Guys Funding LLC	QSR/burger	1,863	67	18†	4	BBB- (sf)
GoTo Foods Funding LLC‡	QSR/multi	6,562	99	28	3	BBB (sf)
Hardee's Funding LLC	QSR/burger	3,778	93	29	3	BBB (sf)
Jack in the Box Funding LLC	QSR/burger	2,186	94	--	3	BBB (sf)
Jersey Mike's Funding LLC	QSR/sandwich	2,684	99	--	4	BBB (sf)
Jimmy John's Funding LLC	QSR/sandwich	2,644	98	--	4	BBB (sf)
Planet Fitness Master Issuer LLC	Fitness	2,575	90	5†	3	BBB (sf)
ServiceMaster Funding LLC	Services/restoration	2,051	100	16	4	BBB- (sf)
SERVPRO Master Issuer LLC	Services/restoration	2,216	100	1†	3	BBB- (sf)
Sonic Capital LLC	QSR/burger	3,521	90	--	4	BBB (sf)
Taco Bell Funding LLC	QSR/Mexican	7,279	93	--	3	BBB (sf)
TGIF Funding LLC	CDR	641	78	57	6	B- (sf)
Wendy's Funding LLC	QSR/burger	7,240	94	17	3	BBB (sf)

Data as of March 31, 2024. *On all series in the master trust. †International stores not included in securitization. ‡Formerly FOCUS Brands Funding LLC. BVS--Business volatility score. QSR--Quick-service restaurant. CDR--Casual dining restaurant. LTM--Last 12 months. DSCR--Debt service coverage ratio. Source: S&P Global Ratings.

A Comparison Of Corporate Securitization Performance

For a high-level review of performance, we look at total system-wide sales, total debt outstanding, and DSCR. Each system has many variances, so these metrics are not always directly comparable, but they provide some insight into overall performance.

In 2023, all but one system posted positive sales growth when compared to 2022. TGIF's decline in sales is mainly due to lackluster performance over the past few years combined with the stress in the casual dining sector.

Most master trusts decreased their debt quantum organically by the 1% annual amortization typical in whole business securitization transactions. Jersey Mike's leverage is above the non-amortization threshold and therefore, they do not need to amortize. Jack in the Box, ServiceMaster, and Wendy's further decreased their debt quantum by paying down some or all of their VFNs in 2023.

Of the five issuers that came to market in 2023, Dunkin Brands, Five Guys, and GoTo Foods increased their total debt quantum with new series issuance in 2023. The issuance from Applebee's was exclusively a refinance of existing notes, and Arby's has not drawn on its new 2023-1 A-1 notes; therefore, both of these issuances were debt neutral on the master trust.

A trend we observed in 2023 was Issuers turning to VFNs to avoid locking in high debt costs over long periods of time as VFNs are typically floating rate facilities provided by the bond market.

The DSCR is calculated on a trailing 12-month basis; therefore, it does not typically change quickly without a new issuance or a paydown of existing notes in stable systems. The debt service calculation is net cash flow over total debt service for the trailing 12 months.

DSCRs across all of our rated transactions were comfortably over 3.0x as of Dec. 31, 2023 (except for TGIF, whose issuance is rated below investment-grade). All of the declines in DSCR greater than 5% were attributed to those master trusts that issued new debt in 2023, which in addition to the increase in debt also carried higher coupon rates.

Table 2

Peer performance comparison – as of year-end 2023

System name	Q4 2023					
	LTM system-wide sales (bil. \$)	YoY change (%)	Total ABS debt outstanding (bil. \$)	YoY change (%)	Issuer DSCR	YoY change (%)
Applebee's Funding LLC	7.78	2.21	1.19	(11.36)	3.60	(11.11)
Arby's Funding LLC	4.76	2.73	0.80	(1.03)	5.03	9.83
DB Master Finance LLC	15.59	5.78	4.63	11.80	3.57	(18.12)
Domino's Pizza Master Issuer LLC	18.28	4.20	4.91	(2.47)	3.80	13.10
Driven Brands Funding, LLC	5.39	12.27	2.21	(1.02)	4.32	14.29
Five Guys Funding LLC	3.27	8.19	0.85	7.08	4.36	(7.04)
GoTo Foods Funding LLC*	4.17	6.49	1.27	8.07	2.93	(12.54)
Hardee's Funding LLC	4.94	20.21	1.13	(1.03)	3.16	6.04
Jack in the Box Funding LLC	4.42	5.02	1.77	(4.29)	3.66	24.49
Jersey Mike's Funding LLC	3.34	24.76	0.99	0.00	6.48	22.96
Jimmy John's Funding LLC	2.55	7.92	1.06	(1.19)	3.08	0.98
Planet Fitness Master Issuer LLC	4.46	13.31	2.00	(1.03)	4.61	16.71

