

# Industry Data Report

## Finance & Valuations – 2019

- **RR's Finance & Valuation IDR** is based on survey responses (equally weighted) from 48 finance companies including traditional cash flow franchise lenders, sale leaseback companies, SBA lenders, equipment finance companies and financial consultants/advisors.
- **Report highlights:** (1) 2018 restaurant financing volume of \$11.2 billion represents an -11.2% y/y decrease and the second consecutive year of declining volume that was below initial expectations – we estimate \$15.6 billion in total financing needs for 2018; (2) 2019 origination prospects are expected to come in slightly lower at \$11.0 billion; (3) the total financing portfolio outstanding grew +4% to \$57 billion in 2018 as franchisors continue selling stores as part of their asset light model; (4) despite more lenders entering the space, LIBOR spreads were unchanged but borrowing rates rose sharply due to an increase in index rates; (5) private EBITDA unit level valuation multiples for large chains declined slightly and are expected to remain under pressure due to unit level margin challenges while the large deal premium compressed sharply; (6) public franchisor EV/EBITDA multiples edged higher relative to private franchisee EBITDA multiples and the public multiple premium is at the top of our historic range (reflecting an asset light model and buyout premiums paid by private equity buyers); and (7) cap rates were unchanged at 6.0% as higher QSR cap rates were off-set by a decline in FSR.

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## RR's 17th Annual Restaurant Finance Overview

	2014	2015	2016	2017	2018	2019P
<b>Survey Participant Restaurant Portfolios &amp; Originations (\$ Billions)</b>						
Portfolio Balance						
% Change						
Annual Originations						
% Change						
<b>Lending Terms - Senior Debt Solid Credit</b>						
<b>Rates &amp; Spreads <sup>(1)</sup></b>						
LIBOR Spread						
3 Month LIBOR Index						
<b>Lending Rate - 3 Month Libor Index</b>						
5 Year Treasury Spread						
5 Year Treasury Index						
<b>Lending Rate - 5 Year Treasury</b>						
<b>All-In Fixed Rate Equivalent</b>						
<b>Minimum Equity Requirements</b>						
Acquisitions						
New Construction						
Equipment						
<b>Leverage Ratios</b>						
Funded Debt/EBITDA						
Total Debt/EBITDA						
FCCR (Pre Distribution)						
FCCR (Post Distribution)						
Debt+Leases/EBITDAR						
Loan to Value						
<b>Loan Terms (Years)</b>						
Equipment						
Enterprise						
Building/Ground Lease						
Fee Simple						
<b>Amortization Terms (Years)</b>						
Equipment						
Enterprise						
Building/Ground Lease						
Fee Simple						

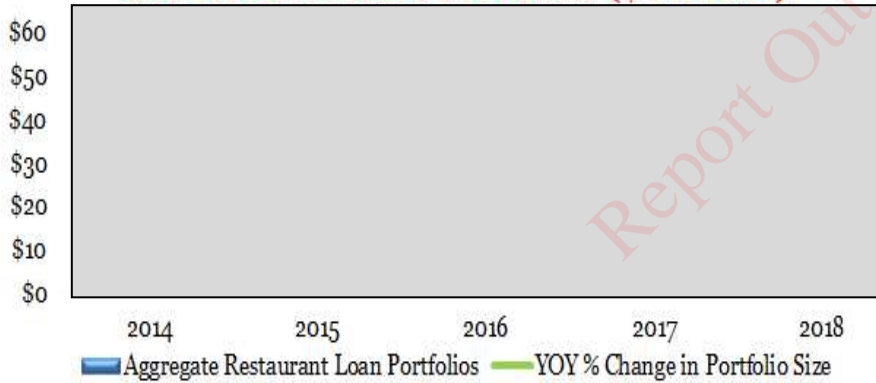
**Source: Restaurant Research 17th Annual Restaurant Finance Survey**

(1) LIBOR and 5 Year Treasury Index rates represent an annual average except the 2019P figures which are based on the YTD January 2019 averages.

## Origination Volumes & Portfolio Size

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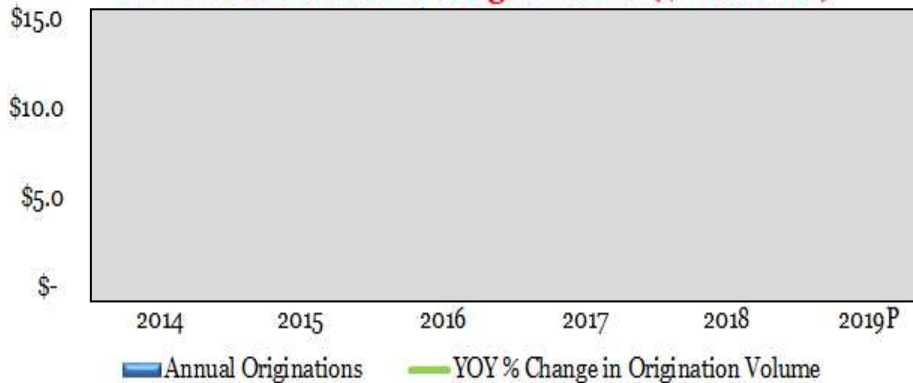
**Restaurant Finance Portfolios (\$ Billions)**



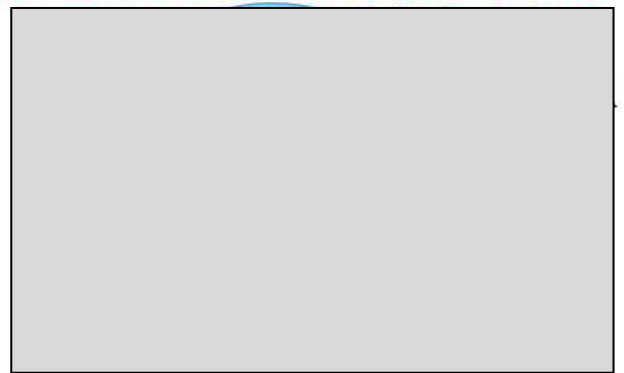
**\$57B Portfolio Composition FYE 2018**



