



# FAT BRANDS

## Potential risks for investments

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# AGENDA

- Company overview
- Financial analysis
- Management Team
- Conclusions



# COMPANY OVERVIEW

**FAT Brands Inc. (Fresh - Authentic – Tasty)** is a multi-brand franchising company that acquires, develops, and manages quick service, fast casual, casual dining, and polished casual dining restaurant concepts worldwide.

The company was incorporated in 2017 and is headquartered in Beverly Hills, California. FAT Brands Inc. operates as a subsidiary of Fog Cutter Holdings, LLC.

As of September 25, 2022, the Company owned seventeen restaurant brands:

- ❖ *Round Table Pizza,*
- ❖ *Fatburger,*
- ❖ *Marble Slab Creamery,*
- ❖ *Johnny Rockets,*
- ❖ *Fazoli's,*
- ❖ *Twin Peaks,*
- ❖ *Great American Cookies,*
- ❖ *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.*

As of September 25, 2022, the Company had **2,354 locations**.

Of this amount, **2,261 stores were franchised**, representing approximately **96%** of total restaurants.

FAT Brands has approximately 3500 employees as of September 2022.

## FINANCIAL RATIOS

### Liquidity ratios: a measure to check a company's ability to repay short-term and long-term debts

Current ratio = Current assets / Current liabilities	118,511/198,488= 0.597
Acid-test ratio = Current assets – Inventories / Current liabilities	No inventories
Cash ratio = Cash and Cash equivalents / Current Liabilities	56,656/198,488=0.285
Operating cash flow ratio = Operating cash flow / Current liabilities	682/198,488=0.0034

### Leverage ratios: a measure to evaluate a company's debt

Debt ratio = Total liabilities / Total assets	198,488/118,511=1.675
Debt to equity ratio = Total liabilities / Shareholder's equity	198,488/2,791,785=0.071
Interest coverage ratio = Operating income / Interest expenses	824/14,978=0.055
Debt service coverage ratio = Operating income / Total debt service	824/631=1.306

### Efficiency ratios: a measure to check if the utilization of the assets and resources is efficient

Asset turnover ratio = Net sales / Average total assets	824/118,511=0.007
Inventory turnover ratio = Cost of goods sold / Average inventory	No inventories
Receivables turnover ratio = Net credit sales / Average accounts receivable	Average accounts receivable is not positive
Days sales in inventory ratio = 365 days / Inventory turnover ratio	Average accounts receivable is not positive

### Profitability ratios: a measure to evaluate a company's ability to generate income

Operating margin ratio = Operating income / Net sales	824/118,881=0.007
Return on assets ratio = Net income / Total assets	No income Net loss 31,583
Return on equity ratio = Net income / Shareholder's equity	No income Net loss 31,583

### Market value ratios: an evaluation of the share price of a company's stock

	High: 18.23/18=1.013
Dividend yield ratio = Dividend per share / Share price	Low: 17.77/18= 0.987
Price-earnings ratio = Share price / Earnings per share	No earnings

❖ The growth strategy is centered on expanding the footprint of existing brands and acquiring new brands through a centralized management organization which provides substantially all executive leadership, marketing, training and accounting services.

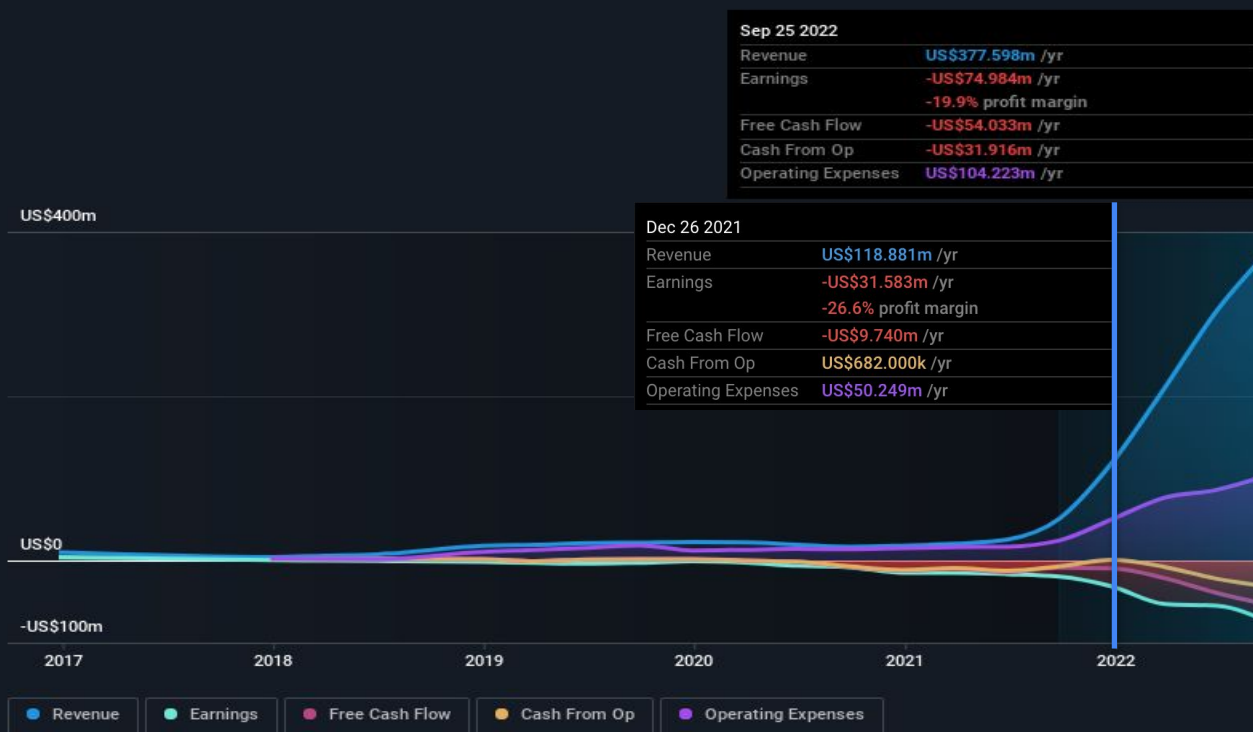
❖ Total revenue increased 1,042 % to \$74.2 million compared to \$6.5 million the fourth quarter of 2020.

