

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-15283



**Dine Brands Global, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction  
of incorporation or organization)

450 North Brand Boulevard,

Glendale, CA

(Address of principal executive offices)

95-3038279

(I.R.S. Employer  
Identification No.)

91203-1903

(Zip Code)

(818) 240-6055

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	DIN	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2020 was \$603.7 million.

As of February 23, 2021, the Registrant had 16,645,115 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on Tuesday, May 11, 2021 are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be part of this report.

**DINE BRANDS GLOBAL, INC. AND SUBSIDIARIES**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2020**  
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**Cautionary Statement Regarding Forward-Looking Statements**

Statements contained in this Annual Report on Form 10-K may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “goal” and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors,” as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and Dine Brands Global, Inc. does not intend to, nor does it assume any obligation to, update or supplement any forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Annual Report on Form 10-K include, among other things: uncertainty regarding the duration and severity of the ongoing COVID-19 pandemic and its ultimate impact on our business; general economic conditions; our level of indebtedness; compliance with the terms of our securitized debt; our ability to refinance our current indebtedness or obtain additional financing; our dependence on information technology; potential cyber incidents; the implementation of restaurant development plans; our dependence on our franchisees; the concentration of our Applebee’s franchised restaurants in a limited number of franchisees; the financial health of our franchisees, including any insolvency or bankruptcy; credit risks from our IHOP franchisees operating under our previous IHOP business model in which we built and equipped IHOP restaurants and

then franchised them to franchisees; insufficient insurance coverage to cover potential risks associated with the ownership and operation of restaurants; our franchisees' and other licensees' compliance with our quality standards and trademark usage; general risks associated with the restaurant industry; potential harm to our brands' reputation; risks of food-borne illness or food tampering; possible future impairment charges; trading volatility and fluctuations in the price of our stock; successful implementation of our business strategy; the availability of suitable locations for new restaurants; shortages or interruptions in the supply or delivery of products from third parties or availability of utilities; the management and forecasting of appropriate inventory levels; development and implementation of innovative marketing and use of social media; changing health or dietary preference of consumers; risks associated with doing business in international markets; the results of litigation and other legal proceedings; third-party claims with respect to intellectual property assets; delivery initiatives and use of third-party delivery vendors; our allocation of human capital and our ability to attract and retain management and other key employees; compliance with federal, state and local governmental regulations; risks associated with our self-insurance; natural disasters or other serious incidents; our success with development initiatives outside of our core business; the adequacy of our internal controls over financial reporting and future changes in accounting standards; and other matters in the "Risk Factors" section of this Annual Report on Form 10-K for the fiscal year ended December 31, 2020, many of which are beyond our control.

### **Fiscal Year End**

We have a 52/53 week fiscal year ending on the Sunday nearest to December 31 of each year. For convenience, in this annual report on Form 10-K, we refer to all fiscal years as ending on December 31 and all interim fiscal quarters as ending on March 31, June 30 and September 30 of the respective fiscal year. There were 53 calendar weeks in our 2020 fiscal year ended January 3, 2021 and our fiscal 2020 fourth quarter contained 14 calendar weeks. There were 52 calendar weeks in our 2019 and 2018 fiscal years that ended on December 29, 2019 and December 30, 2018, respectively.

## PART I

### Item 1. Business

Dine Brands Global, Inc.<sup>SM</sup>, together with its subsidiaries (referred to as the “Company,” “Dine Brands Global,” “we,” “our” and “us”), owns, franchises and operates the Applebee's Neighborhood Grill + Bar<sup>®</sup> (“Applebee's”) concept in the bar and grill segment within the casual dining category of the restaurant industry and owns and franchises the International House of Pancakes<sup>®</sup> (“IHOP”) concept in the family dining category of the restaurant industry. References herein to Applebee's<sup>®</sup> and IHOP<sup>®</sup> restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees and their sub-licensees or by us. As of December 31, 2020, the substantial majority of our 3,483 restaurants across both brands were franchised. We believe this highly franchised business model requires less capital investment and general and administrative overhead, generates higher gross profit margins and reduces the volatility of adjusted free cash flow performance, as compared to a business model based on owning a significant number of company-operated restaurants.

We generated revenue from five operating segments during the year ended December 31, 2020, comprised as follows:

- Our two franchise operations (each a separate operating segment) - primarily royalties, advertising fees and other income from 1,642 Applebee's franchised restaurants and 1,769 IHOP franchised and area licensed restaurants;
- Rental operations - primarily rental income derived from lease or sublease agreements covering 621 IHOP franchised restaurants and two Applebee's franchised restaurants;
- Financing operations - primarily interest income from approximately \$44 million of receivables for equipment leases and franchise fee notes generally associated with IHOP franchised restaurants developed before 2003 and approximately \$12 million of notes receivable from Applebee's franchisees; and
- Company restaurant operations - retail sales from 69 Applebee's company-operated restaurants we acquired from a former Applebee's franchisee in December 2018.

Most of our revenue is derived from domestic sources within these five operating segments, with approximately 68% of our total revenues for the year ended December 31, 2020 being generated from our two franchise operating segments. Internationally, our restaurants are in 16 countries and two United States territories at December 31, 2020. Revenue derived from all international operations comprised less than 2% of total consolidated revenue for the year ended December 31, 2020. At December 31, 2020, there were no long-lived assets located outside of the United States. See Note 18 - Segment Reporting, of the Notes to the Consolidated Financial Statements, included in this report for additional segment information.

### COVID-19 Pandemic

In March 2020, the World Health Organization (“WHO”) declared a global pandemic related to the outbreak of a novel strain of coronavirus, designated “COVID-19.” Initially, federal, state, local and international governments reacted to the COVID-19 pandemic by encouraging or requiring social distancing, instituting shelter-in-place orders, and requiring, in varying degrees, reduced operating hours, restaurant dine-in and/or indoor dining limitations, capacity limitations or other restrictions that largely limited restaurants to off-premise sales (take-out and delivery) in the early stages of the pandemic. Over the course of 2020, certain of these restrictions were relaxed as incidents of infection from the initial outbreak declined, but many of the restrictions were reinstated as incidents of infection surged in the latter part of the year. The degree and duration of restrictions varied by individual geographic area. We and our franchisees have instituted operational procedures to protect the health and foster the confidence of employees and guests at the restaurants. We and our franchisees continue to monitor developing health authority recommendations and regulatory requirements.

The following table reflects the impact of restaurant dine-in restrictions on our restaurant operations, by month, since the WHO pandemic declaration:

Restaurant Status	Status as of 2020 Fiscal Month Ended									
	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Dining rooms open*.....	271	85	1,808	3,138	2,995	3,110	3,227	3,344	2,828	2,596
Limited to off-premise sales.....	2,615	2,820	1,429	202	372	280	178	85	606	810
Temporarily closed.....	729	698	355	232	196	148	130	105	88	77
Total.....	<u>3,615</u>	<u>3,603</u>	<u>3,592</u>	<u>3,572</u>	<u>3,563</u>	<u>3,538</u>	<u>3,535</u>	<u>3,534</u>	<u>3,522</u>	<u>3,483</u>

\* In most instances, limited to 50% capacity or less and/or reduced operating hours

The operating status of our restaurants remains fluid into 2021 and subject to change as governmental authorities modify existing restrictions or implement new restrictions on restaurant operations in response to changes in the number of COVID-19 infections and the availability and acceptance of vaccines in their respective jurisdictions.

The impact of the COVID-19 pandemic on our results of operations and liquidity is discussed in *Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-K.

## **Our Goal**

Our goal is to accelerate profitable growth and create significant value for shareholders and franchisees.

## **Our Strategic Priorities**

To build value, we seek to maximize our business by focusing on these key strategic priorities:

- Evolve strong brands and drive same-restaurant sales, traffic and system sales growth;
- Facilitate franchisee restaurant development; and
- Maintain strong financial discipline.

Our fundamental approach to brand building centers on a strategic combination of initiatives to continually innovate and evolve our existing brands as well as explore small investments in or acquisitions of new concepts. We intend to leverage our significant scale and our franchise business model to drive robust margins and cash flows. We are actively supporting our brands with focused teams that are responsible and accountable at the brand level to drive strong performance. In partnership with our franchisees, significant investments have been made and will continue to be made in marketing across traditional and digital channels to drive traffic to our restaurants. We are placing greater emphasis on quantitative analytics to leverage our favorable guest dynamics. We are investing in technology to create more ways for customers to access our brands and in growth platforms such as online ordering, off-premise business and delivery. We will continue to focus on generating strong adjusted free cash flow and returning a portion of it to stockholders through quarterly cash dividends and repurchases of our common stock as business conditions warrant. We will reevaluate our capital allocation strategy as industry conditions improve and normal restaurant operations resume. Our business strategy includes evaluating the addition of new brands to our restaurant portfolio through mergers and acquisitions.

## **Our History**

The first IHOP restaurant opened in 1958 in Toluca Lake, California. Since that time, the Company and its predecessors have engaged in the development, franchising and operation of IHOP restaurants. Prior to 2003, new IHOP restaurants were generally developed by us, and we were involved in all aspects of the construction and financing of the restaurants. We typically identified and leased or purchased the restaurant sites for new company-developed IHOP restaurants, built and equipped the restaurants and then franchised them to franchisees. In addition, we typically financed as much as 80% of the franchise fee for periods ranging from five to eight years and leased the restaurant and equipment to the franchisee over a 25-year period. We refer to this as our "Previous IHOP Business Model," which accounts for most of the activity in our rental and financing operations.

For most IHOP restaurants opened after 2003, the franchisee is primarily responsible for the development and financing of the restaurant. In general, we no longer provide any financing with respect to the franchise fee, restaurant site or equipment. The franchisee uses its own capital and financial resources along with third-party financial sources obtained by the franchisee to purchase or lease a restaurant site, build and equip the business and fund its working capital needs. We refer to this as our "Current IHOP Business Model."

The first restaurant in what became the Applebee's chain opened in 1980 in Decatur, Georgia. Applebee's International, Inc. ("AII") became a public company in 1989, comprised of 100 restaurants. In November 2007, we completed the acquisition of AII, which comprised 1,455 franchised restaurants and 510 company-operated restaurants at the time of the acquisition. We subsequently refranchised all the Applebee's company-operated restaurants and were 100% franchised until we acquired 69 restaurants from a former Applebee's franchisee in December 2018.

## **Restaurant Concepts**

### **Applebee's**

We franchise and operate Applebee's restaurants in the bar and grill segment within the casual dining category of the restaurant industry. As one of the world's largest casual dining brands, Applebee's Neighborhood Grill + Bar offers guests a dining experience that combines simple, craveable American fare with classic drinks and local drafts - all for a moderate price. Applebee's restaurants that are franchised are owned and operated by franchisees dedicated to serving great food and also building up the communities that we call home. From raising money for local charities to hosting community fundraisers, Applebee's is always "Doin' Good in the Neighborhood".

We strive to provide genuine and neighborly service, appetizers, drinks and entrees and limited-time offers. Our menu features a selection of grill and bar fare, such as appetizers, bar snacks, burgers, pasta entrees and lighter fare, as well as cocktails, beers and desserts. During the current global pandemic, we continue to enhance our very popular “Eatin’ Good in the Neighborhood” positioning while providing safe and sanitary dining options whether in limited indoor or outside seating or To Go. Applebee’s offers online ordering via web and a mobile app for Carside To Go pick up options or Applebee’s Delivery with no-contact options and new tamper-proof packaging. We also contract with all major delivery service providers, such as DoorDash, Uber Eats and GrubHub, providing multiple options for our guests to continue to enjoy Applebee’s at home during this challenging time. Applebee’s also opened our first ghost kitchens (small kitchens with no store-front presence, used to fill online orders) in 2020 to further expand our delivery options and reach even more of our customers at home. We began offering catering, a third component of our off-premise options, as a national program in 2019, and plan to continue expansion of our catering offerings to align with the needs of our customers when larger events may again be hosted as COVID-19 infection rates decline.

As of December 31, 2020, 48 franchise groups (30 domestic and 18 international) operated 1,642 Applebee’s franchise restaurants. We operated 69 Applebee’s restaurants acquired from a former franchisee in December 2018. Applebee’s restaurants were located in 49 states within the United States, two United States territories and 11 countries outside of the United States. The June 15, 2020 issue of *Nation’s Restaurant News* reported that Applebee’s was the largest restaurant system in the casual dining category and the 15th largest across all categories in terms of United States system-wide sales during 2019.

## **IHOP**

We franchise restaurants in the family dining category of the restaurant industry under the names IHOP and International House of Pancakes. IHOP restaurants feature full table service and high quality, moderately priced food and beverage offerings in an attractive and comfortable family atmosphere. Although the restaurants are best known for their award-winning pancakes and putting an unexpected twist on “all things breakfast, any time of the day,” IHOP is committed to accelerating growth through menu innovation, daypart expansion, off-premise initiatives and development. Focused on meeting the needs of today’s guest, IHOP leverages industry analytics and brand-specific insights to help effectively drive positive behaviors, including increased frequency of visit and average check.

IHOP restaurants are open throughout the day and evening hours. As of December 31, 2020, approximately 34% of IHOP restaurants operate 24 hours a day, seven days a week, with 146 additional restaurants operating 24 hours a day for some portion of the week. In comparison, approximately 45% of IHOP restaurants operated 24 hours a day, seven days a week, with 245 additional restaurants operating 24 hours a day for some portion of the week as of December 31, 2019. Operating hours remain subject to any dine-in restrictions mandated by federal, state, local and international jurisdictions in which the restaurants are located. We announced the most comprehensive remodel program in our brand’s history, “Rise ‘N’ Shine,” in late 2015. Since starting the program in 2016, our domestic franchisees have remodeled over 1,150 of their restaurants. Including new restaurants opened in the past five years, more than 81% of our domestic IHOP franchise restaurants reflect the new, contemporary look. In light of the COVID-19 pandemic, we allowed franchisees to defer their 2020 unit remodel obligations for up to 15 months.

We remain committed to giving more people, more reasons to enjoy more IHOP, more often. Placing an emphasis on building its IHOP ‘N’ Go business, IHOP offers an online ordering platform, a mobile app, and a national delivery program with leading service providers including DoorDash, Uber Eats and GrubHub this year. Our off-premise business experienced significant growth in 2020 driven by increased usage catalyzed by the COVID-19 pandemic and ensuing mandated dine-in restrictions across the country. We now offer delivery directly through our website and mobile app at close to 100% of our restaurants, as well as Curbside Pickup options. We believe the convenience of take-out and delivery will remain appealing to our guests even as dining room restrictions are eased across the country. Additionally, we implemented several measures to enhance our in-restaurant health safety and sanitation operational procedures in order to protect the health and foster the confidence of employees and guests at the restaurants.

As of December 31, 2020, 300 franchise groups (279 domestic, 21 international) operated 1,769 IHOP franchise and area license restaurants. These restaurants were in all 50 states within the United States, in the District of Columbia, in two United States territories and in nine countries outside of the United States. We no longer operate any company-owned IHOP restaurants on a permanent basis, but we may operate, on a temporary basis until refranchised, IHOP restaurants that we reacquire for a variety of reasons from IHOP franchisees. There were three such reacquired restaurants at December 31, 2020. The June 15, 2020 issue of *Nation’s Restaurant News* reported that IHOP was the largest restaurant system in the family dining category and the 24th largest across all categories in terms of United States system-wide sales during 2019.

See Item 2 - Properties, for the geographic location of all Applebee’s and IHOP restaurants.



## Franchising

### Franchisee Relationships

We highly value good relationships with our IHOP and Applebee's franchisees and strive to maintain positive working relationships with them. For several years, IHOP and Applebee's franchisees have participated in Company-sponsored advisory groups. These groups provide a forum for franchisees to share demonstrated best practices, offer counsel and review successful strategies, while working side-by-side with management of the Applebee's and IHOP brands. Applebee's sponsors its Franchise Business Council ("FBC"), which consists of eight elected franchisee representatives, with one of the seats currently vacant. IHOP sponsors its Franchise Leadership Council ("FLC"), an elected and appointed body of 12 IHOP franchisees. The Applebee's FBC and the IHOP FLC assist Applebee's and IHOP senior management in key areas of the business and strategy, including brand marketing, operations, restaurant development, information technology, menu, and innovation.

### Franchise Agreements and Fees

Franchise arrangements for Applebee's restaurants typically consist of a development agreement and a separate franchise agreement for each restaurant. Development agreements grant to the franchisee the exclusive right to develop Applebee's restaurants within a designated geographical area over a specified period of time. The term of a domestic development agreement is generally 20 years. The development agreements typically provide for initial development periods of one to five years as agreed upon by us and the franchisee. At or shortly prior to the completion of the initial development schedule or any subsequent supplemental development schedule, we and the franchisee may execute supplemental development schedules providing for the development of additional Applebee's restaurants in the franchisee's exclusive territory.

Prior to the opening of each new Applebee's restaurant, we enter into a separate franchise agreement with the franchisee for that restaurant. Our current standard domestic Applebee's franchise agreement provides for an initial term of 20 years and provides an option for four successive renewal terms, in five-year increments, for up to an additional 20 years, upon payment of an additional franchise fee. Our current standard domestic Applebee's franchise arrangement calls for a development fee equal to \$10,000 for each Applebee's restaurant that the franchisee contracts to develop and an initial franchisee fee of \$35,000 for each restaurant developed (against which the \$10,000 development fee will be credited) and a royalty fee equal to 4% of the restaurant's monthly gross sales. Our agreements for most Applebee's restaurants opened before January 1, 2000, provide for a royalty rate of 4%, while the terms, royalty rate and advertising fees under a limited number of franchise agreements and other franchise fees under older development agreements vary from the currently offered arrangements.

Under the Current IHOP Business Model, a potential franchisee that is approved first enters into a single-restaurant franchise agreement, a single-restaurant development agreement, or a multi-restaurant development agreement with us and is responsible for the development and financing of one or more new IHOP franchised restaurants. Our current standard domestic IHOP franchise agreement typically provides for an initial term of 20 years and permits one renewal for a term of 10 years, upon payment of a renewal fee of \$10,000.

The revenues we receive from a typical domestic franchise development arrangement under the Current IHOP Business Model include (a) a location fee equal to \$15,000 for an IHOP restaurant that the franchisee contracts to develop upon execution of a single-restaurant development agreement; (b) a development fee equal to \$20,000 for each IHOP restaurant that the franchisee contracts to develop upon execution of a multi-restaurant development agreement; (c) an initial franchise fee equal to (i) \$40,000 (against which the \$20,000 development fee will be credited) for each restaurant developed under a multi-restaurant development agreement, (ii) \$50,000 (against which the \$15,000 location fee will be credited) for a restaurant developed under a single-restaurant development agreement or (iii) \$50,000 for a restaurant opened pursuant to a single-restaurant franchise agreement, in each case paid upon execution of the franchise agreement; (d) franchise royalties equal to 4.5% of weekly gross sales; (e) revenue from the sale of our proprietary pancake and waffle dry-mixes; and (f) franchise advertising fees.

The principal commercial terms of the franchise arrangements under the Previous IHOP Business Model and the Current IHOP Business Model, including the franchise royalties and the franchise advertising fees, are substantially the same except with respect to the terms relating to the franchise fee, lease or sublease rents for the restaurant property and building, and interest income from any franchise fee notes and equipment leases.

Development of Applebee's and IHOP restaurants outside of the United States has historically been conducted through a separate development agreement and franchise agreement. More recently, certain franchisees have entered into a multi-unit franchise agreement that governs the rights and obligations to develop a territory, in addition to terms of operating each restaurant opened in the territory. The term of a franchisee's exclusive right to develop a territory expires when the agreement's development schedule is completed. The term to operate the restaurant is typically 20 years, subject to applicable renewals.

In limited instances, we have agreed to accept reduced royalties and/or lease payments from franchisees or have provided other accommodations to franchisees for specified periods of time to assist them in either establishing or reinvigorating their businesses. In response to the impact of the COVID-19 pandemic on our franchisees, we allowed our franchisees to defer their development obligations for up to 15 months. We offered Applebee's franchisees the opportunity to defer payment of their royalty, advertising and other fees, and IHOP franchisees the opportunity to defer payment of their royalty, advertising, equipment rent and sublease rent payments, primarily for the months of March and April 2020.

We have the contractual right, subject to applicable law, to terminate a development and franchise agreement for a variety of reasons, such as a franchisee's failure to make required payments when due, failure to timely develop restaurants and failure to adhere to specified brand policies and standards.

#### Advertising Fees

The Applebee's franchise agreements generally require domestic franchisees of Applebee's restaurants to (i) contribute 3.25% of their gross sales to a national advertising fund, which funds the development of national promotions, television and radio commercials, print advertising materials and digital marketing and (ii) spend at least 0.5% of their gross sales on local marketing and promotional activities. Under the current Applebee's franchise agreements, we have the ability to increase the amount of the required combined contribution to the national advertising fund and the amount required to be spent on local marketing and promotional activities to a maximum of 5% of gross sales. All domestic Applebee's franchisees have either entered into an amendment to their franchise agreements to increase their contribution to the Applebee's national advertising fund (the "Applebee's NAF") or entered into new franchise agreements in connection with renewals setting forth the current advertising contribution requirements. Virtually all franchisees who entered into amendments agreed to an incremental temporary increase in the national advertising contribution rate to 4.25% effective July 1, 2018 and have agreed to subsequent amendments in 2019 and 2020 to extend the temporary increase through December 31, 2021, with no requirement that franchisees spend on local marketing during that time.

IHOP franchisees allocate a percentage of their sales to local advertising cooperatives and a national advertising fund (the "IHOP NAF"). The IHOP franchise agreements generally provide for advertising fees comprised of (i) a local advertising fee generally equal to 2.0% of weekly gross sales under the franchise agreement, which is typically used to cover the cost of local media purchases and other local advertising expenses incurred by a local advertising cooperative, and (ii) a national advertising fee equal to 1.0% of weekly gross sales under the franchise agreement. Area licensees are generally required to pay lesser amounts toward advertising.

The local IHOP advertising cooperatives have historically used advertising fees for various local marketing programs. The IHOP NAF is primarily used for buying media and national advertising, in addition to the related production costs. The IHOP NAF is also used to defray certain expenses associated with our marketing and advertising functions.

Beginning in 2005, and every year thereafter, we and the IHOP franchisees agreed to reallocate portions of the local advertising fees to purchase national broadcast, syndication and cable television time to reach our target audience more frequently and more cost effectively.

In 2014, we and franchisees whose restaurants account for a large majority of total annual contributions to the IHOP NAF entered into franchise agreement amendments that increased the advertising contribution percentage of those restaurants' gross sales. Pursuant to the amendment, for the period from January 1, 2015 to December 31, 2017, 3.50% of each participating restaurant's gross sales was contributed to the IHOP NAF with no significant contribution to local advertising cooperatives required. The amended advertising contribution percentage also was applicable to all new franchise agreements and to IHOP company-operated restaurants open at the time. In 2016, we and franchisees whose restaurants account for a large majority of total annual contributions to the IHOP NAF extended this additional contribution through 2022. The current IHOP franchise agreements generally provide for advertising fees comprised of (i) a local advertising fee equal to 0% of gross sales under the franchise agreement, and (ii) a national advertising fee equal to 3.5% of weekly gross sales under the franchise agreement. Commencing on January 1, 2023, the local advertising fee and the national advertising fee are subject to change.

The Company temporarily discontinued the national advertising programs of both brands in March 2020 due to uncertainty related to the COVID-19 pandemic; both brands returned to national media advertising in July 2020.

