FAT BRANDS INC. FINANCIAL STATEMENT ANALYSIS REPORT

QiTing ZOU

Hayek Global College | Business Street Smarts

Review of Financial Statements of FAT Brands

First Impression - General Information Analysis

In order to review the business model of FAT Brands, a thorough evaluation of a wide range of sources related to the business as such, its model, the people behind the business, their past, as well as the available direct and indirect documentation on their finance is necessary. For this group especially the focus is on how do they finance their business model, where does the money come from, how is the money used, what is the return to the business and where does the money go.

A specific focus is placed on the viewpoint as an investor to establish investment opportunities, their relevant return on investment, potential risks and future outlooks. Also, an investigation into the aspect of the business under consideration of business ethics will be touched on.

The details on the finance of the business, which are publicly available, show, after an initial overview, an unusual appearance presentation compared to other companies of that sort. It appears that the business operates in unusual ways and the source of funding does not seem to be clear. The business mode of FAT Brands revolves around buying up brands, and then to market and continue these brands through a network of predominantly franchise. Furthermore, the company has made headlines by its journey onto the stock market.

Most strikingly, the business has booked not only a massive and unexpected growth by expansion and acquisition, yet also shows solid growth numbers in their individual business entities. As indicated by the CEO in an interview of FOX news, the individual growth numbers may partially be contributed to the exceptional circumstances of the end of the CoViD-19 lockdown. Generally, the food and beverage industry is a very solid and growing business environment, as long as customers do have disposable income. The effect of inflation and correlating likely recession these days can however not be estimated or projected at this stage. A bit worrying, though, is the information that federal agencies seem to be conducting investigations currently into the business for a number of serious allegations directly related to finance.

Since the review is in its early stage, more details would be premature to be shared. It is furthermore advisable to link the efforts of the different groups that are tasked with different focus on this business, so that a broad picture becomes visible and an informed decision can be made subsequently.

All together for now, it seems, that the business model is too good to be true.

Most Recent Numbers

Following the available leads to find out "how does FAT Brands finance their business model", "where does the money come from", "how is the money used", "what is the return to the business and where does the money go", the focus of investigation moves on to FAT Brands most recent financial report in order to get the most updated information, and to see its performance compared to the previous year.

Summarizing third quarter 2022 financial results of FAT Brands announced on 22 Oct 2022, these are the key points to consider:

- 38 store openings in the third quarter
- Plan to open 125 new restaurants in 2022, and over 100 openings would be settled by 02 Oct 2022 (to be confirmed and updated)
- 130 units are slated to open in 2023
- 180 new franchise agreements were signed
- 60% increase in EBITDA is expected over the next several years
- Total revenue improved 247% to $103.2 million compared to $29.8 million in the third quarter of 2021
- Net loss of $23.4 million, or $1.42 per diluted share, compared to $3.6 million, or $0.26 per diluted share, in the third quarter of 2021
- Adjusted EBITDA (1) of $24.6 million compared to $7.2 million in the third quarter of 2021
- Adjusted net loss (1) of $16.3 million, or $0.98 per diluted share, compared to $2.3 million, or $0.16 per diluted share, in the third quarter of 2021
- Taking measures to reduce cost of capital
- Shares of FAT Series B Cumulative Preferred Stock are expected to be redeemed in the coming weeks

Based on the numbers above, everything looks like a very promising future. It is shown that after acquisitions in 2021, even though the net loss increased massively in the third quarter this year in 2022, the net profit increased as well, and the revenue increase overcomes the loss.

As the business operations are still in the recovery stage from CoViD-19 lockdowns in the United States, it is very impressive to see such a great improvement in finance of a group within the food and beverages industry. Therefore, it is required to look at the following questions next: Is it risky to expand during an unstable time? Will the good numbers appear not only for this quarter but also in the long term? Are numbers trustworthy without comparing them to data of the past year?

Market Conditions

On November 04, 2022, FAT Brands announced a Proposed Public Offering of Class A Common Stock. 3 days later, on November 07 2022, they withdrew this offering as a result of “market conditions”.

According to the article “*What Are Market Conditions?*” posted on www.smartcapitalmind.com, which is a website promising to deliver the most accurate and high-quality contents about industries checked by experts, it is defined that, “Market conditions is a term that refers to the state of an industry or economy. The term is commonly used in reference to stock and real estate markets, which are often described as being volatile or stable. These conditions are an indicator used by many to influence their decisions. These indicators, however, do not translate in the same way for all parties. Furthermore, they generally cannot be relied on for extended periods without reevaluation because market conditions are rarely permanent.”

