

## SFA Research Corner

### Saving Fridays: TGI Fridays' Bankruptcy Restructuring and Whole Business Securitization

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In "[RIP TGI Fridays? Ch. 11 Looms for ABS Case Study](#)," William Black uses TGI Fridays' bankruptcy and its 2017 whole business securitization (WBS), TGIF Funding LLC, as a cautionary example of the operational and credit risks in WBS transactions. This \$450 million securitization—backed by franchise and royalty revenues—has struggled with shifting consumer preferences, pandemic-related setbacks, and cash mismanagement, all of which have slowed cash flows and triggered cash-trapping mechanisms to safeguard bondholder payments. To further safeguard bondholder interests, TGI Fridays was removed as the WBS manager, and a backup manager was appointed to assume full management responsibilities. Black emphasizes that the TGI Fridays case demonstrates the importance of effective governance, compliance, and contingency planning in WBS to mitigate risks and manage cash flow disruptions.

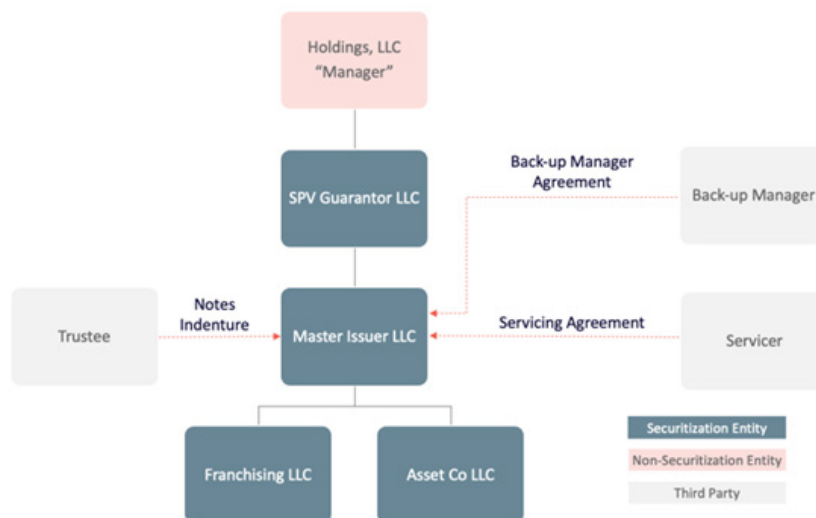
Whole business securitization offers a financing alternative to consumer ABS and is particularly suited for established businesses with steady cash flows and strong brand loyalty, like restaurants, gyms, and franchises. Unlike consumer ABS, which relies on individual debt repayments, bonds from a WBS are paid back using the cash flow from a company's revenue-generating assets. These include as franchise fees, intellectual property, and contractual payments.

A bankruptcy-remote Special Purpose Vehicle (SPV) holds these assets, protecting them from general creditor claims, and enabling a rating agency to assign a higher credit rating to the WBS than the issuer's corporate credit rating. Along with the SPV's design to preserve cash flows even in the event of a bankruptcy, the elevated rating is further supported by credit enhancements, such as liquidity reserves and letters of credit. These features appeal to both companies seeking competitively priced capital and investors looking for higher-yielding, investment-grade securities, as these bonds are typically rated triple-B. Additionally, since investors are repaid from cash flows generated by the underlying operating assets, repayment is independent of future refinancings, making WBS a compelling alternative to traditional corporate bonds.

*For an introduction to whole business securitization, see the [SFAcademy](#) presentation by Anna Truong from Grant Thornton, available on SFA's online education platform.*

1 Since the publication of this article, TGI Fridays has filed for Chapter 11 bankruptcy, initiating a restructuring process. <https://tgifridays.com/wp-content/uploads/2024/11/TGI-Fridays-Inc-Files-Voluntary-Chapter-11-Petitions-.pdf>

