Restaurant Research®

Building Bridges between Franchisees, Franchisors & Financiers

1H24 Restaurant Finance & Valuation Update

Key Points

Restaurant Finance Update

- FY24 restaurant loan originations (excluding sale leaseback financing) are now projected to be -9.5% lower than preliminary expectations at the beginning of the year due to a *decline in M&A activity* (somewhat offset by an increase in development financing).
- While expected FY24 originations are now lower than originally forecasted at the beginning of the year, the current $9.6B target would represent +10% y/y growth vs. 2023.
- Lenders report a slight decline in both QSR & FSR borrowers' financial condition.
- Underwriting standards have tightened slightly for both QSR & FSR.
- Borrowing rates are slightly higher for both QSR & FSR since January and primarily reflect a small increase in the loan spread as benchmark interest rates are basically unchanged.
- Improving FY25 *lender outlook* reflects slightly improving 2H24 trends and Fed plans to cut rates.

Estimated Unit Level Franchisee Enterprise Valuations

- The average 1H24 franchisee unit-level EBITDA valuation multiple declined slightly (-0.7% vs. 2H23) and remains -3.8% below the 1H16 peak.
- Expectations for a further -3% 2H24 EBITDA multiple decline vs. 1H24 reflect *current headwinds expressed by the appraisers*, including: a more difficult lending environment; elevated borrowing costs; and a *disconnect between buyers & sellers as it relates to unit economic forecasts which has resulted in reduced M&A volume*.

Public Restaurant Company Valuations & M&A Activity

- 1H24 $1B+ Chain public restaurant company valuation multiple and private franchisee transaction premium contracted due to stock price declines.

Marcus & Millichap Real Estate Cap Rates

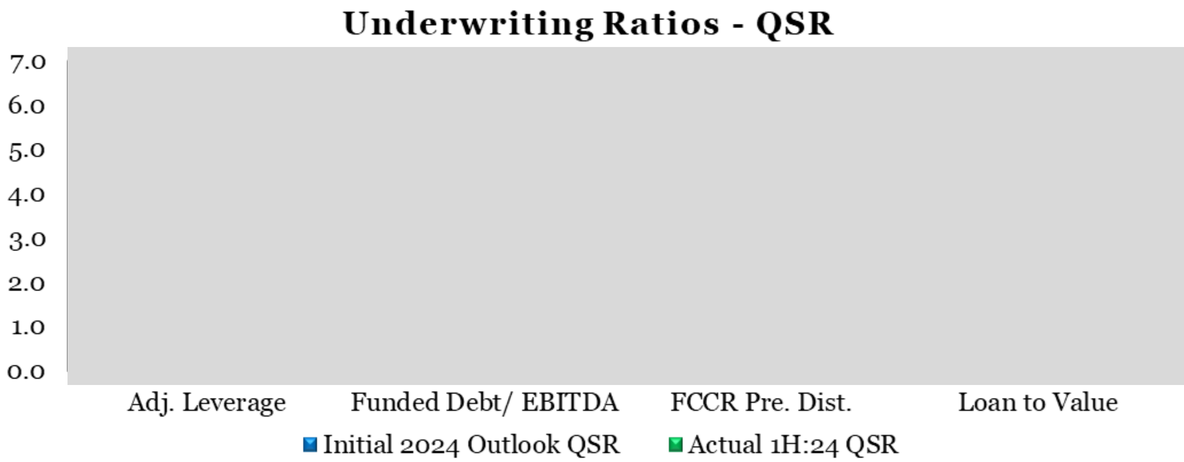
- Cap rates for single-tenant net-leased $1B+ chain restaurant properties remain elevated but basically unchanged during 1H24. FSR transaction volume has declined significantly.

