

Jan 02, 2025

FAT Brands

Consumer

New Locations

FAT

NCM

Business Update. With 2024 coming to a close and the focus on the Twin Hospitality distribution, we wanted to review the ongoing business in terms of new openings for additional expansion. As we have emphasized in the past, the continuing expansion of the overall operating units provides a "cost free" means of improving overall adjusted EBITDA for FAT Brands.

Rating

Outperform

Unchanged

Current Price

\$5.32

Target Price

\$15.00

New Openings. Since the beginning of November, or since FAT Brands reported third quarter results, the Company has announced the opening of a number of new locations, including a Hurricane Grill & Wings location in a Six Flags Great Escape Lodge in upstate NY, a Johnny Rockets in the Soaring Eagle Casino Resort in MI, a Pretzelmaker location in Clear Lake, IA, the fifth Round Table Pizza in Reno, NV, and five new locations for Great American Cookies and Marble Slab Creamery in Texas.

Market Capitalization

91.01m

New Openings 2. FAT Brands also announced the second Chicago area Fatburger/Buffalo's Express location, the 10th Fatburger location in Texas, additional expansion in Mexico for Fatburger/Buffalo's Express, and new international openings for Johnny Rockets, bringing the year-to-date total to 11 new locations.

Shares Outstanding

15.84m

Float

5.29m

Positive Development? Casual dining competitor Darden Restaurants in a December 19th 2Q25 earnings release reported positive same store sales growth in three of its four segments, the outlier being fine dining. While there is limited cross-over between Darden's brands and FAT's brands, if the positive same store sales growth is maintained and spreads to other dining segments, this would be a positive for FAT Brands.

Institutional Holdings

7.91%

12-Month Low/High

\$4.51/\$9.48

Average 90-Day Volume

21450

Maintaining Outperform. We are maintaining our Outperform rating and \$15 price target. We continue to believe the public listing of Twin Hospitality will provide validation of the value of the assets FAT Brands has accumulated.

Fiscal Year End

2024-12-31

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Revenues (\$ MIL)

Period	2023A	2024E	2025E
Q1	105.7A	152.0A	
Q2	106.8A	152.0A	
Q3	109.4A	143.4A	
Q4	158.6A	145.0E	
	480.5A	592.4E	703.5E

EPS (\$)

Period	2023A	2024E	2025E
Q1	(2.06)A	(2.37)A	
Q2	(0.53)A	(2.43)A	
Q3	(1.59)A	(2.74)A	
Q4	(1.68)A	(2.68)E	
	(5.85)A	(10.23)E	(6.79)E

Company Profile

Formed in March 2017 as a wholly owned subsidiary of Fog Cutter Capital Group, Inc., FAT Brands Inc. is a leading multi-brand restaurant franchising company that develops, markets, and acquires predominantly fast casual restaurant concepts around the world. FCCG completed an initial public offering of 20% of the Company in October 2017. As a franchisor, FAT Brands generally does not own or operate restaurant locations, but rather generates revenue by charging franchisees an initial franchise fee as well as ongoing royalties. The Company currently owns 18 restaurant brands: Round Table Pizza, Fatburger, Marble Slab Creamery, Johnny Rockets, Fazoli's, Twin Peaks, Great American Cookies, Smokey Bones, Hot Dog on a Stick, Buffalo's Cafe & Express, Hurricane Grill & Wings, Pretzelmaker, Elevation Burger, Native Grill & Wings, Yalla Mediterranean, and Ponderosa and Bonanza Steakhouses, and franchises and owns over 2,300 units worldwide. Systemwide sales in 2023 were \$2.3 billion.

Fundamental Analysis 3.0/5.0 checks

We give FAT Brands 3.0 checks out of 5.0, which falls within our "Average" range of 2.5 to 3.0 checks. We give the Company average marks for its Corporate Governance and Management. The Company holds annual election of all directors and separates its Chairman and CEO roles. Much of the senior management team and directors have enjoyed long careers in the restaurant and finance industries. These positives are offset by the significant ownership and control position held by management. We view FAT Brand's market opportunity favorably given the size of the restaurant industry, but this is offset by the highly competitive nature of the industry. The Company is a small competitor in the space and is dependent upon its franchisees. The Company's asset light model, with numerous acquisition opportunities, provides significant operating leverage. But this is somewhat tempered by the Company's existing debt position, with the recent whole business securitization requiring a substantial amount of cash flow to be allocated towards debt repayment.

