

FAT BRANDS ANALYSIS

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Company overview

- Fat Brand's business model is to **acquire, develop and manage quick service, fast casual dining restaurant concepts**



- Owns 17 restaurant brands and approximately 2300 locations worldwide



- It's a **growth stock**. The company is making some expensive investments in order to expand its operations but is also showing some results out of their acquisitions. Investors should have in my mind it's a **risky business but also one with high appreciation potential**.



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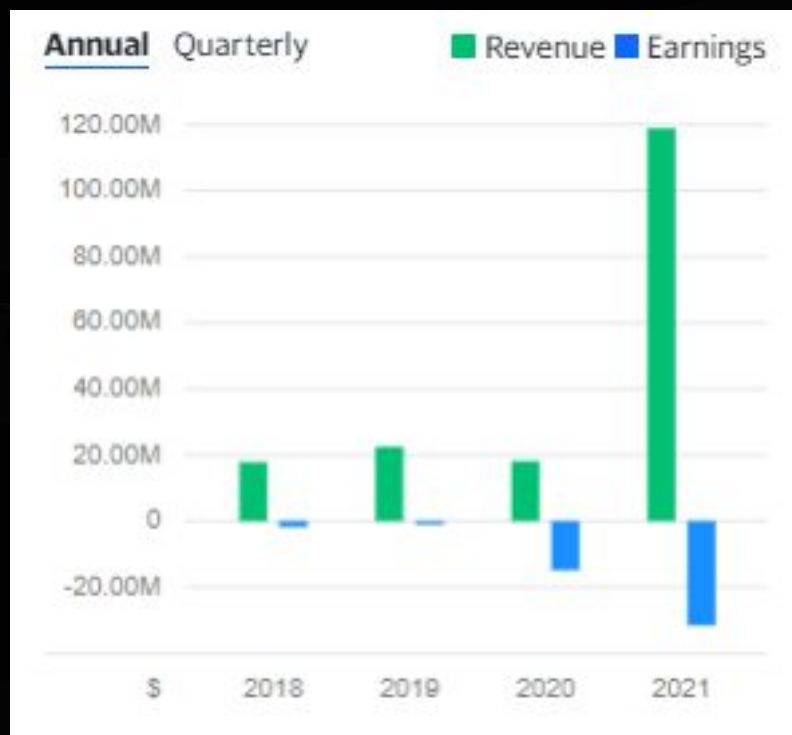
Financials

- The company has never had profits out of the operations
- **Growing debt**, which went from \$ 97 million in 2020 up to \$ 1 billion in 2021, but has not increased that much in TTM (1
 - That amount of debt was contracted in order to cover high spending during the COVID pandemic and mainly to **acquire 8 new brands and open hundreds of new restaurant locations**
- On the other hand, during the same period, the company's revenue went from \$18 to \$118
- Assets went from 619M to 1.219B in TTM
- Liabilities went from 638M to 1.330B in same period



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Financials



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FAT's P&L

	<u>December 26, 2021</u>	<u>December 27, 2020</u>
Consolidated statement of operations data:		
Revenues		
Royalties	\$ 42,658	\$ 13,420
Franchise fees	4,023	1,130
Advertising fees	16,728	3,527
Restaurant sales	41,563	—
Factory revenue	13,470	—
Management fees and other revenue	439	41
Total revenues	<u>118,881</u>	<u>18,118</u>
Costs and expenses		
General and administrative expense	50,249	14,876
Cost of restaurant and factory revenues	44,242	—
Impairment of goodwill and other intangible assets	1,037	9,295
Refranchising (gain) loss	314	3,827
Acquisition fees	4,242	1,168
Advertising expense	17,973	5,218
Total costs and expenses	<u>118,057</u>	<u>34,384</u>
Income (loss) from operations	<u>824</u>	<u>(16,266)</u>
Other expense, net	<u>(35,944)</u>	<u>(2,283)</u>
Loss before income tax benefit	<u>(35,120)</u>	<u>(18,549)</u>
Income tax benefit	<u>(3,537)</u>	<u>(3,689)</u>
Net loss	<u>\$ (31,583)</u>	<u>\$ (14,860)</u>

FAT's Assets

	<u>December 26, 2021</u>	<u>December 27, 2020</u>
Assets		
Current assets		
Cash	\$ 56,656	\$ 3,944
Restricted cash	24,740	2,867
Accounts receivable, net of allowance for doubtful accounts of \$4,016 and \$739, as of December 26, 2021 and December 27, 2020, respectively	19,555	4,208
Trade and other notes receivable, net of allowance for doubtful accounts of \$129 and \$103 as of December 26, 2021 and December 27, 2020, respectively	231	208
Assets classified as held for sale	5,476	10,831
Other current assets	11,853	2,365
Total current assets	118,511	24,423
Noncurrent restricted cash	18,525	400
Notes receivable – noncurrent, net of allowance for doubtful accounts of \$271, as of December 26, 2021 and December 27, 2020	3,493	1,622
Deferred income tax asset, net	—	30,551
Operating lease right of use assets	98,552	4,469
Goodwill	295,128	10,909
Other intangible assets, net	652,788	47,711
Property and equipment, net	80,501	483
Other assets	2,534	576
Total assets	\$ 1,270,032	\$ 121,144