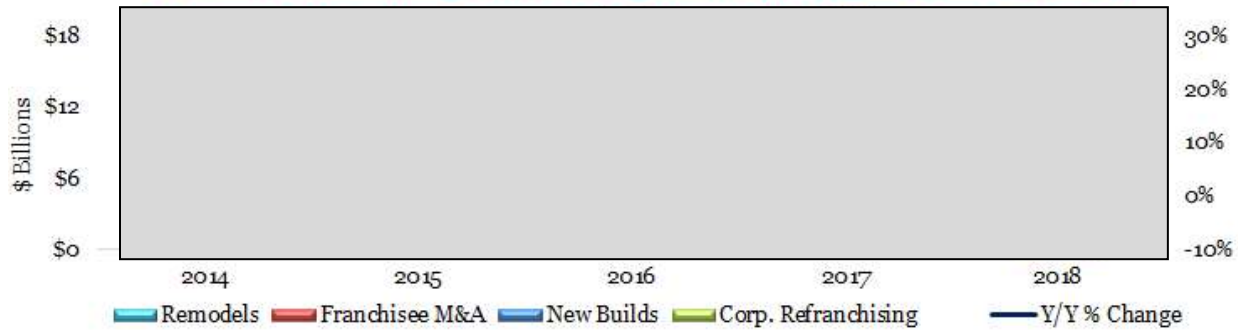
**Annual Restaurant Originations (\$ Billions)**



**\$11B Origination Composition 2019P**



## Estimated Annual Franchisee Financing Needs (\$1B+ Chains)



### RR's Estimated 2018 Franchisee Financing Allocation (\$ Millions) <sup>(1)</sup>

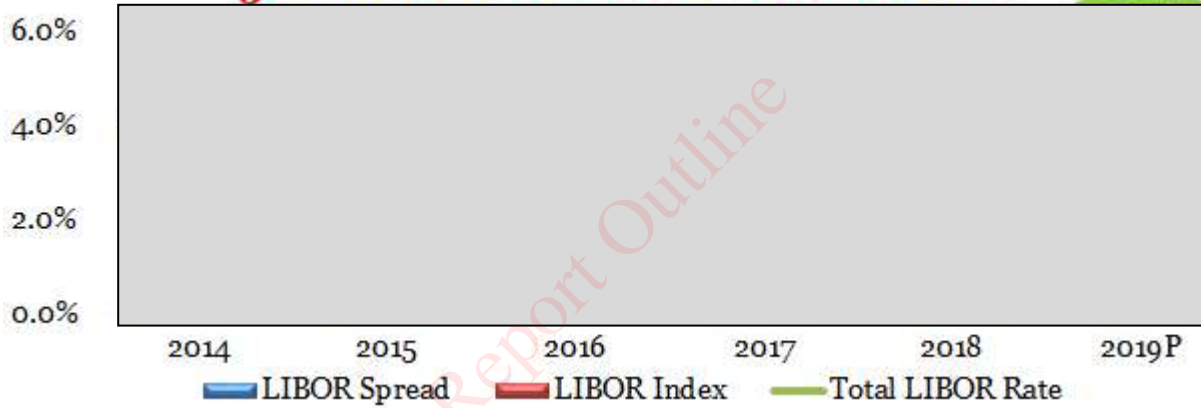
	M&A (2)	Corp. Re-franchising (2)	New Builds (2)	Remodels (3)	Total
Applebee's					
Buffalo Wild Wings					
Chili's Grill & Bar					
Outback					
Red Robin					
T.G.I. Friday's					
Texas Roadhouse					
<b>Casual</b>					
Denny's					
Golden Corral					
IHOP					
Perkins					
<b>Family</b>					
Corner Bakery Café					
Moe's Southwest Grill					
Panera Bread					
Qdoba					
<b>Fast Casual</b>					
Arby's					
Burger King					
Carl's Jr.					
Culver's					
Dairy Queen					
Five Guys					
Hardee's					
Jack in the Box					
McDonald's					
Sonic Drive-In					
Taco Bell					
Wendy's					
Zaxby's					
<b>Sandwich</b>					
Domino's					
Little Caesars					
Papa John's					
Pizza Hut					
<b>Pizza</b>					
Bojangles'					
Church's					
KFC					
Popeyes					
Wingstop					
<b>Chicken</b>					
Dunkin Donuts					
Krispy Kreme					
Tim Horton's					
<b>Coffee/Bakery</b>					
Firehouse Subs					
Jimmy John's					
Jersey Mike's					
Subway					
<b>Sub-Sandwich</b>					
<b>Total</b>					

(1) Excludes refinancing and includes real estate financing.  
(2) M&A model inputs: 50% fee/50% leasehold with real estate capped at 6%; and 25% equity down payment.  
(3) Assumes minor remodels occur every 5 years and major remodels every 10 years.