❖ 30 new franchised store openings during the fourth quarter of 2021.

❖ Net loss of \$19.6 million

# FINANCIAL ANALYSIS

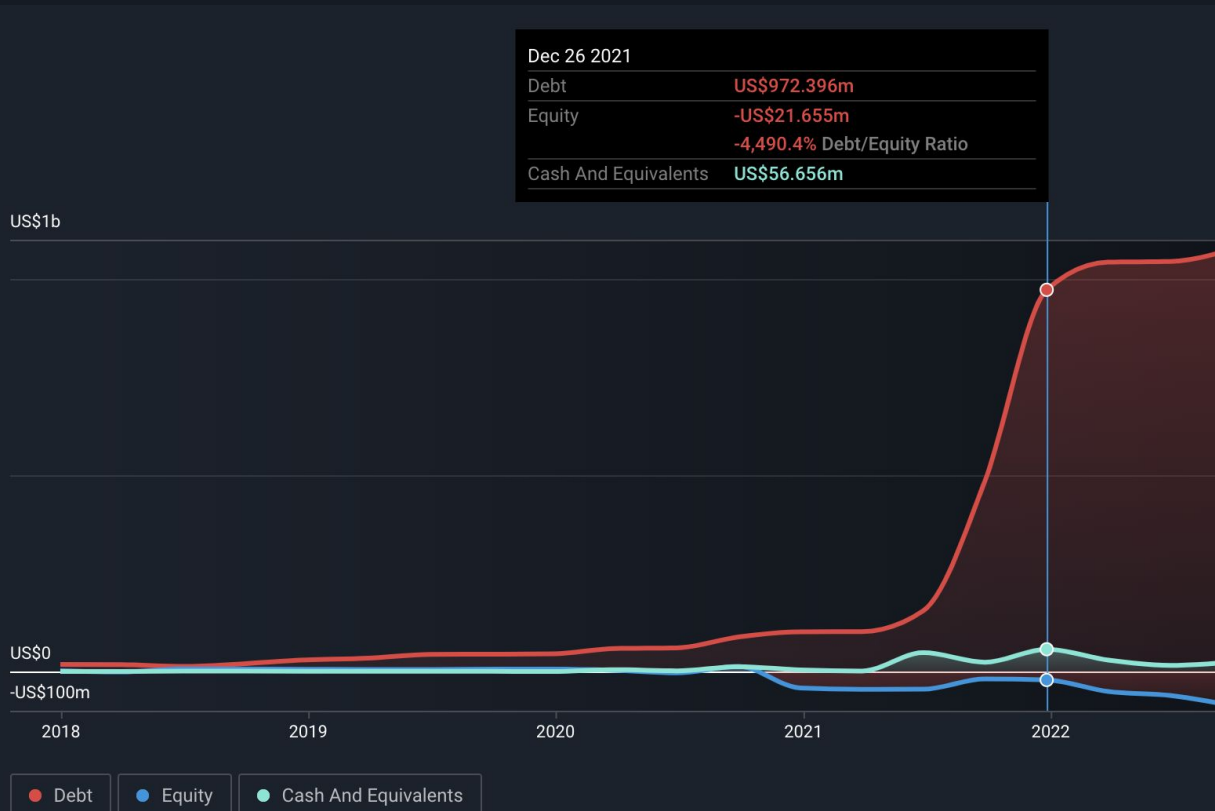
## ❖ Earnings and Revenue History



❖ FAT is unprofitable.

