S&P Global Ratings

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## Table Of Contents



## Presale:

# Five Guys Funding LLC (2017-1)

This presale report is based on information as of May 15, 2017. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

### Preliminary Ratings

| Class | Preliminary rating(i) | Preliminary amount (mil. $) |
|---|---|---|
| A-1(ii) | BBB- (sf) | Up to 40.0 |
| A-2 | BBB- (sf) | 400.0 |

(i)The ratings are preliminary and subject to change at any time. (ii)The class A-1 notes are variable-funding notes. Our analysis assumes the entire $40 million will be funded at close. It does not address post-ARD-additional interest. ARD--Anticipated repayment date.

### Profile

| | |
|---|---|
| Expected closing date | June 28, 2017. |
| First payment date | Oct. 25, 2017. |
| ARD | July 25, 2024. |
| Legal final maturity date | April 25, 2032, for the class A-1 notes and July 25, 2047, for the class A-2 notes. |
| Collateral | Existing and future U.S. and Canadian franchise agreements and related franchisee royalties and fees, royalties and operating profit on existing and future company-owned restaurants, bakery income, and existing and future intellectual property. |
| Sole structuring advisor and sole bookrunning manager | Guggenheim Securities LLC. |
| Issuer | Five Guys Funding LLC. |
| Guarantors | Five Guys SPV Guarantor LLC, Five Guys Franchisor LLC, Five Guys Properties LLC, and Five Guys Bakery LLC. |
| Trustee | Citibank N.A. |
| Servicer | Midland Loan Services, a division of PNC Bank N.A. |


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| Profile (cont.) | |
|---|---|
| Manager | Five Guys Enterprises LLC. |
| Back-up manager | FTI Consulting Inc. |

ARD--Anticipated repayment date.

## Rationale

The preliminary 'BBB- (sf)' ratings assigned to Five Guys Funding LLC's $440 million senior secured notes series 2017-1 reflect our view of:

- The strength of the Five Guys brand, the likelihood for the brand to survive through a Five Guys Enterprises LLC (the manager) bankruptcy, and the brand's resulting capacity to continue generating sufficient cash flows from business operations, provided that adequate servicing remains in place.
- Five Guys' business risk profile.
- The franchised nature of Five Guys' business.
- The projected cash flows supporting the notes.
- A reserve account funded with three months of interest expenses and/or a letter of credit and the servicer's obligation to make interest and collateral protection advances if deemed recoverable.
- The transaction's structure.
- Our review of the transaction was subject to, in part, a criteria interpretation with respect to our October 2006 criteria, "U.S. Corporate Securitization Transactions," which allows us to use a business risk profile associated with a private credit analysis for Five Guys.

## Transaction Strengths

The transaction's strengths, in our opinion, include the following:

- Stable average unit volume (AUV) and growing store count, which has led to relatively steady royalty payments.
- Five Guys' relatively long operating history (over 30 years), which spans multiple economic downturns.
- The securitization structure, with Midland Loan Services (the servicer) acting as the control party, and the servicer's obligation to make interest and collateral protection advances if deemed recoverable.
- A modest level of principal amortization before the anticipated repayment date (ARD) if leverage is above a certain level.
- Performance tests, such as rapid amortization, cash trap, and cash sweep tests.

## Transaction Weaknesses

We believe the transaction's weaknesses include the following:

- Five Guys operates in a highly competitive industry with relatively low barriers to entry. Five Guys competes with many other regional and national chains within the "fast-casual" premium hamburger segment of the restaurant industry.
- Five Guys' total store count is substantially lower than that of other franchised businesses we have analyzed in the past. Despite operating since 1986, Five Guys only began its national franchise growth phase in 2003, suggesting it

may have lower brand awareness than other larger restaurant systems.
- A sizeable portion of the transaction revenues are derived from company-operated restaurant operating profit, which may be subject to additional volatility during stressful periods.
- Five Guys' owns 31% of its stores globally, which is significantly higher than that of other franchised business we have analyzed in the past. The company-owned stores, along with those of the top eight franchisees and Five Guys' international joint venture, Five Guys JV Ltd., account for approximately 47% of the last 12 months' (LTM) sales globally.
- Varying commodity prices can affect the cost of food supplies.
- Food-borne illness may adversely affect sales and the perception of quality.

## Mitigating Factors

We believe the following factors partially mitigate the transaction's weaknesses:

- Five Guys differentiates itself from competitors by providing customers with products made from high-quality ingredients, including fresh beef, and positioning itself as the major player in the value burger segment of the overall burger quick service restaurant industry.
- Our preliminary 'BBB- (sf)' ratings are meant to consider what we believe to be relative credit weaknesses, such as lower store count, a lower franchised percentage, and a less-established brand.
- Our stresses on store count declines and AUVs are relatively high at a 'BBB-' rating level compared with other recently rated transactions.
- Our analysis suggests the transaction can withstand up to a 57% decline in cash flows from our base case, and the rated notes would still be paid full interest and principal on time. The top 10 franchisees represent approximately 23% of LTM net royalties.
- The transaction documents allow the servicer to appoint a successor manager to replace the manager if certain events occur, with the backup manager acting as the interim manager.
- Five Guys' relationship with various suppliers for key items such as ground beef helps mitigate over-reliance on any particular supplier.
- Five Guys monitors its franchisees at a regional level using key performance indicators such as total sales, sales growth, transaction count growth, average check, customer service metrics, and other metrics to assess operational and profitability levels.
- Five Guys maintains an intense focus on training via a 35-plus-person training team, which oversees pre-opening training and remains on-site for a period of time after a store opens.