Valuation Summary

We are maintaining FAT Brands shares at Outperform with a \$15 near-term price target. Our price target is 24x our estimated 2024 adjusted EBITDA of \$64 million and 13x our 2025 adjusted EBITDA estimate of \$119 million. The peer group currently trades at 14.4x consensus 2024 EBITDA and 13.6x consensus 2025 adjusted EBITDA. The peer group is a mix of burger and pizza chains and fast growing, asset light operators. We believe the GFG, Twin Peaks and Fazoli's acquisitions vaulted FAT Brands into the "major leagues" of restaurant operators, providing the Company with significant size in terms of number of locations and systemwide sales, enhanced geographic diversification, a broadened franchisee base, and multiple avenues for additional growth. The recently announced development deals will continue to drive the Company's operating results, in our view. We continue to look favorably upon FAT Brands' management team, its past success in turning around acquired brands, growth potential, and the Company's M&A strategy. We also would note that assuming management is able to achieve its goals in terms of utilization of the factory and growth in the Twin Peaks franchise, there exists the possibility that a monetization of these two assets could pay down a significant portion of the Company's debt.

Investment Risks Include:

The novel coronavirus (COVID-19) outbreak disrupted and is expected to continue to disrupt the restaurant industry. This could continue to materially affect FAT Brands' operations, financial condition, and results of operations for an extended period of time.

The Company's operating and financial results and growth strategies are closely tied to the success of its franchisees. If the Company is unable to identify, recruit, and contract with a sufficient number of qualified franchisees, FAT Brand's ability to open new franchised restaurants and increase revenues will be hampered.

FAT Brands' growth strategy includes pursuing opportunistic acquisitions of additional brands. The Company may not find suitable acquisition candidates or successfully operate or integrate any acquired brands.

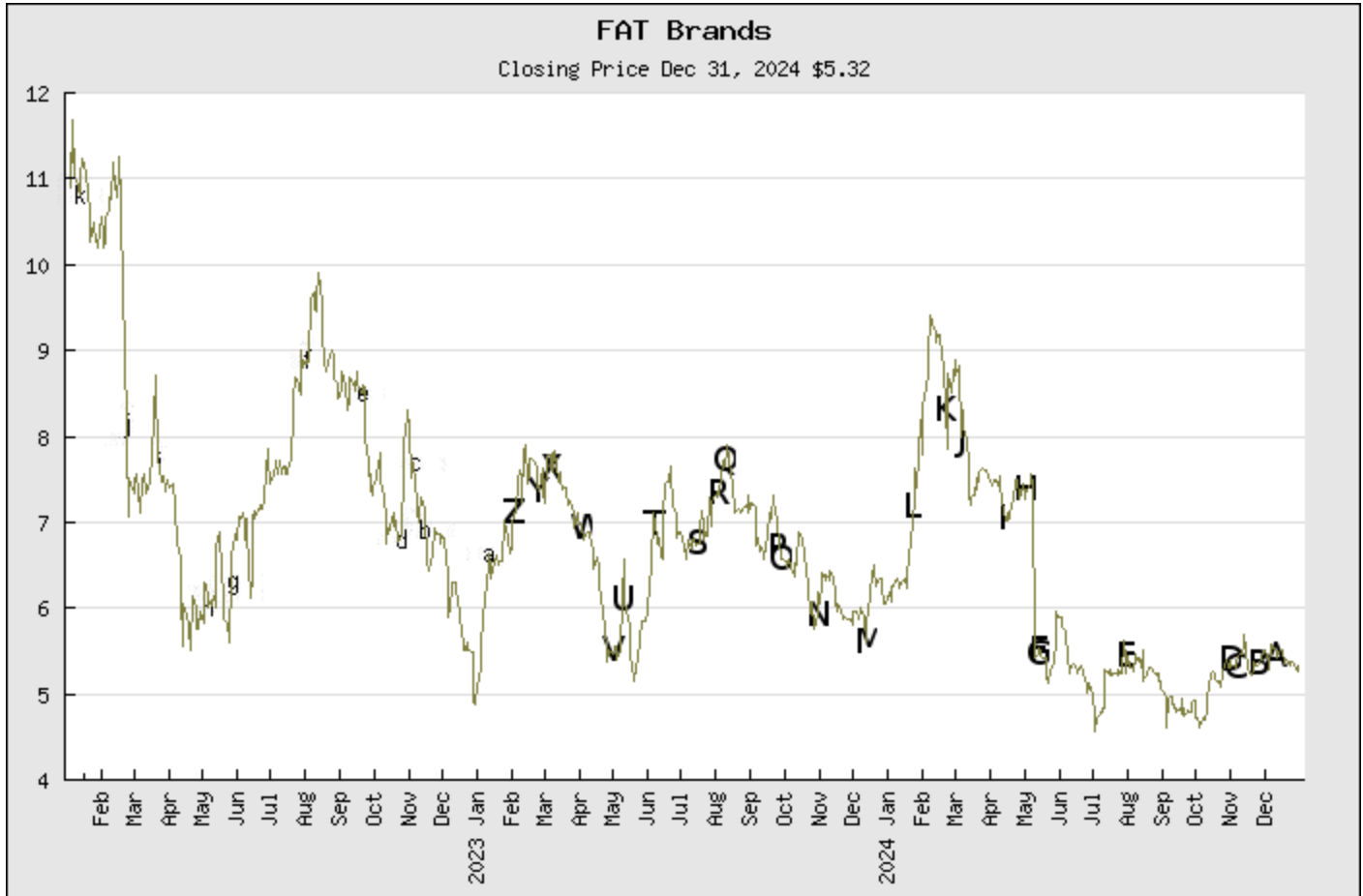
Negative publicity relating to one of the Company's franchised restaurants could reduce sales at some or all of other franchised