#### IHOP Area License Agreements

We have entered into three long-term area license agreements for IHOP restaurants covering the state of Florida and certain counties in the state of Georgia, the province of British Columbia, Canada and the country of Pakistan. The area license agreements provide the licensees with the right to develop and franchise new IHOP restaurants in their respective territories and provide for royalties ranging from 1.0% to 4.5% of gross sales and advertising fees ranging from 0.25% to approximately 2.0% of gross sales. During 2014, the advertising fee contribution provisions of the Florida area license agreement were amended for



the period through December 31, 2017 on substantially similar terms as the franchise agreement amendment described above and such amendments were subsequently extended through 2022. We also derive revenues from the sale of proprietary products to these area licensees and, in certain instances, to their sub-franchisees. Revenues from our area licensees are included in franchise operations revenues.

As of December 31, 2020, the area licensee for the state of Florida and certain counties in Georgia operated or sub-franchised a total of 149 IHOP restaurants. The area licensee for the province of British Columbia, Canada operated or sub-franchised a total of nine IHOP restaurants. The area licensee for the country of Pakistan opened its first franchise IHOP restaurant in 2020 and may begin to sub-license restaurants once a required number of franchise restaurants have been opened. The area license for British Columbia expires in 2026, the area license for Pakistan expires in 2047 and the area license for Florida and Georgia expires after the year 2100, with the date of expiration changing depending on the number of qualified restaurant openings and closures by such licensee.

#### Other Franchise-related Revenues and Fees

Approximately 89% of franchise segment revenue for the year ended December 31, 2020 consisted of Applebee's and IHOP royalties and advertising revenue. Most of the remaining 11% consisted of sales of proprietary products (primarily IHOP pancake and waffle dry mix), initial franchise and renewal fees and software maintenance and support fees. Depending on circumstances, we may seek to recover a portion of any royalties and fees lost due to early termination of a franchise agreement; however, not all franchise restaurant closures necessarily result in our receipt of such fees.

#### International Franchising

We continue to pursue international franchising of the Applebee's and the IHOP concepts. To this end, we seek qualified franchisees that possess the financial, development and operational resources needed to open multiple restaurants in each territory and are experienced in conducting business in the development territory. We work closely with our international franchisees to develop and implement the Applebee's and IHOP systems outside the United States, recognizing commercial, cultural and dietary diversity. Differences in tastes and cultural norms and standards require that we be flexible and pragmatic regarding many elements of the Applebee's and IHOP systems, including menu, restaurant design, restaurant operations, training, marketing, purchasing and financing.

The success of further international expansion will depend on, among other things, local acceptance of the Applebee's and IHOP concepts and menu offerings and our ability to attract qualified franchisees and operating personnel. Our franchisees must comply with the regulatory requirements of the local jurisdictions.

#### Domestic and International Franchise Restaurant Development

Each franchisee is responsible for selecting the site for each new restaurant. We may consult with franchisees when they are selecting appropriate sites, and selections made by franchisees are subject to our approval. For domestic restaurants, we also conduct a physical inspection, review any proposed lease or purchase agreement for compliance with our requirements and may make available to franchisees demographic and other studies for domestic restaurants. We make the design specifications for a typical restaurant available to franchisees, and we retain the right to prohibit or modify the use of any set of plans.

As of December 31, 2020, we had signed commitments from IHOP franchisees to build 377 IHOP restaurants over the next eight years, comprised of 98 restaurants under single restaurant or non-traditional development agreements, 140 restaurants under domestic multi-restaurant development agreements and 139 restaurants under international development agreements. The signed agreements include options to build an additional 24 restaurants over the next seven years, primarily under domestic multi-restaurant development agreements. As of December 31, 2020, we had signed commitments from Applebee's franchisees for the opening of 30 international restaurants over the next eight years. We do not expect a significant number of Applebee's restaurants will be opened domestically in the near future. Developers' level of compliance with development obligations varies per year and could change; therefore, the number of signed commitment and/or development agreements in place at any given time may not be a reliable indicator of future development activity. In light of the COVID-19 pandemic, we allowed franchisees to defer their 2020 development obligations for up to 15 months.

#### Franchise Operations

We continuously monitor franchise restaurant operations. Company and third-party representatives make both scheduled and unannounced inspections of franchised restaurants to ensure that only approved products are in use and that our prescribed operations practices and procedures are being followed. We have the right to terminate a franchise agreement if a franchisee does not operate and maintain a restaurant in accordance with our requirements. Due to cultural and regulatory differences, we may have different requirements for restaurants opened outside of the United States. We also monitor the financial health of our franchisees through business and financial reviews.

## Composition of Franchise Systems

As of December 31, 2020, 30 Applebee's franchisees owned a total of 1,531 domestic Applebee's restaurants. The number of domestic restaurants held by a single franchisee ranged from one restaurant to 444 restaurants. As of December 31, 2020, 18 franchisees owned a total of 111 international Applebee's restaurants. The number of international restaurants held by a single franchisee ranged from one restaurant to 23 restaurants. Our five largest Applebee's franchisees owned 52% of the total 1,642 Applebee's franchise restaurants.

As of December 31, 2020, 279 franchisees owned a total of 1,667 domestic IHOP restaurants, including 110 franchisees that each owned one restaurant. The largest single IHOP franchisee owned 273 domestic restaurants. As of December 31, 2020, 21 franchisees owned a total of 102 international IHOP franchise restaurants. The number of international restaurants held by a single franchisee ranged from one restaurant to 15 restaurants. Our five largest IHOP franchisees owned 30% of the total 1,769 IHOP franchise restaurants.

### **Company-Operated Restaurants**

In December 2018, we acquired 69 Applebee's restaurants in North Carolina and South Carolina from a former Applebee's franchisee. While we currently intend to own and operate these restaurants for the near term, we will assess and monitor opportunities to rebrand these restaurants under favorable circumstances. We believe this transaction was a unique circumstance and should not be considered a change in our business strategy. Our business strategy includes the possible addition of new brands to our restaurant portfolio, which may result in our acquiring additional company-operated restaurants.

From time to time, we also may reacquire a small number of restaurants from franchisees for a variety of reasons. Historically, we have been able to rebrand these restaurants quickly to new franchisees. When reacquired restaurants are not rebranded quickly, we typically operate the reacquired restaurants until they can be rebranded. These temporarily reacquired restaurants may require investments in remodeling and rehabilitation before they can be rebranded. As a result, a reacquired restaurant may incur operating losses for some period of time. IHOP had three such reacquired restaurants at December 31, 2020.

### **Supply Chain**

In February 2009, Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op"), an independent cooperative entity, was formed by us and franchisees of Applebee's and IHOP domestic restaurants. CSCS has been appointed as the sole authorized purchasing organization and purchasing agent for goods, equipment and distribution services for Applebee's and IHOP restaurants in the United States. As of December 31, 2020, 100% of Applebee's domestic franchise restaurants and 97% of IHOP domestic franchise restaurants were members of CSCS.

CSCS combines the purchasing volume for goods, equipment and distribution services within and across the Applebee's and IHOP concepts. Its mission is to achieve for its members the benefit of continuously available goods, higher quality equipment and distribution services in adequate quantities at the lowest possible sustainable prices. We do not control CSCS, but do have contractual rights associated with supplier certification, quality assurance and protection of our intellectual property. The operations of CSCS are funded by a separately stated administrative fee added to one or more products purchased by operators.

We believe the larger scale provided by combining the supply chain requirements of both brands provides continuing cost savings and efficiencies while helping to ensure compliance with our quality and safety standards.

### **Industry Overview and Competition**

Applebee's and IHOP are among the numerous restaurant chains and independent restaurants competing in the restaurant industry in the United States. The restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered and the types of service available to customers. These segments include, among others, fast food or quick service restaurants, fast-casual dining, family dining, casual dining and fine dining. Casual dining restaurants offer full table service and typically have bars or serve liquor, wine and beer, while family dining restaurants offer full table service, typically do not have bars or serve liquor, and usually offer breakfast in addition to lunch and dinner items.

Applebee's competes in the casual dining segment against national and multi-state restaurant chains such as Olive Garden, Buffalo Wild Wings, Chili's Grill & Bar, Texas Roadhouse and Outback Steakhouse, among others, as well as fast-casual and quick service restaurant chains. In addition, there are many independent restaurants across the country in the casual dining segment. The June 15, 2020 issue of *Nation's Restaurant News* reported that Applebee's was the largest restaurant system in the casual dining category and the 15th largest across all categories, in terms of United States system-wide sales during 2019.

IHOP competes in the family dining segment against national and multi-state restaurant chains such as Cracker Barrel Old Country Store, Denny's, Golden Corral, Waffle House and Bob Evans Restaurants. IHOP also faces competition from fast-casual and quick service restaurant chains that serve breakfast. In addition, there are many independent restaurants and diners across the country in the family dining segment. The June 15, 2020 issue of *Nation's Restaurant News* reported that IHOP was the largest restaurant system in the family dining category and the 24th largest across all categories, in terms of United States system-wide sales during 2019.

The restaurant and related food-service industries are highly competitive and are affected by, among other things, economic conditions, price levels, on-going changes in eating habits and food preferences, population trends and traffic patterns. The principal bases of competition in the industry are the type, quality and price of the food products served. Restaurant location, quality and speed of service, advertising, name identification and attractiveness of facilities are important. Additionally, changes in the price of groceries may influence the attractiveness of dining at home versus dining out.

The market for high quality commercial real estate is also very competitive. We and our franchisees compete with other restaurant chains and retail businesses for suitable sites for the development of new restaurants. We also compete against other franchisors both within and outside the restaurant industry for new franchisees. For further information regarding competition, see Item 1A, Risk Factors.

### **Trademarks and Service Marks**

We and our affiliates have registered or submitted registrations for certain trademarks and service marks with the United States Patent and Trademark Office and various international jurisdictions, including "Dine Brands Global<sup>SM</sup>." We own trademarks and service marks used in the Applebee's system, including various logos and the trademarks "Applebee's<sup>®</sup>," "Applebee's Neighborhood Grill + Bar<sup>®</sup>" and variations of each. In addition, we own trademarks and service marks used in the IHOP system, including various logos and the trademarks "IHOP<sup>®</sup>," "International House of Pancakes<sup>®</sup>" and variations of each.

We consider our trademarks and service marks important to the identification of our company and our restaurants and believe they are of material importance to the conduct of our business. Depending upon the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. We generally intend to renew our trademarks and service marks as they come up for renewal. We own or have rights to all trademarks we believe are material to our restaurant operations. In addition, we have registered various domain names on the Internet that incorporate certain of our trademarks and service marks and believe these domain name registrations are an integral part of our identity. From time to time, we may take appropriate legal action to defend and protect the use of our intellectual property.

### **Information Technology**

We use in-house developed and third-party point of sale systems, kitchen data systems, and back-of-the house systems for accounting, labor and inventory management in our franchisees' restaurants. In addition, we have several consumer-facing technology initiatives focused on improving our customers' experience. Sales and product mix information is transmitted to our restaurant support centers daily and this information supports our operations and marketing initiatives. We mitigate the potential impact from operational interruption of our information technology systems through a disaster recovery plan that is updated on a regular basis. We believe that technology is and will continue to be a key component of our long-term plans and are committed to providing system stability and targeted innovation. Our use of technology, particularly in terms of managing electronic payments and confidential information, also represents security and operational risks that we must manage and may result in additional costs incurred.

Protection of financial and personal information is a high priority for us, led by our Cybersecurity Department with a committee representing key functional areas. We continuously focus on enhancing our cybersecurity capabilities, educating our team members on cybersecurity importance, and managing our cyber risks. In addition, we participate in annual audits of our financial and human resources systems to verify that measures are in place to protect our employees' personal information. We accept credit cards, third party gift cards, and branded gift cards as payment in our restaurants. We submit our systems to regular audit and review, as required by the Payment Card Industry Data Security Standard ("PCI DSS"), including periodic scanning of our networks to check for vulnerability. To further secure customers' payment data, we worked with our franchisees to deploy and implement encryption and tokenization technologies, ensuring credit card data is not stored in our franchisees' and our restaurants systems. This includes installation of equipment to improve authentication and to prevent fraud using EMV (Europay, Mastercard, Visa) technology. We and our franchisees are required and responsible for maintaining compliance, with PCI DSS, and we regularly communicate and encourage our franchisees to maintain compliance and to manage risk. For further information regarding Information Technology, see Item 1A, Risk Factors.

## Seasonality

We do not consider our operations to be seasonal to any material degree. We typically experience a slight increase in system-wide sales in the first quarter of our fiscal year due to redemptions of gift cards sold during the preceding December holiday season. In terms of average sales over the 2015-2019 time period, 26% of our annual system-wide sales (retail sales reported to us by our franchisees plus sales at our company-operated restaurants) occurred in the first quarter of the fiscal year, 24% in the third quarter and 25% in both the second and fourth quarters. The 2020 time period was excluded in our description of seasonality above due to distortions caused by COVID-19 pandemic. Sales at restaurants owned by franchisees are not attributable to the Company.

## Government Regulation

We are subject to regulation by the Federal Trade Commission (“FTC”) and a number of foreign and state laws that regulate the offer and sale of franchises. We also are subject to a number of foreign and state laws that regulate substantive aspects of the franchisor-franchisee relationship. The FTC's Trade Regulation Rule on Franchising, as amended (the “FTC Rule”), requires us to furnish to prospective domestic franchisees a Franchise Disclosure Document containing information prescribed by the FTC Rule.

State laws that regulate the offer and sale of franchises and the franchisor-franchisee relationship presently exist in a number of states and some of these laws require registration of the franchise offering with state authorities. Those states that regulate the franchise relationship generally require that the franchisor deal with its franchisees in good faith, prohibit interference with the right of free association among franchisees, limit the imposition of unreasonable standards of performance on a franchisee and regulate discrimination against franchisees with respect to charges, royalty fees or other fees. Although such laws may restrict a franchisor in the termination and/or non-renewal of a franchise agreement by, for example, requiring “good cause” to exist as a basis for the termination and/or non-renewal, advance notice to the franchisee of the termination or non-renewal, an opportunity to cure a default and a repurchase of inventory or other compensation upon termination, these provisions have not historically had a significant effect on our franchise operations.

Each restaurant is subject to licensing and regulation by a number of governmental authorities, which may include liquor license authorities (primarily in the case of Applebee's restaurants), health, sanitation, safety, fire, building and other agencies in the state or municipality in which the restaurant is located. We are also subject to new laws and regulations, which may vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling.

More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent the development of new restaurants in particular areas.

Various federal and state labor laws govern our relationship with employees and our franchisees' relationship with their own employees. These include such matters as minimum wage requirements, overtime, tip credits and other working requirements and conditions. Significant additional government-imposed increases in minimum wages, paid leaves of absence, mandated health benefits, changes to the tip credit or increased tax reporting and tax payment requirements with respect to employees who receive gratuities could be detrimental to the economic viability of company-operated restaurants and our franchisees' restaurants.

We are subject to a number of privacy and data protection laws and regulations globally, including, without limitation, the California Consumer Privacy Act and pending California Privacy Rights Act. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been increased attention in privacy and data protection issues. This has the potential to affect directly our business, including recently enacted laws and regulations in the United States and internationally requiring notification to individuals and government authorities of security breaches involving certain categories of personal information.

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 (the “ACA”) are far-reaching and are intended to expand access to health insurance coverage over time by adjusting the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax credits to subsidize a portion of the cost of health insurance coverage. The laws include a requirement that most individuals obtain health insurance coverage and a requirement that certain large employers offer coverage to their employees or pay a financial penalty. Since its enactment, there have been judicial and political challenges to various aspects of the ACA and certain challenges to the ACA are expected to be addressed by the Supreme Court in the near future, although it is unclear when or how the Supreme Court will rule. It is also unclear how other efforts to challenge, repeal or replace the ACA will impact the law. With enactment of the Tax Cuts and Jobs Act of 2017, Congress eliminated certain tax penalties in the ACA, effectively repealing the “individual mandate” portion of the ACA. The repeal of this provision, which required most Americans to carry a minimal level of health insurance, became effective in January 2019, although several states have implemented similar

individual mandates. The ACA and similar state laws have increased our franchisees' employee costs in some respects and may continue to do so.

In recent years, there has been an increased legislative, regulatory and consumer focus at the federal, state and municipal levels on the food industry including nutrition and advertising practices. Restaurants operating in the quick-service and fast-casual segments have been a particular focus. In addition to the United States Food and Drug Administration's menu labeling requirements for restaurants requiring that chain restaurants include calorie information on their menus or make other nutritional information available, a number of other jurisdictions around the United States have adopted regulations related to disclosure of other information, such as sodium content, and imposing requirements for children's menus. Initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of our food, may result in increased costs of compliance with the requirements and may also change customer buying habits in a way that adversely impacts our sales. For further information regarding governmental regulation, see Item 1A, Risk Factors.

## **Environmental Matters**

We are subject to federal and state environmental regulations, but historically these have not had a material effect on our operations. We are not aware of any federal, state or local environmental laws or regulations that are likely to materially impact our revenues, cash flow or competitive position, or result in any material capital expenditure. However, we cannot predict the effect of possible future environmental legislation or regulations.

## **Human Capital**

We view our employees as one of the three core strategic pillars of our business - People, Brand, and Growth. We believe that hiring, developing and retaining team members is critically important to our operations and that our corporate responsibility begins with our team members. We are focused on a comprehensive approach to diversity and representation across leadership, team members, franchisees, partners and the community.

At Dine Brands, we believe the power to meaningfully impact the people and communities we serve is realized when each team member is personally and professionally fulfilled. One of our primary focuses is to ensure the health and well-being of our team members. Our Total Rewards Program plays a big part in our commitment to creating an environment of well-being. We believe that when team members are supported with the resources they need to care for themselves and their loved ones, they are able to be at their best. Dine Brands has a consistent and fair compensation program that reflects our pay-for-performance philosophy and rewards our team members for their contributions to our success. We offer comprehensive health and protection benefits that support our team members and their families' overall well-being. Dine Brands also contributes to programs that provide our team members with financial security, now and in the future. We offer other rewards that focus on recognition, career building, health and wellness, time-off benefits, and other perks that are designed to make our peoples' experience as Dine Brands team members productive and fun.

We assess our culture and listen to our workforce through periodic employee engagement surveys. Numerous policy changes have been made or been influenced by the feedback we receive from our employees.

Dine Brands values, encourages and appreciates the diversity of our workforce. We embrace our personal differences - whether it be race, gender, age, religion, culture, ethnicity, sexual orientation, veteran status, national origin or physical ability - and the benefits that an array of backgrounds, cultures and thinking styles bring to our organization. We are committed to sustaining an environment that accepts, includes and engages everyone in our workforce and encourages open dialogue, empowerment and a sense of belonging. While the world and our business change rapidly, our management believes that respecting individual differences will continue to be essential to our long-term success.

We recently launched seven Team Member Resource Groups (TMRGs) as part of our diversity and inclusion efforts. TMRGs are team member-led, self-directed, voluntary groups, each sponsored by a member of our Executive team, that offer internal networking opportunities, career development, expand our innovation and problem solving and in general, act as a vehicle to enhance diversity and inclusion.

We believe in accountability that starts with our leadership and extends to all of our team members. Our Chief Executive Officer, John W. Peyton, has taken the CEO Action for Diversity and Inclusion pledge. Substantially all our restaurant support center team members as well as our Board members have undertaken a comprehensive diversity and inclusion training seminar.

As of December 31, 2020, we had 3,447 employees, of whom 2,952 were employees of our company-owned restaurants and 495 were corporate employees at our restaurant support centers or in the field. Of our corporate employees, 61% are male and 39% are female, while 61% are white and 39% are people of color. Approximately 80% of our corporate employees are salaried with 20% paid hourly.



Of our company owned restaurant employees, 59% are female and 41% are male, while 51% are people of color and 49% are white. Nearly 93% of our company-owned restaurant employees are paid on an hourly basis, while certain restaurant and operations management and corporate positions are salaried. We employ both full-time and part-time restaurant employees in order to provide the flexibility necessary during peak periods of restaurant operations and meet the individual needs of our employees. Our employees are not presently represented by any collective bargaining agreements and we have not experienced any significant work stoppages. We believe our relations with employees are good. Our franchisees are independent business owners and their employees are not our employees. Therefore, their employees are not included in our employee count.

### **Corporate Information**

We were incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. In November 2007, we completed the acquisition of Applebee's, which became a wholly-owned subsidiary of the Company. Effective June 2, 2008, we changed our name to DineEquity, Inc. and on February 20, 2018, we changed our name to Dine Brands Global, Inc. Our principal executive offices are located at 450 North Brand Boulevard, Glendale, California 91203-2306 and our telephone number is (818) 240-6055. Our Internet address is [www.dinebrands.com](http://www.dinebrands.com). Our common stock is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "DIN."

### **Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed with or furnished to the United States Securities and Exchange Commission (the "SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website as soon as reasonably practicable after electronically filing such material with the SEC. The SEC maintains an Internet site that contains periodic reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov). The above references to our website and the SEC's website do not constitute incorporation by reference of the information contained on those websites and should not be considered part of this document.

## Item 1A. Risk Factors.

The occurrence of any of the events discussed in the following risk factors may materially adversely affect our business, financial condition and results of operations, which may materially adversely affect the value of our common stock. It is not possible to identify or predict all risk factors. There may be risks and uncertainties that are not currently known or that are currently deemed by us to be immaterial. These other risks and uncertainties may also impact our business, financial condition and results of operations.

### **Risks Relating to Our Business and Financial Condition**

***The novel coronavirus (COVID-19) pandemic has disrupted and may further disrupt our business, which could further materially affect our operations, and business and financial results. In addition, any other epidemic, disease outbreak or public health emergency may result in similar adverse effects.***

The COVID-19 pandemic has impacted and may continue to impact sales and traffic at our and our franchisees' restaurants, may make it more difficult to staff restaurants and, in more severe cases, may damage our reputation, cause an inability to obtain supplies, increase commodity costs or continue to cause partial or total closures of impacted restaurants. The extent to which the COVID-19 pandemic and other epidemics, disease outbreaks or public health emergencies will impact our business, liquidity, financial condition, and results of operations, will depend on numerous evolving factors that we may not be able to accurately predict or assess, including the duration and scope of the pandemic, epidemic, disease outbreak, or public health emergency; the negative impact on the economy; the short and longer-term impacts on the demand for restaurant services and levels of consumer confidence; the ability of us and our franchisees to successfully navigate the impacts; government action, including restrictions on restaurant operations; increased unemployment; and reductions in consumer discretionary spending. Even if a virus or other disease does not spread significantly, the perceived risk of infection or health risk may damage our reputation and adversely affect our business, liquidity, financial condition and results of operations. The COVID-19 pandemic has heightened many of the other risks described in this Item 1A, "Risk Factors."