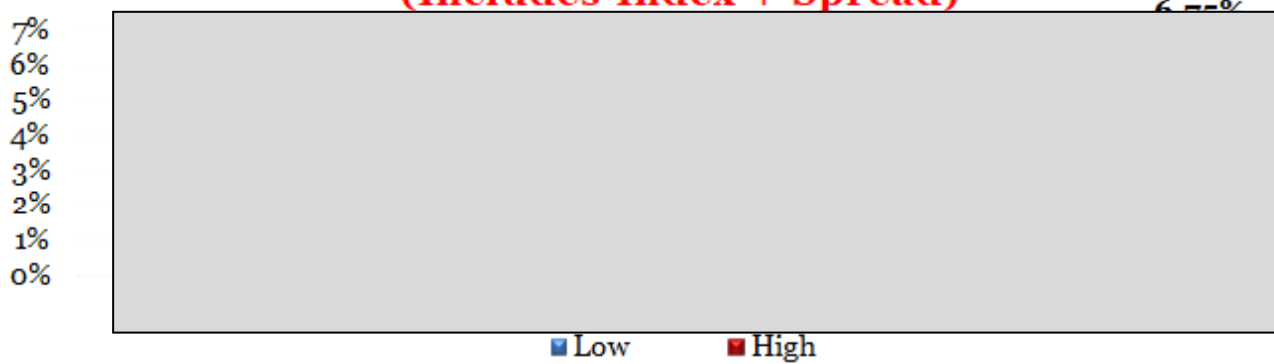
**Key Rates**



**3 Month LIBOR Based Cost of Funds**



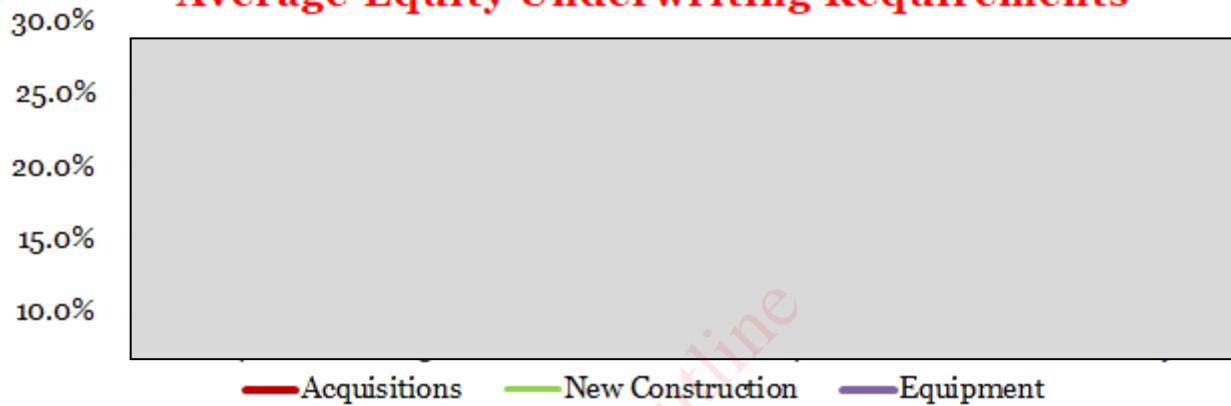
**Range in 2019P Borrowing Rates  
(Includes Index + Spread)**



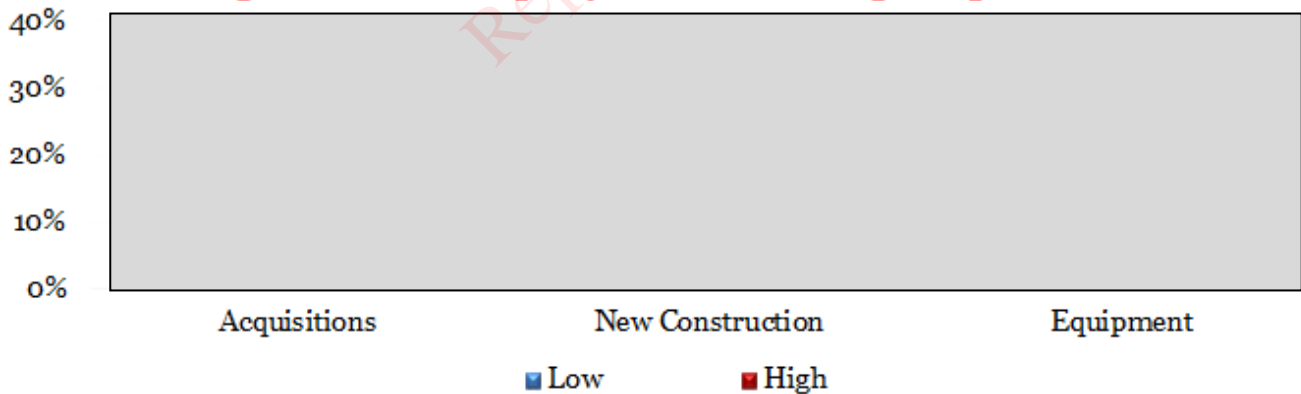
## Equity Requirements



### Average Equity Underwriting Requirements



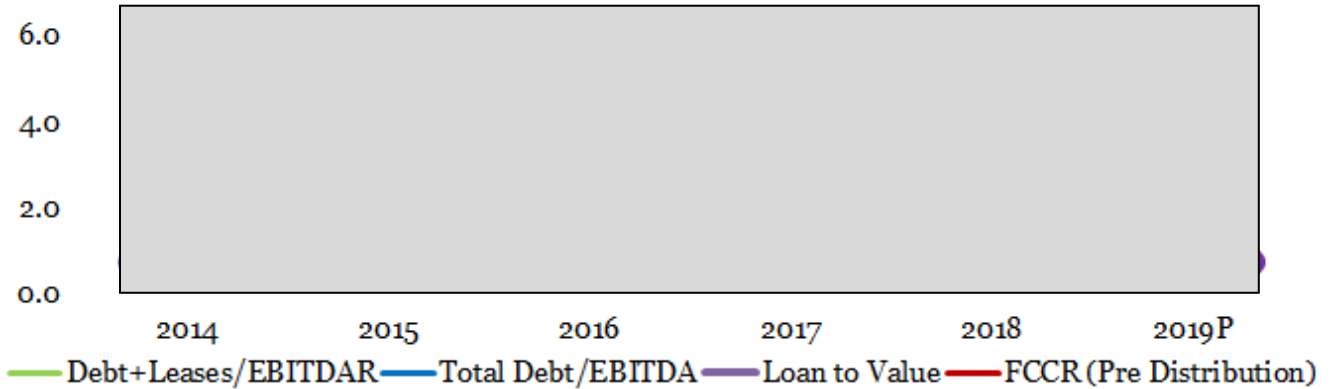
### Range in 2019P Equity Underwriting Requirements