In a stock market, when the company is successful, the stock issued by this company becomes biddable. Three prices of this company stock are: the issue price, the lowest price that people are prepare to sell for, and the highest price that people are prepare to buy for. The trends of the floating price are following these common rules:

- More people want to sell while less people buy, stock price drops.
- More people want to buy while less people sell, stock price increases.

Based on the third quarter financial report 2022, FAT Brands was expecting a higher revenue with its expansion plan, yet for now, since the stock offerings have been withdrawn after they were announced not long ago, it indicates that, the business trend is not developing in its favour.

It is very difficult not to notice, that the FAT CEO’s salary (over USD 2.8 million in 2021 as shown in the following screenshot 1) is very high, compared to the CEO salary of USD 0.2 million per year on average. Reviewing the following screenshot 2, in 2021, FAT Brands was in a bullish market. What is the connection among the high salary, bullish market, and the withdrawing offerings? One explanation is that the top management level, e.g. CEO of FAT Brands, is holding its own stock, funding themselves by paying themselves a salary. Accordingly, it reveals possible devaluation of the existing issued stocks of FAT Brands by offering more, and that the existing shareholders are losing their percentage of ownership of FAT Brands.

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SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards [2] ($)	Option Awards [2] ($)	All other Compensation [3] ($)	Total ($)
Andrew A. Wiederhorn	2021	546,615	1,500,000	—	607,000	221,294	2,874,909
Chief Executive Officer	2020	400,000			5,548		405,548
Robert G. Rosen [1]	2021	395,866	480,000	857,000	607,000	—	2,339,866
EVP, Capital Markets							
Kenneth J. Kuick [1]	2021	253,077	200,000	1,040,000	607,000	25,000	2,125,077
Chief Financial Officer							

(Screenshot 1)

Dropping fast: -3.85% the previous close price of 18.72 USD See more

FAT Brands Inc

NASDAQ: FATBP

OVERVIEW FINANCIALS

18.00 USD ▲ +0.11 (+0.61%) past 5 years

18.13 ▼ 0.17 (0.93%) After Hours · November 14, 4:00 PM EST · Market Closed

Day Week Month Year 5 Year Max

Open	17.95	P/E	-	Vol	7.46 K
High	18.86	52wk High	22.21	Avg Vol	6.82 K
Low	17.93	52wk Low	11.50	Mkt Cap	111.73 M

(Screenshot 2)

The outcome of testing the hypothesis on FAT Brands

Definition (provided by: https://www.investopedia.com)

1. P/E: Price-to-Earnings;

"The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple. P/E ratios are used by investors and analysts to determine the relative value of a company's shares in an apples-to-apples comparison. It can also be used to compare a company against its own historical record or to compare aggregate markets against one another or over time."