We and our franchisees have been and could further be adversely affected by government restrictions on public gatherings; shelter-in-place orders; and limitations on operations of restaurants, including dine-in restrictions, mandatory or voluntary closures or restrictions on hours of operations. Certain restaurants in the U.S. and abroad are currently under government mandates or guidelines to temporarily suspend operation of restaurants or limit restaurant dine-in business in light of COVID-19. We are unable to predict when these measures may be scaled back, or how quickly our operations will return to previous levels after the measures are scaled back. Certain other restaurants have had dine-in restrictions and other operational limitations lifted but we are unable to predict whether or when these restrictions may be reinstated or new restrictions may be implemented if the COVID-19 pandemic worsens. To assist franchisees impacted by COVID-19, we have offered deferral of royalty, advertising, and other fees, including, in some cases, lease payments. We have allowed franchisee to defer development obligations for up to 15 months. These changes and any additional changes may materially adversely affect our business, liquidity, financial condition, and results of operations, particularly if these changes are in place for a prolonged amount of time. The COVID-19 pandemic as well as other epidemics, disease outbreaks or public health emergencies may also materially adversely affect our ability to implement our growth plans, including delays in development of new locations or adversely impact our overall ability to successfully execute our plans to enter into new markets.

As we previously announced, we drew down a significant majority of the amount available under our revolving facility. The increase in our level of debt may adversely affect our financial and operating activities or ability to incur additional debt. Furthermore, the impacts of COVID-19 could cause us to fail to meet certain financial performance measures, including debt service coverage ratios and minimum domestic franchise system sales amounts, that must be met to avoid a possible rapid amortization event or event of default under the terms of our existing debt arrangements. In addition, as a result of the risks described above, we may be required to raise additional capital, and there is no guarantee that debt and/or equity financings will be available in the future to fund our obligations, or will be available on terms consistent with our expectations.

***Our business is affected by general economic conditions that are largely out of our control.*** Our business is dependent to a significant extent on national, regional and local economic conditions, and, to a lesser extent, on global economic conditions, particularly those conditions affecting the demographics of the guests that frequently patronize Applebee's or IHOP restaurants. If our customers' disposable income available for discretionary spending is reduced (because of circumstances such as job losses, credit constraints, higher housing costs, changes to tax regulations, energy costs, interest rates or other costs) or if the perceived wealth of customers decreases (because of circumstances such as lower residential real estate values, increased foreclosure rates, changes to tax regulations or other economic disruptions), our business could experience a decline in sales and/or customer traffic as potential customers choose lower-cost alternatives (such as quick-service restaurants) or other alternatives to dining out. Additionally, negative trends in the availability of credit and in expenses such as interest rates and the cost of construction materials could affect our and our franchisees' ability to maintain and remodel existing restaurants. Any

decreases in customer traffic or average customer check due to these or other reasons could reduce gross sales at our and our franchised restaurants, resulting in lower revenues, royalty payments and other payments from franchisees. This could negatively impact the financial performance of our company-operated restaurants and reduce the profitability of franchised restaurants, potentially impacting the ability of franchisees to make royalty payments owed to us when due and negatively impacting franchisees' ability to develop new restaurants as may be required in their respective development agreements.

***Our level of indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt.*** As of December 31, 2020, certain of our indirect, wholly-owned subsidiaries had approximately \$1.5 billion of long-term debt. In addition, we had approximately \$0.5 billion in operating lease, finance lease and other financing obligations as of December 31, 2020. We may incur substantial additional indebtedness in the future. If new debt is added to our current debt levels, the related risks that we now face could increase. Our level of indebtedness and the financial and other restrictive covenants in our indebtedness could have important consequences to our financial health. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our debt or refinance any of our debt on attractive terms, commercially reasonable terms, or at all;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to pay dividends to our stockholders, repurchase shares of our common stock, fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are not as highly leveraged;
- limit our ability to borrow additional funds;
- prevent us from taking actions that we believe would be in the best interest of our business and make it difficult for us to successfully execute our business strategy;
- subject us to risks associated with rising interest rates and uncertainty related to the proposed phase-out of the London Interbank Offered Rate (LIBOR); and
- result in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial and other restrictive covenants contained in our debt documents, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

***The terms of the securitized debt issued by certain of our indirect, wholly-owned subsidiaries have restrictive terms and the failure to comply with such restrictive terms could put us in default, which would have an adverse effect on our business and prospects.*** Unless and until we repay all outstanding borrowings under our securitized debt, we will remain subject to the restrictive terms of the securitized debt issued by certain of our indirect, wholly-owned subsidiaries. For example, the indenture entered into by such subsidiaries in connection with the securitized debt contains covenants that limit the ability of certain of our wholly-owned subsidiaries to, among other things: sell assets; alter the business conducted by such subsidiaries; engage in mergers or acquisitions; declare dividends or redeem or purchase certain equity interests; incur, assume or permit to exist additional indebtedness or guarantees; make loans and investments; incur liens; and enter into transactions with affiliates other than on an arms-length basis. These covenants are applicable only to the securitization subsidiaries and do not apply to any of Dine Brands Global, Inc., International House of Pancakes, LLC, Applebee's International, Inc. or Dine Brands International, Inc. as these entities are not parties to the indenture. A breach of a covenant could result in a rapid amortization event or default under the securitized debt.

Further, the securitized debt also includes limitations on our ability to incur additional indebtedness and contains a number of financial performance measures that must be met to avoid a possible rapid amortization event or event of default. The most significant of these measures include a minimum debt service coverage ratio and minimum domestic franchise system sales. The ability to meet these financial performance measures can be affected by events beyond our control and there can be no assurance that we will satisfy these financial measures.

If amounts owed under the securitized debt are accelerated because of a default and we are unable to pay such amounts, the investors may have the right to assume control of substantially all of the securitized assets, which consist of substantially all of our domestic revenue-generating assets and domestic intellectual property.

During the five-year term following issuance, the outstanding fixed-rate class A-2-I senior notes will accrue interest at a rate of 4.194% per year. During the seven-year term following issuance, the outstanding fixed-rate class A-2-II senior notes will accrue interest at a rate of 4.723% per year. Additionally, the fixed-rate class A-2-I and class A-2-II senior notes have scheduled quarterly principal amortization payments of \$1.75 million and \$1.5 million, respectively. If we maintain a leverage ratio of less than or equal to 5.25x total debt to adjusted EBITDA, we may elect to not make the scheduled principal payments. From time

to time, our leverage ratio has exceeded the 5.25x total debt to adjusted EBITDA ratio and we have made the required scheduled principal payments. If we are unable to refinance or repay amounts under the securitized debt prior to the expiration of the applicable five- or seven-year term, our cash flow would be directed to the repayment of the securitized debt and, other than a weekly management fee sufficient to cover minimal selling, general and administrative expenses, would not be available for operating our business.

In the event that a rapid amortization event occurs under the indenture (including, without limitation, upon an event of default under the indenture or the failure to repay the securitized debt at the end of the applicable five- or seven-year term), the funds available to us would be reduced or eliminated, which would in turn reduce our ability to operate or grow our business.

***Our ability to refinance all or a portion of our indebtedness or obtain additional financing depends on many factors beyond our control.*** No assurance can be given that any refinancing or additional financing will be possible when needed or that we will be able to negotiate favorable terms. In addition, our access to capital is affected by prevailing conditions in the financial and capital markets and other factors beyond our control. There can be no assurance that market conditions will be favorable at the times that we require new or additional financing. Further, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with refinancing our debt. Downgrades in our credit ratings could also affect the terms of any such financing and restrict our ability to obtain additional financing in the future.

***We are heavily dependent on information technology and any material failure of that technology could impair our ability to effectively and efficiently operate our business.*** We rely heavily on information technology systems across our operations, including point-of-sale processing in our and our franchisees' restaurants, online ordering and delivery, management of our supply chain, collection of cash and other receivables, payment of obligations and various other processes and procedures. Our ability to effectively and efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrades or the transition to replacement systems, inaccurate or fraudulent manipulation of sales reporting from our restaurants resulting in loss of sales and royalty payments, or a breach in security of these systems could be harmful and cause delays in customer service, reduce efficiency in our operations and negatively impact our business. Significant capital investment might be required to remediate any problems.

In addition, we outsource certain essential technology-based business processes to third-party vendors and we may share sensitive financial and other information with third party vendors which subjects us to risks, including disruptions in business, increased costs and exposure to data breaches or privacy law compliance issues of our third-party vendors.

***The occurrence of cyber incidents, or a deficiency in our cybersecurity, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our employee and business relationships, all of which could subject us to loss and harm our brands.*** Any adverse event that threatens the confidentiality, integrity, or availability of our information resources is considered to be a cyber incident. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information about our customers, franchisees, vendors and employees. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those that we have outsourced. Primary adverse events that could directly result from the occurrence of a cyber incident include (i) exposure of confidential data about our customers, franchisees, vendors and employees, (ii) damage to the reputation of our brands (iii) damage to our relationship with our franchisees; (iv) interruption of our business; and (v) an event of default under our securitized debt agreements if a cybersecurity breach impacts our ability to comply with the terms of securitized debt agreements. We, our franchisees, third-party vendors and others with whom we may do business or interact with may have inadequate cyber liability insurance or coverage terms may be restrictive or insufficient to cover potential losses and remediation costs associated with a cyber incident.

As a merchant and service provider of point of sale related services, we and our franchisees are subject to PCI DSS, issued by the Payment Card Industry Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. Despite our cybersecurity measures and our efforts to comply with PCI DSS guidelines, we cannot be certain that all of our information technology systems are able to prevent, contain or detect any cyber-attacks or security breaches from known malware or malware that may be developed in the future.

Our use of personal information is regulated by international, federal and state laws, as well as by certain third-party agreements. If our security and information systems are compromised or if our employees or franchisees fail to comply with these laws and regulations, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation and could disrupt our operations and result in costly litigation, judgments, or penalties resulting from violation of federal and state laws and payment card industry regulations. As privacy and information security laws and regulations change, we may incur additional costs to ensure that we remain in compliance with those laws and regulations. For example, we are subject to the California Consumer Privacy Act and pending California Privacy Rights Act, which require various processes and protections to be implemented.

***We face a variety of risks associated with doing business in international markets.*** Our expansion into and continued operations in international markets could create risks to our brands and reputation. There is no assurance that our international operations will be profitable or that international growth will continue. Our international operations are subject to the same risks associated with our domestic operations, as well as a number of additional risks. These include, among other things, international economic and political conditions, issues with collections, international currency fluctuations, difficulty in enforcing intellectual property rights, terrorism, civil unrest, global travel risks and differing cultures and consumer preferences.

We also are subject to governmental regulations throughout the world that impact the way we do business with our international franchisees and vendors. These include antitrust and tax requirements, import/export/customs regulations, anti-boycott regulations, other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

***We may be subject to litigation and other legal proceedings that could be time consuming, require significant amounts of management time and result in the diversion of significant operational resources.*** We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. There have been a growing number of lawsuits in recent years. There also has been a rise in employment-related lawsuits. From time to time, we have been subject to these types of lawsuits. The cost of defending claims against us or the ultimate resolution of such claims may harm our business and operating results. In addition, the increasingly regulated business environment may result in a greater number of enforcement actions and private litigation. This could subject us to increased exposure to stockholder lawsuits.

We and our franchisees are subject to complaints or litigation from guests alleging illness, injury or other food quality, food safety, health or operational concerns as well as claims related to social issues (e.g., allegations of discrimination), the Americans with Disabilities Act and other premises liability. We and our franchisees are also subject to "dram shop" laws in some states pursuant to which we and our franchisees may be subject to liability in connection with personal injuries or property damages incurred in connection with wrongfully serving alcoholic beverages to an intoxicated person.

Although our franchise agreements require our franchisees to defend and indemnify us, we may be named as a defendant and sustain liability in legal proceedings against franchisees under the doctrines of vicarious liability, agency, negligence or otherwise. Claims against our franchisees may reduce the ability of our franchisees to make payments to us. We may also initiate legal proceedings against franchisees for breach of the terms of their franchise agreements, including underreporting of sales, failure to operate restaurants according to standard operating procedures and payment defaults. These claims also may reduce the ability of franchisees to enter into new franchise agreements with us.

***Third-party claims with respect to intellectual property assets, if decided against us, may result in competing uses or require adoption of new, non-infringing intellectual property, which may in turn adversely affect sales and revenues.*** We regard our service marks and trademarks related to our restaurant businesses as having significant value and being important to our marketing efforts. To protect our brands from infringement, we rely on contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws. We have registered certain trademarks and service marks in the United States and international jurisdictions; however, effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Although we believe we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate.

In addition, there can be no assurance that third parties will not assert infringement or misappropriation claims against us, or assert claims that our rights in our trademarks, service marks and other intellectual property assets are invalid or unenforceable. Any such claims could have a material adverse effect on us or our franchisees if such claims were to be decided against us. If our rights in any intellectual property were invalidated or deemed unenforceable, it could permit competing uses



of intellectual property which, in turn, could lead to a decline in restaurant revenues and sales of other branded products and services (if any). If the intellectual property became subject to third-party infringement, misappropriation or other claims, and such claims were decided against us, we may be forced to pay damages, be required to develop or adopt non-infringing intellectual property or be obligated to acquire a license to the intellectual property that is the subject of the asserted claim. There could be significant expenses associated with the defense of any infringement, misappropriation, or other third-party claims.

***Our delivery initiatives and use of third-party delivery vendors subjects us and our franchisees to a variety of risks related to the delivery of our products by third parties and may not generate expected returns.*** There can be no assurance that delivery vendors will not take actions that could have a material adverse effect on our brands and or subject us to increased litigation and costs. Our delivery initiatives also introduce new operating procedures to our and our franchisees' restaurants, which could adversely affect the business, brands, and the experience of our guests.

***Our business depends on the proper allocation of our human capital and our ability to attract and retain talented management and other key employees.*** We have dedicated brand resources for key functions such as marketing, consumer insights and operations and a shared service model for certain other functions such as legal, technology and human resources. There can be no assurance that our allocation of our human capital will effectively meet the needs of our business and brands. Further, our business is based on successfully attracting and retaining talented employees. The market for highly skilled employees and leaders in our industry is extremely competitive. If we are less successful in our recruiting efforts, or if we are unable to retain management and other key employees, our ability to develop and deliver successful products and services may be adversely affected. Effective succession planning is also important to our long-term success. The departure of a key executive or employee and/or the failure to ensure an effective transfer of knowledge and a smooth transition upon such departure may be disruptive to the business and could hinder our strategic planning and execution.

***Our failure or the failure of our franchisees to comply with federal, state and local governmental regulations may subject us to losses and harm our brands.*** We and our franchisees are subject to the Fair Labor Standards Act (which governs such matters as minimum wage, overtime, collective bargaining and other working conditions), along with the Americans with Disabilities Act (which provides civil rights protections to individuals with disabilities in the context of employment, public accommodations, and other areas), the Immigration Reform and Control Act of 1986, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated by federal, state and local governmental authorities that govern these and other employment matters, including tip credits, working conditions, safety standards, collective bargaining and immigration status. There have been several complaints alleging franchisors to be joint employers with franchisees. Although we do not consider ourselves to be joint employers with our franchisees, there can be no assurance that other franchisors will not receive similar complaints in the future which may result in legal proceedings based on the actions of franchisees. Increases in payroll expenses as a result of any federal and state mandated increases in the minimum wage or changes to the tip credit may negatively impact our and our franchisees' profitability. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration, collective bargaining and labor organizations may adversely impact the availability and costs of labor in a particular area or across the United States. Other labor shortages, unionization or increased team member turnover could also impact labor costs. In addition, our vendors may be affected by higher minimum wage standards or availability of labor, which may increase the price of goods and services they supply to us. The Patient Protection and Affordable Care Act has impacted our franchisees' employee costs in some respects. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

We and our franchisees are subject to extensive federal, state and local governmental regulations, including those relating to food safety and inspection and the preparation and sale of food and alcoholic beverages. Disruptions within any government agencies could impact the U.S. food industry, which may have an adverse effect on our business. We and our franchisees are also subject to laws and regulations relating to building and zoning requirements. Our and our franchisees' restaurants are also subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies in the state, county and/or municipality where the restaurant is located. We cannot assure you that we or our franchisees will not encounter material difficulties or failures, including with respect to obtaining and maintaining required licenses and approvals, which could impact the continuing operations of an existing restaurant, or delay or prevent the opening of a new restaurant.

In addition, we are subject to laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. Compliance with these laws and regulations may lead to increased costs and operational complexity and may increase our exposure to governmental investigations or litigation. In connection with the continued operation or remodeling of certain restaurants, we and our franchisees may be required to expend funds to meet federal, state, local and international regulations. The inability to obtain or maintain such licenses or publicity resulting from actual or alleged violations of such laws could have an adverse effect on our results of operations.

We are subject to federal regulation and certain foreign and state laws, including state laws that govern the offer and sale of franchises. Many state franchise laws contain provisions that supersede the terms of franchise agreements, including provisions concerning the termination or non-renewal of a franchise. Some state franchise laws require that certain materials be registered before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could adversely affect us and the franchisees. Changes in, and the cost of compliance with, government regulations could have a material effect on operations.

Finally, regulatory changes or actions under current or future U.S. political administrations may impact the laws or regulations described above. We cannot predict whether or when any of these potential changes in law might become effective in any jurisdiction nor the impact, if any, of these changes to our business.

***We are subject to risks associated with self-insurance for medical, dental and vision benefits.*** We self-insure all of our employee medical, dental and vision benefits. We maintain a per claim stop loss coverage but do not maintain coverage at an aggregate level. Our reserves are based on historical loss trends that may not correlate to actual loss experience in the future. If we experience an unexpectedly large number of claims that result in costs or liabilities in excess of our projections, our reserves may prove to be insufficient and we may be exposed to significant and unexpected losses. For these and other reasons, including our inability to renew stop loss coverage at competitive rates, we are subject to risks associated with self-insurance that may have an adverse effect on our financial condition and operating results.

In addition, access to personal medical information is regulated by federal, state and/or local laws as well as by certain third-party agreements. If our security and information systems or the systems of our third-party vendors are compromised, we could be subject to costly litigation or penalties and our reputation and operations could be adversely affected.

***Any inability or failure to execute on a comprehensive business continuity plan following a major natural disaster such as an earthquake, tornado, flood or a man-made disaster, including terrorism, civil unrest or a cyber incident, at or affecting our corporate facilities could materially adversely impact our business.*** Our corporate systems and processes and corporate support for our restaurant operations are handled primarily at our restaurant support centers. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including earthquakes, tornadoes, floods and other natural or man-made disasters, and back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims.

***Development initiatives outside our core business could negatively impact our brands.*** Our business expansion into non-traditional restaurant formats, including restaurants with a smaller footprint, restaurants located in non-traditional locations and restaurants that operate on a delivery-only and/or ghost kitchen basis, could create new risks to our brand and reputation.

***Failure of our internal controls over financial reporting and future changes in accounting standards may cause adverse unexpected operating results, affect our reported results of operations or otherwise harm our business and financial results.*** Our management is responsible for establishing and maintaining effective internal controls over financial reporting. Internal controls over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock.

A change in accounting standards can have a significant effect on our reported results and may affect our reporting of transactions before the change is effective. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing accounting rules or the questioning of current accounting practices may adversely affect our reported financial results. Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations are highly complex and involve many subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

### **Risks Related to Our Franchised Business Model**

***Restaurant development plans under development agreements may not be implemented effectively and developed restaurants may not achieve desired results.*** We rely on franchisees to develop Applebee's and IHOP restaurants. From time to time, our franchisees have failed to fulfill their commitments to build new restaurants in the numbers and within the timeframes required by their development agreements, and we expect that this will continue to varying degrees in the future. Restaurant development and the success of restaurants opened by our franchisees involve substantial risks, including the following:

- the demand for Applebee's and IHOP restaurants and the selection of appropriate franchisee candidates;
- costs of construction, permit issuance and regulatory compliance;
- the availability of suitable locations and terms for potential development sites, including lease or purchase terms for new locations;
- the availability of financing, at acceptable rates and terms, to both franchisees and third-party landlords, for restaurant development and/or implementation of our business strategy through new remodel programs and other operational changes;
- delays in obtaining construction permits and in completion of construction;
- competition for suitable development sites;
- changes in governmental rules, regulations, and interpretations (including interpretations of the requirements of the Americans with Disabilities Act); and
- general economic and business conditions.

Additionally, developed restaurants may not achieve desired revenue or cash flow levels once opened. This could result in restaurant closures, which may be significant in number, and may cause our royalty revenues and financial performance to decline. The inability to open new restaurants that achieve and sustain acceptable sales volumes and/or the closure of existing restaurants that do not achieve or sustain acceptable sales volumes may have a material adverse effect on our business and financial condition.

***We are significantly franchised; as a result, we are highly dependent upon our franchisees.*** All IHOP and almost all Applebee's restaurants are owned and operated by our franchisees. Our dependence on our franchisees could adversely affect us, our brands, and our business, financial condition and results of operations. Our financial results are significantly contingent upon the performance of our franchised restaurants because we derive a substantial portion of our revenues from royalties that are based on a percentage of gross sales at franchised restaurants. Worsening economic conditions and declining trends in sales, traffic and/or average check could impact the performance of our franchised restaurants, resulting in lower royalty, advertising fund and other payments from franchisees. If declining conditions persist, franchisee profitability and financial health may worsen and franchisees may suffer from financial, personal or other difficulties, including insolvency. Franchisees may also experience financial risks unrelated to the operation of restaurants under our brands, such as a decline in performance of other brands or businesses held by franchisees. Additionally, lenders to our franchisees may be less likely to provide current or prospective franchisees necessary financing on favorable terms, or at all, due to market conditions and our or our franchisees' operating results. These and other factors could impact franchisees' ability to make royalty and other payments owed to us when due and franchisees could default on their financial obligations to us. A decrease in franchisee profitability as well as other reasons could also cause franchisees' failure or inability to meet new restaurant development obligations and other obligations such as maintenance or remodel requirements and rent obligations for certain leases on which we retain contingent liability.

Additionally, our franchise agreements have expiration dates. Upon expiration, franchisees are generally required to enter into new franchise agreements in order to extend the franchise relationship. We or the franchisee may or may not elect to enter into these successor franchise agreements based on a number of factors, including a failure to meet our criteria, lack of interest by either party and/or the inability of franchisees to enter into successor franchise agreements. It is expected that, in the ordinary course of business, some franchise agreements will expire without successor franchise agreements. However, a substantial number of franchise agreements are set to expire in 2021 for Applebee's and 2024 through 2028 for IHOP, and while we have begun efforts to extend the terms of these franchise agreements, we cannot ensure that we and/or our franchisees will enter into successor franchise agreements or extensions once current terms expire. This may result in reduced royalties and other payments due to a decrease in the number of restaurants operating under our brands.

As independent third parties, franchisees own, operate and oversee the daily operations of their restaurants and their employees are not our employees. Accordingly, we do not control their actions. While our franchise agreements are designed to maintain brand consistency, having almost all franchisee-operated restaurants may expose us to risks not otherwise encountered if we maintained ownership and control of all of the restaurants. Franchisees may breach the terms of their franchise agreements in a manner that adversely affects our brands, such as failing to operate restaurants in accordance with our required standards, and we may be limited in our ability to enforce franchise obligations. Franchisees are required to conform to specified product quality standards and other requirements pursuant to their franchise agreements in order to protect our brands and to optimize restaurant performance. If franchisees do not successfully operate their restaurants in a manner consistent with our standards, or customers have negative experiences due to issues with food quality or operational execution, our reputation and brands could suffer, and we could be subject to claims by guests even if we are not legally liable for the franchisee's actions or failure to act. This could result in a material adverse effect on our business. The quality of franchisees' operations may also be diminished by factors beyond our control, including a lack of investment in enhancing or maintaining acceptable standards for restaurant operations due to financial and other constraints. Franchisees also may fail or be unable to hire or retain qualified managers and other personnel and training of managers and other personnel may be inadequate. These and other such negative factors could reduce franchisees' restaurant revenues, impact payments to us under the franchise agreements and could have a material adverse effect on us.