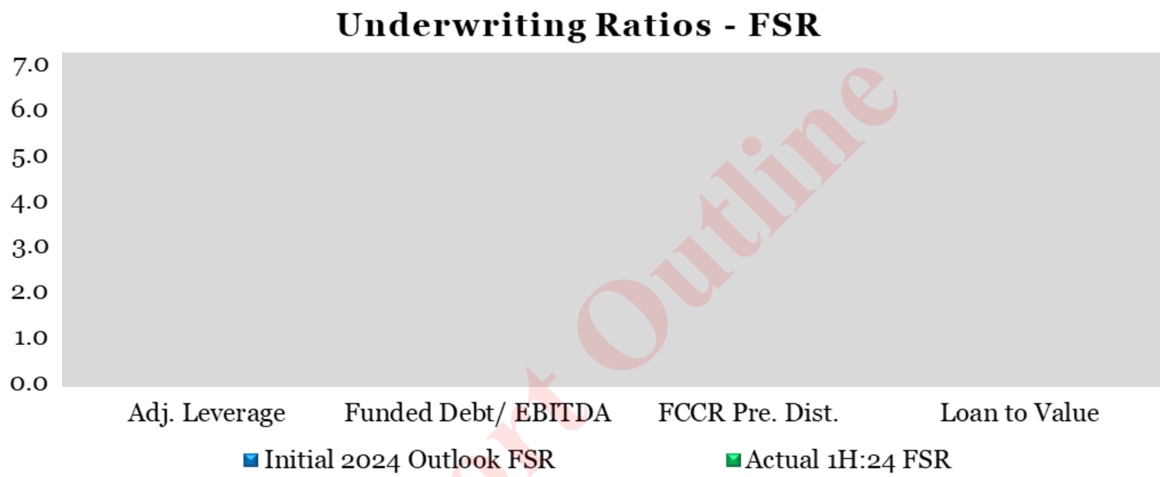
Table of Contents	Pages

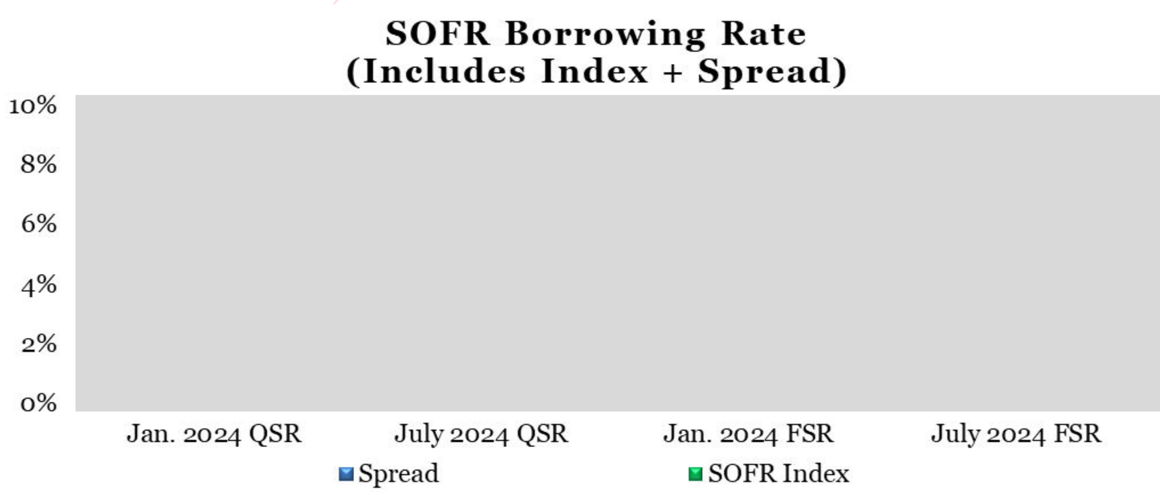
Data in spreadsheet form available at https://nobulleconomics.com/library-of-research/