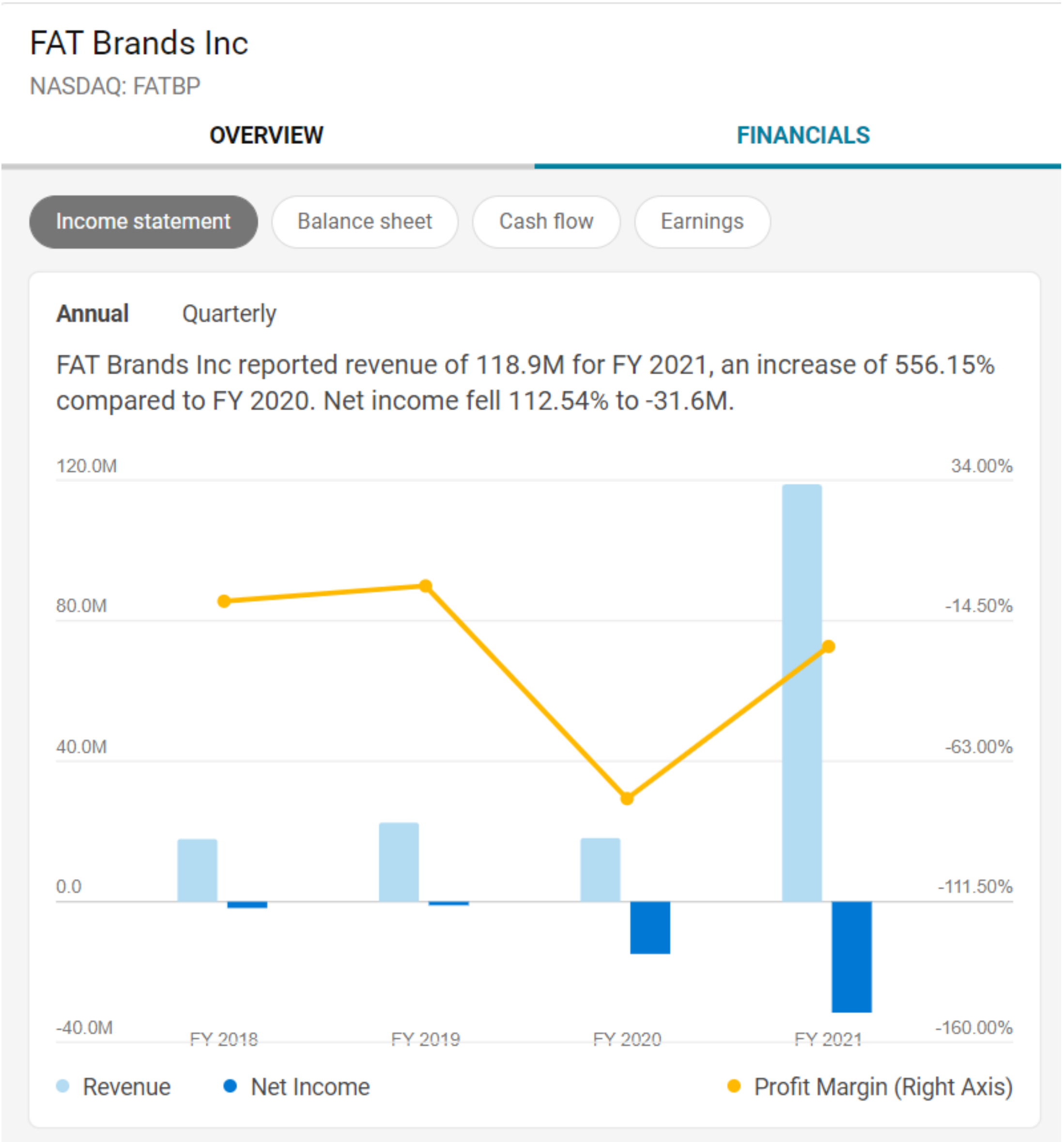
2. 52wk high/low: "The 52-week high/low is the highest and lowest price at which a security, such as a stock, has traded during the time period that equates to one year."
3. Mkt Cap: "Market capitalization, or market cap, is the aggregate market value of a company represented in a dollar amount."

To consider if one business is worth investing, some figures are needed to assist on decision making. After 4 weeks analyzing FAT Brands financial record, up to date, it shows that it is not a good choice to invest in FAT Brands.