Various other risks associated with the operation of a franchised business model that may have a material adverse effect on our business or financial condition include:

- inability or unwillingness of franchisees to participate in implementing changes or to participate in business strategy changes;
- inability or unwillingness of franchisees to support our marketing programs and strategic initiatives;
- inability of franchisees to participate in business strategy changes due to financial constraints;
- failure of franchisees to report sales information accurately;
- greater proportional impact of general and administrative expenses on our business and financial condition; and
- inability to retain franchisees in the future, both in terms of number and quality, and inability to attract, retain and motivate sufficient numbers of franchisees of the same caliber, including top performing franchisees.

While we try to maintain positive working relationships with our franchisees, the nature of the franchisor-franchisee relationship inherently subjects us to potential disagreements with our franchisees on matters pertaining to the business and/or our brands. From time to time, we have experienced, and we may continue to experience, poor franchise relations caused by the efforts of one or more of our larger franchisees or an organized franchise association.

***Concentration of Applebee's franchised restaurants in a limited number of franchisees subjects us to greater risk.*** As of December 31, 2020, Applebee's franchisees operated 1,531 Applebee's restaurants in the United States. Of those restaurants, the ten largest Applebee's franchisees owned 1,160 restaurants, representing 76% of all franchised Applebee's restaurants in the United States. The largest Applebee's franchisee owned 444 restaurants, representing 29% of all franchised Applebee's restaurants in the United States. The concentration of franchised restaurants in a limited number of franchisees subjects us to a potentially higher level of risk with respect to such franchisees because their obligations to us, including financial obligations, are greater as compared to those franchisees with fewer restaurants. The risk associated with these franchisees is also greater where franchisees are the sole or dominant franchisee for a particular region of the United States, as is the case for most domestic Applebee's franchised territories. In particular, if any of these franchisees experience financial or other difficulties, the franchisee may default on its obligations under multiple franchise agreements, notes receivable or other agreements, including payments to us and the maintenance and improvement of its restaurants. From time to time, we may work with our franchisees who are experiencing financial difficulties to assess and address their financial health and their ability to satisfy their financial obligations to us. In certain of these situations, we may agree to alternative arrangements with franchisees for the payment of amounts due to us under our franchise and other agreements. We cannot assure you that these arrangements will be successful, nor can we assure you that they will result in us receiving all or any of the amounts due to us under our franchise agreements,



notes receivable and other agreements. Any franchisee that owns and operates a significant number of Applebee's restaurants and fails to comply with other obligations under the franchise agreement, such as those relating to the quality and preparation of food and maintenance of restaurants, could cause significant harm to the Applebee's brand and subject us to claims by consumers even if we are not legally liable for the franchisee's actions or failure to act. Development rights for Applebee's restaurants are also concentrated among a limited number of existing franchisees. If any of these existing franchisees experience financial difficulties, future development of Applebee's restaurants may be materially adversely affected.

***An insolvency or bankruptcy proceeding involving a franchisee could prevent or delay the collection of payments or the exercise of rights under the related franchise agreement.*** An insolvency proceeding involving a franchisee could prevent or delay us from collecting payments or exercising any of our other rights under the related franchise agreement. If a franchisee is subject to bankruptcy or insolvency proceedings, a bankruptcy court may prevent the termination of the related franchise and development agreement. In particular, the protection of the statutory automatic stay that arises under Section 362 of the United States Bankruptcy Code upon the commencement of a bankruptcy proceeding by or against a franchisee may prohibit us from terminating a franchise agreement previously entered into with a franchisee. Furthermore, a franchisee that is subject to bankruptcy proceedings may reject the franchise agreement in which case we would be limited to a general unsecured claim against the franchisee's bankruptcy estate on account of breach-of-contract damages arising from the rejection. Payments previously made to us by a franchisee that is subject to a bankruptcy proceeding also may be recoverable from us on behalf of the franchisee as a preferential transfer under the United States Bankruptcy Code.

***We are subject to credit risk from our IHOP franchisees operating under our Previous IHOP Business Model, and a default by these franchisees may negatively affect our cash flows.*** Prior to 2003, new IHOP restaurants were generally developed by us, and we were involved in all aspects of the construction and financing of the restaurants. We typically identified and leased or purchased the restaurant sites for new company-developed IHOP restaurants, built and equipped the restaurants and then franchised them to franchisees. In addition, we typically financed as much as 80% of the franchise fee for periods ranging from five to eight years and leased the restaurant and equipment to the franchisee over a 25-year period. Therefore, in addition to franchise fees and royalties, the revenues received from an IHOP franchisee operating under the Previous IHOP Business Model may include, among other things, lease or sublease rents for the restaurant property building, rent under an equipment lease and interest income from the financing arrangements for the unpaid portion of the franchise fee under the franchise notes. If any of these IHOP franchisees were to default on their payment obligations to us, we may be unable to collect the amounts owed under the building property lease/sublease agreement and our notes and equipment contract receivables, as well as outstanding franchise royalties. The additional amounts owed to us by each of these IHOP franchisees subject us to greater credit risk and defaults by IHOP franchisees operating under our Previous IHOP Business Model and may negatively affect our cash flows. Of the 1,518 IHOP domestic franchise restaurants as of December 31, 2020, approximately 620 restaurants have property lease/sublease agreements and/or notes and equipment contract obligations outstanding.

***We and our franchisees are subject to potential losses that may not be covered by insurance.*** We and our franchisees may have insufficient insurance coverage to cover all of the potential risks associated with the ownership and operation of restaurants. We and our franchisees may have insufficient funds to cover future unanticipated increases in insurance premiums or losses that are not covered by insurance. Certain extraordinary hazards may not be insurable and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, there is no assurance that any loss incurred will not exceed the limits on the policies obtained, or that claim payments on such policies will be received on a timely basis. Further, there can be no assurance that any such payments, even if obtained on a timely basis, will prevent losses to franchisees or enable timely franchise payments. Accordingly, in cases in which a franchisee experiences increased insurance premiums or must pay claims out-of-pocket, the franchisee may not have the funds necessary to make franchise and other payments to us, and franchisees may be unable to perform other obligations under their franchise agreements.

***If franchisees and other licensees do not observe the required quality and trademark usage standards, our brands may suffer reputational damage, which could in turn adversely affect our business.*** We license our intellectual property to our franchisees, product suppliers, manufacturers, distributors, advertisers and other third parties. The franchise agreements and other license agreements require that each franchisee or other licensee use our intellectual property in accordance with established or approved quality control guidelines. However, there can be no assurance that the franchisees or other licensees will use the intellectual property assets in accordance with such guidelines. Franchisee and licensee noncompliance with the terms and conditions of the governing franchise agreement or other license agreement may reduce the overall goodwill associated with our brands. Franchisees and other licensees may refer to our intellectual property improperly in communications, resulting in the weakening of the distinctiveness of our intellectual property. There can be no assurance that the franchisees or other licensees will not take actions that could have a material adverse effect on the Applebee's or IHOP intellectual property.



In addition, even if the licensee product suppliers, manufacturers, distributors, or advertisers observe and maintain the quality and integrity of our intellectual property assets in accordance with the relevant license agreement, any product manufactured by such suppliers may be subject to regulatory sanctions and other actions by third parties which can, in turn, negatively impact the perceived quality of our restaurants and the overall goodwill of our brands, regardless of the nature and type of product involved. Any such sanctions or actions could reduce restaurant revenues and corresponding franchise payments to us.

***Our business strategy may not achieve anticipated results.*** We expect to continue to apply a business strategy that includes operation of a significantly franchised restaurant system across multiple brands and brand-specific business strategies suited to each brand. There can be no assurance that the business strategy we apply to one franchise system will be suitable or will achieve results similar to the application of such business strategy to another franchise system. In addition, operational improvement, purchasing and other strategic initiatives for any of our brands may not be successful or achieve the desired results, and there can be no assurance that franchisees will respond favorably to such initiatives. Additionally, our strategic initiatives may subject us and our franchisees to new and additional risks. Our business strategy includes the addition of new brands to our restaurant portfolio through mergers and acquisitions. There can be no assurance that any such transaction will be successful or produce favorable financial or other results.

### **Risks Related to Operating in the Restaurant Industry**

***Our performance is subject to risks associated with the restaurant industry, including the highly competitive nature of the industry.*** We derive a substantial portion of our revenues in the form of (i) royalties based on the gross sales of our franchised restaurants and (ii) gross sales derived from company-operated restaurants. Sales and profitability of these restaurants may be negatively impacted by a number of factors associated with operating in the restaurant industry, some of which are outside of our control. These factors include:

- changes in consumer behavior driven by macro-level shifts in retail, technology, media, e-commerce, global safety and demography which may impact where, when, whether and how often customers visit full-service restaurants;
- declines in comparable restaurant sales growth rates due to: (i) failure to meet or adequately adapt to changing customer expectations for food type, quality and taste, or to innovate and develop new menu items to retain existing customers and attract new customers; (ii) competitive intrusions in our markets, including competitive pricing initiatives and daypart expansion by competitors; (iii) opening new restaurants that cannibalize the sales of existing restaurants; (iv) failure of national or local marketing to be effective; and (v) natural or man-made disasters or adverse weather conditions;
- negative trends in operating expenses such as: (i) increases in food and other commodity costs or related distribution costs; (ii) increases in labor costs due to minimum wage and other employment laws or regulations, immigration reform, the potential impact of union organizing efforts and tight labor market conditions; and (iii) increases in other operating costs including advertising, utilities, lease-related expenses and credit card processing fees;
- the highly competitive nature of the restaurant and related industries with respect to, among other things: (i) price, service, location, personnel and the type and quality of food; (ii) the trend toward convergence in grocery, deli, retail and restaurant services, as well as the continued expansion of restaurants into the breakfast daypart; (iii) the entry of major market players in non-competing industries into the food services market; (iv) the decline in the price of groceries which may increase the attractiveness of dining at home versus dining out; and (v) the emergence of new or improved technologies and changes in consumer behavior facilitated by such technology;
- the inability to increase menu pricing to offset increased operating expenses; and
- failure to effectively manage further penetration into mature markets.

***Factors outside our control may harm our brands' reputations.*** The success of our business is largely dependent upon brand recognition and the strength of our franchise systems. Our and our franchisees' continued success is directly dependent upon maintaining a favorable public view of the Applebee's and IHOP brands. Negative publicity (e.g., crime, scandal, litigation, on-site accidents and injuries or other harm to customers, social issues, and food-borne illness) at a single Applebee's or IHOP location can have a substantial negative impact on all restaurants within the Applebee's or IHOP system. Multi-unit food service businesses such as ours can be materially and adversely affected by widespread negative publicity of any type, including through social media, but particularly regarding food quality, food-borne illness, food tampering or preparation, obesity, discrimination or bias, injury or other health concerns with respect to certain foods and actions of our or our franchisees' managers or employees, regardless of whether such claims are accurate or valid.

***The risk of food-borne illness or food tampering cannot be completely eliminated.*** Any outbreak of food-borne illness or other food-related incidents attributed to Applebee's or IHOP restaurants or within the food service industry or any widespread negative publicity regarding the Applebee's or IHOP brands or the restaurant industry in general could harm our reputation.

Even where such food-related incidents occur solely at restaurants of our competitors or within the industry, our business could be adversely affected by negative publicity about the restaurant industry generally. Our company-owned restaurants and our franchisees may produce or receive through the supply chain sub-standard or non-compliant food or beverage products. In addition, our franchisees' failure to comply with food quality and preparation requirements may subject us to potential losses, even when we are not legally liable for a franchisee's actions or failure to act. Although the Company maintains liability insurance, and each franchisee is required to maintain liability insurance pursuant to its franchise agreements, a liability claim could injure the reputation of all Applebee's or IHOP restaurants, whether or not it is ultimately successful.

***A lack of availability of suitable locations for new restaurants or a decline in the quality of the locations of our current restaurants may adversely affect our sales and results of operations.*** The success of our brands depends in large part on restaurant locations. As demographic and economic patterns change, current locations may not continue to be attractive or profitable. Potential declines in neighborhoods where restaurants are located or adverse economic conditions in areas surrounding those neighborhoods could result in reduced sales in those locations. In addition, desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an acceptable cost when we identify a particular opportunity for a new restaurant or relocation. Additionally, restaurant revitalization initiatives may not be completed as and when projected and may not produce the results we expect. We also may be unable to operate effectively in new and/or highly competitive geographic regions or local markets in which our franchisees have limited operating experience.

***We may experience shortages or interruptions in the supply or delivery of food and other products from third parties or in the availability of utilities.*** Our and our franchised restaurants are dependent on frequent deliveries of fresh produce, food, beverages and other products. Shortages or interruptions in food and beverage supplies may result from a variety of causes, including shortages due to adverse weather, labor unrest, labor shortages, political unrest, terrorism, pandemics, epidemics, outbreaks of food-borne illness, disruption of operation of production facilities, financial difficulties (including bankruptcy) of our distributors or suppliers or other unforeseen circumstances. Such shortages could adversely affect our and our franchisees' ability to operate our restaurants and, in turn, affect our and our franchisees' revenue and profits. Additionally, the inability to secure adequate and reliable supplies or distribution of food and beverage products could limit our ability to make changes to our core menus or offer promotional "limited time only" menu items, which may limit our ability to implement our business strategies. Our and our franchisees' restaurants bear risks associated with the timeliness of deliveries by suppliers and distributors as well as the solvency, reputation, labor relationships, freight rates, prices of raw materials and health and safety standards of each supplier and distributor. Other significant risks associated with our suppliers and distributors include improper handling of food and beverage products and/or the adulteration or contamination of such food and beverage products. Disruptions in our relationships with suppliers and distributors may reduce the payments we receive from our franchisees or our pancake and waffle dry mix distributors or the profits generated by our company-operated restaurants. In addition, interruptions to the availability of gas, electric, water or other utilities may adversely affect the operations of our and our franchised restaurants.

***Any inability to effectively manage or forecast appropriate inventory levels may adversely affect our business.*** Effective management of inventory levels depends, in part, on our ability to anticipate and respond in a timely manner to changing consumer demand and preferences. From time to time, we may carry excessive inventory resulting from menu events that vary from forecasted demand which may result in financial loss to us and/or to our franchisees. Conversely, if we underestimate demand, we may experience inventory shortages which may result in lost revenues.

***A failure to develop and implement innovative marketing and guest relationship initiatives, ineffective or improper use of social media or other marketing initiatives and increased advertising and marketing costs could adversely affect our business results.*** If our competitors increase their spending on advertising and promotions, if our advertising, media or marketing expenses increase, or if our advertising and promotions become less effective than those of our competitors, we could experience a material adverse effect on our business results. A failure to sufficiently innovate, develop guest relationship initiatives, or maintain adequate and effective advertising could inhibit our ability to maintain brand relevance and drive increased sales.

As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests. These efforts may not be successful, resulting in expenses incurred without the benefit of higher revenues or increased employee engagement. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, posting of negative comments about our brands or experiences in our or our franchisees' restaurants, exposure of personal information, fraud, and use of outdated information. The use, including any inappropriate or otherwise harmful use, of social media vehicles by our franchisees and their employees, guests, our employees or others in the general public could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

***Changing health or dietary preferences may cause consumers to avoid Applebee's and IHOP restaurants in favor of alternative options.*** The food service industry as a whole rests on consumer preferences and demographic trends at the local, regional, national and international levels. Franchise development and system-wide sales depend on the sustained demand for our products, which may be affected by factors we do not control. New information regarding diet, nutrition and health and efforts by advocacy groups to influence consumer eating habits may negatively affect the demand for our food. Various additional factors such as: (i) the Food and Drug Administration's menu labeling rules, (ii) nutritional guidelines issued by the United States Department of Agriculture and issuance of similar guidelines or statistical information by state or local municipalities, (iii) academic studies; or (iv) efforts by environmental, animal welfare and sustainability advocacy groups, may impact consumer choice and cause consumers to select foods other than those that are offered by Applebee's or IHOP restaurants. We may not be able to adequately adapt Applebee's or IHOP restaurants' menu offerings to keep pace with developments in consumer preferences, which may result in reduced royalty revenues from a decline in demand for our food and fewer guests visiting Applebee's and IHOP restaurants.

### **Risks Related to Ownership of Our Common Stock**

***Declines in our financial performance have resulted in and could result in future impairment charges.*** United States generally accepted accounting principles ("U.S. GAAP") require annual (or more frequently if events or changes in circumstances warrant) impairment tests of goodwill, intangible assets and other long-lived assets. Generally speaking, if the carrying value of the asset is in excess of the estimated fair value of the asset, the carrying value will be adjusted to fair value through an impairment charge. Fair values of goodwill and intangible assets are primarily estimated using discounted cash flows based on five-year forecasts of financial results that incorporate assumptions including, among other things, same-restaurant sales trends, future development plans, brand-enhancing initiatives, restaurant closures and an appropriate discount rate. Fair values of long-lived tangible assets are primarily estimated using discounted cash flows over the estimated useful lives of the assets. Significant underachievement of forecasted results or changes in the discount rate assumption could reduce the estimated fair value of these assets below the carrying value, requiring non-cash impairment charges to reduce the carrying value of the asset. In the second quarter of 2020, as a result of performing the interim quantitative test, we recognized an impairment of Applebee's goodwill of \$92.2 million, an impairment of Applebee's tradename of \$11.0 million and an impairment of various long-lived assets of \$17.2 million. As of December 31, 2020, our total stockholders' deficit was \$354.7 million. Any significant impairment write-down of goodwill, intangible assets or long-lived assets in the future could increase the stockholders' deficit. Repurchases of our common stock will also increase the stockholders' deficit. While such a deficit balance does not create an event of default in any of our contractual agreements, the negative perception of such a deficit could have an adverse effect on our stock price and could impair our ability to obtain new financing, or refinance existing indebtedness on commercially reasonable terms or at all.

***Many factors, including those over which we have no control, affect the trading volatility and price of our stock.*** Many factors, in addition to our operating results, may have an impact on the trading volatility and price of our common stock. These factors include general economic and market conditions, publicity regarding us, our competitors, or the restaurant industry generally, changes in financial estimates by securities analysts, changes in financial or tax reporting and accounting principles or practices, trading activity in our common stock, overall liquidity and the impact of our capital allocation initiatives, including any future stock repurchase programs or dividend declarations. Many of these factors are outside of our control, and any failure to meet market expectations whether for sales growth, earnings per share or other metrics could cause our share price to decline.

***Our actual operating and financial results in any given period may differ from guidance we provide to the public, including our most recent public guidance.*** From time to time, in press releases, SEC filings, public conference calls and other contexts, we have provided guidance to the public regarding current business conditions and our expectations for our future financial results. We expect that we will provide guidance periodically in the future. Our guidance is based upon a number of assumptions, expectations and estimates that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In providing our guidance, we also make various assumptions with respect to our future business decisions, some of which will change. Our actual financial results, therefore, may vary from our guidance due to our inability to meet the assumptions upon which our guidance is based and the impact on our business of the various risks and uncertainties described in these risk factors and in our public filings with the SEC. Variances between our actual results and our guidance may be material. To the extent that our actual financial results do not meet or exceed our guidance, the trading prices of our securities may be materially adversely affected.

### **Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The table below shows the location and ownership type of Applebee's and IHOP restaurants as of December 31, 2020:

	Applebee's (a)			IHOP (a)			
	Franchise	Company	Total Applebee's	Franchise	Company	Area License	Total IHOP
<i>United States</i>							
Alabama	30	—	30	16	—	—	16
Alaska	1	—	1	4	—	—	4
Arizona	21	—	21	45	—	—	45
Arkansas	8	—	8	15	—	—	15
California	107	—	107	225	—	—	225
Colorado	24	—	24	36	—	—	36
Connecticut	6	—	6	9	—	—	9
Delaware	12	—	12	7	—	—	7
District of Columbia	—	—	—	2	—	—	2
Florida	96	—	96	—	—	146 (b)	146
Georgia	58	—	58	80	—	3	83
Hawaii	—	—	—	5	—	—	5
Idaho	12	—	12	8	—	—	8
Illinois	37	—	37	47	—	—	47
Indiana	57	—	57	27	—	—	27
Iowa	25	—	25	11	—	—	11
Kansas	29	—	29	30	—	—	30
Kentucky	27	—	27	11	—	—	11
Louisiana	14	—	14	31	—	—	31
Maine	12	—	12	4	—	—	4
Maryland	19	—	19	51	—	—	51
Massachusetts	26	—	26	22	—	—	22
Michigan	84	—	84	28	—	—	28
Minnesota	47	—	47	9	—	—	9
Mississippi	20	—	20	13	—	—	13
Missouri	48	—	48	32	—	—	32
Montana	8	—	8	4	—	—	4
Nebraska	16	—	16	6	—	—	6
Nevada	13	—	13	23	—	—	23
New Hampshire	13	—	13	6	—	—	6
New Jersey	56	—	56	50	—	—	50
New Mexico	20	—	20	13	3	—	16
New York	99	—	99	59	—	—	59
North Carolina	1	42	43	49	—	—	49
North Dakota	11	—	11	2	—	—	2
Ohio	77	—	77	39	—	—	39
Oklahoma	12	—	12	33	—	—	33
Oregon	17	—	17	11	—	—	11
Pennsylvania	78	—	78	29	—	—	29
Rhode Island	8	—	8	5	—	—	5
South Carolina	—	27	27	31	—	—	31
South Dakota	6	—	6	2	—	—	2
Tennessee	29	—	29	37	—	—	37
Texas	91	—	91	207	—	—	207
Utah	9	—	9	22	—	—	22
Vermont	3	—	3	1	—	—	1
Virginia	54	—	54	65	—	—	65
Washington	41	—	41	31	—	—	31
West Virginia	14	—	14	8	—	—	8
Wisconsin	31	—	31	14	—	—	14
Wyoming	4	—	4	3	—	—	3
<b>Total Domestic</b>	<b>1,531</b>	<b>69</b>	<b>1,600</b>	<b>1,518</b>	<b>3</b>	<b>149</b>	<b>1,670</b>

	Applebee's (a)			IHOP (a)			
	Franchise	Company	Total Applebee's	Franchise	Company	Area License	Total IHOP
<b>International</b>							
Bahrain .....	1	—	1	—	—	—	—
Brazil .....	2	—	2	—	—	—	—
Canada .....	13	—	13	18	—	9 (b)	27
Dominican Republic .....	2	—	2	—	—	—	—
Ecuador .....	—	—	—	5	—	—	5
Egypt .....	1	—	1	—	—	—	—
Guam .....	1	—	1	2	—	—	2
Guatemala .....	4	—	4	—	—	—	—
India .....	—	—	—	3	—	—	3
Kuwait .....	6	—	6	—	—	—	—
Mexico .....	44	—	44	46	—	—	46
Pakistan .....	—	—	—	1	—	—	1
Panama .....	2	—	2	2	—	—	2
Peru .....	—	—	—	1	—	—	1
Puerto Rico .....	8	—	8	6	—	—	6
Qatar .....	7	—	7	—	—	—	—
Saudi Arabia .....	20	—	20	8	—	—	8
Thailand .....	—	—	—	1	—	—	1
Total International .....	111	—	111	93	—	9	102
Totals .....	1,642	69	1,711	1,611	3	158	1,772

(a) The properties identified in this table generate revenue in our franchise, rental, financing and company restaurant operating segments.