## Five Guys Holdings Inc.

Arlington, Va.-based Five Guys Holdings Inc. operates and franchises a chain of quick-service restaurants in the U.S., Canada, Europe, and the Middle East. Five Guys aims to deliver fresh and quality food and focuses on burgers, fries, and milkshakes.

The Five Guys system comprises 1,437 total restaurants in 49 U.S. states, Washington, D.C., and seven other countries, with 920 franchised locations and 452 company operated locations in North America. Sixty-five locations are joint venture-owned and -operated, with 61 locations in the U.K., three in France, and one in Spain. The U.S. contains 90% of the restaurants, with the largest concentration in the South. The company also operates and owns

Five Guys Foods LLC, which manufactures and distributes all bakery products to every restaurant in the Five Guys system.

## Industry Characteristics: Sector Outlook

The restaurant industry is highly competitive in price and product offerings. Many operators focus on altering the menu mix and new products toward value offerings to drive guest traffic. The sector's performance has been mixed at best because of stagnant economic conditions with meaningful weakness at certain casual dining operators. Ability to take share will drive revenue and profit growth. Companies with international presence have expansion opportunities in various markets; we expect limited growth domestically for larger chains. We expect slow economic growth to limit guest traffic gains; any cost inflation will pressure operating margins over the near term because it likely will not be fully passed along to customers.

## Transaction Comparison

We compared this transaction with the FOCUS Brands Funding LLC (FOCUS Brands; 'BBB (sf)'), TGIF Funding LLC (TGIF; 'BBB- (sf)'), Wendy's Funding LLC (Wendy's; 'BBB (sf)'), DB Master Finance LLC (Dunkin; 'BBB (sf)'), Applebee's Funding LLC/IHOP Funding LLC (DIN; 'BBB (sf)'), Hardee's Funding LLC/Carl's Jr. Funding LLC (CKE; 'BBB- (sf)'), and Domino's Pizza Master Issuer LLC (Domino's; 'BBB+ (sf)') transactions, which we rated in 2017, 2017, 2015, 2015, 2014, 2013, and 2015, respectively. All seven transactions are in the restaurant industry and include royalties from franchised and company-operated stores (see table 1).

**Table 1**

**Transaction Comparison**

| | **Five Guys Funding LLC** | **FOCUS Brands Funding LLC(i)** | **TGIF Funding LLC(ii)** | **Wendy's Funding LLC(iii)** | **DB Master Finance LLC(iv)** | **Applebee's Funding LLC/IHOP Funding LLC(v)** | **Hardee's Funding LLC/Carl's Jr. Funding LLC(vi)** | **Domino's Pizza LLC(vii)** |
|---|---|---|---|---|---|---|---|---|
| No. of stores | 1,437 | 51,235 | 903 | 6,491 | 18,602 | 3,433 | 3,318 | 9,742 |
| Company-operated stores (%) | 31 | 2 | 6 | 13 | 0 | 1 | 27 | 4 |
| AUV (mil. $) | 1.2 | 0.54 | 3.1 | 1.5 | 0.8 | 2.2 | 1.2 | 0.7 |
| Systewide sales (bil. $) | 1.6 | 2.7 | 2.5 | 9.6 | 9.7 | 7.3 | 3.8 | 7 |
| Royalty type | Fixed percentage of sales | Fixed percentage of sales, except for Carvel, which is on a $/gallon basis. | Fixed percentage of sales | Fixed percentage of sales | Fixed percentage of sales | Fixed percentage of sales | Fixed percentage of sales | Fixed percentage of sales |

**Table 1**

Transaction Comparison (cont.)

| | Five Guys Funding LLC | FOCUS Brands Funding LLC(i) | TGIF Funding LLC(ii) | Wendy's Funding LLC(iii) | DB Master Finance LLC(iv) | Applebee's Funding LLC/IHOP Funding LLC(v) | Hardee's Funding LLC/Carl's Jr. Funding LLC(vi) | Domino's Pizza LLC(vii) |
|---|---|---|---|---|---|---|---|---|
| Geographic presence | U.S. and international | U.S. and international | U.S. and international | U.S. and international | U.S. and international | U.S. and international | U.S. and international | U.S. and international |