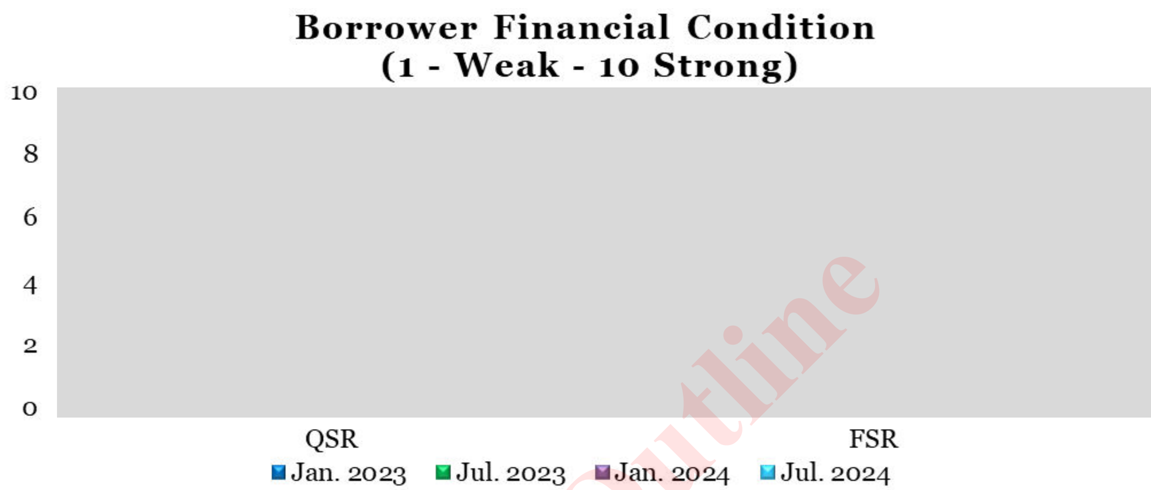
Restaurant Finance Update

1H:24 Underwriting Ratios								
	Adjusted Leverage		**Funded Debt/EBITDA**		**FCCR (Pre. Dist.)**		**Loan to Value**	
	QSR	FSR	QSR	FSR	QSR	FSR	QSR	FSR
Low								
High								
Average								


Underwriting Ratios - QSR
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Adj. Leverage
Funded Debt/ EBITDA
FCCR Pre. Dist.
Loan to Value
Initial 2024 Outlook QSR
Actual 1H:24 QSR


Underwriting Ratios - FSR
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Adj. Leverage
Funded Debt/ EBITDA
FCCR Pre. Dist.
Loan to Value
Initial 2024 Outlook FSR
Actual 1H:24 FSR


SOFR Borrowing Rate
(Includes Index + Spread)
10%
8%
6%
4%
2%
0%
Jan. 2024 QSR
July 2024 QSR
Jan. 2024 FSR
July 2024 FSR
Spread
SOFR Index



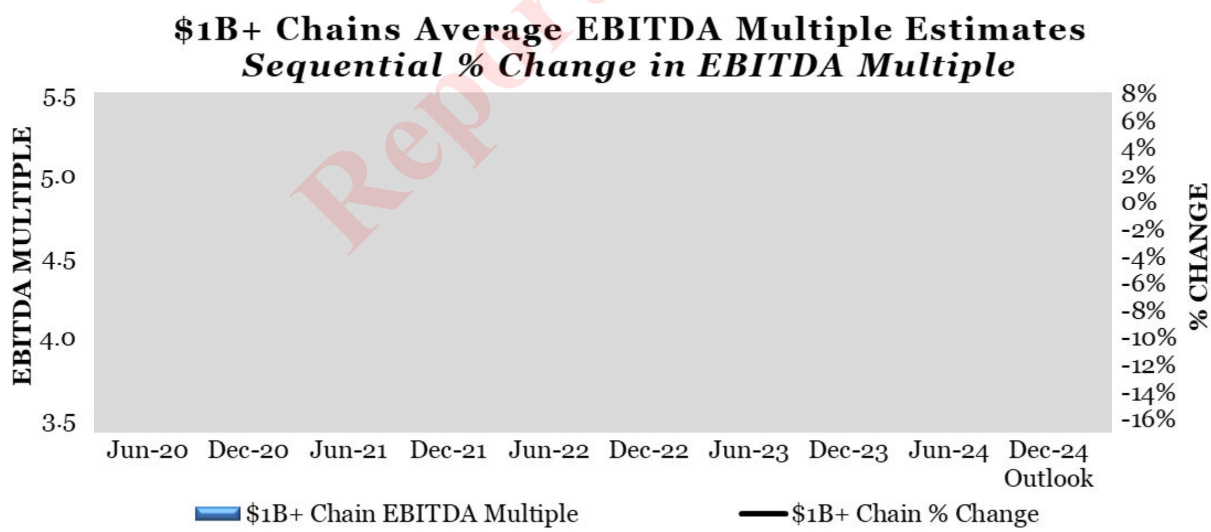
Survey Participants		
Amegy Bank	Fifth Third Bank	Pinnacle Financial Partners
Atlantic Capital Bank	First Franchise Capital Corporation	PNC
Auxilior Capital Partners, Inc.	First Horizon Bank, Restaurant Finance	Preferred Bank
Bank of America	Flagstar Bank, N.A.	Rockland Trust Company
Bank of Hope	Gulf Coast Restaurant and Franchise Finance	Simmons Bank
BankRI	Horizon Bank	SMBC Manubank
BMO Harris Bank	Heartland Financial (HTLF)	Star Hill Financial LLC
BOK Financial	Huntington National Bank	Synovus Bank
Cadence Bank	Live Oak Bank	TD Bank
Capital One	M&T Bank	The Northern Trust Company
Citizens Bank Restaurant Finance	MidCap Financial	Vendor Alliance Capital, Inc.
City National Bank	MUFG Union Bank	Wells Fargo Bank
CrossFirst Bank	NBT Bank	Western Alliance Bank
Customers Commercial Finance	Northern Bank & Trust Company	Western Franchise Financing
Encore Bank	Old National Bank	Wintrust Franchise Services