FAT's Liabilities

Liabilities and Stockholders' Deficit			
Liabilities			
Current liabilities			
Accounts payable		\$ 27,527	\$ 8,625
Accrued expenses and other liabilities		46,295	19,833
Deferred income, current portion		2,636	1,887
Accrued advertising		10,853	2,160
Accrued interest payable		10,678	1,847
Dividend payable on preferred shares		1,574	893
Liabilities related to assets classified as held for sale		4,780	9,892
Current portion of operating lease liability		14,341	748
Current portion of redeemable preferred stock, net		67,500	7,961
Current portion of long-term debt		631	19,314
Current portion of acquisition purchase price payable		1,173	—
Other		10,500	17
Total current liabilities		198,488	73,177
Deferred income – noncurrent		17,662	9,099
Acquisition purchase price payable		—	2,806
Deferred income tax liabilities, net		12,921	—
Operating lease liability, net of current portion		92,920	4,011
Long-term debt, net of current portion		904,265	73,852
Other liabilities		976	82
Total liabilities		1,227,232	163,027

FAT's CF

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Income (loss) from operations	<u>824</u>	<u>(16,266)</u>
Other expense		
Interest expense, net of interest income of \$0 and \$3,631 due from affiliates during the fiscal year ended December 26, 2021 and December 27, 2020, respectively	(26,864)	(3,375)
Interest expense related to preferred shares	(2,193)	(1,544)
Loss on extinguishment of debt	(7,637)	(88)
Change in fair value of derivative liability	—	887
Gain on contingent consideration payable adjustment	—	1,680
Other income, net	750	157
Total other expense, net	<u>(35,944)</u>	<u>(2,283)</u>
Loss before income tax benefit	<u>(35,120)</u>	<u>(18,549)</u>
Income tax benefit	<u>(3,537)</u>	<u>(3,689)</u>
Net loss	<u>\$ (31,583)</u>	<u>\$ (14,860)</u>
Basic and diluted loss per common share	<u>\$ (2.15)</u>	<u>\$ (1.25)</u>
Basic and diluted weighted average shares outstanding	<u>14,656,880</u>	<u>11,897,952</u>
Cash dividends declared per common share	<u>\$ 0.52</u>	<u>\$ —</u>



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Key Financial ratios

Liquidity

- Current Ratio: 0.41
- Operating Cash Flow: (31.92M)

Leverage

- Total Debt: 1.02 B
- Total Cash: 23.91 M
- Book value per share: (8.03)
- Total Assets: 1.272 B
- Total Liabilities: 1.291 B

Profitability

- Profit Margin: (19,86%)
- Operating Margin: 3,87%

Efficiency

- Return on Assets: 0,98%
- Return on Equity: (31,58M) / (21.655M)

Strategies for Fat Brand's growth

One of the main ways Fat Brands grows is by opening new restaurant locations or acquiring new brands and managing it, adding value through better management and synergy gains

As the company is still operating under losses and is still not able to invest resources of their own, **to keep growing they must seek out for long term debt** so they can finance the **opening of new locations** or even the **acquisition of new strategic brands**



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The Cost of Capital

The cost of capital could be higher than usual, as **inflation and interests are at its highest levels in years.**

Also, as FAT is a very leveraged company, for which creditors will demand higher interests

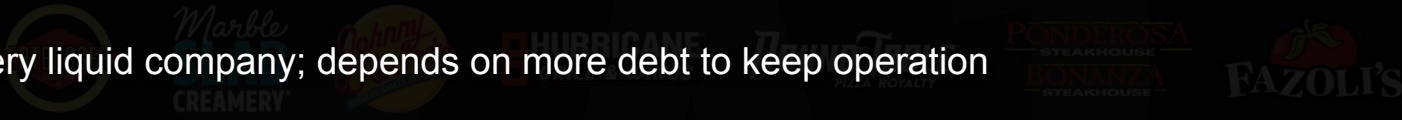
In order to get a lower interest for their debt, FAT can contract long term debt, which they could get for around 5 to 7% interest / year.



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Risk Factors for Fat Brands

- Unprofitable business
- Not very liquid company; depends on more debt to keep operation



- Very Leveraged company



- Negative Balance Sheet

- Very low margins

- Many Competitors; Low barrier market



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- High interests to be paid

FAT stock evolution since IPO



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Conclusion

As value investors, our recommendation is to **sell** FAT stock



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