

PRESS RELEASE

JANUARY 23, 2020

# DBRS Morningstar Assigns Provisional Ratings to FAT Brands Royalty I, LLC

## OTHER

DBRS, Inc. (DBRS Morningstar) assigned provisional ratings to the following notes (the Notes) to be issued by FAT Brands Royalty I, LLC (the Issuer):

- \$1,000,000 Series 2020-1, Class A-1 Notes at BB (sf)
- \$19,000,000 Series 2020-1, Class A-2 Notes at BB (sf)
- \$1,000,000, Series 2020-1, Class B-1 Notes at B (sf)
- \$19,000,000 Series 2020-1, Class B-2 Notes at B (sf)

The provisional ratings are based on a review by DBRS Morningstar of the following analytical considerations:

- Relatively short repayment window for the Notes with a shorter forecast performance period and higher visibility into the viability of brands managed by FAT Brands Inc. (FAT Brands or the Company).
- The ultimate payment of interest and principal on classes of Notes referenced above in accordance with transaction documents.
- The Company's track record of consistent financial performance with systemwide sales, revenues, average unit volume (AUV), and store count steadily growing over the past five years.
- FAT Brands' market position, with approximately 400 stores nationwide and 200 stores planned over the next five years. Despite low barriers to entry in the restaurant industry, FAT Brands' market position and brand diversity, combined with its history of rapid positive growth, support its long-term financial prospects. FAT Brands currently has more stores than three of its closest competitors (Shake Shack, Habit, and Smashburger).
- DBRS Morningstar's operational review of FAT Brands as the manager. After an on-site meeting at the Company's headquarters and a review of Company-provided and publicly available information, DBRS Morningstar believes that FAT Brands is an acceptable manager of franchisee restaurants.
- Credit review of the Company by DBRS Morningstar.
- This transaction is secured by 100% ownership of the equity interests in the subsidiaries of FAT Brands (Subsidiary Franchisors) and all of the Issuer's right, title, and interest in and to such. Each Subsidiary Franchisor is a party to various franchise agreements, development agreements, and other collaborative agreements with franchisees who are granted the right to develop and operate fast-casual restaurants in a designated location and a license to use the proprietary marks of such Subsidiary Franchisor in conformity with such Subsidiary Franchisor's branding and marketing requirements. The cash flow for the securitization comes primarily from the royalties and initial upfront fees charged to franchisees.
- Assumptions on AUV growth in the cash flow scenarios and weighted-average royalty fees kept flat across all brands.
- The structural features of the transaction, such as relatively moderate leverage, the cash reserve accounts, the cash sweep mechanism, and the rapid amortization triggers, which help to accelerate the paydown of the Note balance upon deterioration in the business environment.
- Legal analysis of the structure, including separation of the assets from the operating company, non-consolidation, and true-contribution opinions.

-- Under various cash flow scenarios, the Notes would be repaid in accordance with the transaction's terms, even if business performance deteriorates.

-- The structuring consultant intends to issue security tokens to all investors and record this transaction on the Ethereum blockchain. Any security tokens issued in this transaction will serve as digital representations of respective ownership in all four classes of Notes. This use of blockchain and distributed ledger technology will only occur outside of and parallel to this transaction and will not govern actual ownership of the Notes. The underlying documentation for this transaction will govern all aspects of the Notes and reference is made to the transaction documents for the terms and conditions thereof.

Notes:

All figures are in U.S. dollars unless otherwise noted.

The principal methodology is Morningstar Credit Ratings, LLC's U.S. ABS General Ratings Methodology, which can be found on [dbrs.com](http://dbrs.com) under Methodologies & Criteria.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Please see the related appendix for additional information regarding the sensitivity of assumptions used in the rating process.

The full report providing additional analytical detail is available by clicking on the link under Related Documents below or by contacting us at [info@dbrs.com](mailto:info@dbrs.com).





For more information on this credit or on this industry, visit [www.dbrs.com](http://www.dbrs.com) or contact us at [info@dbrs.com](mailto:info@dbrs.com).

DBRS, Inc.

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## Ratings

### FAT Brands Royalty I, LLC

Date Issued	Debt Rated	Action	Rating	Trend	Issued
23-Jan-20	Series 2020-1, Class A-1 Notes	Provis.- New	BB (sf)	--	
23-Jan-20	Series 2020-1, Class A-2 Notes	Provis.- New	BB (sf)	--	
23-Jan-20	Series 2020-1, Class B-1 Notes	Provis.- New	B (sf)	--	
23-Jan-20	Series 2020-1, Class B-2 Notes	Provis.- New	B (sf)	--	

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