Industry Player Roster Changes

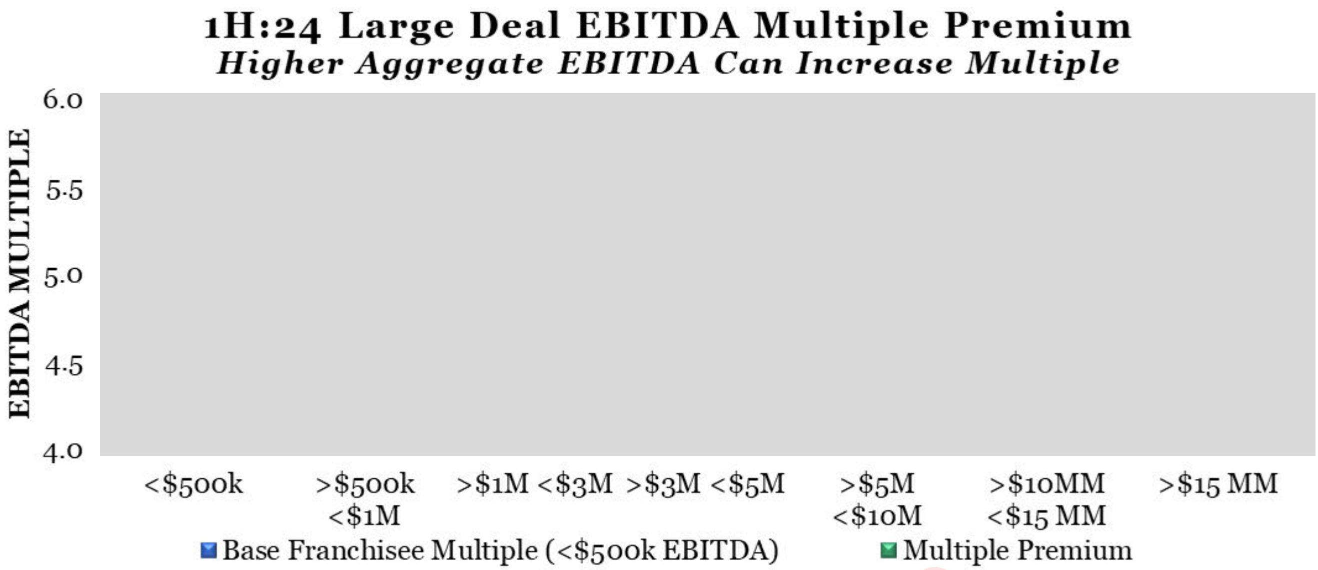
New Entrants/Expanding	Mergers	Exits/On Hold

