FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Raising Cane's IDR at 'BB-'; Assigns 'BB+'/'RR1' to New Proposed Senior Secured TLB

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Fitch Ratings - New York - 04 Sep 2024: Fitch Ratings has affirmed Raising Cane's Restaurants, LLC's (Raising Cane's) Long-Term Issuer Default Rating (IDR) at 'BB-' and the senior unsecured notes due 2029 at 'BB-'/'RR4'. Fitch has also assigned 'BB+'/RR1' to Raising Cane's proposed $500 million seven-year senior secured Term Loan B (TLB). The Rating Outlook is Stable.

Raising Cane's 'BB-' rating reflects its good competitive position within the Quick Service Restaurant (QSR) industry, supported by a simple menu offering with good brand perception that has driven share gains. The company continues scaling nationally, with double-digit annual unit growth and healthy same-restaurant sales (SRS), driving double-digit top-line growth with high average unit volumes (AUV).

The ratings are tempered by its single-brand concept, which increases vulnerability to brand-specific downturns, significant FCF deficits and increasing debt load fueled by expansion investments. Fitch anticipates Raising Cane's EBITDAR leverage to remain

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reducing operating complexities, delivering efficient service at a competitive pricing. The QSR model has demonstrated resiliency through economic cycles, benefiting from increased spending during strong economic periods.

The company is well-positioned within the growing chicken segment, which has grown in the mid-single digits over the past decade and is expected to continue to outpace the broader QSR category. Fitch believes Raising Cane's market position should continue to strengthen due to its proven brand concept with strong portability that supports increasing units and EBITDA scale. The company's single-brand concept with narrow consumer appeal leaves it more vulnerable to brand-specific weakness.

Sizable Growth, Significant FCF Deficit: The company has aggressive growth plans to expand its company-owned stores at high-single digits over the next five years with material capital spending compared to historical levels. Member distributions are also expected to increase significantly as EBITDA grows with distributions levels that are in line with historical pay-out rates. This will result in a material FCF deficit annually over the forecast period. Any weakness in the business could result in higher FCF deficits and significant credit risk, which could be mitigated by pulling back on unit growth or member distributions to preserve liquidity and manage leverage.

Healthy SRS Growth, High AUV's: Raising Cane's has a long track record of positive SRS growth around the high single digits annually during the past decade, with relatively balanced growth between traffic and check. During 1H24, the company's performance remained strong with SRS percentage growth in the high-teens, outpacing the overall industry. Fitch believes this reflects a value proposition that resonates with consumers. Raising Cane's system-wide AUV's remain healthy and are more than double the QSR industry, supported by consistent unit economics across all-aged restaurant sites and very good restaurant level margins, which suggests a demonstrated ability to identify appropriate sites for new store locations.

Stabilized EBITDA Margins: Fitch expects EBITDA margins to remain in the mid-teen range over the forecast period with new store openings constraining margin growth. EBITDA margins recovered in 2023, boosted by price actions passed through during 2022, following significant inflationary cost pressures across cost of goods sold and

labor that primarily drove EBITDA margins to decline to the low-teen range in 2022. During 1H24, performance remained robust with over 30% top-line growth and EBITDA margin in the high-teen area, slightly compressed by higher prime costs.

Leverage Expectations: Decision making for Raising Cane's is controlled by one individual, the founder Todd Graves, who has roughly 90% ownership of the company. Fitch expects the company will demonstrate consistent capital allocation priorities by investing in the business and returning value to shareholders through member distributions while maintaining long-term leverage within its stated EBITDAR leverage target of 3x to 4x, which equates to roughly about 3.75x to 4.75x on Fitch-calculated EBITDAR leverage.

Fitch anticipates EBITDAR leverage to stay in the low 4x range by the end of 2024, compared to 4.0x in 2023 and 5.3x in 2022. Projected increases in debt levels over the forecast period are driven by FCF deficits needed to finance growth-related investments and member distributions. The combination of higher debt and rising EBITDA will result in Fitch-calculated EBITDAR leverage under 4.5x.