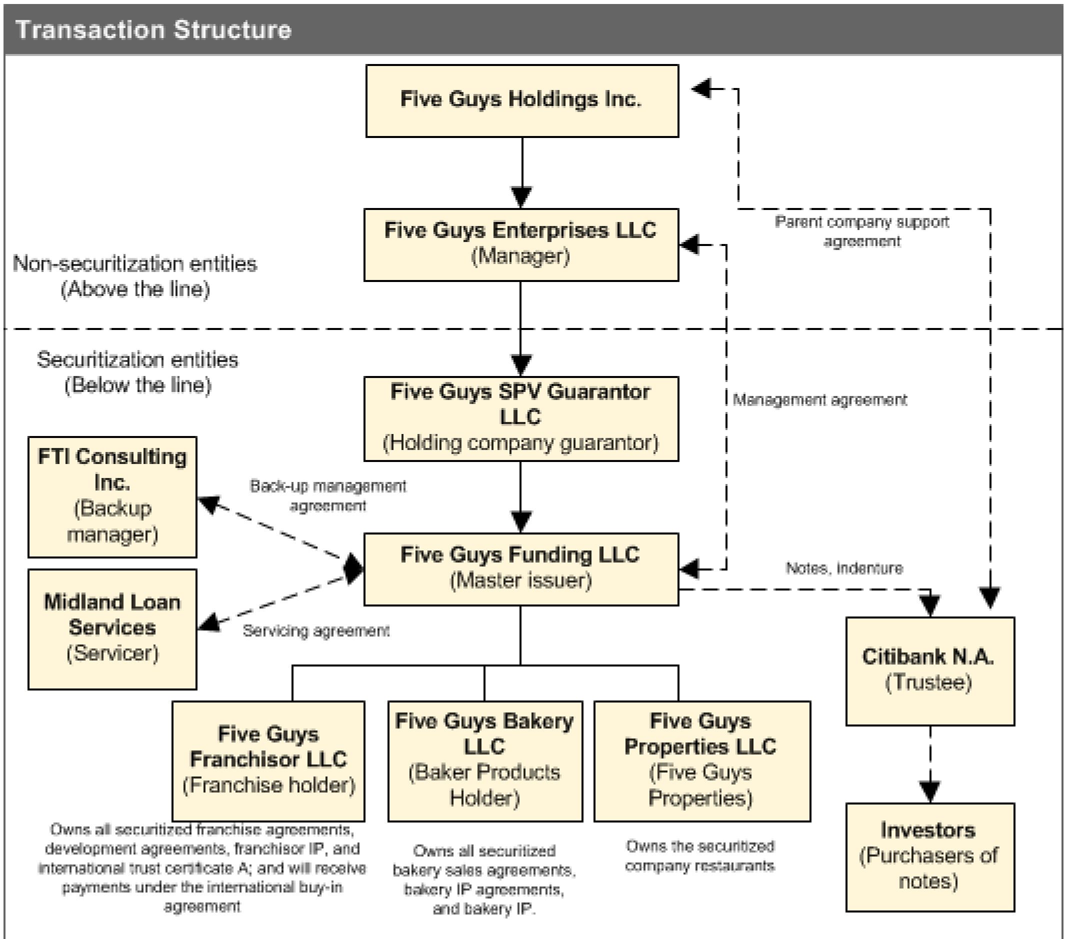
(i)Based on system-wide figures for fiscal period ended December 2016. (ii)Based on system-wide figures for fiscal period ended September 2016. (iii)Based on system-wide figures for fiscal period ended March 2015. (iv)Based on system-wide figures for fiscal period ended Sept. 27, 2014. (v)Based on domestic system-wide figures for fiscal period ended June 30, 2014. Cash flows associated with international operations are not included in the transaction. (vi)Based on system-wide figures for fiscal period ended Jan. 31, 2013. (vii)Based on system-wide figures for the 13 fiscal periods ended Jan. 1, 2012. AUV--Average unit volume.

Consistent with its focus on the premium burger market's value segment, Five Guys stores tend to have lower AUVs than many of the other businesses we have reviewed. Additionally, because of the relatively younger age of the Five Guys franchise system, its store count is relatively low.

## Transaction Structure

Five Guys Funding LLC, a bankruptcy-remote, limited-purpose limited liability company organized under Delaware law, will issue the notes. The issuer will own Five Guys Franchisor LLC, Five Guys Bakery LLC, and Five Guys Properties LLC. All of the preceding entities are bankruptcy-remote, limited-purpose limited liability companies organized under Delaware law and are direct or indirect wholly owned subsidiaries of the issuer (see chart 1 for the transaction structure).

**Chart 1**






Five Guys SPV Guarantor LLC, a special-purpose Delaware limited liability company and an indirect, wholly owned subsidiary of Five Guys Holdings Inc., will guarantee the series 2017-1 notes.

Five Guys Franchisor LLC will own the rights as franchisor under all existing and future franchise and development agreements relating to the Five Guys brand and all existing and future acquired U.S. and non-U.S. intellectual property related to the Five Guys brand (other than the bakery intellectual property).

Five Guys Properties LLC will own and operate certain branded restaurants in the U.S. and Canada, as well as related assets associated with the restaurants excluding leases and intellectual property.

Five Guys Bakery LLC will own, and have the exclusive right to license and control, bakery intellectual property.

## Scheduled Debt Repayment

The scheduled debt repayment of the class A-2 notes is 1.0% per year, provided that there will not be any scheduled debt repayment due if certain non-amortization tests are met.