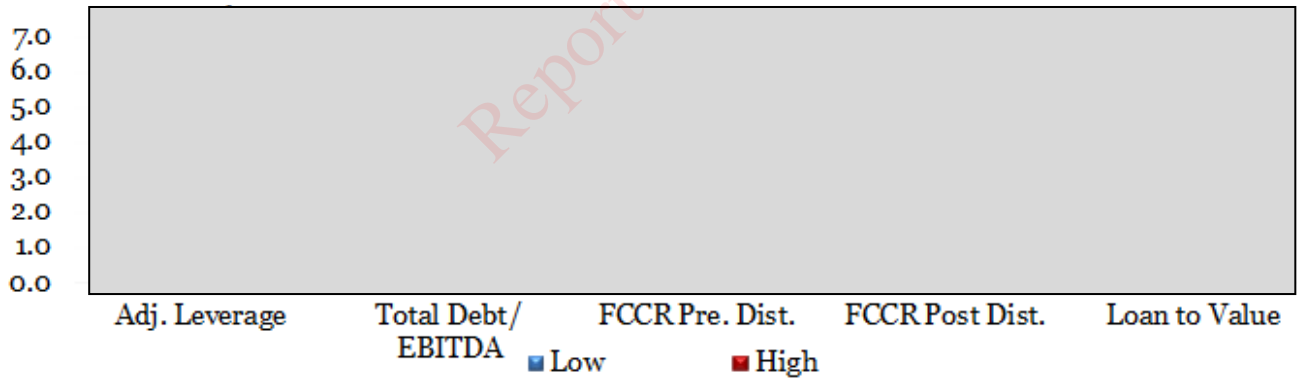
## Leverage Underwriting Ratios



### Average Leverage Underwriting Ratios



### Range in 2019P Leverage Underwriting Ratios



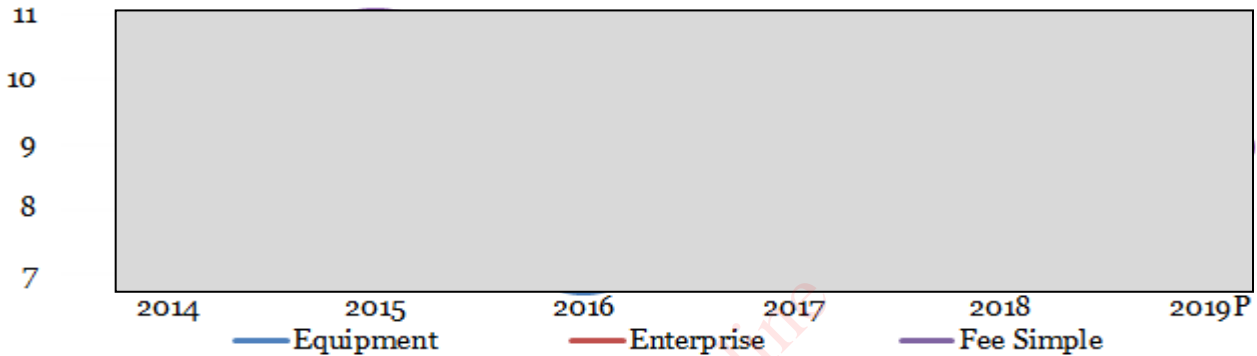
## Loan & Amortization Terms

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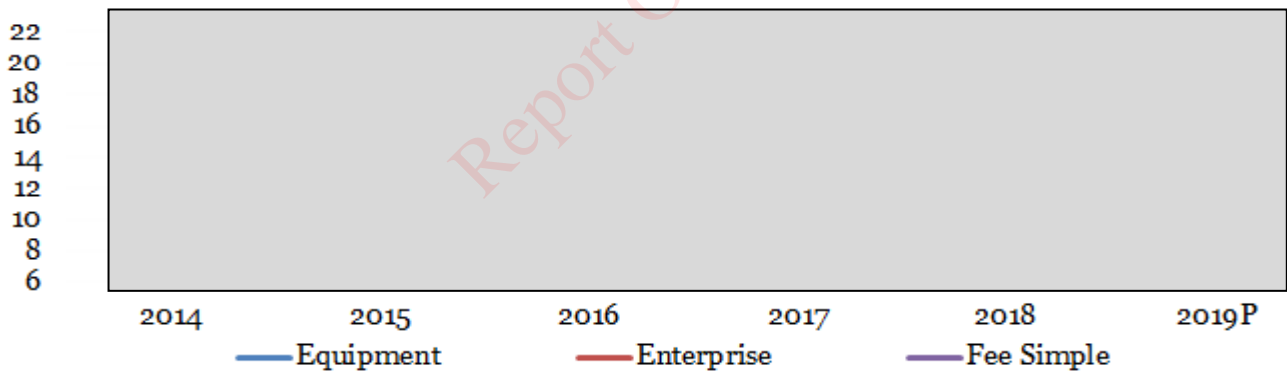
➤