ServiceMaster Funding LLC	3.67	2.37	1.05	(2.74)	4.66	20.41
SERVPRO Master Issuer LLC	4.57	24.89	1.00	(1.02)	5.33	42.13
Sonic Capital LLC	5.53	0.63	1.44	(1.01)	3.38	0.30
Taco Bell Funding LLC	14.74	10.57	3.74	(0.77)	4.64	16.29
TGIF Funding LLC§	1.48	(5.65)	0.29	(6.52)	1.49	(7.45)
Wendy's Funding LLC	14.09	5.92	2.74	(2.09)	4.26	(0.23)

*Formerly FOCUS Brands Funding. §TGIF is currently in rapid amortization. YoY--Year over year. ABS--Asset-backed securities. QSR--Quick-service restaurant. CDR--Casual dining restaurant. LTM--Last 12 months. DSCR--Debt service coverage ratio. Source: S&P Global Ratings.

Restaurant Market Updates and Outlook

Quick service restaurants (QSRs) constitute approximately 77% of the S&P Global Ratings-rated outstanding transactions.

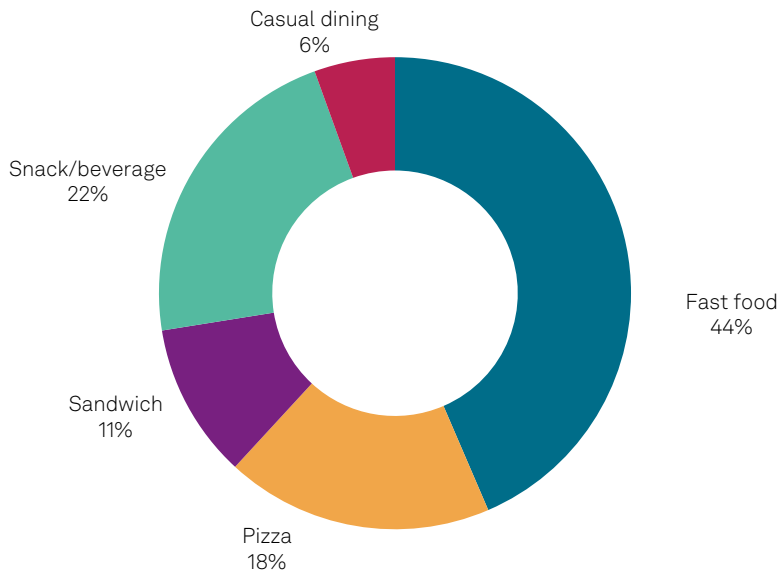
We expect the environment will remain challenging for QSRs in the U.S. in 2024. Traffic in the QSR space will likely continue to be pressured as households contend with compounded years of elevated inflation. Growth in the sector will be driven by higher prices and new units. Margins should be relatively stable as commodity and wage pressure ease (with the exception of California where the new \$20 per hour minimum wage requirement for restaurant workers took effect April 1). Pricing for some commodities like beef, however, are expected to remain high. Franchisors continue to be better positioned with a steady revenue base while franchisees will need to navigate the bottom line. Franchisees with operations located in the Sunbelt/Southern part of the U.S. are poised for better performance due to lower labor costs. Overall prices will remain elevated but should ease in 2024. Unit growth for franchisors should continue to be fueled by growth internationally, as it was in 2023.

In the casual dining space, 2024 will be a period of normalization after the traffic declines and sharp price increases in 2023. Less promotional activity and a focus on value across casual dining will continue to put downward pressure on traffic. However, 2024 may see less pronounced traffic declines than 2023. An emphasis on more sustainable traffic growth will continue to benefit margins. Despite increases in the minimum wage across multiple states, wage pressures, turnover, and retention are expected to improve in 2024 as unemployment rises and the labor market becomes less tight. Larger employers will also be in a better position to spread out labor cost increases across their organizational infrastructure than smaller competitors, even if both are in higher minimum wage states. This leads us to view 2024 as a low- to mid-single-digit comparable-sales growth year, coupled with profit margin expansion for casual dining.

In chart 1 below, we provide a breakdown of S&P Global Ratings-rated restaurant securitizations by type.

Chart 1

Restaurant bonds distribution



Source: S&P Global Ratings.