## Collateral

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

- Existing and future U.S. and Canadian franchise royalties and fees;
- Royalties and operating profit on existing and future company-owned restaurants;
- Bakery income;
- Existing and future U.S. and Canadian intellectual property;
- Certain transaction accounts;
- Certain international collections; and
- A pledge of the equity interests in the issuer and its subsidiaries.

## Governance

Similar to other U.S. corporate securitizations, the servicer for the Five Guys transaction is independent from the manager. The servicer will be the control party and will be responsible for instructing the trustee to act (at the direction of the controlling class representative [CCR], as applicable) at various times, on the trustee's behalf, for the noteholders' benefit.

Upon a manager termination event (discussed below), the control party, acting at the CCR's direction, may direct the trustee to remove the manager. Upon the manager's termination following a manager termination event, the manager will assist the backup manager in providing certain duties until a successor manager is identified and a complete transition to the successor manager is made. The manager's termination or resignation will not be effective until a successor manager has assumed the manager's rights and responsibilities. In our opinion, the backup manager would likely restructure the existing management infrastructure, which may allow the existing manager to continue providing management services and, therefore, could help mitigate potential disruptions to debt service.

The transaction documents provide that the controlling class noteholders may elect a CCR. The servicer and/or the trustee will require the CCR's approval to take certain actions, including:

- Approving certain waivers, amendments, and other modifications to the transaction documents;
- Terminating the manager following a manager termination event and approving a replacement manager;
- Replacing the servicer upon a servicer termination event;
- Taking or refraining from taking certain actions upon an indenture event of default, including liquidating the collateral; and
- Accelerating the notes upon an indenture event of default.

## Portfolio Characteristics

As of March 31, 2017, Five Guys had 1,437 stores across 49 U.S. states, Washington, D.C., and seven other countries (see chart 2).

**Chart 2**


System-wide sales have demonstrated stable growth over the past five years (see table 2).

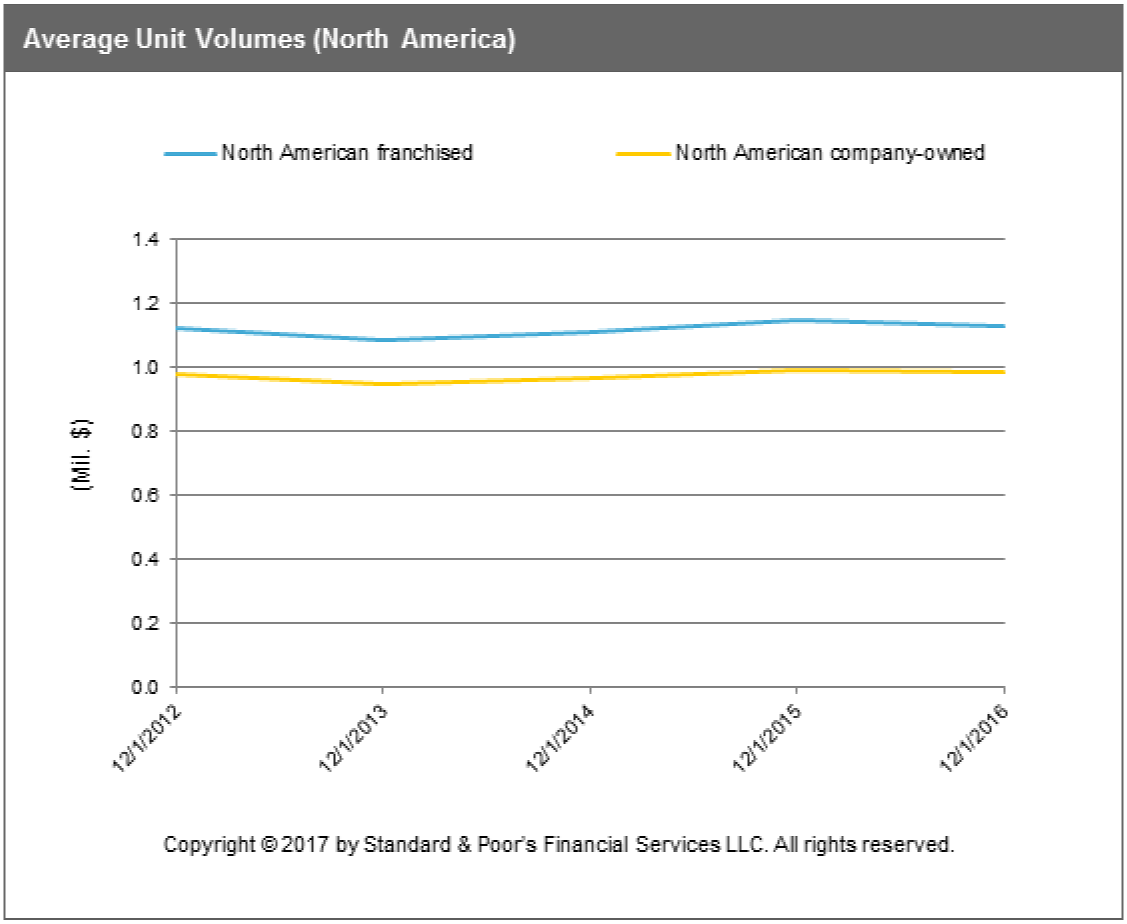
**Table 2**

**System-Wide Sales**

| Fiscal year ended | Sales (bil. $) |
|---|---|
| 2012 | 1.13 |
| 2013 | 1.21 |
| 2014 | 1.32 |
| 2015 | 1.48 |
| 2016 | 1.59 |