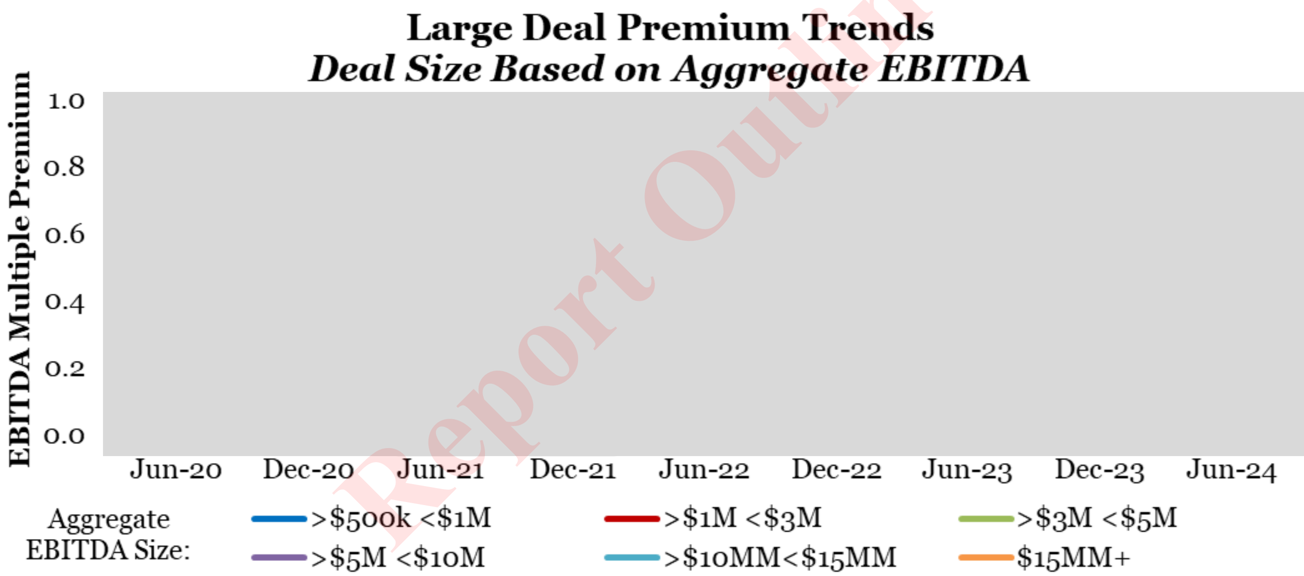
(1)
(2)
(3)

Estimated Franchise Enterprise Valuations



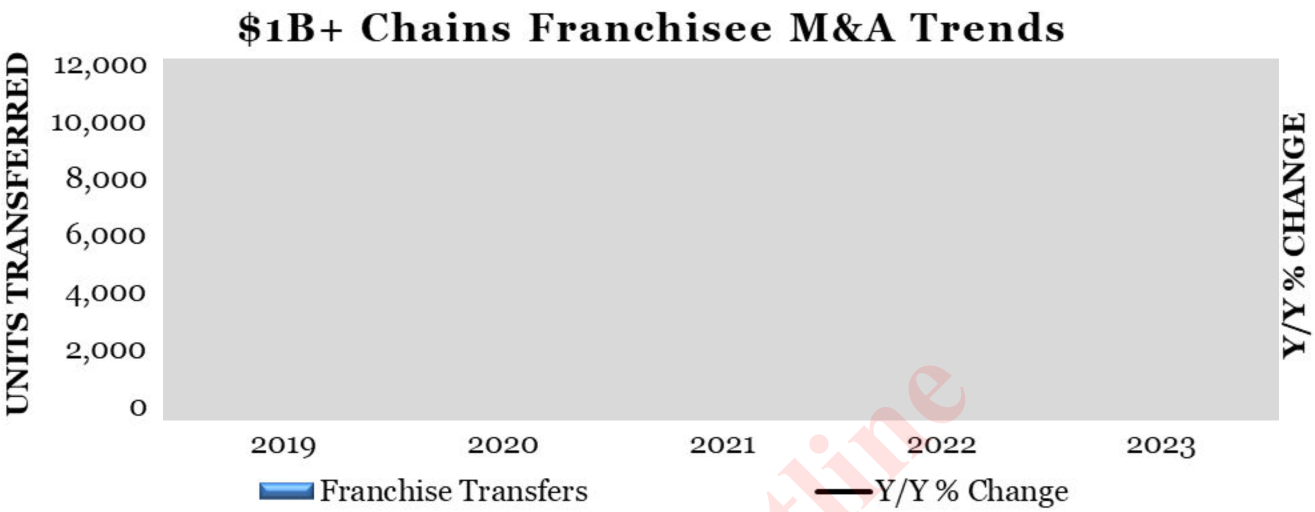
Sequential % Change	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24 Outlook
$1B+ Chain EBITDA Multiple										
% Change in EBITDA Multiple										
FSR Multiple										
% Change in EBITDA Multiple										
QSR Multiple										
% Change in EBITDA Multiple										





Survey Participant Contact Information			
Firm	Contact	Main Number	Email

1H24 Restaurant M&A Activity



1H24 Restaurant M&A Activity (10+ Unit Transactions)