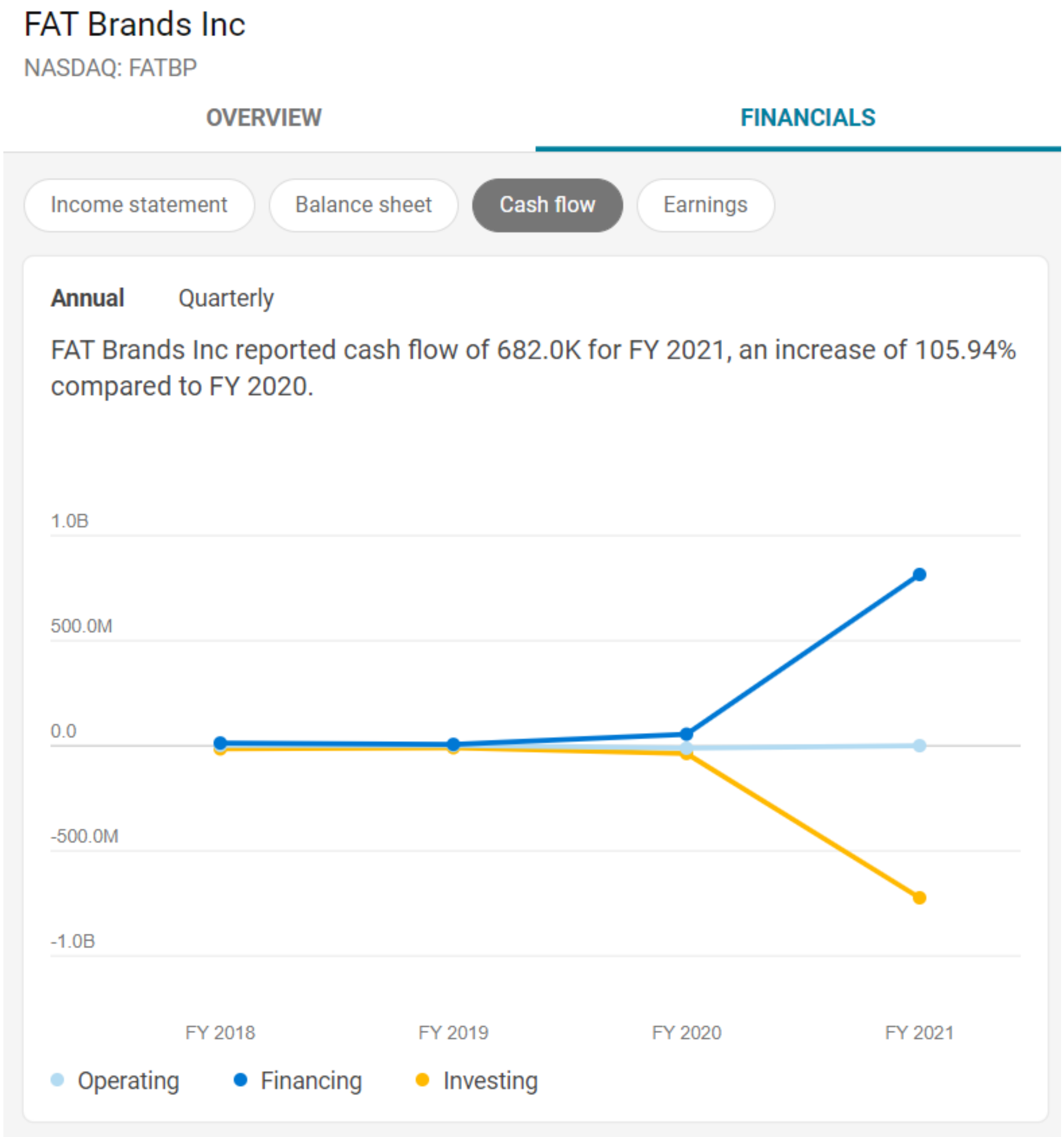
In the stock overview shown as Screenshot 3, no price-to-earning (P/E) ratio is ever listed. The zero P/E indicates that FAT Brands either has no earnings or is losing money. Furthermore, the Total Volume is lower than Average Volume, that is a risk to get return on investment.

(Screenshot 3)

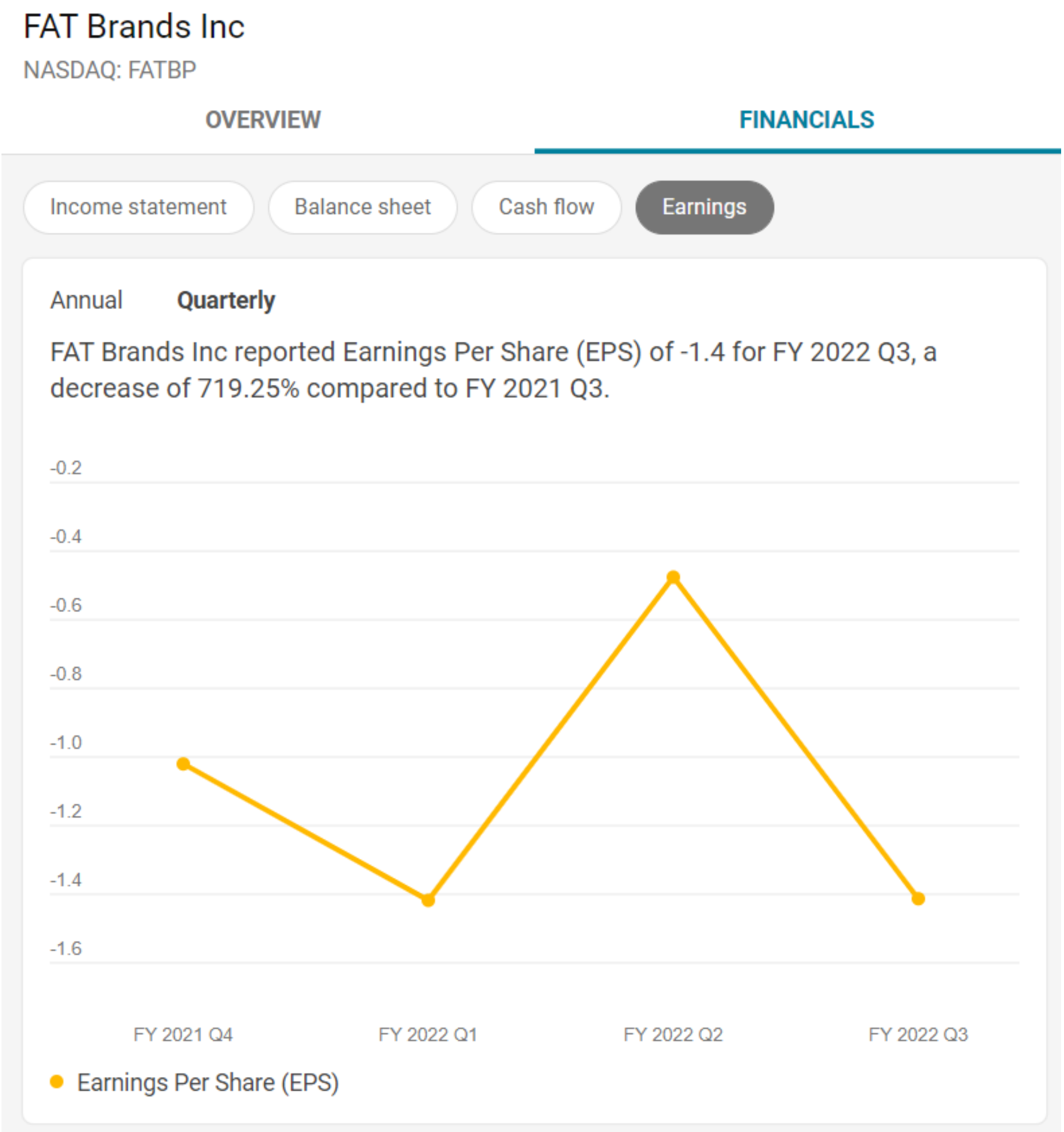
As reported in the third quarter of 2022, FAT Brands has been expanding by acquiring more brands and opening more restaurants. However, it is contradictory to find out, that with the earnings and cost of all those acquired successful brands, there is no operating cost in cash flow of an existing and operating company, as well as the earnings are dropping massively, while the revenue was rocketing. (seen in the screenshot 4, 5, 6, 7)