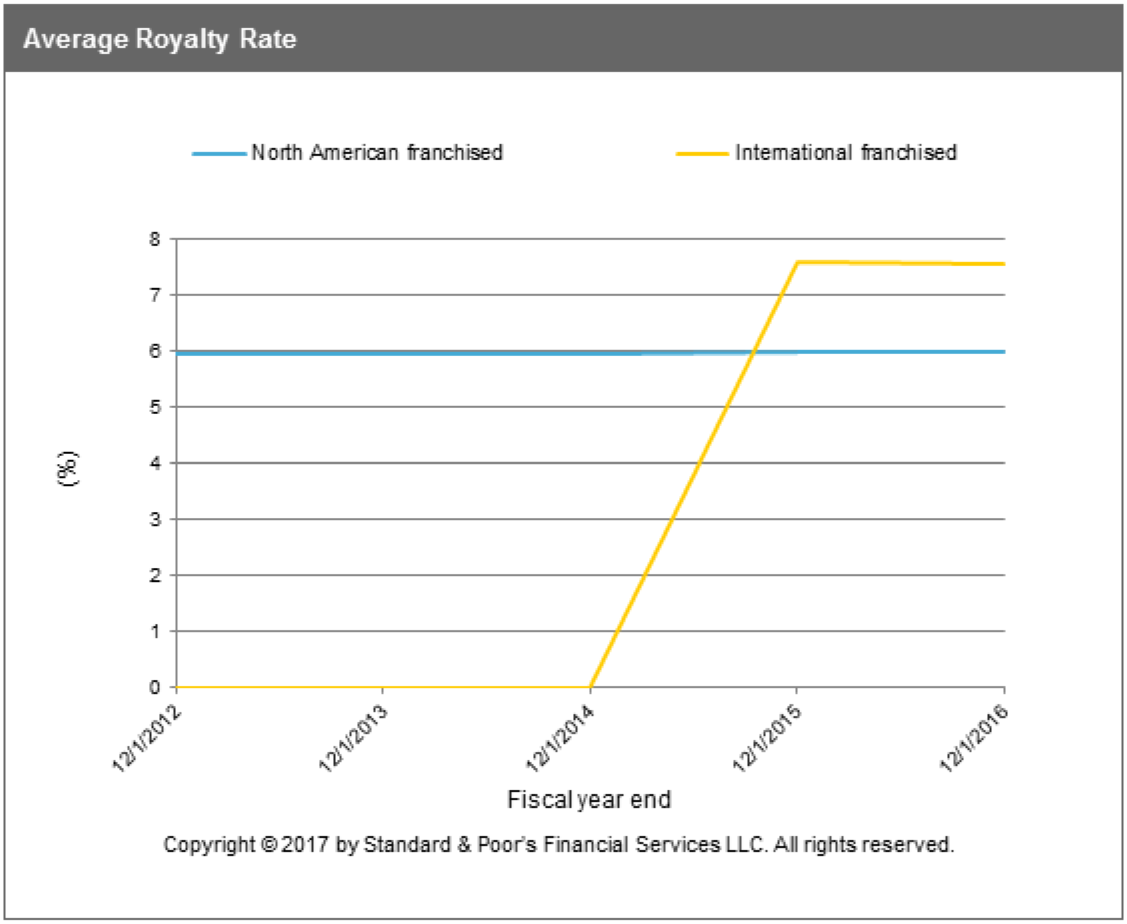
In recent years, the AUV has also been stable (see chart 3).

