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Investors Expand Appetite In Hunger for Yields

By ANUSHA SHRIVASTAVA

Fast-food-chain operator Church's Chicken is planning to sell \$245 million in bonds backed by franchise fees and store revenue, a person familiar with the matter said Friday. The deal would be the first of its sort since the credit crisis and a sign that investors' hunger for yield is driving them to increasingly esoteric securities.



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Sipa Press/

Church's Chicken is selling \$245 million in bonds. Here, a restaurant on Northwest Seventh Avenue in Miami.

Church's Chicken's sale follows a deal in December by Adams Outdoor Advertising LP, which sold bonds backed by billboard revenue, and an earlier issue from [Crown Castle International Corp.](#) that was backed by cash flow from the operation of U.S. cellphone towers.

Such unusual deals—"off-the-run" securities, as they are known in industry parlance—in the past typically attracted only money managers and hedge funds, but these days even insurance companies and pension funds are buying them as they need to diversify their holdings and earn more on their investments.

With Treasury yields near historic lows—the 10-year note yielded as little as 2.4% last fall and has recently hovered around 3.6%—and yields on corporate debt also near rock-bottom levels,

investors are searching for higher returns elsewhere. Esoteric asset-backed securities are proving to be one sweet spot: Adams Outdoor paid 5.5% on its bonds.

"There is a scramble on among investors to get yield," said Dan Nigro, chief executive of Warfield Consulting in Montclair, N.J., and a former portfolio manager. "Esoterics allow [buyers] to deploy their deep credit knowledge/experience to get higher returns by buying 'off the run' names and asset classes."

Moody's Investors Service said the performance of previously issued whole-business securitizations backed by restaurant franchise fees—like the planned Church's bond—has been "stable." Fast-food chains were hurt less during the recession than more expensive fine-dining and casual-dining businesses, Moody's said.

Still, the credit-rating firm cautioned that high unemployment "continues to pressure restaurant traffic, as consumers pull back discretionary spending, including restaurant meals."

To be sure, whole-business securitization based on revenue from restaurant chains is unusual and was last seen in 2007. Previous issuers included Dunkin Brands Inc., which is owned by three private-equity firms; [Sonic Corp.](#); [Domino's Pizza Inc.](#); and IHOP Franchising and Applebee's Enterprises LLC, both owned by [DineEquity Inc.](#)

Before the credit crisis, such bonds were issued with guarantees from bond insurers and so had higher ratings. Those days are gone.

The \$245 million Church's Chicken deal got a provisional Baa2(sf) rating from Moody's, where the "sf" reminds investors that the rating is on an esoteric structured product. The ratings on the notes are based "primarily" on "the strength of the Church's Chicken brand in the U.S. and the Americas and the Texas Chicken brand in most of its markets outside the U.S., Moody's said.

Barclays Capital is sole structuring lead and the bookrunner on the Church's transaction, which is being marketed by Cajun Global LLC, a newly formed company by Church's for the bond sale. Church's, which is based in Sandy Springs, Ga., is owned by Friedman Fleischer & Lowe, a private-equity firm in San Francisco. On its website, Church's said it had more than 1,700 locations in 22 countries as of March 2010, with sales nearing \$1.2 billion.

It is unusual to announce a new asset-backed bond on a Friday, but this way the deal is likely to be discussed during the ABS industry's biggest event of the year, the American Securitization Forum's conference scheduled to begin in Orlando, Fla., on Sunday.

"Lots of conversations heading into the conference continue to be with new investors eager to enter the space, old stalwarts re-emerging, and current investors looking to get more creative with the amount of cash to put to work and more aggressive yield," one market participant said.

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