➤

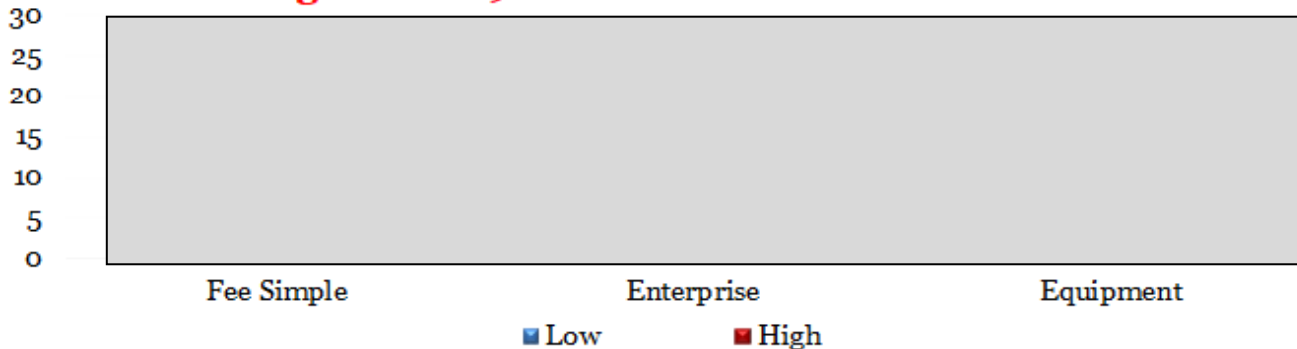
### Average Maximum Loan Terms in Years



### Average Maximum Amortization Terms in Years



### Range in 2019P Loan Amort. Terms in Years



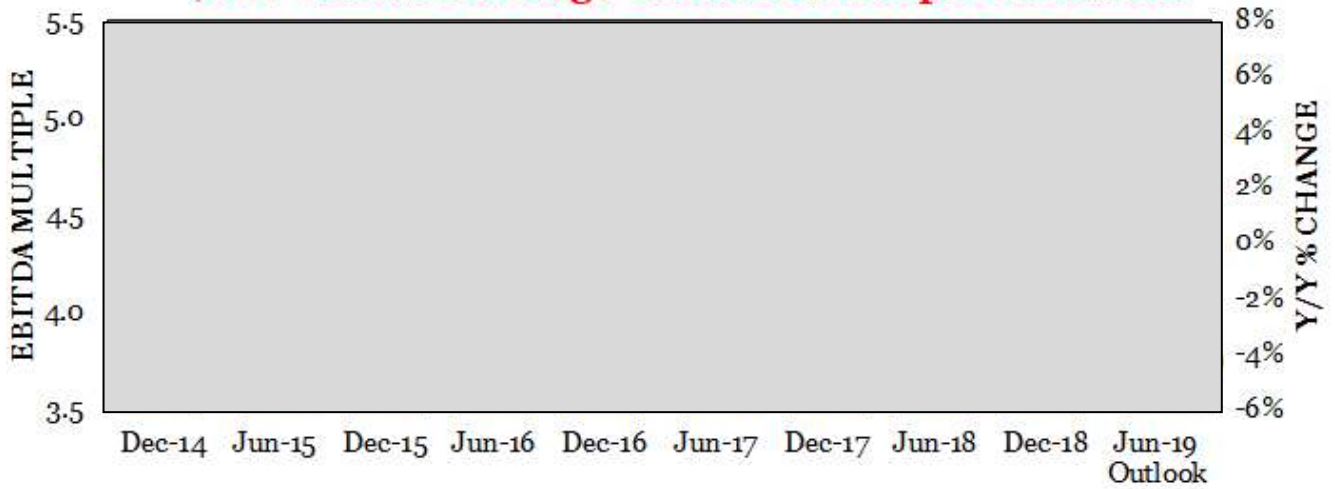


## Estimated Franchisee Unit Level Valuations

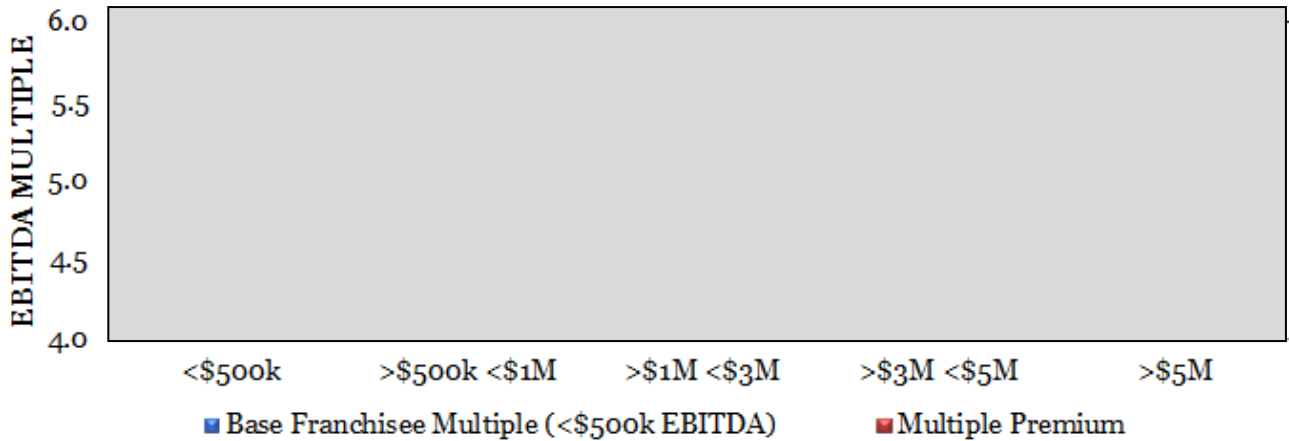
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Report Outline

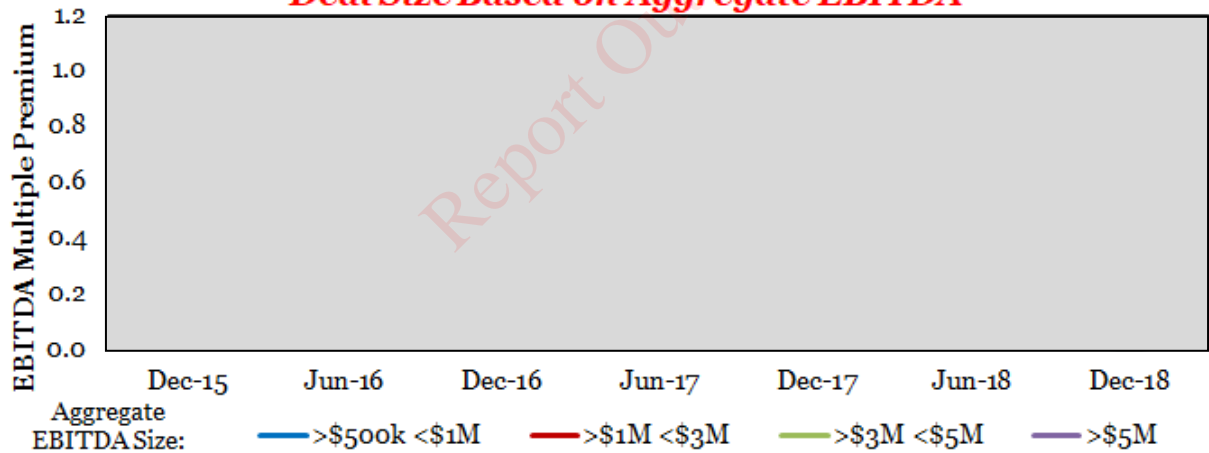
### \$1B+ Chains Average EBITDA Multiple Estimates