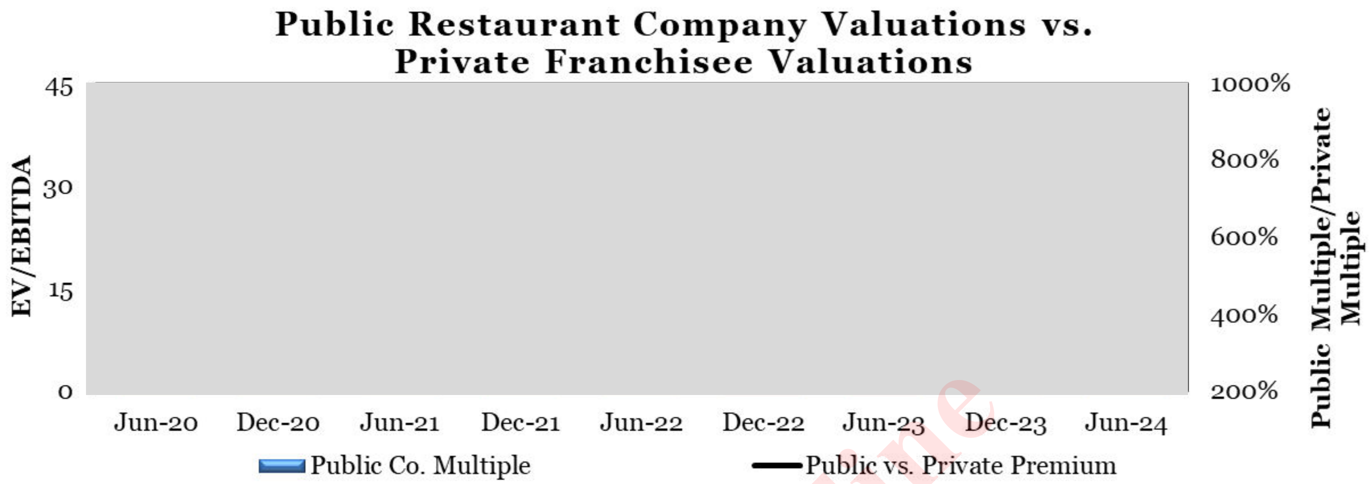
Concept	Units	Seller	Buyer	Date
Total				

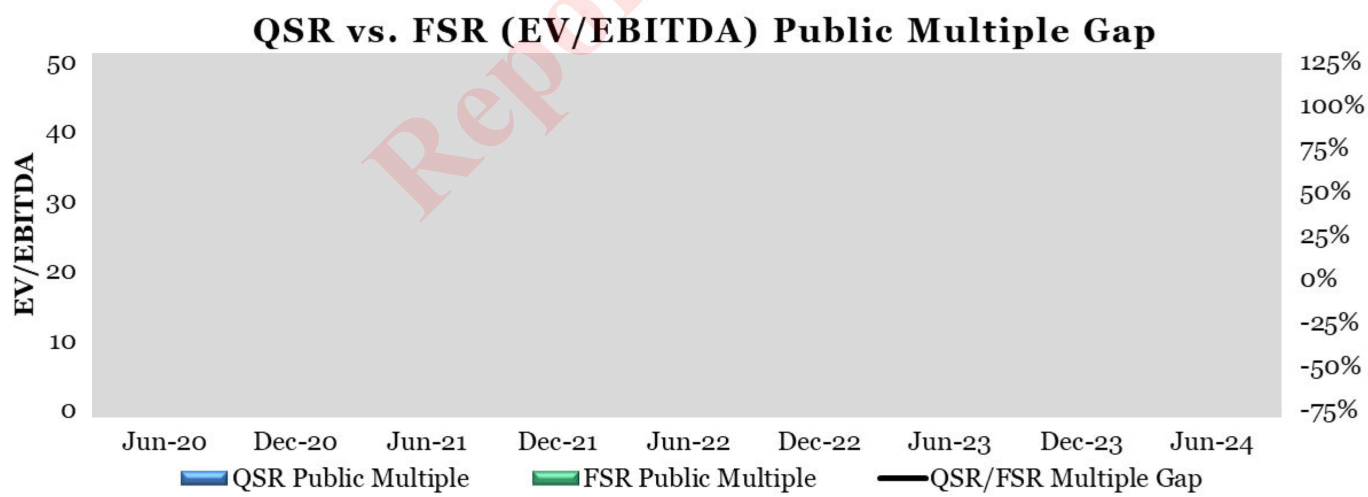
1H:24 Estimated $1B+ Chains Enterprise Valuations (EBITDA Multiple)