Anticipated Repayment Date (ARD) Analysis

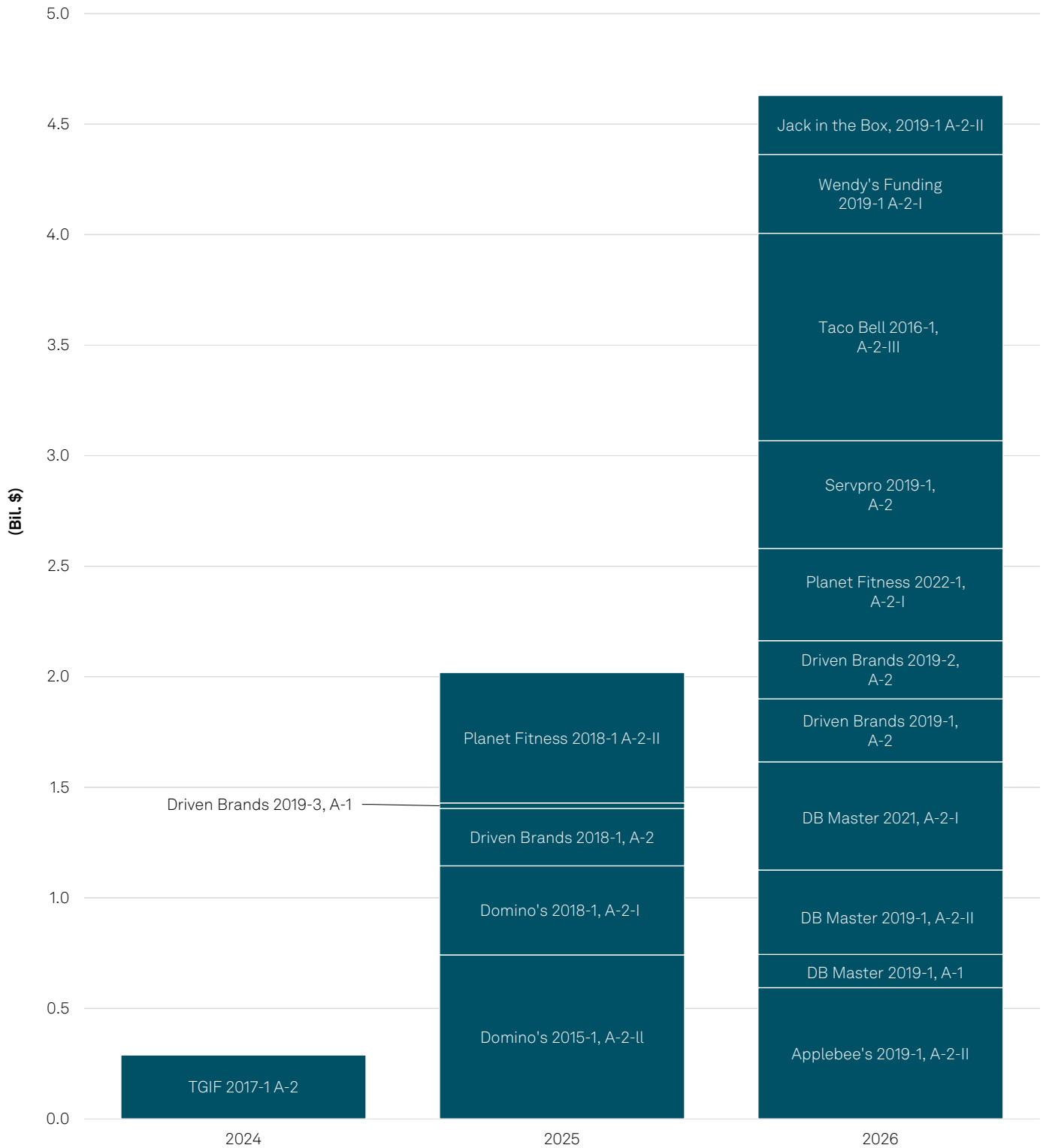
There is one corporate securitization note that has an ARD in 2024, five that have ARDs in 2025, and 11 that have ARDs in 2026. These notes have a total current balance of \$6.9 billion, 21% of the total portfolio. We therefore expect healthy issuance over the next 12-24 months and our projection is that rates will ease (Table 3).

While our ratings address the timely payment of interest and ultimate payment of principal by legal final maturity, we closely monitor ARDs. The refinancing of the notes at a higher rate would put increased stress on the entire master trust and could lead to rating implications for either the securitization and/or the corporate rating on the sponsor. Alternatively, if the notes are not repaid or refinanced prior to their ARD, a rapid amortization event would be triggered for the entire master trust.