(b) Of these restaurants, 25 in Florida and six in Canada have been sub-licensed by the area licensee.

Of the 1,611 IHOP restaurants operated by franchisees, 57 were located on sites owned by us, 564 were located on sites leased by us from third parties and 990 were located on sites owned or leased by franchisees. All of the IHOP restaurants operated by area licensees and 1,640 of the franchisee-operated Applebee's restaurants were located on sites owned or leased by the area licensees or the franchisees. We owned one site on which a franchisee-operated Applebee's restaurant was located and one franchisee-operated Applebee's restaurant was located on site leased by us from third parties. The 69 Applebee's restaurants we operated as of December 31, 2020 were located on sites leased by us from third parties.

Leases of IHOP restaurants generally provide for an initial term of 20 to 25 years, with most having one or more five-year renewal options. Leases of Applebee's restaurants generally have an initial term of 10 to 20 years, with renewal terms of five to 20 years. In addition, a substantial number of the leases for both IHOP and Applebee's restaurants include provisions calling for the periodic escalation of rents during the initial term and/or during renewal terms. The leases typically provide for payment of rents in an amount equal to the greater of a fixed amount or a specified percentage of gross sales and for payment of taxes, insurance premiums, maintenance expenses and certain other costs. Historically, it has been our practice to seek to extend, through negotiation, those leases that expire without renewal options. However, from time to time, we choose not to renew a lease or are unsuccessful in negotiating satisfactory renewal terms. When this occurs, the restaurant is closed and possession of the premises is returned to the landlord.

Under our Applebee's franchise agreements, we have certain rights to gain control of a restaurant site in the event of default under the franchise agreement. Because substantially all IHOP franchised restaurants developed by us under our Previous IHOP Business Model are subleased to the franchisees, IHOP has the ability to regain possession of the subleased restaurant if the franchisee defaults in the payment of rent or other terms of the sublease.

We currently occupy our principal corporate offices and restaurant support center located in Glendale, California, under a lease expiring in April 2023. We lease approximately 50,000 square feet of office space in Kansas City, Missouri, under a lease expiring in October 2021. We lease approximately 3,000 square feet of office space in Raleigh, North Carolina under a lease expiring in April 2024.



### Item 3. Legal Proceedings.

We are subject to various lawsuits, administrative proceedings, audits, and claims arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. We are required to record an accrual for litigation loss contingencies that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of all of our litigation are expensed as such fees and expenses are incurred. Management regularly assesses our insurance deductibles, analyzes litigation information with our attorneys and evaluates our loss experience in connection with pending legal proceedings. While we do not presently believe that any of the legal proceedings to which we are currently a party will ultimately have a material adverse impact on us, there can be no assurance that we will prevail in all the proceedings we are party to, or that we will not incur material losses from them.

### Item 4. Mine Safety Disclosure.

Not Applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our common stock is traded on the NYSE under the symbol "DIN".

#### Holdings

As of February 23, 2021, there were 381 holders of our common stock. This number does not include beneficial owners whose shares are held in street name by brokers and other nominees.

#### Dividends on Common Stock

Please refer to Note 12 - Stockholders' Deficit, of the Notes to the Consolidated Financial Statements for information on dividends declared and paid in the fiscal years ended December 31, 2020 and December 31, 2019.

In light of the COVID-19 pandemic, our Board of Directors did not declare a dividend for the second, third and fourth quarters of 2020. We will reevaluate our capital allocation strategy as industry conditions improve and normal restaurant operations resume, in consideration of our current and forecast earnings, financial condition, cash requirements and other factors.

#### Issuer Purchases of Equity Securities

##### Purchases of Equity Securities by the Company

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs (b)</u>	<u>Approximate dollar value of shares that may yet be purchased under the plans or programs (b)</u>
September 28, 2020 – October 25, 2020 <sup>(a)</sup> .....	—	—	—	\$ 70,200,000
October 26, 2020 – November 22, 2020 <sup>(a)</sup> .....	498	\$ 59.75	—	\$ 70,200,000
November 23, 2020 – January 3, 2021 <sup>(a)</sup> .....	181	\$ 65.75	—	\$ 70,200,000
Total.....	<u>679</u>	<u>\$ 61.35</u>	<u>—</u>	<u>\$ 70,200,000</u>

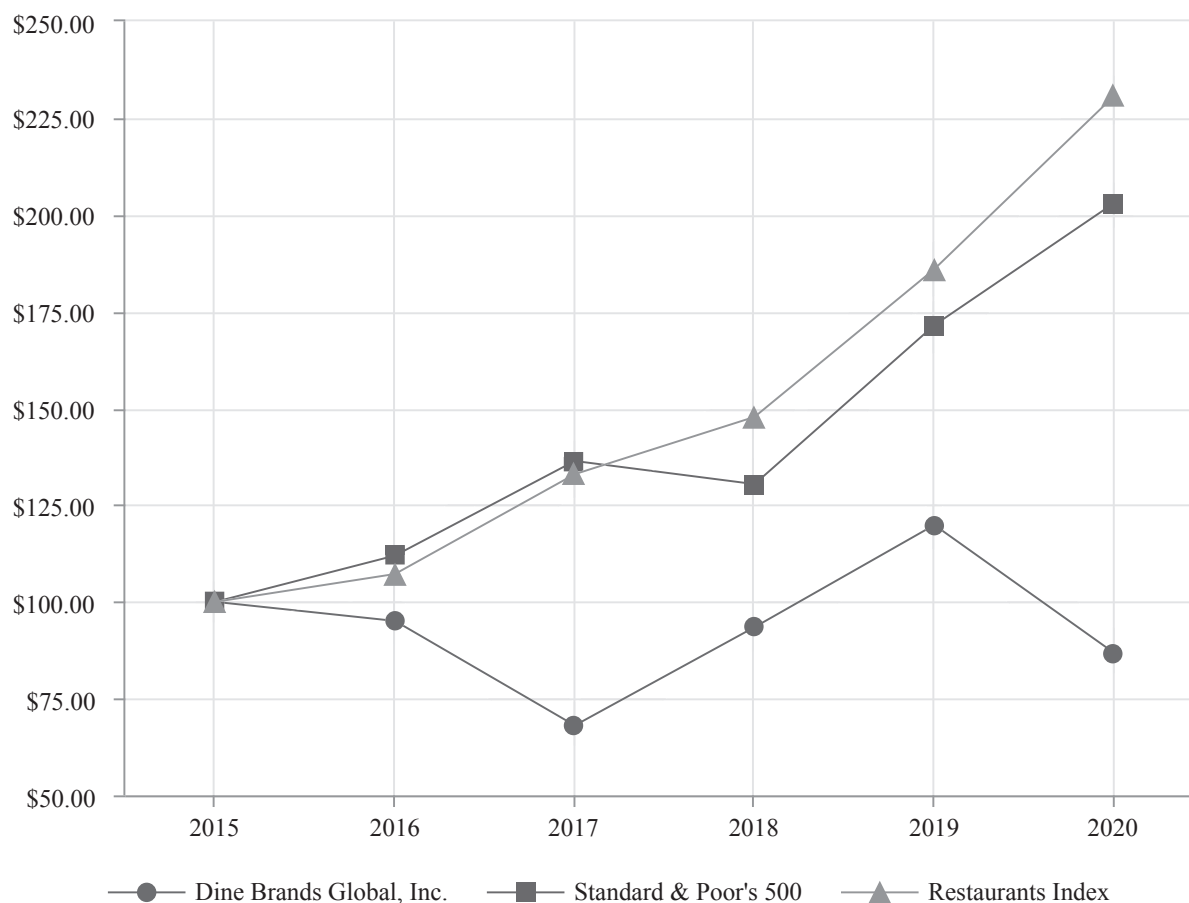
<sup>(a)</sup> These amounts represent shares owned and tendered by employees to satisfy tax withholding obligations arising upon the vesting of restricted stock awards. Shares so surrendered by the participants are repurchased by us pursuant to the terms of the plan under which the shares were issued and the applicable individual award agreements and not pursuant to publicly announced repurchase authorizations.

<sup>(b)</sup> In February 2019, our Board of Directors approved the 2019 Repurchase Program authorizing the Company to repurchase up to \$200 million of the Company's common stock. The 2019 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time.

## Stock Performance Graph

The graph below shows a comparison of the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Composite Index and the Value-Line Restaurants Index ("Restaurant Index") over the five-year period ended December 31, 2020. The graph and table assume \$100 was invested at the close of trading on the last day of trading in 2015 in our common stock and in each of the market indices, with reinvestment of all dividends. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

**Comparison of Five-Year Cumulative Total Stockholder Return  
Dine Brands Global, Inc., Standard & Poor's 500 and Value Line Restaurants Index  
(Performance Results through December 31, 2020)**



	2015	2016	2017	2018	2019	2020
Dine Brands Global, Inc. ....	\$ 100.00	\$ 95.07	\$ 68.07	\$ 93.47	\$ 119.86	\$ 86.80
Standard & Poor's 500 .....	100.00	111.96	136.40	130.42	171.49	203.05
Value Line Restaurants Index <sup>(1)</sup> .....	100.00	107.20	132.99	147.79	185.97	230.72

<sup>(1)</sup>The Value Line Restaurants index is a comprehensive restaurant industry index. In addition to family dining and casual dining, the Index includes the fast-casual and quick-service segments of the restaurant industry.

The foregoing performance graph is being furnished as part of this report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act.

## Item 6. Selected Financial Data.

Not Applicable

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### General

The following discussion provides an analysis of our results of operations and reasons for material changes for 2020 as compared to 2019 and should be read together with the financial statements included in this Annual Report on Form 10-K. For a detailed discussion of year-to-year comparisons between fiscal 2019 and fiscal 2018, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 24, 2020.

The financial tables appearing in Management's Discussion and Analysis present amounts in millions of dollars that are rounded from our consolidated financial statements presented in thousands of dollars. As a result, the tables may not foot or cross foot due to rounding.

The first International House of Pancakes restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter, the Company's predecessor began developing and franchising additional restaurants. The Company was incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. In November 2007, the Company completed the acquisition of Applebee's International, Inc., which became a wholly-owned subsidiary of the Company. Effective June 2, 2008, the name of the Company was changed to DineEquity, Inc. and on February 20, 2018, the name of the Company was changed to Dine Brands Global, Inc.<sup>SM</sup> ("Dine Brands Global," "we" or "our"). Through various subsidiaries (see Exhibit 21, Subsidiaries of Dine Brands Global, Inc.), we own, franchise and operate the Applebee's Neighborhood Grill + Bar<sup>®</sup> ("Applebee's") concept in the bar and grill segment within the casual dining category of the restaurant industry and we own and franchise the International House of Pancakes<sup>®</sup> ("IHOP") concept in the family dining category of the restaurant industry. References herein to Applebee's<sup>®</sup> and IHOP<sup>®</sup> restaurants are to these two concepts, whether operated by franchisees, area licensees or us.

Domestically, IHOP restaurants are in all 50 states and the District of Columbia, while Applebee's restaurants are located in every state except Hawaii. Internationally, IHOP restaurants are in two United States territories and nine countries; Applebee's restaurants are in two United States territories and 11 countries. With over 3,400 restaurants combined, the substantial majority of which are franchised, we believe we are one of the largest full-service restaurant companies in the world. The June 15, 2020 issue of *Nation's Restaurant News* reported that IHOP and Applebee's were the largest restaurant systems in the family dining and casual dining categories, respectively, in terms of United States system-wide sales during 2019.

We have a 52/53 week fiscal year ending on the Sunday nearest to December 31 of each year. For convenience, in this annual report on Form 10-K, we refer to all fiscal years as ending on December 31 and all interim fiscal quarters as ending on March 31, June 30 and September 30 of the respective fiscal year. There were 53 calendar weeks in our 2020 fiscal year ended January 3, 2021 and our fiscal 2020 fourth quarter contained 14 calendar weeks. There were 52 calendar weeks in our 2019 and 2018 fiscal years that ended on December 29, 2019 and December 30, 2018, respectively.

### COVID-19 Pandemic

In March 2020, the World Health Organization declared a global pandemic related to the outbreak of a novel strain of coronavirus, designated "COVID-19." Initially, federal, state, local and international governments reacted to the COVID-19 pandemic by encouraging or requiring social distancing, instituting shelter-in-place orders, and requiring, in varying degrees, reduced operating hours, restaurant dine-in and/or indoor dining limitations, capacity limitations or other restrictions that largely limited restaurants to off-premise sales (take-out and delivery) in the early months of the pandemic. Over the course of 2020, certain of these restrictions on indoor dining were relaxed as incidents of infection from the initial outbreak declined, but many of the restrictions were reinstated as incidents of infection surged. The nature, degree and duration of the restrictions varied by individual geographic area.

Since the onset of the pandemic in March 2020, we have taken numerous actions to mitigate the effects of the COVID-19 pandemic on the Company, its operations and its franchisees, as discussed below:

- We drew down a total of \$220 million from our revolving credit facility. Including approximately \$3 million in letters of credit, \$223 million of the total \$225 million available under our revolving facility has been utilized. We had no immediate need for additional liquidity, but in light of then-current market conditions and uncertainty related to the COVID-19 pandemic, we drew on the revolving facility to maximize our financial flexibility. We plan to repay the \$220 million drawn on the revolving credit facility in the month of March 2021.

- We have stopped repurchasing our common stock and our Board of Directors did not declare a dividend for the second, third and fourth quarters of 2020. We will reevaluate our capital allocation strategy as industry conditions improve and normal restaurant operations resume, in consideration of our current and forecast earnings, financial condition, cash requirements and other factors. Prior to taking these actions, we used cash totaling \$53.8 million for dividends and stock repurchases in 2020 as compared to using cash of \$156.6 million for dividends and stock repurchases in 2019.
- We voluntarily increased the interest reserve set aside for our securitized debt, from the required \$16.4 million to \$32.8 million. We also voluntarily accelerated the funding of interest on our securitized debt with the redirection of cash receipts within the securitization structure. As of the date of this report, the interest payments on long-term debt due March 5, 2021 and June 5, 2021 have been fully funded.
- We have reduced discretionary costs, limited new hiring and significantly reduced the use of independent contractors. At the outset of the pandemic, we temporarily furloughed certain team members across various functional groups in our restaurant support centers and company-operated restaurants and curtailed the hours of substantially all of the hourly restaurant associates at our company-operated restaurants. Most hourly restaurant associates at our company-operated restaurants returned to work following re-opening of those restaurants, and there were no team members from the restaurant support centers remaining on furlough as of December 31, 2020. Our General & Administrative (“G&A”) expenses for the year ended December 31, 2020 were \$18.0 million lower than the prior year.
- We offered Applebee's franchisees the opportunity to defer payment of their royalty, advertising and other fees, primarily for the months of March and April. A total of 30 franchisees representing 94% of Applebee's restaurants have deferred payments totaling \$33.4 million. Repayment of deferred amounts, scheduled over up to nine months, began in the third quarter of 2020. As of December 31, 2020, the outstanding balance was approximately \$13.7 million, with five franchisees having repaid their deferred balances in full.
- We offered IHOP franchisees the opportunity to defer their royalty, advertising, equipment rent and sublease rent payments, primarily for the months of March and April. Initially, 193 franchisees representing 58% of IHOP restaurants deferred payments totaling \$24.1 million. Including subsequent deferrals made on a case-by case basis, the deferral program totaled \$27.4 million. Repayment of deferred amounts, scheduled over up to 36 weeks, began in the third quarter of 2020. In certain instances, repayments were temporarily paused for up to 60 days. As of December 31, 2020, the outstanding balance was approximately \$15.4 million, with 56 franchisees having repaid their deferred balances in full.
- We received rent deferrals and abatements on properties we lease of approximately \$11 million, primarily related to rent deferrals for properties on which IHOP restaurants are located. As of December 31, 2020, the deferred rent balance was approximately \$5 million, the significant majority of which is due to be paid in 2021.
- We allowed franchisees to defer their development obligations for up to 15 months and we allowed franchisees to defer their 2020 unit remodel obligations until the end of 2022.
- We have worked with our franchisees to offer a limited menu and to modify their operating hours in a manner that optimizes the functionality of their restaurants. Our expectation is restaurants will return to normal operating hours as sales return to pre-pandemic levels.
- We hired external consultants to work with franchisees in assessing their financial health and to better understand performance variability. We began this process in the third quarter of 2020 working closely with key franchise leaders.

In March 2020, in light of the COVID-19 pandemic, Standard & Poor's (“S&P”) placed the Company on “credit watch-negative” with respect to its 2019 Class A-2 Notes. In September 2020, S&P removed the Company from the credit watch and reaffirmed the BBB rating of the 2019 Class A-2 Notes.

The significance of the impacts of the COVID-19 pandemic resulted in our performing impairment assessments of our long-lived assets, goodwill and other intangible assets. As a result of these assessments, we recorded impairment charges of \$123.7 million in the second fiscal quarter of 2020. See “*Consolidated Results of Operations - Fiscal 2020, 2019 and 2018 - Impairment and Closure Costs*” for further discussion of the impairments. Additional impairment and closure charges of \$8.1 million were recorded during the fourth fiscal quarter of 2020, primarily related to closure of IHOP restaurants.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. Among the various provisions in the CARES Act, the Company is utilizing the payroll tax deferrals and has claimed an Employee Retention Credit. As of December 31, 2020, the Company has deferred the payment of \$3.1 million of payroll taxes, of which 50% is due to be paid by December 31, 2021 and the remaining 50% is due to be paid by December 31, 2022. The Company also has claimed an Employee Retention Credit of \$0.6 million as of December 31, 2020. The Company did not receive any form of loan pursuant the Paycheck Protection Program established under the CARES Act. Other than the deferrals and credits noted above, the Company did not receive financial aid pursuant to assistance programs offered by the federal government related to the COVID-19 pandemic.

The severity of the continued impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus may arise, what restrictions on restaurant operations may be enacted or re-enacted, the availability and acceptance of vaccines, the timing and extent of customer re-engagement with the Company's brands and, in general, what short- and long-term impact on consumer discretionary spending the COVID-19 pandemic might have on the Company and the restaurant industry as a whole, all of which are uncertain and cannot be predicted.

## Overview of 2020 Performance

### Key Performance Indicators

In evaluating the performance of each restaurant concept, we consider the key performance indicators to be the system-wide sales percentage change, the percentage change in domestic system-wide same-restaurant sales ("domestic same-restaurant sales"), net franchise restaurant development/reduction and the change in total effective restaurants. Changes in both domestic same-restaurant sales and in the number of Applebee's and IHOP restaurants will impact our system-wide retail sales that drive franchise royalty revenues. Net franchise restaurant development/reduction also impacts franchise revenues in the form of initial franchise fees and, in the case of IHOP restaurants, sales of proprietary pancake and waffle dry mix and, where applicable, rental payments under leases that partially may be based on a percentage of their sales.

An overview of our key performance indicators for the year ended December 31, 2020 is as follows:

	<u>Applebee's</u>	<u>IHOP</u>
System-wide sales percentage decrease.....	(24.1)%	(34.9)%
Domestic system-wide same-restaurant sales percentage decrease.....	(22.4)%	(32.8)%
Net franchise restaurant reduction <sup>(1)</sup> .....	(76)	(69)
Net decrease in total effective restaurants <sup>(2)</sup> .....	(122)	(133)

<sup>(1)</sup> Franchise and area license restaurant closings, net of openings, during the year ended December 31, 2020.

<sup>(2)</sup> Change in the weighted average number of franchise, area license and company-operated restaurants open during the year ended December 31, 2020, compared to the weighted average number of those open during the same period of 2019.

The Applebee's and IHOP sales percentage decreases for the year ended December 31, 2020 were due to a decrease in domestic same-restaurant sales primarily as a result of the effects of COVID-19, as well as a decrease in total effective restaurants. The decrease in total effective restaurants for each brand reflects both a net reduction in franchise restaurants due to permanent closures, net of openings, and the weighted effect of restaurants temporarily closed during the course of the year ended December 31, 2020.

### Financial Summary

	<u>2020</u>	<i>Favorable (Unfavorable) Variance</i>	<u>2019</u>
	<u>(In millions, except per share amounts)</u>		
(Loss) income before income taxes.....	\$ (108.6)	\$ (247.0)	\$ 138.4
Income tax benefit (provision).....	4.6	38.7	(34.1)
Net (loss) income.....	<u>\$ (104.0)</u>	<u>\$ (208.3)</u>	<u>\$ 104.3</u>
		<u>Variance</u>	
Effective tax rate.....	4.2 %	<u>20.4 %</u>	24.6 %
Net (loss) income per diluted share.....	\$ (6.43)	\$ (12.28)	\$ 5.85
Weighted average diluted shares outstanding.....	16.2	(1.0)	17.2



Income before income taxes for the year ended December 31, 2020 decreased \$247.0 million compared to the year ended December 31, 2019. The primary reasons for the decrease are summarized as follows:

	<u>(In millions)</u>
Decrease in gross profit:	
Franchise operations.....	\$ (107.9)
Company operations.....	(11.5)
All other operations.....	(14.7)
Total gross profit decrease.....	<u>(134.1)</u>
Increase in impairment and closure charges.....	(131.1)
Decrease in G&A expenses.....	18.0
All other.....	0.2
Decrease in income before income taxes.....	<u>\$ (247.0)</u>

Each of these material changes resulted in some manner from impacts of the COVID-19 pandemic. Revenues and cash flows of our franchise, company-operated restaurant and rental operations were significantly affected by the varying degrees of limitations imposed on restaurant operations throughout the majority of 2020. The impacts of the pandemic were considered a potential indicator of impairment which required interim tests of impairment of our goodwill, intangible assets and long-lived assets that resulted in impairment charges of \$123.7 million recorded in the second quarter of 2020. To partially mitigate the impact on cash flow, management undertook actions to reduce G&A, such as the furloughing of employees noted above.

Our 2020 effective tax rate of 4.2% applied to pretax book loss was significantly different than the statutory Federal income tax rate of 21% primarily because a \$92.2 million impairment of goodwill incurred in the second quarter is not deductible for income tax purposes and therefore has no associated tax benefit. See Note 16 - Income Taxes, of the Notes to the Consolidated Financial Statements for a reconciliation between our effective rate and the statutory Federal income tax rate.

### ***Restaurant Data - System-wide Sales and Domestic Same-Restaurant Sales***

The following table sets forth for each of the past three years the number of Effective Restaurants in the Applebee's and IHOP systems and information regarding the percentage change in sales at those restaurants compared to the same periods in the prior two years. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company and, as such, the percentage changes in sales presented below are based on non-GAAP sales data. However, we believe that presentation of this information is useful in analyzing our revenues because franchisees and area licensees pay us royalties and advertising fees that are generally based on a percentage of their sales, and, where applicable, rental payments under leases that partially may be based on a percentage of their sales. Management also uses this information to make decisions about future plans for the development of additional restaurants as well as evaluation of current operations.