DERIVATION SUMMARY

Raising Cane's 'BB-' sits between Darden Restaurants, Inc.'s rating (Darden; BBB/Stable) and Sizzling Platter, LLC's rating (Sizzling; B-/Stable). Raising Cane's rating reflects the company's good competitive position within the QSR industry centered on a simple menu offering with good brand perception that has driven share gains and the company is gaining national scale with units that generate high AUVs. The ratings are tempered by its single-brand concept with narrow consumer appeal which leaves the company more vulnerable to brand-specific weakness, significant FCF deficits and increasing debt load fueled by growth investments.

Darden's rating reflects it sizable revenue base above $11 billion, strong FCF and liquidity, the disciplined financial policy and its proven ability to outperform the broader casual dining segment which has been experiencing secular pressure. While a potential moderation in discretionary spending could adversely impact Darden's operating performance, expectations for moderate EBITDAR leverage, based on Fitch adjustments, in the mid 2x area provides headroom at the current ratings.

Sizzling's rating reflects the company's position as a leading franchisee in the Little Caesars, Jamba and Wingstop quick-serve restaurant chains, its reliance on Little Caesars for around 65% of its revenue and modest scale. The rating also considers recent good same store sales (SSS) growth and improved operating performance despite high inflation. EBITDA increased to above $100 million and EBITDAR leverage improved to the mid-4x area.

KEY ASSUMPTIONS

--Revenues could grow in the mid-20% range in 2024 driven by more than 80 new restaurant openings and around low-double digits SRS growth. Low double-digit unit growth for new restaurants openings in 2025 combined with low SRS growth could result in the low-to-mid-teen range for revenue growth in 2025;

--Fitch expects 2024 EBITDA margins (including restaurant opening costs) will remain in the mid-teen range over the forecast period, supported by moderate chicken and wage costs;

--Higher capital spending from historical levels driven by new store openings with a material FCF (including member distributions) deficit expected in 2024. Capital spending increasing in 2024 as store openings increase to around 85 units that drives a higher FCF deficit. Member distributions are expected to increase over the forecast period;

--EBITDAR leverage is expected to be around low-4x range exiting 2024 and could trend toward the mid-4x area based on current EBITDA growth and increased debt to fund growth investments and member distributions;

--Raising Cane's has variable interest rate exposure through its senior secured credit facilities. Base rate SOFR assumptions begin around 5.2% decreasing over the forecast period to around 3.5% based on forward curves.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Continued unit growth and positive SRS that results in increased EBITDAR scale of at least $1 billion with sustained positive FCF (after member distributions) combined with an articulated and/or demonstrated financial policy that results in EBITDAR Leverage sustained below 4.0x.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Weaker than expected topline growth and EBITDA contribution with higher FCF deficits and/or more aggressive financial policy that leads to EBITDAR Leverage sustained above 4.5x.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Raising Cane's new $500 million senior secured TLB with a seven-year maturity is expected to paydown outstanding borrowings under the existing revolving credit facility. Fitch expects the transaction to be leverage neutral and the total revolving capacity to remain at $1.2 billion, which provides flexibility for the company to execute its expansion plans.

Raising Cane's current debt structure includes $170 million non-extended secured revolver tranche maturing in 2025, $1.03 billion extended secured revolver tranche maturing in 2028, $1 billion secured term loan A due 2028 and $500 million senior unsecured notes due 2029. The revolving facility, which had $354 million in borrowings outstanding as of 2Q24, would be largely undrawn following the refinancing transaction. Raising Cane's maintains relatively modest levels of cash and cash equivalents.

ISSUER PROFILE

Founded in 1996 in Baton Rouge, LA, and headquartered in Plano, TX, Raising Cane's is a singularly positioned restaurant company that serves chicken finger meals. The company has 810 system-wide locations, with approximately 92% of the stores being company-owned and operated. The company operates in the QSR category and chicken segment, which have historically outperformed the broader restaurant category given a resilient business model and good consumer demand.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	RECOVERY	PRIOR
Raising Cane's Restaurants, LLC	LT IDR BB- Rating Outlook Stable Affirmed		BB- Rating Outlook Stable

senior secured	LT	BB+	New Rating	RR1	
senior unsecured	LT	BB-	Affirmed	RR4	BB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria - Effective 3 November 2023 to 6 December 2024 (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 21 June 2024 to 6 December 2024 (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Raising Cane's Restaurants, LLC	EU Endorsed, UK Endorsed

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