**2H:18 Large Deal EBITDA Multiple Premium**  
*Higher Aggregate EBITDA Can Increase Multiple*



**Large Deal Premium Trends**  
*Deal Size Based on Aggregate EBITDA*





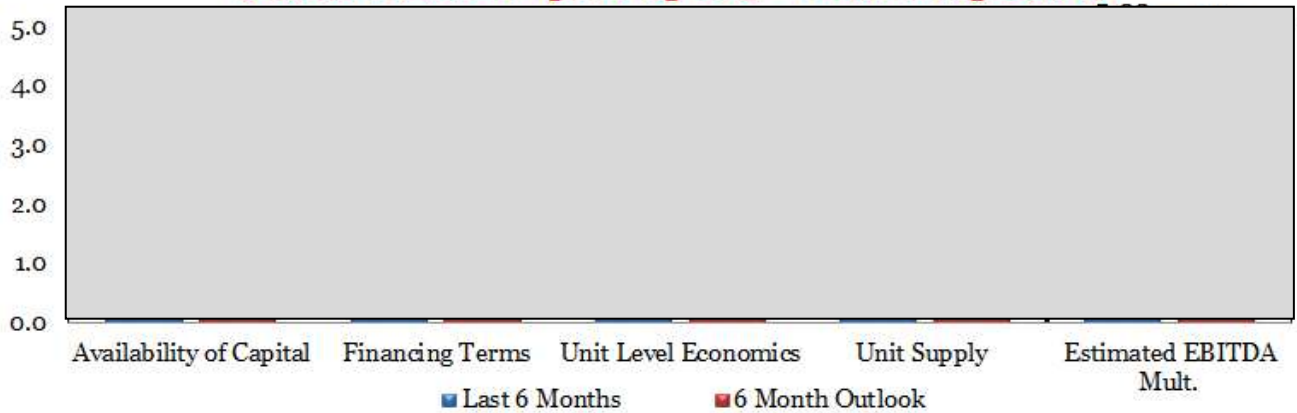
## 2H:18 Estimated \$1B+ Chains Enterprise Valuations (EBITDA Multiple)

Concept	Jun-14	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17	Dec-17	Jun-18	Dec-18	% Change Dec-18 vs. Jun-18	2H:18 Average & Range			
												Low	High	Median	# Estimates
Applebee's															
Buffalo Wild Wings															
Chili's Grill & Bar															
Red Robin															
T.G.I. Friday's															
Texas Roadhouse															
<b>Casual</b>															
Comer Bakery Café															
Moe's Southwest Grill															
Panera Bread															
Qdoba															
<b>Fast Casual</b>															
Denny's															
Golden Corral															
IHOP															
Perkins															
<b>Family</b>															
Arby's															
Burger King															
Carl's Jr.															
Checkers/ Rally's															
Culver's															
Dairy Queen															
Five Guys															
Hardee's															
Jack in the Box															
McDonald's															
Sonic Drive-In															
Taco Bell															
Wendy's															
Zaxby's															
<b>Sandwich</b>															
Firehouse Subs															
Jersey Mike's															
Jimmy John's															
Subway															
<b>Sub-Sandwich</b>															
Dunkin Donuts															
Tim Horton's															
Krispy Kreme															
<b>Coffee/bakery</b>															
Bojangles'															
Church's															
KFC															
Popeyes															
Wingstop															
<b>Chicken</b>															
Domino's															
Little Caesars															
Papa John's															
Pizza Hut															
<b>Pizza</b>															
<b>Average</b>															

(1) Valuation averages are based on estimates provided by survey participants (not individual transactions) as well as RR estimates and reflect "normal" operating businesses with 5 units after an adjustment for G&A.

(2) December 2018 survey participants include Advanced Restaurant Sales, EPK National Restaurant Appraisal, FranBizNetwork, Hopkins Appraisal Services, National Franchise Sales, National Restaurant Brokers, Praetorian Group and Trinity Capital.

**Factors Impacting Valuation Trends  
(Based on a 1 - Improving to 5 - Weakening Scale)**



Source: Restaurant Research LLC December 2018 Valuation Survey

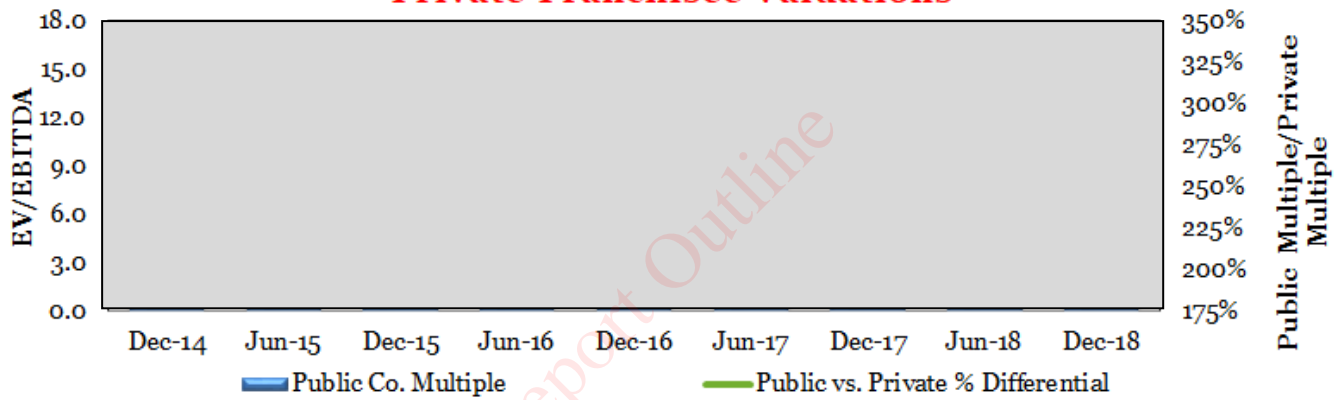
Summary of Valuation Comments	
Availability of Capital	➤
Availability of Units for Sale	➤

Survey Participant Contact Information			
Firm	Contact	Main Number	Email
Advanced Restaurant Sales, LLC			
EPK National Restaurant Appraisal			
FranBizNetwork			
Hopkins Appraisal Services, Inc.			
National Franchise Sales			
National Restaurant Brokers, Inc.			
Praetorian Group			
Trinity Capital LLC			