#### **Applebee's**

	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Global Effective Restaurants:<sup>(a)</sup></b>			
Franchise.....	1,624	1,745	1,883
Company.....	68	69	3
Total.....	<u>1,692</u>	<u>1,814</u>	<u>1,886</u>
<b>System-wide:<sup>(b)</sup></b>			
Domestic sales percentage change <sup>(c)</sup> .....	(24.1)%	(3.0)%	2.3 %
Domestic same-restaurant sales percentage change <sup>(d)</sup> .....	(22.4)%	(0.7)%	5.0 %
<b>Franchise:<sup>(b)</sup></b>			
Domestic sales percentage change <sup>(c)(e)</sup> .....	(24.3)%	(5.9)%	2.1 %
Domestic same-restaurant sales percentage change <sup>(d)</sup> .....	(22.6)%	(0.7)%	4.9 %
Domestic average weekly unit sales (in thousands).....	\$ 37.1	\$ 47.3	\$ 46.7

## IHOP

	Year Ended December 31,		
	2020	2019	2018
<b>Global Effective Restaurants:</b> <sup>(a)</sup>			
Franchise.....	1,532	1,663	1,633
Area license.....	155	157	162
Total	<u>1,687</u>	<u>1,820</u>	<u>1,795</u>
<b>System-wide:</b> <sup>(b)</sup>			
Sales percentage change <sup>(c)</sup> .....	(34.9)%	2.2 %	3.9 %
Domestic same-restaurant sales percentage change <sup>(d) (f)</sup> .....	(32.8)%	1.1 %	1.5 %
<b>Franchise:</b> <sup>(b)</sup>			
Sales percentage change <sup>(c)</sup> .....	(35.0)%	2.2 %	4.4 %
Domestic same-restaurant sales percentage change <sup>(d)</sup> .....	(32.8)%	1.0 %	1.5 %
Average weekly unit sales (in thousands).....	\$ 25.4	\$ 36.7	\$ 36.6
<b>Area License:</b> <sup>(b)</sup>			
IHOP sales percentage change <sup>(c)</sup> .....	(34.2)%	2.7 %	0.5 %

(a) “Global Effective Restaurants” are the weighted average number of restaurants open in a given fiscal period, adjusted to account for restaurants open for only a portion of the period. Information is presented for all Effective Restaurants in the Applebee’s and IHOP systems, domestic and international, which includes restaurants owned by franchisees and area licensees as well as those owned by the Company.

(b) “System-wide sales” are retail sales at Applebee’s restaurants operated by franchisees and IHOP restaurants operated by franchisees and area licensees, as reported to the Company, in addition to retail sales at company-operated restaurants. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. An increase or decrease in franchisees’ reported sales will result in a corresponding increase or decrease in our royalty revenue. Sales at company-operated restaurants and unaudited reported sales for Applebee’s domestic franchise restaurants, IHOP franchise restaurants and IHOP area license restaurants for the years ended December 31, 2020, 2019 and 2018 and were as follows:

	Year Ended December 31,		
	2020	2019	2018
<b>Reported sales</b>		(In millions)	
Applebee’s domestic franchise restaurant sales.....	\$ 2,993.0	\$ 3,954.3	\$ 4,204.1
Applebee’s company-operated restaurants.....	108.0	131.2	7.1
IHOP franchise restaurant sales.....	2,063.6	3,174.2	3,106.7
IHOP area license restaurant sales.....	190.5	289.5	282.0
Total.....	<u>\$ 5,355.1</u>	<u>\$ 7,549.2</u>	<u>\$ 7,599.9</u>

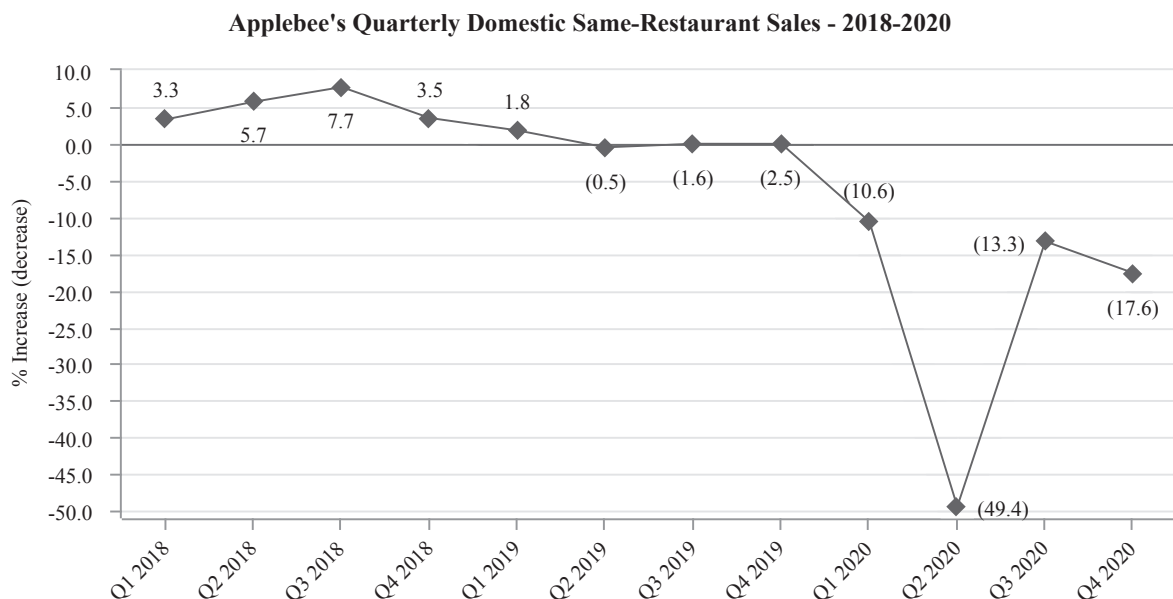
(c) “Sales percentage change” reflects, for each category of restaurants, the percentage change in sales in any given fiscal year compared to the prior fiscal year for all restaurants in that category.

(d) “Domestic same-restaurant sales change” reflects the percentage change in sales in any given fiscal year, compared to the same weeks in the prior year, for domestic restaurants that have been operated throughout both fiscal years that are being compared and have been open for at least 18 months. Because of new restaurant openings and restaurant closures, the domestic restaurants open throughout the fiscal years being compared may be different from year to year.

(e) The Applebee’s franchise sales percentage change for 2019 was impacted by the acquisition of 69 franchise restaurants in December 2018 now reported as company-operated.

(f) IHOP system-wide same-restaurant sales data includes area license restaurants beginning in 2019

## Domestic Same-Restaurant Sales Trends

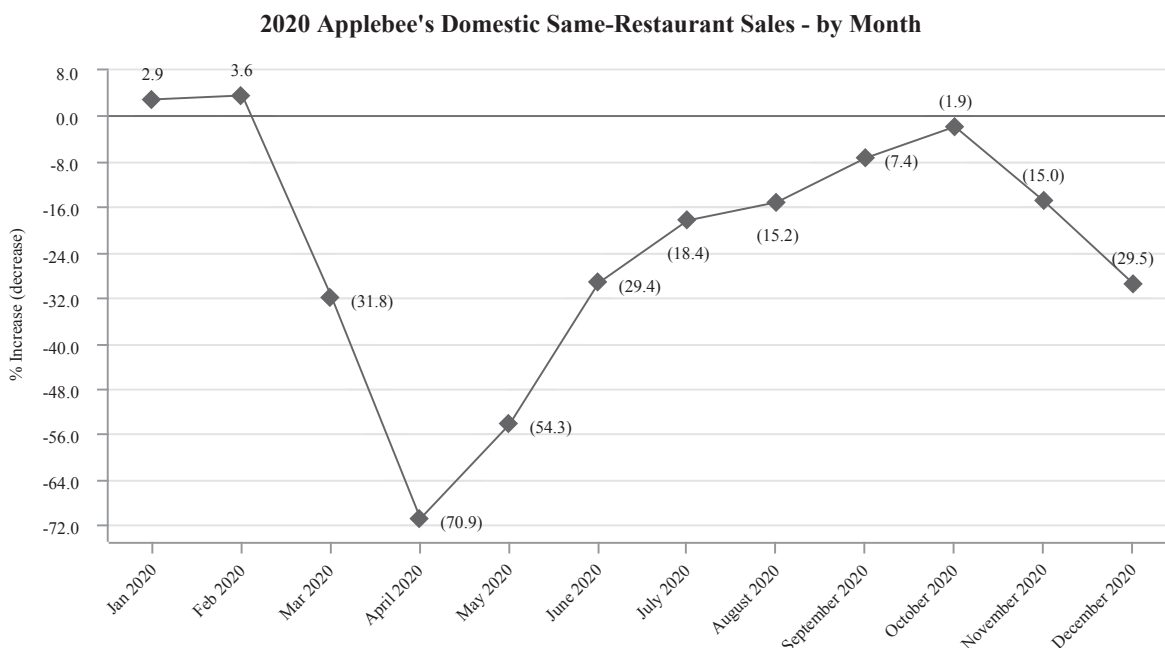


Applebee's domestic same-restaurant sales decreased 17.6% for the three months ended December 31, 2020 from the same period in 2019. The decrease primarily was due to a significant decline in customer traffic as a result of the effects of COVID-19, partially offset by an increase in average check. Applebee's same-restaurant sales for the fourth quarter of 2020 outperformed the casual dining segment of the restaurant industry. Based on data from Black Box Intelligence, a restaurant sales reporting firm ("Black Box"), the casual dining segment of the restaurant industry experienced a decrease in same-restaurant sales during the fourth quarter of 2020 resulting from a large decline in customer traffic that was somewhat offset by an increase in average customer check. The primary reason for the performance differential between Applebee's and the casual dining segment during the fourth quarter of 2020 was the increase in average customer check, as Applebee's increase in average customer check was larger than that of the casual dining segment.

For the year ended December 31, 2020, Applebee's domestic same-restaurant sales decreased 22.4%. This decrease for the full year 2020 was due to a significant decline in customer traffic as a result of the effects of COVID-19, partially offset by an increase in average check. Applebee's same-restaurant sales for the year ended December 31, 2020 underperformed the casual dining segment of the restaurant industry. Based on data from Black Box, the casual dining segment experienced a decrease in same-restaurant sales due to a decline in customer traffic that was slightly offset by an increase in average customer check. The primary reason for the performance differential between Applebee's and the casual dining segment for the year ended December 31, 2020 was the decrease in traffic, as Applebee's decrease in traffic was larger than that of the casual dining segment.

Applebee's system-wide domestic same-restaurant sales had significant variability over the course of fiscal 2020. This variability was due to several factors. Restrictions on indoor dining were relaxed after the incidents of infection from the initial outbreak of COVID-19 declined, but the restrictions were reinstated in varying degrees during the fourth quarter of 2020 as incidents of the virus surged in individual geographic areas. Another factor was the Company's return to national media advertising in July 2020 after having temporarily discontinued its national advertising programs in March 2020. Other factors were the resilience of the consumers' desire to patronize restaurants as dine-in restrictions were lifted and the retention of off-premise sales.

As shown in the following table, prior to the large-scale initiation of restrictions on restaurant operations, Applebee's began 2020 with positive domestic same-restaurant sales. For the first 10 weeks of the first quarter of fiscal 2020, Applebee's domestic same-restaurant sales increased 3.2%, primarily due to an increase in customer traffic as well as an increase in average customer check. During March and April, virtually all Applebee's restaurants were limited to off-premise sales or were temporarily closed. After reaching a low point in same-restaurant sales in April 2020, Applebee's experienced progressive improvement in same-restaurant sales for the months of May through October 2020. However, as incidents of the virus surged in the fourth quarter and restrictions on restaurant operations were reinstated, the trend of improvement in same-restaurant sales reversed for the months of November and December.



The following table reflects the impact of restaurant dine-in restrictions on Applebee's domestic restaurant operations by month since dine-in restrictions were first instituted:

Restaurant Status	Status as of 2020 Fiscal Month Ended									
	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Dining rooms open*	4	46	815	1,522	1,505	1,558	1,595	1,597	1,297	1,276
Limited to off-premise sales	1,402	1,397	761	70	94	37	3	1	294	315
Temporarily closed	251	208	71	41	31	24	16	12	12	9
Total	<u>1,657</u>	<u>1,651</u>	<u>1,647</u>	<u>1,633</u>	<u>1,630</u>	<u>1,619</u>	<u>1,614</u>	<u>1,610</u>	<u>1,603</u>	<u>1,600</u>

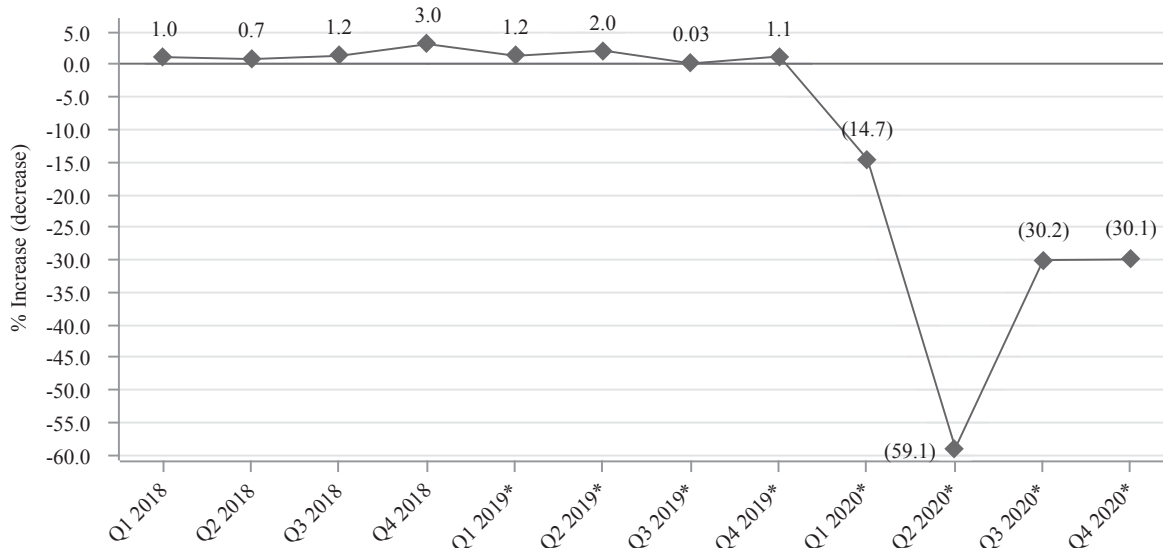
\* In most instances, limited to 50% capacity or less and/or reduced operating hours

While Applebee's off-premise sales as a percentage of Applebee's total sales have declined from the April 2020 peak as restrictions on in-restaurant dining were relaxed, off-premise sales as a percentage of Applebee's total sales have increased compared to pre-pandemic levels.

**Off-premise sales as % total Applebee's domestic sales**

2020 Fiscal Month Ended											
Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
13.1 %	14.4 %	22.2 %	99.8 %	76.4 %	40.2 %	38.0 %	34.9 %	31.7 %	30.1 %	34.5 %	44.8 %

### IHOP Quarterly Domestic Same-Restaurant Sales 2018-2020



\* Same-restaurant sales data includes area license restaurants beginning in 2019

IHOP's domestic same-restaurant sales decreased 30.1% for the three months ended December 31, 2020 from the same period in 2019. The decrease primarily was due to a significant decline in customer traffic as a result of the effects of COVID-19, as well as a slight decrease in average check. IHOP's same-restaurant sales for the fourth quarter of 2020 underperformed the family dining segment of the restaurant industry. Based on data from Black Box, the family dining segment of the restaurant industry experienced a decrease in same-restaurant sales during the fourth quarter of 2020 resulting from a large decline in customer traffic that was partially offset by an increase in average customer check. The primary reason for the performance differential between IHOP and the family dining segment during the fourth quarter of 2020 was the change in average customer check, as IHOP experienced a small decrease in average customer check while the family dining segment reported an increase in average check. The breakfast category, in general, has experienced larger transaction declines than other dayparts.

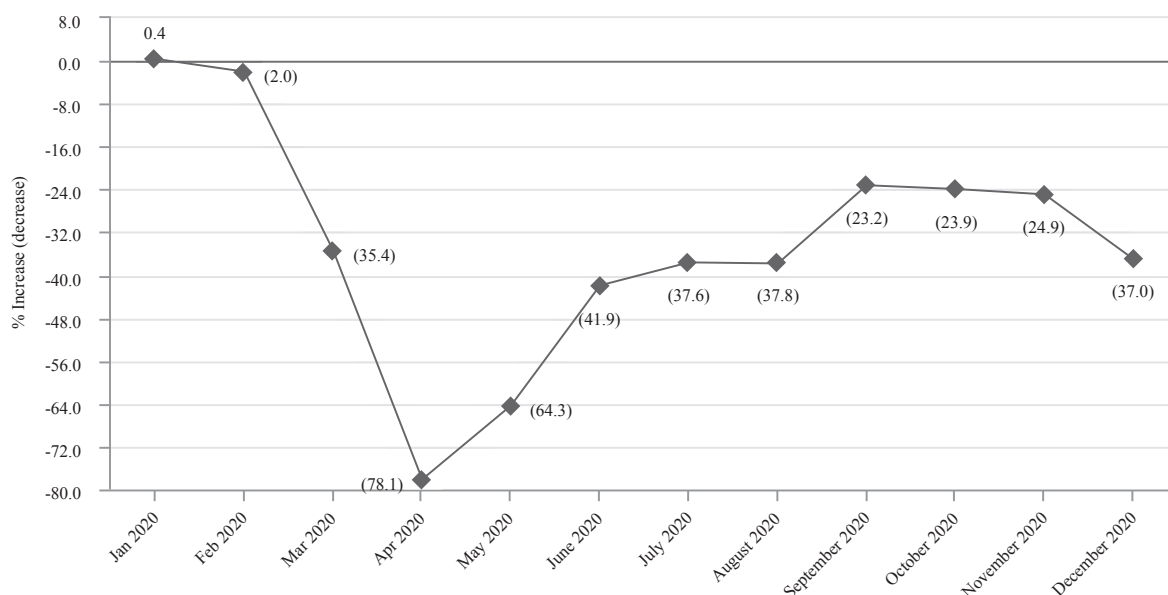
For the year ended December 31, 2020, IHOP's domestic same-restaurant sales decreased 32.8% due to a significant decline in customer traffic as a result of the effects of COVID-19, partially offset by a slight increase in average check. IHOP's same-restaurant sales for the fourth quarter of 2020 underperformed the family dining segment of the restaurant industry. Based on data from Black Box, for the full year of 2020, the family dining segment experienced a decrease in same-restaurant sales resulting from a large decline in customer traffic that was partially offset by an increase in average customer check. The reason for the performance differential between IHOP and the family dining segment during 2020 was the change in average check as IHOP experienced a smaller increase in average customer check than the family dining segment, partially offset by a smaller decrease in traffic.

IHOP's system-wide domestic same-restaurant sales had significant variability over the course of fiscal 2020. This variability was due to several factors. Restrictions on indoor dining were relaxed as incidents of infection from the initial outbreak of COVID-19 declined, but the restrictions were reinstated in varying degrees during the fourth quarter of 2020 as incidents of infection from the virus surged in individual geographic areas. Another factor was the Company's return to national media advertising in July 2020 after having temporarily discontinued its national advertising programs in March 2020. Other factors were the resilience of the consumers' desire to patronize restaurants as dine-in restrictions were lifted and the retention of off-premise sales.

As shown in the following table, prior to the large-scale initiation of restrictions on restaurant operations, IHOP began 2020 with positive domestic same-restaurant sales for the month of January. For the first 10 weeks of the first quarter of fiscal 2020, IHOP's domestic same-restaurant sales decreased 0.6%. During March and April, the significant majority of IHOP restaurants were limited to off-premise sales or were temporarily closed. After reaching a low point in same-restaurant sales in April 2020, IHOP experienced progressive improvement in same-restaurant sales for the months of May through September 2020. However, as incidents of the virus surged in the fourth quarter and restrictions on restaurant operations were reinstated, the trend of improvement in same-restaurant sales reversed for the months of October, November and December.



### 2020 Monthly Same-Restaurant Sales - IHOP



The following table reflects the impact of restaurant dine-in restrictions on IHOP's domestic restaurant operations by month since dine-in restrictions were first instituted:

Restaurant Status	Status as of 2020 Fiscal Month Ended									
	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Dining rooms open*	204	3	925	1,485	1,321	1,349	1,425	1,543	1,332	1,174
Limited to off-premise sales	1,158	1,334	593	76	244	234	167	71	294	446
Temporarily closed	347	366	182	134	128	99	91	74	62	50
Total	<u>1,709</u>	<u>1,703</u>	<u>1,700</u>	<u>1,695</u>	<u>1,693</u>	<u>1,682</u>	<u>1,683</u>	<u>1,688</u>	<u>1,688</u>	<u>1,670</u>

\* In most instances, limited to 50% capacity or less and/or reduced operating hours

While IHOP off-premise sales as a percentage of IHOP total sales have declined from the April 2020 peak as restrictions on in-restaurant dining were relaxed, off-premise sales as a percentage of IHOP total sales have increased compared to pre-pandemic levels.

#### Off-premise sales as % total IHOP domestic sales

2020 Fiscal Month Ended											
Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
9.7 %	10.4 %	17.0 %	94.7 %	68.8 %	35.8 %	35.0 %	32.5 %	30.6 %	29.5 %	30.2 %	38.4 %

### Net Franchise Restaurant Development

The total number of Applebee's restaurants open at December 31, 2020 declined 4.3% from the number open at December 31, 2019, as franchisees opened six new restaurants but closed 82 restaurants. The total number of IHOP restaurants open at December 31, 2020 decreased 3.7% from the number open at December 31, 2019, as IHOP franchisees and area licensees opened 27 restaurants in 2020 but closed 96 restaurants.

Internationally, franchisees of both brands opened 11 restaurants and closed 51, a net decrease of 40 international restaurants. This international development activity is included in the total activity for each brand cited above.

In response to the impact of the COVID-19 pandemic on our franchisees, we allowed our franchisees to defer their development obligations for up to 15 months.

Restaurant closures can occur for a variety of reasons that may differ for each restaurant and for each franchisee. Closures generally fall into one of two categories: restaurants in older locations whose retail, residential and traffic demographics have changed unfavorably over time, and restaurants with non-viable unit economics. Our franchisees are independent businesses and their decisions to close restaurants, both temporarily and permanently, can be impacted by numerous factors that are outside of our control, including but not limited to, the impact of COVID-19 on individual franchisees as well as franchisees' agreements with their lenders and landlords.

The following tables present Applebee's and IHOP restaurant development and franchising activity over the past three years:

	Year Ended December 31,		
	2020	2019	2018
<b><u>Applebee's Restaurant Development Activity</u></b>			
<b>Summary - beginning of period:</b>			
Franchise .....	1,718	1,768	1,936
Company restaurants <sup>(a)</sup> .....	69	69	—
<b>Total Applebee's restaurants, beginning of period</b> .....	<b>1,787</b>	<b>1,837</b>	<b>1,936</b>
Domestic .....	1,665	1,693	1,782
International .....	122	144	154
Franchise restaurants opened:			
Domestic .....	3	1	2
International .....	3	2	5
<b>Total franchise restaurants opened</b> .....	<b>6</b>	<b>3</b>	<b>7</b>
Franchise restaurants closed:			
Domestic .....	(68)	(29)	(91)
International .....	(14)	(24)	(15)
<b>Total franchise restaurants closed</b> .....	<b>(82)</b>	<b>(53)</b>	<b>(106)</b>
<b>Net franchise restaurant reduction</b> .....	<b>(76)</b>	<b>(50)</b>	<b>(99)</b>
Franchise restaurants acquired by the Company <sup>(a)</sup> .....	—	—	(69)
<b>Net franchise restaurant decrease</b> .....	<b>(76)</b>	<b>(50)</b>	<b>(168)</b>
<b>Summary - end of period:</b>			
Franchise .....	1,642	1,718	1,768
Company restaurants <sup>(a)</sup> .....	69	69	69
<b>Total Applebee's restaurants, end of period</b> .....	<b>1,711</b>	<b>1,787</b>	<b>1,837</b>
Domestic .....	1,600	1,665	1,693
International .....	111	122	144
<b>% Decrease in total Applebee's restaurants from prior year</b> .....	<b>(4.3)%</b>	<b>(2.7)%</b>	<b>(5.1)%</b>

<sup>(a)</sup> In December 2018, the Company acquired 69 Applebee's restaurants from a former franchisee.