TGIF's ('B- (sf)') ARD of April 30, 2024 is fast approaching and we do not anticipate that it will be refinanced prior to the ARD. On April 16, 2024, TGI Fridays announced a merger with their largest global franchisee, UK-based Hostmore. The transaction is expected to occur in the third quarter of 2024, and management plans to refinance the securitization debt at closing. The closing date will be beyond the ARD, but the transaction is already in rapid amortization and as we stated in the February 2024 TGIF press release "In isolation, reaching the ARD without full redemption is not necessarily a rating event".

Chart 2

Three-year outlook - anticipated repayment dates by class



Data as of Dec. 31, 2023. TGIF ARD is April 30, 2024. Source: S&P Global Ratings.

Table 3

Treasury yield (%)

	2024	2025	2026	2027
10-year treasury	4.0	3.5	3.3	3.4

Data as of March 26, 2024. See [“Economic Outlook U.S. Q2 2024: Heading For An Encore,”](#) published March 26, 2024. Source: S&P Global Ratings.

Table 4

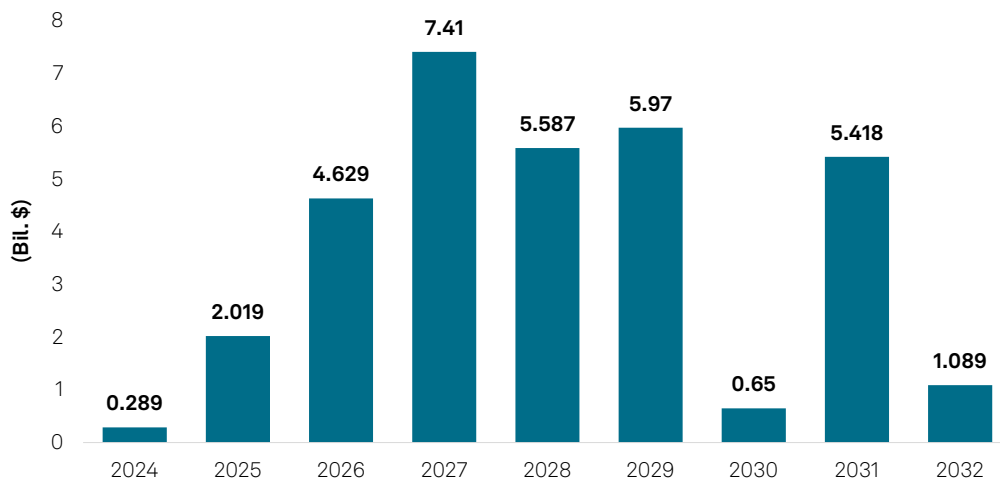
Outstanding balance for notes within ARD year

ARD year	Deal name	Series	Class	Outstanding balance (mil. \$)	% of master trust capital stack	Coupon (%)	Current rating
2024	TGIF Funding, LLC	2017-1	A-2	289.5	100.0	6.20	B- (sf)
2025	Domino’s Pizza Master Issuer LLC	2015-1	A-2-II	742.0	15.0	4.47	BBB+ (sf)
	Domino’s Pizza Master Issuer LLC	2018-1	A-2-I	402.7	8.1	4.12	BBB+ (sf)
	Driven Brands Funding, LLC	2018-1	A-2	259.2	11.6	4.74	BBB- (sf)
	Driven Brands Funding, LLC	2019-3	A-1	24.5	1.1	3M SOFR +1.65	BBB- (sf)
	Planet Fitness Master Issuer LLC	2018-1	A-2-II	590.6	29.5	4.67	BBB (sf)
2026	Applebees Funding LLC	2019-1	A-2-II	594.0	44.0	4.72	BBB (sf)
	DB Master Finance LLC	2019-1	A-1	150.0	1.0	3M SOFR +1.50	BBB (sf)
	DB Master Finance LLC	2019-1	A-2-II	382.0	7.8	4.02	BBB (sf)
	DB Master Finance LLC	2021-1	A-2-I	488.8	9.9	2.05	BBB (sf)
	Driven Brands Funding, LLC	2019-1	A-2	285.0	12.7	4.64	BBB- (sf)
	Driven Brands Funding, LLC	2019-2	A-2	263.3	11.8	3.98	BBB- (sf)
	Jack in the Box Funding LLC	2019-1	A-2-II	266.8	14.3	4.48	BBB (sf)
	Planet Fitness Master Issuer LLC	2022-1	A-2-I	416.5	20.8	3.25	BBB (sf)
	SERVPRO Master Issuer LLC	2019-1	A-2	488.3	48.6	3.88	BBB- (sf)
	Taco Bell Funding, LLC	2016-1	A-2-III	937.5	25.0	4.97	BBB (sf)
Wendy’s Funding	2019-1	A-2-I	356.7	12.8	3.78	BBB (sf)	

Data as of March 31, 2024. ARD--Anticipated repayment date. 3M--Three month. SOFR -Secured overnight financing rate. Source: S&P Global Ratings.