Concept	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	% Change Jun-24 vs. Dec-23	1H:24 Average & Range Low	High	# Estimates
Applebee's														
Buffalo Wild Wings														
Chili's Grill & Bar														
Red Robin														
T.G.I. Friday's														
Texas Roadhouse														
Casual														
Corner Bakery Café														
Moe's Southwest Grill														
Panera Bread														
Qdoba														
Fast Casual														
Denny's														
Golden Corral														
IHOP														
Perkins														
Family														
Arby's														
Burger King														
Carl's Jr.														
Checkers/ Rally's														
Culver's														
Dairy Queen														
Del Taco														
Five Guys														
Hardee's														
Jack in the Box														
McDonald's														
Sonic Drive-In														
Taco Bell														
Wendy's														
Zaxby's														
Sandwich														
Firehouse Subs														
Jersey Mike's														
Jimmy John's														
Subway														
Sub-Sandwich														
Dunkin'														
Tim Horton's														
Krispy Kreme														
Coffee/bakery														
Bojangles'														
Church's														
KFC														
Popeyes														
Wingstop														
Chicken														
Domino's														
Little Caesars														
Papa John's														
Pizza Hut														
Pizza														
FSR Average														
% Change														
QSR Average														
% Change														
Average														
% Change														
10 Year Treasury Rate														

(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) July 2024 survey participants include AB Advisory & Analytics, Advanced Restaurant Sales, FranBizNetwork, National Franchise Sales, Newmark Valuation & Advisory, and Trinity Capital.

Public Company Valuations (EV/EBITDA)





Public vs. Private Multiples by Chain
(Sorted by Public Premium)

Concept	Parent Company	EV/EBITDA Multiples 1H:24 Public	Private	Public Premium (1)
Wingstop	Wingstop			
Domino's	Domino's Pizza, Inc.			
Pizza Hut	Yum! Brands, Inc.			
KFC	Yum! Brands, Inc.			
Tim Horton's	Restaurant Brands International Inc.			
Burger King	Restaurant Brands International Inc.			
Popeyes	Restaurant Brands International Inc.			
Taco Bell	Yum! Brands, Inc.			
McDonald's	McDonald's Corporation			
Wendy's	The Wendy's Company			
Papa John's	Papa John's International, Inc.			
Jack in the Box	Jack in the Box Inc.			
QSR				
Texas Roadhouse	Texas Roadhouse, Inc.			
Denny's	Denny's Corporation			
Applebee's	DineEquity, Inc.			
IHOP	DineEquity, Inc.			
Chili's Grill & Bar	Brinker International, Inc.			
Red Robin	Red Robin Gourmet Burgers, Inc.			
FSR				

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

Marcus & Millichap Net Lease Real Estate Cap Rates

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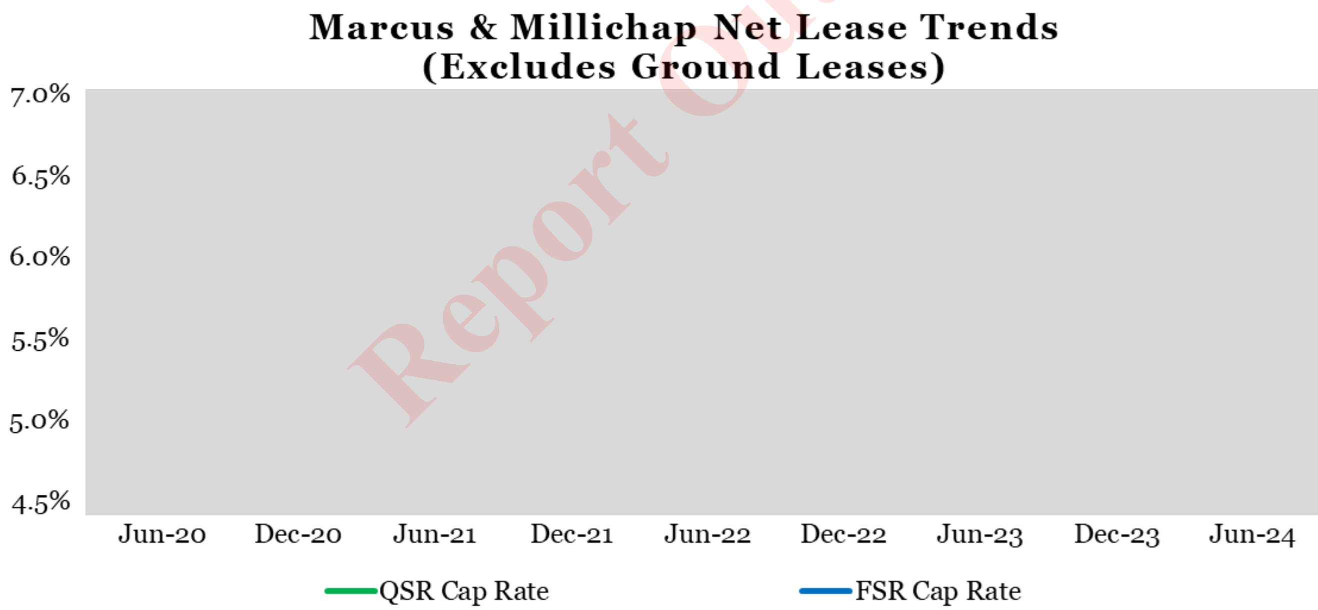
-
-
-