	Year Ended December 31,		
	2020	2019	2018
<b>IHOP Restaurant Development Activity</b>			
<b>Summary - beginning of period:</b>			
Franchise .....	1,680	1,669	1,622
Area license .....	161	162	164
<b>Total IHOP restaurants, beginning of period .....</b>	<b>1,841</b>	<b>1,831</b>	<b>1,786</b>
Domestic .....	1,710	1,705	1,671
International .....	131	126	115
Franchise/area license restaurants opened:			
Domestic franchise .....	16	33	51
Domestic area license .....	3	5	3
International franchise .....	8	13	17
Total franchise/area license restaurants opened .....	27	51	71
Franchise/area license restaurants closed:			
Domestic franchise .....	(56)	(27)	(15)
Domestic area license .....	(3)	(6)	(5)
International franchise .....	(34)	(8)	(6)
International area license .....	(3)	—	—
Total franchise/area license restaurants closed .....	(96)	(41)	(26)
<b>Net franchise/area license restaurant (reduction) development .....</b>	<b>(69)</b>	<b>10</b>	<b>45</b>
Refranchised from Company restaurants .....	—	—	1
Franchise restaurants reacquired by the Company .....	(3)	—	(1)
<b>Net franchise/area license restaurant (reductions) additions .....</b>	<b>(72)</b>	<b>10</b>	<b>45</b>
<b>Summary - end of period:</b>			
Franchise .....	1,611	1,680	1,669
Area license .....	158	161	162
Company .....	3	—	—
<b>Total IHOP restaurants, end of period .....</b>	<b>1,772</b>	<b>1,841</b>	<b>1,831</b>
Domestic .....	1,670	1,710	1,705
International .....	102	131	126
<b>% (Decrease) increase in total IHOP restaurants from prior year .....</b>	<b>(3.7)%</b>	<b>0.5 %</b>	<b>2.5 %</b>

The closures presented in the tables above represent permanent closures of restaurants. Temporary closures, which can occur for a variety of reasons, are not reflected as reductions in these tables and temporarily closed restaurants are included in the summary counts at the beginning and end of each period shown. However, temporary closures are reflected in the weighted calculation of Effective Restaurants presented in the preceding Restaurant Data tables.

As previously disclosed, we and certain of our IHOP franchisees evaluated the long-term viability of certain IHOP restaurants in light of individual restaurant-level economics impacted by the COVID-19 pandemic. When we began the evaluation process, we expected it could result in the closure of up to 100 restaurants over the next six months. The evaluation process been completed. As of December 31, 2020, we closed 14 restaurants in the fourth quarter of 2020 and, while the final extent and timing of additional closures remains subject to change, we currently anticipate the completion of the evaluation process could result in the closure of up to 27 additional IHOP restaurants. We have recorded costs of approximately \$13.5 million related to these 41 restaurants during the fourth quarter of 2020, primarily charges for impairment and provisions for bad debt and deferred rent.

Closures of Applebee's and IHOP restaurants adversely impact our system-wide retail sales that drive our franchise royalty revenues as well as, in the case of IHOP restaurants, sales of proprietary pancake and waffle dry mix. Further, with certain restaurants, we own or lease the underlying property and sublease it to the applicable franchisee. Thus, our rental income also could be adversely affected due to our obligation to make rental or other payments for such properties.

## Consolidated Results of Operations - Fiscal 2020, 2019 and 2018

The tables in the following section of this Form 10-K present information from our Consolidated Statements of Comprehensive (Loss) Income for our 2020, 2019 and 2018 fiscal years. A detailed discussion of year-to-year comparisons between fiscal 2020 and fiscal 2019 can be found below. For a detailed discussion of year-to-year comparisons between fiscal 2019 and fiscal 2018, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

### Additional Events Impacting Comparability of Financial Information

#### 53rd week in Fiscal 2020

Our fiscal year ends on the Sunday nearest to December 31 of each year. Every five or six years, our fiscal year contains 53 calendar weeks. Our 2020 fiscal year contained 53 calendar weeks, whereas fiscal 2019 and 2018 each contained 52 calendar weeks. The estimated impact of the 53rd week on fiscal 2020 results of operations was additional revenue of \$14.4 million, additional gross profit of \$4.7 million and a decrease in loss before income taxes of \$2.2 million. Our fiscal 2021 will contain 52 calendar weeks.

#### Loss on Extinguishment of Debt

As discussed under *Liquidity and Capital Resources of the Company - Long-term Debt*, we refinanced our long-term debt in 2019 and recognized a loss on extinguishment of debt of \$8.3 million. There was no similar transaction in 2020.

### Financial Review

Revenue	2020	Favorable (Unfavorable) Variance	2019	Favorable (Unfavorable) Variance	2018
	(In millions)				
Franchise operations.....	\$ 469.5	\$ (181.7)	\$ 651.2	\$ 7.3	\$ 643.9
Company restaurant operations.....	108.1	(23.1)	131.2	124.1	7.1
Rental operations.....	105.9	(14.8)	120.7	(1.2)	121.9
Financing operations.....	5.8	(1.3)	7.1	(0.9)	8.0
Total revenue.....	<u>\$ 689.3</u>	<u>\$ (220.9)</u>	<u>\$ 910.2</u>	<u>\$ 129.3</u>	<u>\$ 780.9</u>
(Decrease) increase vs. prior year.....	<u>(24.3)%</u>		<u>16.6 %</u>		<u>6.7 %</u>

Our 2020 total revenue decreased \$220.9 million compared to 2019. The decrease in franchise and company restaurant operations revenues primarily was due to a significant decline in customer traffic at our restaurants resulting from measures put in place by various jurisdictions of local, state, national and international governmental entities to mitigate the spread of the COVID-19 virus, as well as changes in consumer behavior resulting therefrom. Rental operations revenue was also impacted by COVID-19 effects, primarily due to a decline in rent paid based on a percentage of franchisees’ retail sales. Interest income from financing operations was not impacted significantly by the COVID-19 pandemic, with the expected progressive decline due to repayments of outstanding balances. Total revenue was favorably impacted by approximately \$14.4 million due to a 53rd week in fiscal 2020.

Gross Profit (Loss)	2020	Favorable (Unfavorable) Variance	2019	Favorable (Unfavorable) Variance	2018
	(In millions)				
Franchise operations.....	\$ 230.5	\$ (107.9)	\$ 338.4	\$ 25.1	\$ 313.3
Company restaurant operations.....	(3.5)	(11.5)	8.0	6.8	1.2
Rental operations.....	16.4	(13.5)	29.9	(1.3)	31.2
Financing operations.....	5.3	(1.2)	6.5	(0.9)	7.4
Total gross profit.....	<u>\$ 248.7</u>	<u>\$ (134.1)</u>	<u>\$ 382.8</u>	<u>\$ 29.7</u>	<u>\$ 353.1</u>
(Decrease) increase vs. prior year.....	<u>(35.0)%</u>		<u>8.4 %</u>		<u>4.2 %</u>

Our 2020 total gross profit decreased \$134.1 million compared to 2019, primarily due to the revenue declines related to the pandemic as cited above as well a \$13.1 million increase in bad debt expense. Total gross profit was favorably impacted by approximately \$4.7 million due to a 53rd week in fiscal 2020.

## Franchise Operations

	2020	Favorable (Unfavorable) Variance	2019	Favorable (Unfavorable) Variance	2018
	(In millions, except number of restaurants)				
<b>Effective Franchise Restaurants:<sup>(1)</sup></b>					
Applebee's	1,624	(121)	1,745	(138)	1,883
IHOP	1,687	(133)	1,820	25	1,795
<b>Franchise Revenues:</b>					
Applebee's	\$ 124.8	\$ (38.8)	\$ 163.6	\$ (13.0)	\$ 176.6
IHOP	143.2	(61.4)	204.6	5.6	199.0
Advertising	201.5	(81.5)	283.0	14.7	268.3
Total franchise revenues	469.5	(181.7)	651.2	7.3	643.9
<b>Franchise Expenses:</b>					
Applebee's	7.0	(2.7)	4.3	30.8	35.1
IHOP	30.0	(3.3)	26.7	(0.8)	25.9
Advertising	202.0	79.8	281.8	(12.2)	269.6
Total franchise expenses	239.0	73.8	312.8	17.8	330.6
<b>Franchise Segment Profit:</b>					
Applebee's	117.8	(41.5)	159.3	17.8	141.5
IHOP	113.2	(64.7)	177.9	4.8	173.1
Advertising	(0.5)	(1.7)	1.2	2.5	(1.3)
Total franchise segment profit	\$ 230.5	\$ (107.9)	\$ 338.4	\$ 25.1	\$ 313.3
Gross profit as % of total revenue	49.1 %		52.0 %		48.7 %
Gross profit as % of franchise fees <sup>(2)</sup>	86.2 %		91.6 %		83.8 %

<sup>(1)</sup> Effective Franchise Restaurants are the weighted average number of franchise and area license restaurants open in a given fiscal period, adjusted to account for franchise and area license restaurants open for only a portion of the period.

<sup>(2)</sup> Total franchise revenue excluding advertising

Our total franchise revenue decreased \$181.7 million in 2020 compared to 2019, due to changes in the following components:

- Applebee's franchise revenue decreased 23.7% compared to 2019. Approximately \$32.9 million of the decline was due to a decrease of 22.6% in domestic franchise same-restaurant sales primarily caused by the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior. Additionally, revenue decreased \$3.8 million due to permanent domestic restaurant closures and \$3.2 million due to temporary domestic restaurant closures. Applebee's international revenues declined \$3.1 million, primarily due to a decline in same-restaurant sales as well as a \$0.6 million decrease due to temporary closures and a \$0.2 million due to permanent restaurant closures. These unfavorable changes were partially offset by additional revenue from the 53rd week of approximately \$2.4 million, a decrease in domestic delivery credits that reduce royalty revenue and an increase in international franchise fees.
- IHOP franchise revenue decreased 30.0% compared to 2019, primarily due to lower royalty and pancake and waffle dry mix revenues resulting from a 32.8% decrease in domestic franchise same-restaurant sales primarily caused by the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior. Additionally, revenue decreased \$7.5 million due to temporary domestic restaurant closures. IHOP's international revenues declined \$4.4 million, due primarily to a decline in same-restaurant sales as well as a \$0.5 million decrease due to temporary and permanent restaurant closures. These unfavorable changes were partially offset by additional revenue from the 53rd week of approximately \$3.0 million, as well as by a \$3.5 million increase in franchise fees (primarily termination and forfeited franchise fees), and a decrease in domestic delivery credits that reduce royalty revenue.
- Advertising revenue decreased \$81.5 million compared to 2019, as discussed by brand below.



Our 2020 total franchise expenses decreased \$73.8 million compared to 2019, due to changes in the following components:

- Applebee's franchise expenses increased \$2.7 million, primarily due to a \$3.5 million increase in bad debt expense. Bad debt expense for 2020 was \$3.3 million as compared to a bad debt recovery of \$0.2 million in 2019.
- IHOP franchise expenses increased \$3.3 million, primarily due to a \$9.6 million increase in bad debt expense, partially offset by a decrease in purchases of pancake and waffle dry mix. IHOP bad debt expense for 2020 was \$9.4 million compared to a bad debt recovery of \$0.2 million in 2019. Bad debt expense for 2020 included \$2.9 million related to the restaurant closures discussed above under *IHOP Restaurant Development Activity*.
- Advertising expenses decreased \$79.8 million, due to a corresponding decrease in advertising revenue, partially offset by the net change in advertising deficit between 2020 and 2019, as discussed below.

Gross profit as a percentage of total revenue decreased in 2020 compared to 2019, primarily because of the \$13.1 million increase in bad debt expense.

Advertising revenue and expense by brand for fiscal 2020, 2019 and 2018 were as follows:

	2020	<i>Favorable (Unfavorable) Variance</i>	2019	<i>Favorable (Unfavorable) Variance</i>	2018
	(In millions)				
<b>Advertising Revenues:</b>					
Applebee's.....	\$ 124.8	\$ (40.7)	\$ 165.5	\$ 12.5	153.0
IHOP.....	76.7	(40.8)	117.5	2.2	115.3
Total advertising revenues.....	<u>\$ 201.5</u>	<u>(81.5)</u>	<u>\$ 283.0</u>	<u>14.7</u>	<u>\$ 268.3</u>
<b>Advertising Expenses:</b>					
Applebee's.....	\$ 124.8	\$ 40.8	\$ 165.6	\$ (12.6)	\$ 153.0
IHOP.....	77.2	39.0	116.2	0.4	116.6
Total advertising expenses.....	<u>\$ 202.0</u>	<u>\$ 79.8</u>	<u>\$ 281.8</u>	<u>\$ (12.2)</u>	<u>\$ 269.6</u>

Applebee's advertising revenue and expense for 2020 decreased 24.6% compared to 2019, primarily due to the decrease of 22.6% in domestic franchise same-restaurant sales, as well as a \$4.3 million decrease due to permanent domestic restaurant closures and a \$3.5 million decrease due to temporary domestic restaurant closures. These unfavorable changes were partially offset by additional revenue from the 53rd week of approximately \$2.6 million. IHOP's advertising revenue and expense for 2020 decreased by 34.7% and 33.6%, respectively, compared to 2019, primarily due to the decrease of 32.8% in domestic franchise same-restaurant sales, as well as a decrease due to temporary and permanent restaurant closures. These unfavorable changes were partially offset by additional revenue from the 53rd week of approximately \$1.6 million.

It is our accounting policy to recognize any deficiency in advertising fee revenue compared to advertising expenditure, or recovery of a previously recognized deficiency in advertising fee revenue compared to advertising expenditure, in the fourth quarter of our fiscal year. In 2020, international marketing expenditures exceeded revenues by approximately \$0.5 million. In 2019, IHOP advertising revenue exceeded advertising expenditures by \$1.3 million, due to the recovery of a deficit that previously had been recognized in 2018.

### **Rental Operations**

	2020	<i>Favorable (Unfavorable) Variance</i>	2019	<i>Favorable (Unfavorable) Variance</i>	2018
	(In millions)				
Rental revenues.....	\$ 105.9	\$ (14.8)	\$ 120.7	\$ (1.2)	\$ 121.9
Rental expenses.....	89.5	1.3	90.8	(0.1)	90.7
Rental operations segment profit.....	<u>\$ 16.4</u>	<u>\$ (13.5)</u>	<u>\$ 29.9</u>	<u>\$ (1.3)</u>	<u>\$ 31.2</u>
Gross profit as % of revenue.....	<u>15.5 %</u>		<u>24.8 %</u>		<u>25.6 %</u>

Rental operations relate primarily to IHOP franchise restaurants that were developed under the Previous IHOP Business Model described under Item 1. - Business. Rental income includes revenue from operating leases and interest income from direct financing leases. Rental expenses are costs of prime operating leases and interest expense on prime finance leases on certain franchise restaurants.

Rental segment revenue decreased in 2020 as compared to 2019, primarily due to a \$7.4 million decrease in rental income based on a percentage of franchisees' retail sales, a \$2.9 million decrease in base rent due to restaurant closures and lease buy-outs and a progressive decline of \$1.6 million in interest income as direct financing leases were repaid. These unfavorable changes were partially offset by additional revenue from the 53rd week of approximately \$2.0 million. Rental segment expenses for 2020 decreased compared to the same period of the prior year primarily due to a \$1.8 million decrease in rent paid based on a percentage of franchisees' retail sales, \$1.4 million decrease in interest expense as finance lease obligations are repaid and a \$1.1 million decrease in depreciation expense, partially offset by a \$3.4 million provision for losses related to the restaurant closures discussed above under *IHOP Restaurant Development Activity*.

### Financing Operations

	2020	Favorable (Unfavorable) Variance	2019	Favorable (Unfavorable) Variance	2018
	(In millions)				
Financing revenues	\$ 5.8	\$ (1.3)	\$ 7.1	\$ (0.9)	\$ 8.0
Financing expenses	0.5	0.1	0.6	0.0	0.6
Financing operations segment profit	\$ 5.3	\$ (1.2)	\$ 6.5	\$ (0.9)	\$ 7.4
Gross profit as % of revenue	<u>90.9 %</u>		<u>91.9 %</u>		<u>92.5 %</u>

Financing operations relate primarily to IHOP franchise restaurants that were developed under the Previous IHOP Business Model described under Item 1. - Business. Financing operations revenue primarily consists of interest income from the financing of IHOP franchise fees and equipment leases, as well as from several notes receivable from Applebee's franchisees. We also may sell equipment associated with IHOP franchise restaurants we have reacquired when those restaurants are subsequently refranchised to a new franchisee. Financing expenses are primarily the cost of the restaurant equipment sold.

Financing revenues decreased \$1.3 million in 2020 compared to 2019. The change was due to a \$1.1 million decrease in IHOP interest income due to the decline in interest income from the financing of franchise fees and equipment leases as note balances were repaid as well as a decrease in interest income on Applebee's notes from franchisees.

### Company Operations

	2020	Favorable (Unfavorable) Variance	2019	Favorable (Unfavorable) Variance	2018
	(In millions, except number of restaurants)				
Effective Company Restaurants:					
Applebee's	<u>68</u>	<u>(1)</u>	<u>69</u>	<u>66</u>	<u>3</u>
Company restaurant sales <sup>(1)</sup>	\$ 108.1	\$ (23.1)	\$ 131.2	\$ 124.1	\$ 7.1
Company restaurant expenses <sup>(1)</sup>	109.7	13.5	123.2	(117.3)	5.9
IHOP restaurant expenses <sup>(2)</sup>	1.9	(1.9)	—	—	—
Company restaurant segment profit (loss)	\$ (3.5)	\$ (11.5)	\$ 8.0	\$ 6.8	\$ 1.2
Gross (loss) profit as % of revenue <sup>(3)</sup>	<u>(1.5)%</u>		<u>6.1 %</u>		<u>17.1 %</u>

<sup>(1)</sup> Related to 69 Applebee's company-operated restaurants.

<sup>(2)</sup> Costs associated with IHOP restaurants in the process of being refranchised.

<sup>(3)</sup> Calculated for Applebee's company-operated restaurants only. Percentages calculated on actual amounts, not rounded amounts presented above.

In December 2018, we acquired 69 Applebee's restaurants in North Carolina and South Carolina from a former Applebee's franchisee. The slight decrease in effective restaurants for 2020 reflects the temporary closure of seven restaurants for a short period of time in April 2020 in compliance with state and local COVID-19-related mitigation measures. The restaurants were limited to off-premise sales at several points during the year. Due in large part to these restrictions, same-restaurant sales decreased 19.1% for 2020 compared to 2019. The comparison of gross profit for Applebee's company-operated restaurants as a percentage of revenue for 2020 as compared to 2019 was adversely impacted by the COVID-19-related operating constraints described above. These unfavorable impacts were partially offset by additional revenue and gross profit from the 53rd week of approximately \$2.6 million and \$0.2 million, respectively.

In addition, Company segment restaurant expenses for 2020 include approximately \$1.9 million of costs associated with certain IHOP restaurants while in the process of being refranchised. From time to time, we have operated IHOP restaurants reacquired from franchisees on a temporary basis until those restaurants are refranchised and we may reacquire both IHOP and Applebee's restaurants on a temporary basis in the future. There were three such IHOP restaurants under temporary operation at December 31, 2020.

### ***General and Administrative Expenses***

	<u>2020</u>	<i>Favorable (Unfavorable) Variance</i>	<u>2019</u>	<i>Favorable (Unfavorable) Variance</i>	<u>2018</u>
	(In millions)				
G&A expenses.....	\$ 144.8	\$ 18.0	\$ 162.8	\$ 3.9	\$ 166.7

G&A expenses for 2020 decreased 11.1% compared to 2019, primarily due to a \$13.0 million decrease in personnel-related costs, a \$5.6 million decrease in travel costs and a \$0.9 million decrease in consumer research, partially offset by a \$1.0 million increase in depreciation primarily related to capitalized software projects. The decline in personnel-related costs was primarily due to lower costs of salaries and benefits, related in large part to the furloughing of approximately one-third of team members across various functional groups in our restaurant support centers for approximately six months, as well as lower costs of equity-based and other incentive compensation. G&A expenses for 2020 included approximately \$1.2 million of costs due to the 53rd week. Included in total G&A expenses for 2020 were \$4.3 million of expenses related to company-operated restaurants, as compared to \$5.3 million in 2019. The decrease primarily was due to lower personnel-related costs.

### ***Impairment and Closure Costs***

	<u>2020</u>	<i>Favorable (Unfavorable) Variance</i>	<u>2019</u>	<i>Favorable (Unfavorable) Variance</i>	<u>2018</u>
	(In millions)				
Impairment of goodwill.....	\$ 92.2	\$ (92.2)	\$ —	\$ —	\$ —
Impairment of tradename.....	11.0	(11.0)	—	—	—
Long-lived asset impairment.....	22.3	(22.3)	—	—	—
Impairment of reacquired franchise rights.....	3.3	(3.3)	—	—	—
Impairment of favorable leasehold intangible.....	0.8	(0.8)	—	—	—
Closure costs.....	3.0	(1.5)	1.5	0.6	2.1
Total.....	<u>\$ 132.6</u>	<u>\$ (131.1)</u>	<u>\$ 1.5</u>	<u>\$ 0.6</u>	<u>\$ 2.1</u>

The Company evaluates its goodwill and the indefinite-lived Applebee's tradename for impairment annually in the fourth quarter of each year or on an interim basis if events or changes in circumstances between annual tests indicate a potential impairment. Definite-lived intangible assets and long-lived tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable based on estimated undiscounted future cash flows.

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly spreading outbreak of COVID-19. In the second quarter of 2020, we noted that our common stock had recovered less of its early March 2020 (pre-pandemic) market value than the overall U.S. stock market had recovered. We also assessed several months of data as to the impact of the COVID-19 pandemic on our operations and, in turn, assessed the impact that might have on the risk premium incorporated into the discount rate. Based on these developments, we performed an interim quantitative test of goodwill and indefinite-lived intangible assets for impairment in the second quarter of 2020. In determining fair value, the Company utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The fair value technique used in this instance is classified as Level 3, where unobservable inputs are used when little or no market data is available.

In performing the quantitative test for impairment of goodwill, we used the income approach method of valuation that includes the discounted cash flow method and the market approach that includes the guideline public company method to determine the fair value of goodwill. Significant assumptions made by management in estimating fair value under the discounted cash flow model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures and changes in working capital, along with an appropriate discount rate based on our estimated cost of equity capital and after-tax cost of debt, incorporating a risk premium deemed appropriate in light of current conditions. Significant assumptions used to determine fair value under the guideline public company method include the selection of guideline companies and the valuation multiples applied.

In performing the impairment review of the tradename, we used the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate to be applied to the forecast revenue stream.

As a result of performing the quantitative test of impairment, the Company recognized an impairment of Applebee's goodwill of \$92.2 million and an impairment of Applebee's tradename of \$11.0 million in the second quarter of 2020.