**Chart 3**



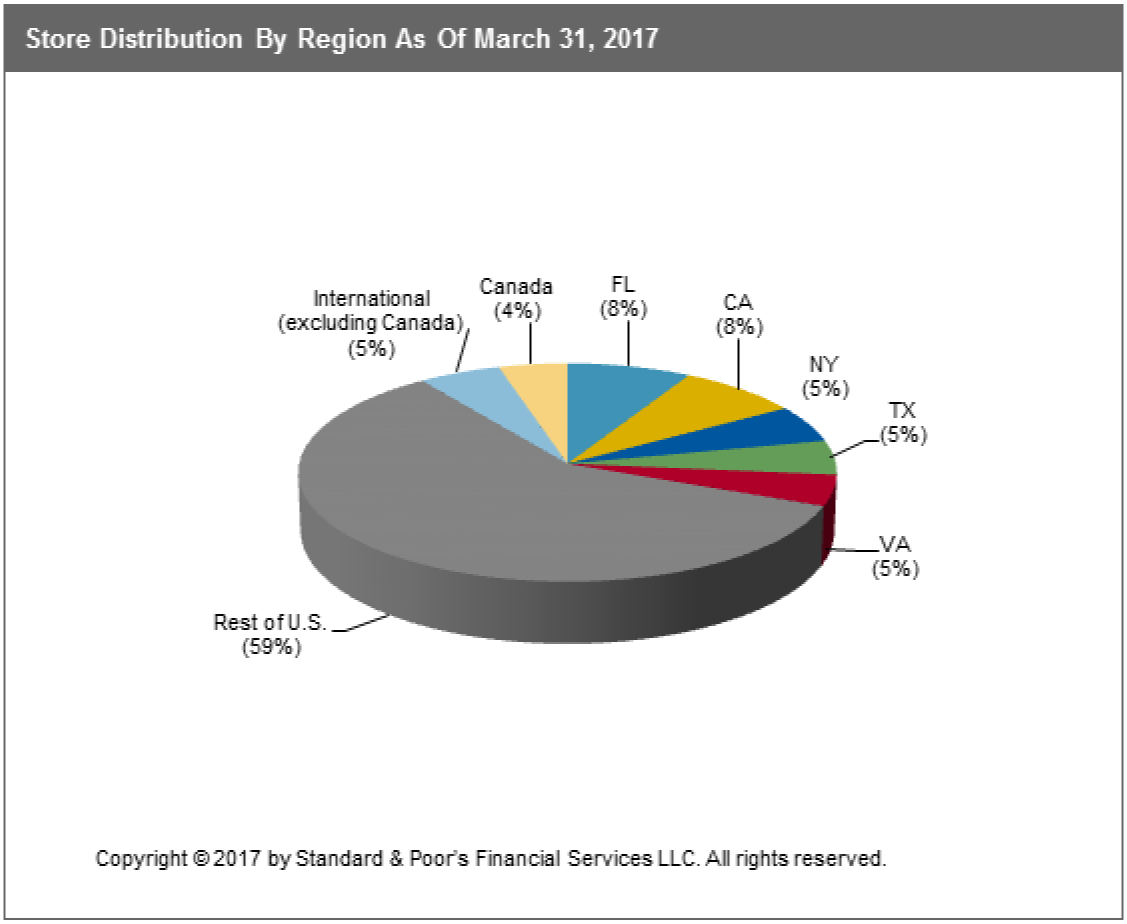

During the same period, the average royalty rate has been stable as well (see chart 4).

**Chart 4**




By location count, approximately 31% of Five Guys' locations are concentrated in five U.S. states (see chart 5).

**Chart 5**




## Cash Flow Assumptions

The transaction's cash flows depend on various key inputs, some of which we derived from contractual terms (e.g., royalty rate) and some of which we modeled based on historical performance, rating-dependent economic scenarios, and our expectations of market dynamics. We incorporated a variety of stresses in the form of annual or periodic stresses from store closures as well as reductions in AUV and bakery income. Our internal cash flow model includes input assumptions for the following:

- Store count;
- AUV;
- Five Guys Foods LLC (bakery) income;
- Company-owned store operating profit percentage.

### Store count, AUV, and bakery income assumptions

In our opinion, a variety of factors may affect Five Guys' store count, AUV, and bakery income including:

- Competition from other restaurants;
- Consumer demand for Five Guys' products;

- Start-up costs and/or profitability associated with new and existing stores;
- Operating expenses;
- Existing and potential franchisees' financial conditions;
- Availability and cost of financing provided to franchisees; and
- Potential food-related epidemics.

We used the number of store locations, AUV, and bakery income as of March 31, 2017 in our base-case scenario. We applied stresses using this base store count and AUV. Our base case assumes no additional store openings and no AUV increase for the remainder of the transaction.

### Company-owned store operating profit percentage assumptions

In our opinion, a variety of factors may affect company-operated restaurant operating profit margin, including:

- Revenue generated by contributed company-operated stores,
- Variability of operating expenses, and
- Operating leverage and cost structure.

We used the company-owned store operating profit percentage as of March 31, 2017, in our base-case scenario. We applied stresses using this base operating profit percentage. Our base case assumes no increase in company-operated restaurant operating profit margin for the remainder of the transaction.

### Expenses

The largest component of the transaction expenses is the management fee, which includes both fixed and variable components as a function of total operating stores. According to the transaction documents, the fixed component will be $25 million annually, and the variable component will be $25,000 per every franchise and $55,000 per company location. The management fee will increase 2% annually, subject to a limit of 50% of aggregate retained collections in the preceding four quarterly fiscal periods.

### Variable-funding notes

The class A-1 notes are variable-funding notes, and according to the transaction documents, are expected to be undrawn at closing. However, for our cash flow analysis, we assumed that the notes are fully drawn at closing.

### Hedging

We modeled no hedges. The transaction does not contemplate any interest rate hedges.

### Servicer advances

We assumed that the servicer would not make any interest advances.

## Cash Flow Results

We believe the primary drivers for determining the cash flow generated by the transaction are the number of stores, AUV, company-owned store profitability, and Five Guys Foods LLC profitability. Our analysis does not address the payment of post-ARD-additional interest. While we view model results as good quantitative indications, qualitative measures associated with the company's and industry's performances and the general economy may also affect the transaction's actual performance.