Chart 3

Outlook - anticipated repayment dates by balance



Source: S&P Global Ratings.

Recent Surveillance Actions

- [On Feb. 9, 2024, we affirmed our 'BBB \(sf\)' ratings on Jersey Mike's Funding LLC's series 2021-1 class A-2-I and A-2-II notes and series 2019-1 class A-2 notes.](#)
- [On Feb. 5, 2024, we lowered our rating on TGIF Funding LLC's 2017-1 class A-2 notes to 'B-\(sf\)' from 'B \(sf\)'. Previously, on Aug. 11, 2023, we affirmed our 'B \(sf\)' rating on TGIF's 2017 class A-2 notes.](#)
- [On Jan. 31, 2024, we affirmed our 'BBB \(sf\)' ratings on Taco Bell Funding LLC's series 2021-1 class A-2-I, A-2-II, and A-2-III notes, series 2018-1 class A-2-II notes, and series 2016-1 class A-2-III notes.](#)
- [On Aug. 2, 2023, we raised our ratings on Planet Fitness Master Issuer LLC's series 2018-1 class A-2-II notes, series 2019-1 class A-2 notes, and series 2022-1 class A-1, A-2-I, and A-2-II notes to 'BBB \(sf\)' from 'BBB- \(sf\)'.](#)

Our surveillance process includes periodic portfolio reviews and annual reviews (ARs) on all outstanding ratings, in addition to event-driven reviews (EDRs) and matters brought to our attention if a rating agency condition or notification concerning existing ratings apply. For example, we typically conduct a no-harm analysis on outstanding transactions in a master trust at the time a new issuance occurs from the same master trust.

Periodic portfolio reviews involve a high-level analysis of each sector, which the analysts will determine if the current performance metrics warrant a committee. Any transaction referred to committee must be reviewed within six months of the date of referral.

Annual Reviews are completed for each sector once per year and involve an up-to-date analysis of all five pillars we use in structured finance committees (cash flow and payment structure, credit, legal, counterparty, and operational risk). During an AR, the analysts will determine if a deal should be referred to committee. Any deal referred to committee during an AR must be reviewed within six months of the date of referral.

EDRs are typically triggered by specific events and are usually held in a committee setting.

Related Criteria

- [Criteria: Global Methodology And Assumptions For Corporate Securitizations](#), June 22, 2017

Related Research

- [Hardee's Funding LLC/Carl's Jr. Funding LLC Series 2024-1 Rating Assigned. Rating Affirmed On Series 2018-1](#), April 5, 2024
- [SEB Funding LLC Series 2024-1 And Series 2021-1 Notes Assigned Ratings](#), April 2, 2024
- [Economic Outlook U.S. Q2 2024: Heading For An Encore](#), March 26, 2024
- [SLIDES: Global Retail And Restaurants Outlook 2024: Consumers Will Remain Cautious Even As Inflation Eases](#), Feb. 29, 2024
- [Servpro Master Issuer LLC Series 2024-1 Notes Assigned Ratings](#), Jan. 24, 2024
- [Industry Credit Outlook 2024: Retail and Restaurants](#), Jan. 9, 2024
- [Five Guys Funding LLC Series 2023-1 Notes Assigned Ratings. Nov 30, 2023](#)
- [FOCUS Brands Funding LLC Series 2023-2 Notes Assigned Rating](#), Nov. 29, 2023
- [FOCUS Brands Funding LLC Series 2023-1 Notes Assigned Rating](#), Sept. 14, 2023
- [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 Securitizations](#), May 8, 2023
- [Applebee's Funding LLC/IHOP Funding LLC Series 2023-1 Assigned Rating](#), April 17, 2023
- [New Issue: DB Master Finance LLC \(Series 2023-1\)](#), March 6, 2023
- [Transaction Update: Arby's Funding LLC \(Series 2020-1\)](#), March 6, 2023
- [Arby's Funding LLC Rating On Series 2020-1 Class A-1 Notes Affirmed On Upsizing; A-2 Rating Affirmed](#), Feb. 28, 2023

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