restaurants.

The retail food industry is highly competitive.

It remains to be seen what, if anything, comes out of the government investigation.



A	- 12/11/2024	Outperform	Target \$15.00	Current \$5.45
C	- 11/05/2024	Outperform	Target \$15.00	Current \$5.30
E	- 08/01/2024	Outperform	Target \$25.00	Current \$5.45
G	- 05/13/2024	Outperform	Target \$25.00	Current \$5.46
I	- 04/18/2024	Outperform	Target \$25.00	Current \$7.05
K	- 02/21/2024	Outperform	Target \$25.00	Current \$8.30
M	- 12/12/2023	Outperform	Target \$25.00	Current \$5.60
O	- 09/28/2023	Outperform	Target \$25.00	Current \$6.56
Q	- 08/09/2023	Outperform	Target \$25.00	Current \$7.72
S	- 07/17/2023	Outperform	Target \$25.00	Current \$6.75
U	- 05/09/2023	Outperform	Target \$25.00	Current \$6.09
W	- 04/04/2023	Outperform	Target \$25.00	Current \$6.94
Y	- 02/24/2023	Outperform	Target \$25.00	Current \$7.36
a	- 01/11/2023	Outperform	Target \$25.00	Current \$6.64
c	- 11/04/2022	Outperform	Target \$25.00	Current \$7.70
e	- 09/19/2022	Outperform	Target \$25.00	Current \$8.51
g	- 05/26/2022	Outperform	Target \$25.00	Current \$6.33
i	- 03/22/2022	Outperform	Target \$25.00	Current \$7.69
k	- 01/12/2022	Outperform	Target \$25.00	Current \$10.80

B	- 11/26/2024	Outperform	Target \$15.00	Current \$5.36
D	- 10/31/2024	Outperform	Target \$15.00	Current \$5.39
F	- 05/15/2024	Outperform	Target \$25.00	Current \$5.52
H	- 05/02/2024	Outperform	Target \$25.00	Current \$7.39
J	- 03/11/2024	Outperform	Target \$25.00	Current \$7.96
L	- 01/24/2024	Outperform	Target \$25.00	Current \$7.17
N	- 10/30/2023	Outperform	Target \$25.00	Current \$5.91
P	- 09/26/2023	Outperform	Target \$25.00	Current \$6.70
R	- 08/04/2023	Outperform	Target \$25.00	Current \$7.34
T	- 06/07/2023	Outperform	Target \$25.00	Current \$6.97
V	- 05/02/2023	Outperform	Target \$25.00	Current \$5.51
X	- 03/07/2023	Outperform	Target \$25.00	Current \$7.62
Z	- 02/02/2023	Outperform	Target \$25.00	Current \$7.11
b	- 11/15/2022	Outperform	Target \$25.00	Current \$6.90
d	- 10/24/2022	Outperform	Target \$25.00	Current \$6.79
f	- 08/01/2022	Outperform	Target \$25.00	Current \$8.90
h	- 05/06/2022	Outperform	Target \$25.00	Current \$6.00
j	- 02/22/2022	Outperform	Target \$25.00	Current \$8.14

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	86%	18%
Market Perform: potential return is -15% to 15% of the current price	14%	5%
Underperform: potential return is >15% below the current price	0%	0%

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