



Structured Finance > Investment Grade

ABS: Applebees/IHOP Funding LLC Series 2014-1 Class A2

Updated: Sep 24, 2015

Trade Idea:

- ▶ Purchase class A2 Applebees/IHOP Funding ABS whole business securitization transaction which is essentially a secured corporate offering, with investment grade ratings to allow purchase by rating constrained accounts with a give in liquidity

Investment Rationale:

- ▶ **Security:** The class A2 notes are secured by a security interest in all of the assets of Applebees and IHOP including; contributed and new franchise and development agreements and the related franchisee payments; franchisee notes and equipment leases; securitization IP and IP license agreements; contributed and new product sourcing agreements; contributed and new owned real property and franchisee lease payments; transaction accounts; membership interests in the securitization entities; and, interest reserve letter of credit
- ▶ **Credit enhancement:** The class A2 notes are senior obligations of the capital structure and are protected by an interest reserve account; the strength of the Applebees and IHOP brands, projected cash flows that support the notes with an expected DSRC of 3.8x; and the robust transaction structure that includes performance tests, such as rapid amortization and cash trapping events.
- ▶ **Structural attributes:** Applebee's Funding and IHOP Funding are bankruptcy-remote, limited purpose limited liability companies. Series 2014-1 will include an interest only period whereby interest will be paid quarterly (Mar/Jun/Sep/Dec) with principal expected to be repaid in full on September 2021. The class A2 notes will experience a 1.0% per annum principal amortization if total leverage exceeds 5.25x. During the interest only/partial amortization period, class A2 investors are further protected by cash trap events, rapid amortization events, events of default and manager termination events. The most notable of these is the cash trap events which would accumulate cash if the Quarterly DSCR were to decline below 1.75x. Further, if the DSCR were to decline to below 1.3x, a rapid amortization event would occur and all collections would be used to amortize the class A2 notes.
- ▶ **Relative value:** This is the fourth whole business securitization to be offered by DineEquity featuring the Applebee's and IHOP brands. The whole business securitization market has evolved over the last 5-7 years with over \$14.0B in transaction volume. Considering the quality of the Applebee's and IHOP brands, the projected cash flows, available credit support, the strong legal and cash flow structure, we see an opportunity for yield pick-up with the potential for total return as spreads tighten following a Fed rate increase

Recommendation(s):

View	Trade Horizon	Deal & Tranche Info	Sponsor	Ratings	Cusip	Average Life / Duration	Tranche Par	Spread to Swaps	\$ Price	Current Yield*	Ability to Source Similar
Buy	12+ Months	DIN 2014-1 A2	DineEquity, Inc	BBB (S&P)	03789XAA6	2.9/2.7	\$1.3B	+200a	\$103	3.1%	Active Secondary Market