(Screenshot 4)



(Screenshot 5)



(Screenshot 6)

(Screenshot 7)

The recommendation not to invest in FAT Brands shares is herewith further substantiated.

FAT Brands Inc. (FATBB)
SWOT Analysis & Financial Information

Strengths

1. FAT Brands focuses on the food industry which is generally a very resistant industry.
2. The company is said to values research and development activities as a high key to success (the spending needs to be investigated though).
3. The business is based on brands, which enjoy awareness and recognition amongst the customers.
4. The business model may enable the relevant brands to adapt easier to market changes when managed appropriately.
5. Centralized management and coordination of individual business may result in strong unity with a deliberate common strategy.
6. Group-character of the business offers strength in facilitation of business operations.
7. FAT Brands may be able to create a monopoly.

Weaknesses

1. Focus of business operations may shift to profit margins and neglect quality improvement.
2. FAT Brands has high operating cost.
3. The business is based on products and offers services related to the products
4. FAT Brands may destroy companies within the industry due to mismanagement or loss of trust.
5. High cost of capital may weaken the business confidence.
6. The cash-cycle may not be competitive due to its mere size.

Opportunities

1. USA are now in the stage of recovering from CoViD.
2. FAT Brands can introduce a new business model where individual though franchise business can benefit from central management and operations.
3. The market appears to be loyal to the brands.
4. Interest rates are low and can offer cheap capital, though capital is scarce at this stage.

Threats

1. The USA are facing a serious recession period.
2. FAT Brands stock is considered as penny stock, which is risky, and great impact will occur if there is any economic slowdown.

3. Investor lawsuit is filed against FAT Brands.
4. FAT Brands and its executive level are currently under federal investigation by the FBI for money laundering and tax evasion, amongst others.
5. The market is sensitive to operational change (menu, supply, quality, location, price, etc.) and may react unfavourably.
6. Going big may be contrary to new market order and trend.
7. Dependency on suppliers and risk of supply chain disruption if centralized procurement is applied.

Review of SWOT

Subsequently, it depends on what direction FAT Brands is taking in order to see what the effects may be and what risks are inherent to the business operation. As the business is too young, a clear and reliable strategy cannot be formulated from the data available. The future of the industry is currently unclear.

Financial Information

According to FAT Brands investor information, the business is based on the model of "a global franchise company, which strategically acquires, markets and develops fast casual, quick-service, casual dining, and polished casual dining concepts around the world".