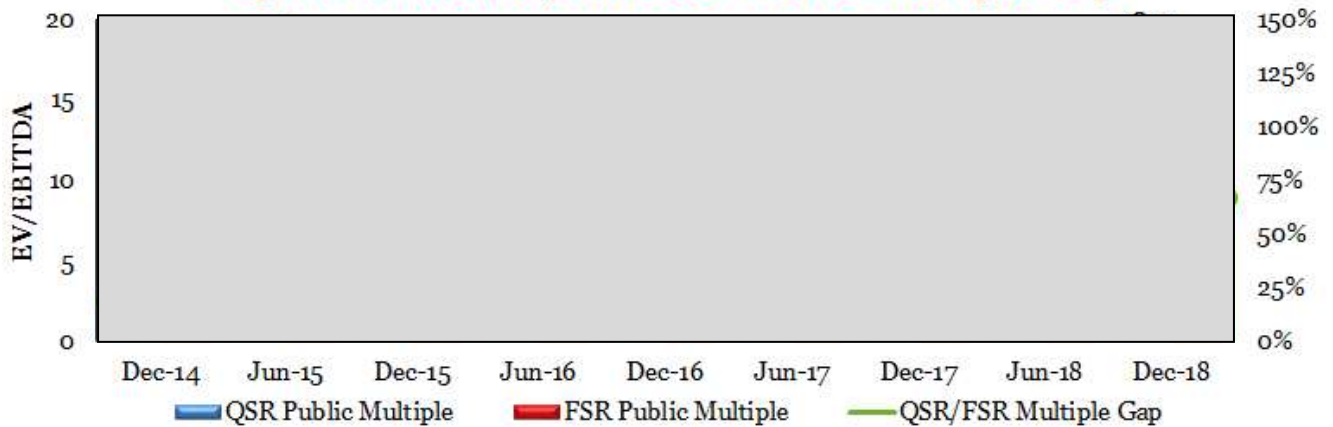
## Public Company Valuations (EV/EBITDA)

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**Public Restaurant Company Valuations vs. Private Franchisee Valuations**



**QSR vs. FSR (EV/EBITDA) Public Multiple Gap**



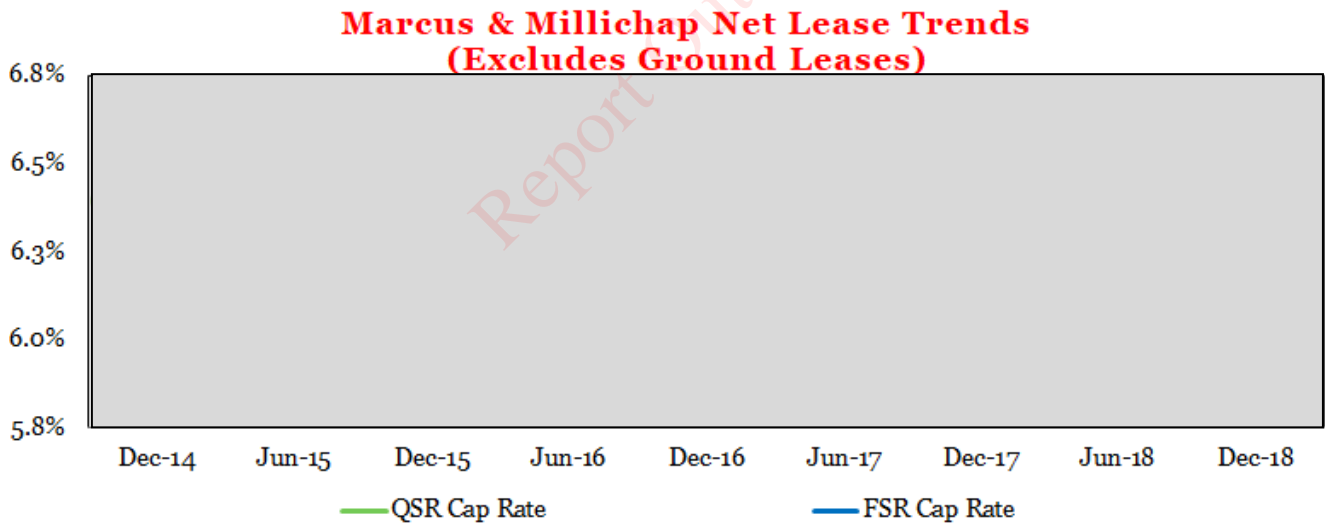
**Public vs. Private Multiples by Chain December 2018**  
**(Sorted by Public Premium)**

Concept	Parent Company	EV/EBITDA Multiples as of Dec. 2018		
		Public	Private	Public Premium <sup>(1)</sup>
Wingstop				
Domino's				
Pizza Hut				
KFC				
Tim Horton's				
Papa John's				
Burger King				
Popeyes				
Dunkin Donuts				
Taco Bell				
McDonald's				
Wendy's				
Bojangles'				
Jack in the Box				
<b>QSR</b>				
Texas Roadhouse				
Denny's				
Applebee's				
IHOP				
Chili's Grill & Bar				
Red Robin				
<b>FSR</b>				

(1) Public multiple premium = (Public EV/EBITDA)/(Private Franchisee EV/EBITDA)