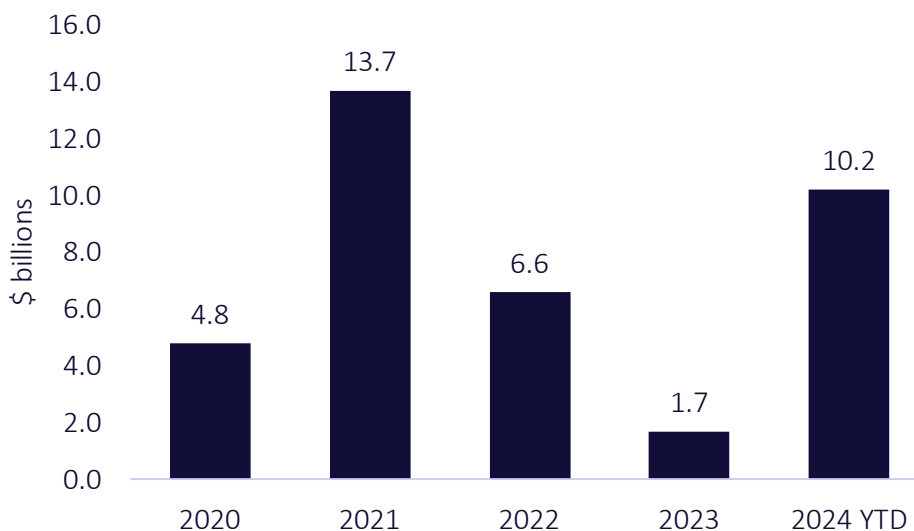
### Simplified Securitization Legal Structure



Source: Prepared by Grant Thornton for SFAcademy: The Bootcamp Series, Level 1

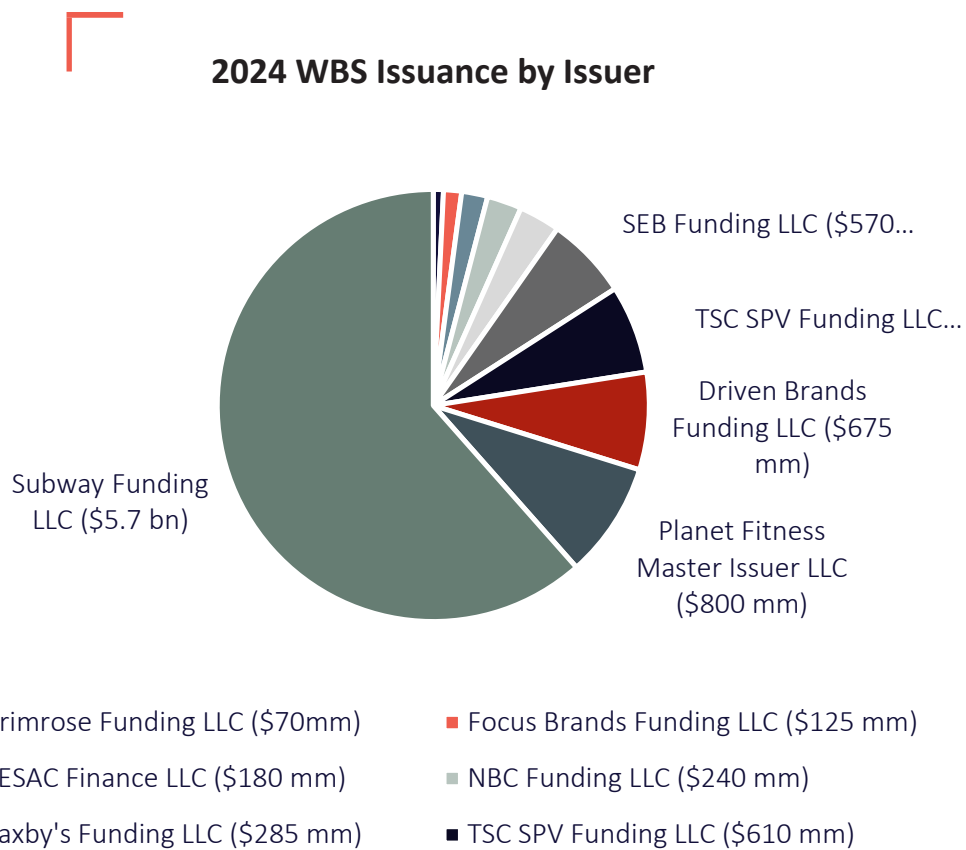
Successful WBS deals require stable and resilient revenue streams, typically ensured by strong brand loyalty, predictable customer demand, and a proven operating history. Debt Service Coverage Ratios and other financial triggers that track the WBS’s ability to service its debt through the life of the transaction embedded in WBS structures help manage credit risk by focusing on maintaining asset value.

### WBS Issuance by Year



Source: J.P. Morgan Securities LLC

However, sudden shifts in market demand or prolonged changes in consumer behavior can challenge even well-constructed WBS. As William Black’s case study of TGI Fridays demonstrates, these challenges underscore the need for active monitoring, clear contingency plans, and robust legal language to manage unexpected financial pressures effectively. As issuance in this sector continues to grow, reaching \$10.2 billion in 2024 from companies like Subway, Planet Fitness, and Driven Brands, with a total market outstanding of \$49 billion, these elements are essential for navigating unforeseen stresses and safeguarding the integrity of securitization structures.



Source: J.P. Morgan Securities LLC