The company has a market cap of 105.458M, with 15.31M shares out. The 10-day average volume is 0.02M, with a dividend of 0.56 and a dividend yield of 8.13%. The BETA value is 2.08.

Shares are currently trading at 6.89 with a 52-week high of 11.86 (date 06 January 2022 and a 52-week low of 5.47 (date 21 April 2022)

The ratios are as follows:

EPS (TTM):	-4.57,
P/E (TTM):	-1.51
Forward P/E (NTM):	-3.74
EBITDA (TTM):	42.2299
ROE (TTM):	-290.72%
Revenue (TTM):	377.598M
Gross Margin:	-----
Net Margin (TTM):	-19.85%
Debt To Equity (MRQ):	-1'088.16%

The revenue of FAT Brands is reported as 118.9M for Financial Year 2021, with an increase of 556.15% compared to Financial Year 2020. Net income fell 112.54% to -31.6M. The profit margin remains negative.

Figures at date 25 November 2022, in U$D. Interestingly, there are contradicting numbers reflected in the market, especially relating to the numbers of shares out.

Conclusion – Quantitative & Qualitative Aspects

As the annual financial report of this current financial year will not be published by the time when this report is finalised, and as quarterly reports do not truly reflect the business performance over a year, the annual financial report of 2021 is used for reference in order to compare the development to the previous years of 2018, 2019 and 2020.

Quantitative Aspect

The lack of profitability and increasing losses since foundation of the company alone already indicate that the business operations of the company are inefficient. Furthermore, sales prospects as well as sales history are not promising, at all. Even though the debt service coverage ratio shows that FAT Brands Inc. could easily pay the debt liabilities, the other ratios directly related to debt, especially the low interest coverage ratio, together with the negative profit result, reveal the trend that FAT Brands Inc. might be not able to pay off the debt gradually. Also, interestingly, the company exposes difficulties in paying the interest according to the calculations as added in the appendix. A snowball effect on its debt situation might occur, and when this really happens, a great impact is expected to hit the shareholders which is likely effecting them not getting anything positive as return on investment all together, subsequently. The calculated ratios in the appendix are far too low compared to the risk that an investor has to take.

A general business expectation is that companies, especially start-ups can be with debt in the first three, up to a maximum of five years. However, the gap between revenue and debt development should considerably narrow towards the three-year mark and equalize latest by five years, better three years. A business that still has considerable losses in year three is, according to experience, not expected to run healthy and sustainable profit in the following years. Such business is likely to be abandoned after year five. On the other hand, one might want to look at the possibility that this business might be intentionally incurring debt and be running losses for some potentially unethical and even illegal reasons. The federal authorities surely have better resources and tools at hand to shed a light on this suspicion.

Qualitative Aspect

In the cautionary note of the financial annual report 2021 of FAT Brands Inc, it is said, that "*Certain statements contained herein and certain statements contained in future filings by the Company with the SEC may not be based on historical facts*". This alerts that the numbers of this financial report might be artificial, which leads ones to consider if the financial results are trustworthy.

The terms or words which FAT Brands uses in the forward-looking statement of the financial annual report are moreover only in assumption tone. On this, the impression is that they are not certain or confident in their own business, yet keeping a genuine tone sometimes does help to attract people into investing in them.

The numbers therefore should be regarded in fact as unreliable.

Despite the financial analysis outcome, the reputation of the investor should also be considered. While the sources of capital for FAT Brand Inc. mainly cannot be clearly established, and furthermore as the company seems to be under investigation by federal authorities relating to the sources of capital, investment is risky and strongly not advisable for a descent and solid investor. To be associated with this company through investment at any stage, in one way or another should be seen as a consideration of risk. Money is traceable sooner or later, and investors, especially individual investors will be identified and may become subject to further investigation and possible involvement into measures of prosecution at some stage. This is sure to have a negative effect on credibility and reputation of the investor, especially in terms of future business activities yet also retrospectively on existing and previous activities.

Recommendation

Following the thorough review of FAT Brands Inc. above, it is recommended not to invest in FAT Brands.

Appendix
Financial Ratios of FAT Brands

Based on the annual report 2021
unit USD in thousands

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

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 but net loss 31,583

Return on equity ratio = Net income / Shareholder's equity
No income but net loss 31,583

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

Dividend yield ratio = Dividend per share / Share price
High: 18.23/18=1.013
Low: 17.77/18= 0.987

Price-earnings ratio = Share price / Earnings per share
No earnings…

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