### Base-case scenario

We assumed no growth in store count, AUV, or licensing revenues, while expenses increased at 2% inflation per year. Under this scenario, the model indicated that the transaction would be able to pay timely interest and full principal by its legal final maturity.

### Rating run stress scenario

In our analysis, we assumed periodic stresses on store closures as well as reductions in AUV, company-store income, and Five Guys Foods LLC income. The assumptions depict a stress level that, in our opinion, is commensurate with a 'BBB-' rating level. Under this scenario, the model indicated that the transaction would be able to pay timely interest and full principal by its legal final maturity (see table 3).

**Table 3**

Rating Run Stress Scenario

| | Net store opening rate (%) | | AUV growth rate (%) | | | |
|---|---|---|---|---|---|---|
| Year | U.S. company-owned | U.S. franchised | U.S. company-owned | U.S. franchised | Company-owned store profit margin growth rate (%) | Five Guys Foods income growth rate (%) |
| 1 | (4) | (4) | (4) | (4) | (4) | (4) |
| 2 | (5) | (5) | (5) | (5) | (5) | (5) |
| 3 | (7) | (7) | (7) | (7) | (7) | (7) |
| 4 | (3) | (3) | (3) | (3) | (3) | (3) |
| 5 | (2) | (2) | (2) | (2) | (2) | (2) |
| 6 | (2) | (2) | (2) | (2) | (2) | (2) |
| 7 | (2) | (2) | (2) | (2) | (2) | (2) |
| 8 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | 0 | 0 | 0 | 0 | 0 | 0 |
| Thereafter | 0 | 0 | 0 | 0 | 0 | 0 |

AUV--Average unit volume.

## Sensitivity Analysis

### Sensitivity run 1: management fee stress

Using the rating run stress scenario in table 3, we assumed that the management fee increased by approximately 29% (translating to an approximately 55% reduction in cash flow relative to the base case). In our opinion, the additional management fee stresses what could occur if the company experienced a bankruptcy. While the management fee is currently outlined in the transaction documents, we believe that that such fees could be renegotiated in a potential bankruptcy scenario. Under this scenario, the model indicated that the transaction would still be able to pay timely interest and full principal payments by its legal final maturity.

### Sensitivity run 2: event-driven stress

Starting with the base-case scenario assumptions, we determined the maximum haircut to cash flow that would allow timely interest and full principal payments by the transaction's legal final maturity date. This haircut to cash flow after fees is approximately 57%. We examined several event risks associated with cash flow losses, including no royalties from the top 10 franchisees and no operating profit or royalties from company-owned stores. Under these scenarios, the model showed that the transaction would be able to pay timely interest and full principal by legal final maturity.

## Payment Priority

The transaction includes class A-1 variable-funding notes and class A-2 notes that will pay interest and principal quarterly from weekly distributions in the priority shown below (see table 4). Currently, the transaction includes no senior subordinated or subordinated notes; however, the transaction may issue these notes if certain conditions are met.

**Table 4**

**Payment Priority**

| Priority | Payment |
|---|---|
| 1 | Solely for amounts from indemnification, permitted asset dispositions, and insurance/condemnation payments: to the trustee and then the servicer for unreimbursed advances; to the manager for any unreimbursed advances; if a class A-1 note amortization event is continuing, to the class A-1 notes; all other senior notes; if item no class A-1 note amortization event, to the class A-1 notes; to the senior subordinated notes, if any; and to the subordinated notes, if any. |
| 2 | To the trustee, then to the servicer for unreimbursed advances; then to the manager for unreimbursed advances; and then to the servicer for servicing, liquidation, and workout fees. |
| 3 | Successor manager transition expenses, if any. |
| 4 | Management fees. |
| 5 | Capped securitization operating expense amount; to the trustee, the post-default capped trustee expense amount. |
| 6 | Interest on the senior notes, the class A-1 note commitment fee amount, and 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 deficiency amount and then the senior subordinated note interest reserve account deficiency 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 | If no rapid amortization has occurred but if the class A-1 note amortization event is continuing, to the class A-1 notes' principal. |
| 13 | If no rapid amortization has occurred, any cash trapping amount to the cash-trap reserve account. |
| 14 | If a rapid amortization has occurred and is continuing, all remaining amounts to pay down the class A notes and then any senior subordinated notes. |
| 15 | If no rapid amortization event has occurred, any senior subordinated notes scheduled principal payment amount and then senior subordinated notes scheduled principal payment deficiency amount, if any. |
| 16 | Uncapped securitization operating expenses. |
| 17 | Uncapped class A-1 note administrative expenses amounts. |
| 18 | Other class A-1 note amounts. |
| 19 | Interest on the subordinated notes, if any. |
| 20 | If no rapid amortization event has occurred, the subordinated notes scheduled principal payment amount and then the subordinated notes scheduled principal payment deficiency amount, if any. |
| 21 | If a rapid amortization has occurred and is continuing, all remaining amounts to pay down the subordinated notes, if any. |
| 22 | After the ARD, post-ARD contingent interest on the senior notes. |
| 23 | After the ARD, post-ARD contingent interest on any senior subordinated notes. |
| 24 | After the ARD, post-ARD contingent interest on any subordinated notes. |

**Table 4**

| Payment Priority (cont.) | |
|---|---|
| **Priority** | **Payment** |
| 25 | Hedge termination payments and any other unpaid hedge amounts, pro rata. |
| 26 | Any unpaid premiums and make-whole prepayment premiums on the senior notes. |
| 27 | Any unpaid premiums and make-whole prepayment premiums on any senior subordinated notes. |
| 28 | Any unpaid premiums and make-whole prepayment premiums on any subordinated notes. |
| 29 | Any remaining funds at the direction of the master issuer. |

ARD--Anticipated repayment date.