## Marcus & Millichap Real Estate Cap Rates

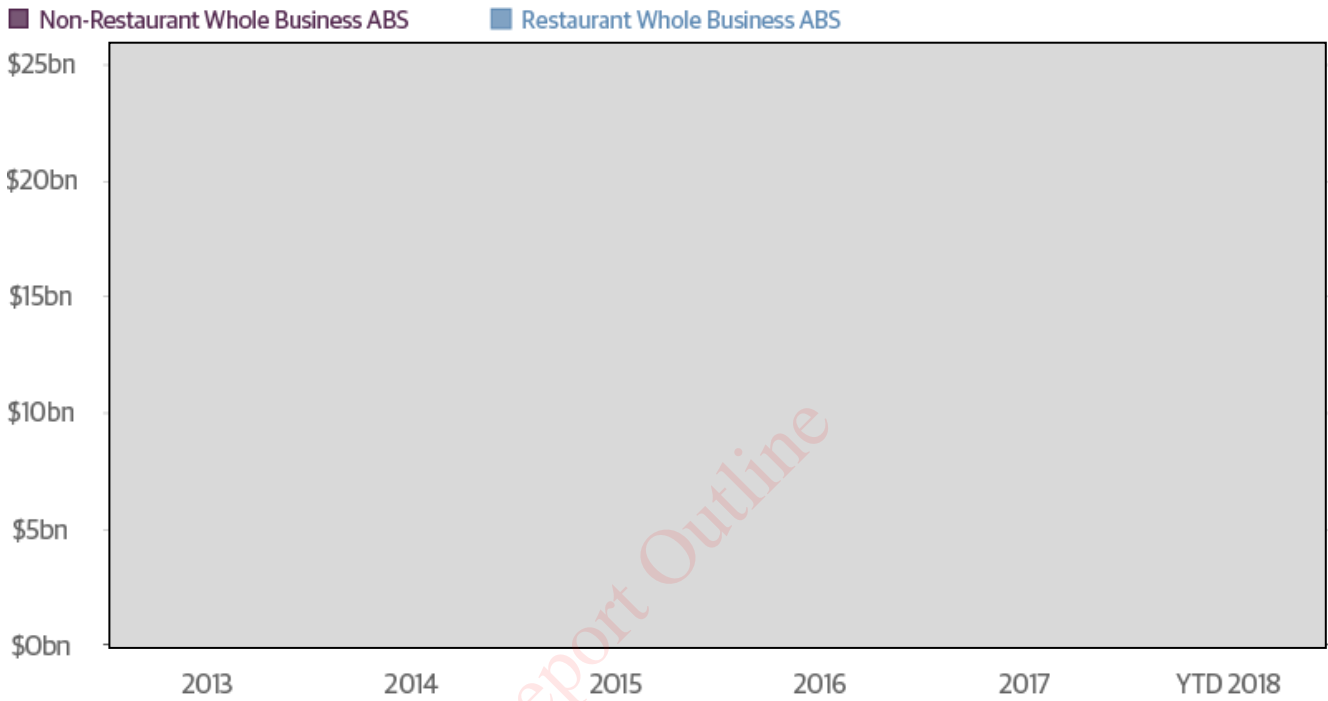
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About the Contributing Firm: Marcus & Millichap which specializes in representing institutional and private companies in the disposition of multi-tenant and single tenant retail properties.

**For more information, please contact Hank Wolfer of Marcus & Millichap at (206) 826-5730**

## Franchisor Royalty Securitizations



Source: [Guggenheim Securities](#)



## Valuation Methodology



(1) **Business Value** is determined by using an appropriate multiple of adjusted EBITDA.

Some typical EBITDA adjustments include:

(2) **Real Estate Value** (land and building) is determined by:

-

Report Outline

### Example - Fee Restaurant Property

Business Value	Real Estate Value
Sales	Implied Rent/Sales
Adjusted EBITDAR	Implied Rental Income
Implied Rent	Cap Rate
Adjusted EBITDA	<b>Real Estate Value</b>
Multiple	
<b>Business Value</b>	<b>Total Value</b>



2019 Restaurant Finance Survey Participants	
Agree Realty Corporation (*)	Marlin Franchise Finance Group
Atlantic Capital Bank	National Retail Properties (*)
Bank of America	Northern Bank & Trust Co.
Bankers One Capital	Pacific Management Consulting Group
BBVA Compass	Pacific Premier Franchise Capital
BciCapital Management	Peak Franchise Capital LLC
BMO Harris Bank Franchise Finance	Pinnacle Commercial Capital
BOK Financial	PNC Franchise Finance
Bridge Funding Group	Ready Capital Corporation
Byline Bank SBA Franchise Lending	Realty Income (*)
Cadence Bank	Regions Restaurant Bank
CapitalSpring	Signature Financial
Chemical Bank	Spirit Realty Capital (*)
CIT Bank, N.A. LLC (Mid Cap)	Sterling National Bank
Citizens Bank Restaurant Finance	STORE Capital (*)
City National Bank	TCF Franchise Finance
Customers Bank Commercial Finance	Texas Capital Bank
Fifth Third Bank	Trinity Capital, LLC
First Fidelity Bank	Umpqua Bank
First Franchise Capital Corporation	Vendor Alliance Capital, Inc.
First Tennessee Bank Franchise Finance	VEREIT (*)
Flagstar Bank	Washington Federal
Gulf Coast Restaurant and Franchise Finance	Wells Fargo Bank - Restaurant Finance Group
HSBC Bank USA	Western Alliance Bank
Huntington National Bank	Western Equipment Finance
Live Oak Bank	Wintrust Franchise Finance
M & T Bank	Zions First National Bank
Manufacturers Bank	

(\*) Did not participate in survey. Data based on public filings.

### Industry Player Roster Changes

New Entrants	Exits
<ul style="list-style-type: none"> <li>➤</li> <li>➤</li> <li>➤</li> <li>➤</li> <li>➤</li> </ul>	





# All Inclusive Subscription Package

*Value-Added Data & Insight for \$1B+ Chains*

## Concept Benchmarking Reports

Applebee's	Arby's	Burger King	Carl's Jr.
Chili's Grill & Bar	Church's	Denny's	Domino's
Hardee's	IHOP	Jack in the Box	KFC
McDonald's	Panera Bread	Papa John's	Pizza Hut
Popeyes	Sonic Drive-In	Subway	Taco Bell
TGI Friday's	Wendy's	Quarterly Concept Updates*	

## Industry Benchmarking (49 Chains)

Store Level	Systemwide	Finance
New Unit Investment Report	Quarterly Same Store Sales Database*	Unit Level Valuations
Remodeling Report	Annual RR Databook*	Report
Unit Economics Report	Unit & Sales Growth Analysis Report	Franchise Finance
Operations Matrix Report	Menu & Promotions Report	Report
Marketing Spend Report	Annual State Unit Databook*	
	Commodities Database*	

\* Only available as part of subscription.

## FDD/UFOC library for 37 Chains

Visit [www.chainrestaurantdata.com](http://www.chainrestaurantdata.com) or contact us at  
**(860) 352-2198** or [info@ChainRestaurantData.com](mailto:info@ChainRestaurantData.com)

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