About the Contributing Firm: Marcus & Millichap 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 (425) 770-2495

Valuation Methodology

- There are 2 separate components to valuing a restaurant (1) **Business/Enterprise Value,** and (2) **Real Estate Value.**

- EBITDA multiples used in business valuations come after a unit level G&A allocation and an implied rent adjustment for fee properties. G&A is normalized to eliminate variability presented by a particular operator and, on a per unit basis, typically ranges from $35k to $50k for QSR, $40k to $55k for fast casual, $45k to $60k for family and $45k to $75k for casual. As a percentage of sales, G&A runs from 3.0% to 5.0% with higher volume concepts on the low end of that range and large multi-unit operators on the high-end (reflecting more management layers).

- *Valuation adjustments* may reflect: deferred maintenance, required remodeling, remaining time on the existing franchise agreement and differences in franchise agreement terms for the new owner.

- The discounted cash flow (present value) method may be incorporated into the final valuation determination (especially for leasehold units with a short remaining term).

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

Some typical *EBITDA adjustments* include:

- An implied/market rent deduction for fee units
- Above/below market rents for leased units
- Excessive/burdensome landlord requirements on leased units (to adjust implied rent)
- The exclusion of non-recurring events
- Normalized G&A expense
- A franchisee royalty imputed for franchisor-operated stores (only for refranchising)

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

- Calculating an implied/market rent
- Applying an appropriate capitalization rate
- Using a reality check against sales of comparable properties

Example - Fee Restaurant Property

Business Value		**Real Estate Value**	
Sales	$1,000,000	Implied Rent/sales	7.5%
Adjusted EBITDAR	$ 180,000	Implied Rental Income	$75,000
Implied Rent	$ 75,000	Cap Rate	6.0%
Adjusted EBITDA	$ 105,000	**Real Estate Value**	**$1,250,000**
Multiple	5.00		
Business Value	**$525,000**	**Total Value**	**$1,775,000**

Restaurant Research Coverage

Concept Reports	Industry Data Reports
Applebee's	Restaurant Lending & 2nd Half Unit Valuations
Arby's	Ad Spending
Burger King	Menus & Promotions
Carl's Jr.	Unit Growth & Sales Analysis
Chili's Grill & Bar	Unit Economics
Church's	1st Half Unit Valuations & Lending Update
Denny's	New Build Costs & Franchise Fees
Domino's	Remodeling
Hardee's	
IHOP	
Jack in the Box	**Databases & Special Reports**
KFC	RR Databook (Annual Data Summary 50+ Chains)
McDonald's	RR LTOverview (Monthly Promotions 50+ Chains)
Panera Bread	FDD Library (40+ Chains)
Papa John's	Concept Updates (Quarterly 20+ Public Chains)
Pizza Hut	Same Store Sales Database (Quarterly 25+ Chains)
Popeyes	New Store ROI Model
Sonic Drive-In	SBA Lending Database
Subway	
Taco Bell	
Wendy's	www.ChainRestaurantData.com

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- Ask us about custom research projects
- Inquire about RR email marketing opportunities

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