## Events Of Default

Under the transaction documents, an event of default includes:

- Failure to make any interest payments when due on the notes, subject to a grace period, provided that the failure to pay any contingent interest, including the series 2017-1 quarterly post-ARD-additional interest on any quarterly payment date (including on the series 2017-1 legal final maturity date) will not constitute an event of default.
- Failure to make any principal payments when due on the notes, subject to a grace period.
- A material default of any agreements or covenants in the transaction documents or a material breach of representation and warranty subject to a grace period.
- Involuntary bankruptcy proceedings are commenced against any securitization entity and are not dismissed within 60 days.
- An interest-only debt service coverage ratio (DSCR) of less than 1.10x.
- Any securitization entity is required to register as an "investment company" under the Investment Company Act.
- Any transaction document or material portion thereof ceases to be enforceable or in full force and effect.
- A failure to maintain a valid and perfected first-priority security interest in any material collateral (subject to permitted liens), other than for collateral with an aggregate fair market value of less than $5 million.
- Any securitization entity fails to materially comply with its formation documents or the covenant in the base indenture or the guarantee and collateral agreement relating to legal separateness of the securitization entities.
- A final non-appealable ruling has been made by a court of competent jurisdiction that the contribution of the collateral does not constitute a "true contribution."
- An outstanding final non-appealable judgment exceeding $1 million is rendered against any securitization entity, and either enforcement proceedings are commenced by any creditor upon such judgment or order, or there is any period of 45 consecutive days during which a stay of enforcement of such judgment or order will not be in effect.
- Failure of the parent company to own 100% of the equity interests of Five Guys Funding LLC.
- Failure of the franchise entities to have good title in or to any material portion of the collateral (other than as permitted under the indenture or other transaction documents).
- Certain ERISA events or the imposition of tax liens on the assets of a securitization entity beyond applicable cure periods.
- The IRS files notice of a lien regarding the assets of any securitization entity and has not been released within 60 days.
- A final non-appealable nonmonetary judgment has been made by a court of competent jurisdiction that materially impairs the franchise entities' ability to conduct business or the exercise of the franchise entities' or of the trustee's rights with respect to the securitized assets.

## Rapid Amortization Events

Under the transaction documents, a rapid amortization event will occur if any of the following events or conditions occur and are continuing:

- The DSCR is less than 1.20x.
- Failure to repay the notes in full on or before the ARD.
- A manager termination event has occurred.
- An event of default has occurred.

## Manager Termination Events

Under the transaction documents, a manager termination event will occur if certain events or conditions occur and continue, including:

- Failure to remit amounts to the collection account within three business days after the later of actual knowledge of a receipt or the date such deposit is required under the related documents.
- The interest-only DSCR is less than 1.20x.
- Failure to provide certain certificates or reports required by the indenture, subject to applicable grace periods.
- Material default in the performance and observation of any provision in the management agreement, subject to notice, grace periods, and opportunities to cure.
- Material breach of representation or warranty in the management agreement, subject to notice and opportunities to cure.
- The manager's bankruptcy.
- A final, non-appealable order against the manager decreeing the manager's dissolution that occurs for more than 10 days.
- A final, non-appealable judgment for an amount over $5 million (net of insured amounts) is rendered against the manager and not discharged within 60 days.
- Acceleration of more than $5 million of the manager's debt.
- The management agreement ceases to be in full force and effect or enforceable according to its terms.
- The failure by the manager to enforce any non-securitization entity's compliance with the specified non-securitization debt cap, and such failure continues for 45 days.
- A change in management occurs following a change of control.

## Cash Trap Event

Under the transaction documents, a two-stage cash trap event will occur if the DSCR is less than 1.75x, whereby 50% of cash will be trapped, or if the DSCR is less than 1.50x, 100% of cash will be trapped based on item 13 of the payment priority.

## DSCR

According to the transaction documents, the DSCR is calculated on a quarterly basis by dividing retained collections (minus securitization operating expenses, weekly management fees and supplemental management fees, other fees and expenses, class A-1 notes' administrative expenses, and excess equity contribution) by the debt service (interest plus the scheduled amortization amount). To calculate the manager termination event and events of default, the DSCR calculation excludes scheduled amortization amounts.

## Legal Matters

In rating this transaction, S&P Global Ratings will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

## 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 Five Guys' 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 And Research

### Related Criteria

- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Criteria - Structured Finance - ABS: U.S. Corporate Securitization Transactions, Oct. 24, 2006
- Legal Criteria: Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006

### Related Research

- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, Dec. 16, 2016

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing

Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

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