# FINANCIAL ANALYSIS

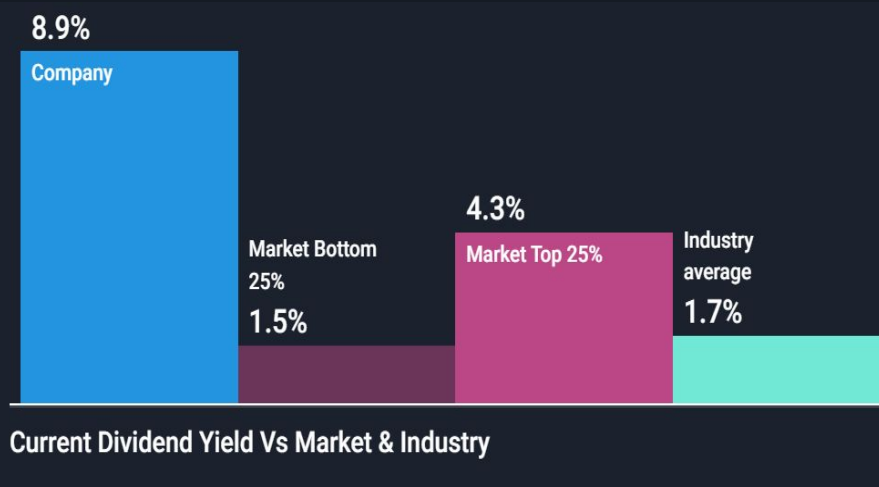
## ❖ Debt to Equity



- ❖ FAT has negative shareholder equity – a company's liabilities exceed its assets.
- ❖ Reasons for a company's negative shareholders' equity include accumulated losses over time, large dividend payments that have depleted retained earnings, and excessive debt incurred to cover accumulated losses.
- ❖ FAT Brands made acquisitions in a very short period of time and paid them with debt to investors.

# FINANCIAL ANALYSIS

## ❖ Dividend & Management



- ❖ FAT's dividend (8.95%) is higher than the bottom 25% of dividend payers in the US market (1.53%).
- ❖ FAT is paying dividends even if there is no profit.

## ❖ CEO compensation



# MANAGEMENT TEAM

Name	Position	Tenure	Compensation	Ownership
James Neuhauser	Executive Chairman of the Board	5.75yrs	US\$164.00k	1.25% \$ 1.3m
Andrew Wiederhorn	President	5.75yrs	US\$2.87m	46.73% \$ 49.0m
Kenneth Kuick	Chief Financial Officer	1.58yrs	US\$2.26m	0.66% \$ 695.5k
Robert Rosen	Executive Vice President of Capital Markets	1.67yrs	US\$2.43m	0.66% \$ 695.5k
Thayer Wiederhom	Chief Operating Officer	1.08yrs	no data	no data
Michael Chachula	Chief Information Officer	0.67yr	no data	no data
Allen Sussman	General Counsel	1.75yrs	no data	1.26% \$ 1.3m
Ron Roe	Senior Vice President of Finance	4.33yrs	US\$313.86k	no data
Donald Berchtold	Executive VP & Chief Concept Officer	4.83yrs	US\$405.55k	1.35% \$ 1.4m
Gregg Nettleton	President & COO of Casual Dining Division	5.17yrs	US\$355.55k	0.00060% \$ 629.1
Taylor Wiederhorn	Chief Development Officer	5.17yrs	no data	0.95% \$ 990.9k
Jacob Berchtold	Chief Operating Officer of Fast Casual Division	2.83yrs	no data	no data



# Conclusions

- FAT Brands is a relatively new company and therefore with little historical information for a more precise analysis;
- FAT Brands presents a history of abrupt growth in a short period of time, marked by the rapid expansion of its network of restaurants as well as franchisees;
- Despite the rapid growth, the company registers successive losses and is forecasted to maintain these losses for at least the next two years.
- In addition, the company presents some aspects that require attention and cause concern, like continues to pay dividends to the shareholders, whose largest shareholder is the CEO, followed by other members of the management team, even though the company is showing successive losses and the CEO's (owner and largest shareholder) earnings have skyrocketed in the last year even though the company is making losses.
- Therefore, we not only do not recommend investing in the company, but also do not see the need to proceed with the expansion of its network before financial stabilization.
- An alternative for capitalizing the company would be to sell more shares to the market, but as they are currently underpriced, it is necessary to work on increasing investor confidence first.

## References:

<https://simplywall.st/stocks/us/consumer-services/nasdaq-fat/fat-brands/future>

FAT Brands Inc. Reports Fourth Quarter and Fiscal Year 2021 Financial Results

UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-Q, 25 sept 2022

**THE END**

**THANK YOU!**