The majority of the impairment was due to an increase in the assessed risk premium incorporated in the discount rate. These assets are at risk of additional impairment in the future in the event of sustained downward movement in the Company's stock price, downward revisions of long-term performance assumptions, increases in the assumed long-term discount rate or an increase in the corporate tax rate.

We performed our annual test of goodwill and intangible assets for impairment on a qualitative basis in the fourth quarter of 2020. In performing that analysis we considered, among other things, the market value of our stock, absolute and relative to peers, and the Company's operating performance compared to forecast results that had been used in performing the impairment analyses during the second quarter of 2020 discussed above. We concluded there were no indicators of additional impairment subsequent to the second quarter of 2020 and therefore, a quantitative test of impairment was not necessary in the fourth quarter of 2020.

The long-lived asset impairment of \$22.3 million related to 29 Applebee's company-operated restaurants and 41 IHOP franchisee-operated restaurants for which the carrying amount exceeded the undiscounted cash flows. The impairment recorded represented the difference between the carrying value and the estimated fair value. Approximately \$15.1 million of the total impairment related to operating lease right-of-use assets that had been recorded in 2019 upon adoption of new accounting guidance for leases codified in Accounting Standards Topic 842, while \$7.2 million related to impairments of land, building, leasehold improvements and finance leases. The impairments by individual property varied in amount, ranging from the largest single-property impairment of \$1.3 million to less than \$5,000.

An impairment of \$3.3 million was recognized related to the reacquired franchise rights intangible asset recorded in the purchase price allocation of the December 2018 acquisition of 69 Applebee's restaurants from a former franchisee.

Approximately \$1.6 million of the \$3.0 million of closure charges for the year ended December 31, 2020 related to seven IHOP restaurants closed during 2020, with the remainder primarily related to adjustments to the reserve for IHOP and Applebee's restaurants closed prior to 2020. Approximately \$0.5 million of the \$1.5 million of closure charges for the year ended December 31, 2019 related to two IHOP and one Applebee's restaurant closed during 2019, with the remainder primarily related to adjustments to the reserve for IHOP and Applebee's restaurants closed prior to 2019.

#### ***Other Income and Expense Items***

	<b>2020</b>	<i>Favorable (Unfavorable) Variance</i>	<b>2019</b>	<i>Favorable (Unfavorable) Variance</i>	<b>2018</b>
	<b>(In millions)</b>				
Interest expense, net.....	\$ 66.9	\$ (6.5)	\$ 60.4	\$ 1.3	\$ 61.7
Amortization of intangible assets.....	10.9	0.8	11.7	(1.6)	10.1
Loss (gain) on disposition of assets.....	2.1	(2.4)	(0.3)	(0.3)	(0.6)
Loss on extinguishment of debt.....	—	8.3	8.3	(8.3)	—
Debt refinancing costs.....	—	—	—	2.5	2.5
Total.....	<u>\$ 79.9</u>	<u>\$ 0.2</u>	<u>\$ 80.1</u>	<u>\$ (6.4)</u>	<u>\$ 73.7</u>

#### **Interest Expense, Net**

Interest expense, net increased \$6.5 million in 2020 compared to 2019, primarily due to increased interest expense on \$220.0 million borrowed under our Revolver in March 2020 and additional interest of approximately \$1.2 million due to the 53rd week in 2020. See "Liquidity and Capital Resources" for additional discussion related to the Revolver borrowing.

## Amortization of Intangible Assets

Amortization of intangible assets primarily relates to franchising rights arising from the November 2007 acquisition of Applebee's and reacquired franchise rights arising from the December 2018 acquisition of 69 Applebee's restaurants from a former franchisee. Amortization expense decreased \$0.8 million in 2020 as compared to 2019 due to the impairment of reacquired franchise rights noted above. See Note 7 - Other Intangible Assets, of the Notes to the Consolidated Financial Statements for additional information.

## Loss (Gain) on Disposition of Assets

The loss on disposition of assets for 2020 primarily related to termination of 12 IHOP restaurant leases and the disposition of capitalized software no longer in use. There were no individually significant gains or losses on disposition of assets during 2019 or 2018.

## ***Income Tax Benefit (Provision)***

	<b>2020</b>	<i>Favorable (Unfavorable) Variance</i>	<b>2019</b>	<i>Favorable (Unfavorable) Variance</i>	<b>2018</b>
	<b>(In millions)</b>				
Income tax benefit (provision).....	\$ 4.6	\$ 38.7	\$ (34.1)	\$ (3.9)	\$ (30.2)
Effective tax rate.....	4.2 %	20.4 %	24.6 %	2.8 %	27.4 %

The income tax provision will vary from period to period for two primary reasons: a change in pretax book income and a change in the effective tax rate. Changes in our pretax book income between 2020 and 2019 are addressed in the preceding sections of "Consolidated Results of Operations - Fiscal 2020, 2019 and 2018."

The 2020 effective tax rate of 4.2% applied to pretax book loss was significantly different than the statutory Federal income tax rate of 21% primarily because of the \$92.2 million impairment of goodwill incurred in the second quarter, which is not deductible for income tax purposes and therefore has no associated tax benefit. See Note 16 - Income Taxes, of the Notes to the Consolidated Financial Statements for a reconciliation between our effective rate and the statutory Federal income tax rate.

The 2019 effective tax rate of 24.6% applied to pretax book income was higher than the statutory Federal tax rate of 21% primarily due to tax expense associated with unrecognized tax benefits and state and local income taxes, offset by the recognized benefit from general business credits.

The 2018 effective tax rate of 27.4% applied to pretax book income was higher than the statutory Federal tax rate of 21% primarily due to additional tax expense associated with unrecognized tax benefits related to an IRS audit and state and local income taxes, offset by applying a lower state tax rate applied to the deferred tax balances.

As of each reporting date, we consider new evidence, both positive and negative, that could impact our view with regards to future realization of deferred tax assets. As of December 31, 2020, management determined that it is more likely than not that the benefits from foreign tax credit carryforward and certain state deferred tax assets, including net operating loss carryforwards, from the Applebee's company-operated restaurants will not be realized. In recognition of this risk, management recorded a valuation allowance of \$3.0 million.

## **Liquidity and Capital Resources of the Company**

### ***COVID-19 Pandemic***

As discussed in preceding sections of the MD&A, the measures put in place by various governmental entities to help contain the spread of the COVID-19 virus had a significant adverse impact on our restaurant and rental operations over the last ten months of 2020. In response to the numerous uncertainties related to the pandemic, we took several actions to mitigate the effects on our liquidity, as discussed below:

- We drew down a total of \$220 million from our revolving credit facility. Including approximately \$3 million in letters of credit, \$223 million of the total \$225 million available under our revolving facility has been utilized. We had no immediate need for additional liquidity, but drew on the revolving facility to maximize our financial flexibility. We plan to repay the \$220 million drawn on the revolving credit facility in the month of March 2021.
- We have stopped repurchasing our common stock and our Board of Directors did not declare a dividend for the second, third and fourth quarters of 2020. Prior to taking these actions, we used cash totaling \$53.8 million for dividends and stock repurchases in 2020, as compared to using cash of \$156.6 million for dividends and stock



repurchases in 2019. We will reevaluate our capital allocation strategy as industry conditions improve and normal restaurant operations resume.

- We offered Applebee's franchisees the opportunity to defer payment of their royalty, advertising and other fees, and IHOP franchisees the opportunity to defer payment of their royalty, advertising, equipment rent and sublease rent payments, primarily for the months of March and April. Including a small amount of additional deferrals offered on a case-by-case basis, franchisees deferred a total of approximately \$60 million of payments. In general, repayments will take place over nine months and began in the third quarter of 2020. At December 31, 2020, approximately \$29 million of such deferred payments were outstanding.
- We voluntarily increased the interest reserve set aside for our securitized debt, from the required \$16.4 million to \$32.8 million. We also voluntarily accelerated the funding of interest on our securitized debt with the redirection of cash receipts within the securitization structure. As of the date of this report, the interest payments on long-term debt due March 5, 2021 and June 5, 2021 have been fully funded and are included in current restricted cash.
- We have reduced discretionary costs, limited new hiring and significantly reduced the use of independent contractors. At the outset of the pandemic, we temporarily furloughed certain team members across various functional groups in our restaurant support centers and company-operated restaurants and also curtailed the hours of substantially all of the hourly restaurant associates at our company-operated restaurants. Most of the hourly restaurant associates at our company-operated restaurants returned to work following the re-opening of those restaurants, and there were no team members from the restaurant support centers remaining on furlough as of December 31, 2020. Our G&A expenses for the ended December 31, 2020 were \$18.0 million lower than the same period of the prior year.

Our total cash balances as of the past five fiscal quarter ends were as follows:

	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
	(In millions)				
Cash and cash equivalents.....	\$ 116.1	\$ 344.6	\$ 278.5	\$ 309.3	\$ 383.4
Restricted cash, current.....	40.7	34.2	31.2	47.5	39.9
Restricted cash, non-current...	15.7	16.4	32.8	32.8	32.8
Total.....	<u>\$ 172.5</u>	<u>\$ 395.2</u>	<u>\$ 342.5</u>	<u>\$ 389.6</u>	<u>\$ 456.1</u>

The increase in total cash balances from December 31, 2019 to March 31, 2020 is primarily due to the draw-down of \$220 million from our revolving credit facility in March 2020. The decrease in total cash balances from March 31, 2020 to June 30, 2020 is primarily due to the impact on our operations of the COVID-19 pandemic as well as to our offering franchisees the opportunity to defer payments due to us as noted above. The increase in total cash balances from June 30, 2020 to September 30, 2020 reflects the improvement in operations as restrictions on in-restaurant dining became more relaxed and the commencement of collections of amounts deferred by franchisees discussed above. The increase in total cash balances from September 30, 2020 to December 31, 2020 reflects higher sales in the fourth quarter of 2020 compared to the third quarter (including a 14th week in the fourth quarter), a \$12.3 million tax refund received and collections of amounts deferred by franchisees discussed above.

We believe that our cash on hand, cash flow from operations, and the actions taken to mitigate the effects of the COVID-19 pandemic discussed above will provide us with adequate liquidity for at least the next twelve months.

### ***Long-Term Debt***

On June 5, 2019, Applebee's Funding LLC and IHOP Funding LLC (the "Co-Issuers"), each a special purpose, wholly-owned indirect subsidiary of the Company, issued two tranches of fixed rate senior secured notes, the Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I ("Class A-2-I Notes") in an initial aggregate principal amount of \$700 million and the Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II ("Class A-2-II Notes") in an initial aggregate principal amount of \$600 million (the "Class A-2-II Notes" and, together with the Class A-2-I Notes, the "2019 Class A-2 Notes"). The 2019 Class A-2 Notes were issued pursuant to an offering exempt from registration under the Securities Act of 1933, as amended.

The Co-Issuers also replaced their existing revolving financing facility, the 2018-1 Variable Funding Senior Notes, Class A-1 ("2018 Class A-1 Notes"), with a new revolving financing facility, the 2019-1 Variable Funding Senior Notes, Class A-1 (the "2019 Class A-1 Notes"), on substantially the same terms as the 2018 Class A-1 Notes in order to conform the term of the 2019 Class A-1 Notes to the anticipated repayment dates for the 2019 Class A-2 Notes. The 2019 Class A-1 Notes and the 2019 Class A-2 Notes are referred to collectively herein as the "New Notes."

The New Notes were issued in a securitization transaction pursuant to which substantially all the domestic revenue-generating assets and domestic intellectual property, as further described below, held by the Co-Issuers and certain other special-purpose, wholly-owned indirect subsidiaries of the Company (the “Guarantors”) were pledged as collateral to secure the New Notes.

### **2019 Class A-2 Notes**

The New Notes were issued under a Base Indenture, dated as of September 30, 2014, and amended and restated as of June 5, 2019 (the “Base Indenture”), and the related Series 2019-1 Supplement to the Base Indenture, dated June 5, 2019 (the “Series 2019-1 Supplement”), among the Co-Issuers and Citibank, N.A., as the trustee (in such capacity, the “Trustee”) and securities intermediary. The Base Indenture and the Series 2019-1 Supplement (collectively, the “Indenture”) will allow the Co-Issuers to issue additional series of notes in the future subject to certain conditions set forth therein.

While the 2019 Class A-2 Notes are outstanding, payment of principal and interest is required to be made on the Class A-2 Notes on a quarterly basis. The payment of principal on the 2019 Class A-2 Notes may be suspended when the leverage ratio for the Company and its subsidiaries is less than or equal to 5.25x. Exceeding the leverage ratio of 5.25x does not violate any covenant related to the New Notes.

Our leverage ratio exceeded 5.25x as of June 30, 2020 and has remained greater than 5.25x since then. As of December 31, 2020, the Company's leverage ratio was 7.20x. Accordingly, we made a principal payment in the fourth quarter of 2020 and will continue to make principal payments until the leverage ratio is less than 5.25x.

We may voluntarily repay the New Notes at any time; however, if we repay the New Notes prior to certain dates we would be required to pay make-whole premiums. As of December 31, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-I Notes was approximately \$35 million; this amount declines each quarter to zero in June 2022. As of December 31, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-II Notes was approximately \$74 million; this amount declines each quarter to zero in June 2024. We would also be subject to a make-whole premium in the event of a mandatory prepayment required following a Rapid Amortization Event or certain asset dispositions. The mandatory make-whole premium requirements are considered derivatives embedded in the New Notes that must be bifurcated for separate valuation. We estimated the fair value of these derivatives to be immaterial as of December 31, 2020, based on the probability-weighted discounted cash flows associated with either event.

The legal final maturity of the 2019 Class A-2 Notes is in June 2049, but it is anticipated that, unless earlier prepaid to the extent permitted under the Indenture, the Class A-2-I Notes will be repaid in June 2024 (the “Class A-2-I Anticipated Repayment Date”) and the Class A-2-II Notes will be repaid in June 2026 (the “Class A-2-II Anticipated Repayment Date”). If the Co-Issuers have not repaid or refinanced the Class A-2-I Notes by the Class A-2-I Anticipated Repayment Date or the Class A-2-II Notes by the Class A-2-II Anticipated Repayment Date, then additional interest will accrue on the Class A-2-I Notes and the Class A-2-II Notes, as applicable, at the greater of: (A) 5.0% and (B) the amount, if any, by which the sum of the following exceeds the applicable Class A-2 Note interest rate: (x) the yield to maturity (adjusted to a quarterly bond-equivalent basis) on the applicable anticipated repayment date of the United States Treasury Security having a term closest to 10 years plus (y) 5.0%, plus (z) 2.15% for the Class A-2-I Notes and 2.64% for the Class A-2-II Notes.

In March 2020, in light of the COVID-19 pandemic, Standard & Poor's (“S&P”) placed the Company on “credit watch-negative” with respect to our 2019 Class A-2 Notes. In September 2020, S&P removed the Company from the credit watch and reaffirmed the “BBB” rating of the 2019 Class A-2 Notes.

### **2019 Class A-1 Notes**

The Co-Issuers also entered into a revolving financing facility, the 2019 Class A-1 Notes, that allows for drawings up to \$225 million of variable funding notes and the issuance of letters of credit. The 2019 Class A-1 Notes were issued under the Indenture. Drawings and certain additional terms related to the 2019 Class A-1 Notes are governed by the 2019 Class A-1 Note Purchase Agreement, dated June 5, 2019, among the Co-Issuers, certain special-purpose, wholly-owned indirect subsidiaries of the Company, each as a Guarantor, the Company, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters of credit, swingline lender and administrative agent (the “Purchase Agreement”).

The 2019 Class A-1 Notes will be governed, in part, by the Purchase Agreement and by certain generally applicable terms contained in the Indenture. The applicable interest rate under the 2019 Class A-1 Notes depends on the type of borrowing by the Co-Issuers. The applicable interest rate for advances is generally calculated at a per annum rate equal to the commercial paper funding rate or one-, two-, three- or six-month Eurodollar Funding Rate, in either case, plus 2.15%. The applicable interest rate for swingline advances and unreimbursed draws on outstanding letters of credit is a per annum base rate equal to the sum of (a) 1.15% plus (b) the greatest of (i) the Prime Rate in effect from time to time, (ii) the Federal Funds Rate in effect from time to time plus 0.50% and (iii) the one-month Eurodollar Funding Rate plus 1.00%. There is no upfront fee for the 2019 Class A-1 Notes. There is a fee of 50 basis points on any unused portion of the 2019 Class A-1 Notes facility. Undrawn face amounts of

outstanding letters of credit that are not cash collateralized accrue a fee of 2.15% per annum. It is anticipated that the principal and interest on the 2019 Class A-1 Notes will be repaid in full on or prior to the quarterly payment date in June 2024 (the “2019 Class A-1 Anticipated Repayment Date”), subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions.

### **Management Agreement**

Under the terms of the Management Agreement, dated September 30, 2014, as amended and restated as of September 5, 2018, as further amended and restated as of June 5, 2019 and as amended by that certain Amendment No. 1 to Management Agreement dated November 21, 2019, among the Company, the Securitization Entities, Applebee’s Services, Inc., International House of Pancakes, LLC and the Trustee, the Company will act as the manager with respect to the Securitized Assets. The primary responsibilities of the manager will be to perform certain franchising, distribution, intellectual property and operational functions on behalf of the Securitization Entities with respect to the Securitized Assets pursuant to the Management Agreement. The manager will be entitled to the payment of the weekly management fee, as set forth in the Management Agreement and will be subject to the liabilities set forth in the Management Agreement. The Company, as Manager, voluntarily began waiving its receipt of the weekly management fee in April, 2020 and this waiver remains in place as of December 31, 2020.

### **Covenants and Restrictions**

The New Notes are subject to a series of covenants and restrictions customary for transactions of this type, including: (i) that the Co-Issuers maintain specified reserve accounts to be used to make required payments in respect of the New Notes, (ii) provisions relating to optional and mandatory prepayments, and the related payment of specified amounts, including specified call redemption premiums in the case of Class A-2 Notes under certain circumstances; (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the New Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The New Notes are subject to customary rapid amortization events provided for in the Indenture, including events tied to failure of the Securitization Entities to maintain the stated debt service coverage ratio (“DSCR”), the sum of domestic retail sales for all restaurants being below certain levels on certain measurement dates, certain manager termination events, certain events of default and the failure to repay or refinance the Class A-2 Notes on the anticipated repayment dates. The New Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the New Notes, failure of the Securitization Entities to maintain the stated DSCR, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties and certain judgments.

In general, the DSCR ratio is Net Cash Flow (as defined in the Indenture) for the four quarters preceding the calculation date divided by the total debt service payments (as defined in the Indenture) of the preceding four quarters. The complete definitions of the DSCR and all calculation elements are contained in the Indenture. Failure to maintain a prescribed DSCR can trigger a Cash Flow Sweeping Event, A Rapid Amortization Event, a Manager Termination Event or a Default Event as described below. In a Cash Flow Sweeping Event, the Trustee is required to retain 50% of excess Cash Flow (as defined in the Indenture) in a restricted account. In a Rapid Amortization Event, all excess Cash Flow is retained and used to retire principal amounts of debt. In a Manager Termination Event, the Company may be replaced as manager of the assets securitized under the Indenture. In a Default Event, the outstanding principal amount and any accrued but unpaid interest can be called to become immediately due and payable. Key DSCRs are as follows:

- DSCR less than 1.75x - Cash Flow Sweeping Event
- DSCR less than 1.20x - Rapid Amortization Event
- Interest-only DSCR less than 1.20x - Manager Termination Event
- Interest-only DSCR less than 1.10x - Default Event

Our DSCR for the reporting period ended December 31, 2020 was approximately 3.3x.

During the second quarter of 2020, we voluntarily increased the interest reserve required to be set aside for our securitized debt from \$16.4 million to \$32.8 million, which now represents an estimated six months of interest and fees related to the 2019 Class A-2 Notes and the Revolver. During the second quarter of 2020, we voluntarily began accelerating the funding of interest on the 2019 Class A-2 Notes and the Revolver with the redirection of cash receipts within the securitization structure. As of the date of this report, the interest payments on the 2019 Class A-2 Notes and the Revolver due March 5, 2021 and June 7, 2021 have been fully funded within the securitization structure, in addition to the \$32.8 million of interest reserve noted above.

## Use of Credit Facilities

In March 2020, the Co-Issuers drew down a total of \$220.0 million of the amount then available under the Revolver. Although the Company had no immediate need for additional liquidity, the Co-Issuers drew on the Revolver to increase the Company's financial flexibility in light of then-current market conditions and uncertainty due to the COVID-19 pandemic. We plan to repay the \$220 million drawn on the Revolver in the month of March 2021. It is anticipated that the principal and interest on any Revolver borrowings will be repaid in full on or prior to the quarterly payment date in June 2024, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions. The current interest rate for borrowings under the Revolver is the three-month LIBOR rate plus 2.15% for 60% of the advances and the commercial paper funding rate of our conduit investor plus 2.15% for 40% of the advances. The interest rate on Revolver borrowings at December 31, 2020 was 2.42%. The weighted average interest rate on Revolver borrowings for the period outstanding during the year ended December 31, 2020 was 2.72%, for the year ended December 31, 2020.

The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR, initially by the end of 2021. On November 30, 2020, the Federal Reserve announced that LIBOR will be phased out and eventually replaced by June 2023. In the same announcement, U. S. banks were instructed to stop writing contracts using LIBOR by the end of 2021 and all contracts using LIBOR should be amended or terminated by June 30, 2023. We do not believe that the discontinuation of LIBOR as a reference rate for our 2019 Class A-1 Notes will have a material adverse effect on our financial position or materially affect our interest expense, however, it is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates.

At December 31, 2020, \$2.8 million was pledged against the Revolver for outstanding letters of credit, leaving \$2.2 million of the Revolver available for borrowing. The letters of credit are used primarily to satisfy insurance-related collateral requirements.

### Cash Flows

	2020	<i>Favorable (Unfavorable) Variance</i>	2019	<i>Favorable (Unfavorable) Variance</i>	2018
	(In millions)				
Net cash provided by operating activities.....	\$ 96.5	\$ (58.7)	\$ 155.2	\$ 14.9	\$ 140.3
Net cash provided by (used in) investing activities.....	18.7	18.9	(0.2)	14.6	(14.8)
Net cash provided by (used) in financing activities.....	168.4	351.3	(182.9)	(94.6)	(88.3)
Net increase (decrease) in cash, cash equivalents and restricted cash.....	<u>\$ 283.6</u>	<u>\$ 311.5</u>	<u>\$ (27.9)</u>	<u>\$ (65.1)</u>	<u>\$ 37.2</u>

### Operating Activities

Cash provided by operating activities is primarily driven by revenues earned and collected from our franchisees, and profit from our company-owned restaurant, rental operations and financing operations.

Cash provided by operating activities decreased \$58.7 million in 2020 compared to 2019. The components of that change are as follows:

	2020	<i>Favorable (Unfavorable) Variance</i>	2019
	(In millions)		
Net (loss) income.....	\$ (104.0)	\$ (208.3)	\$ 104.3
Non-cash reconciling items.....	162.9	115.3	47.6
Changes in working capital.....	37.6	34.3	3.3
Cash provided by operating activities.....	<u>\$ 96.5</u>	<u>\$ (58.7)</u>	<u>\$ 155.2</u>

The change in net income primarily was due to impairments of goodwill, intangible assets and long-lived tangible assets and decreased gross profit, partially offset by lower G&A expenses, each of which was discussed in preceding sections of this MD&A.

Non-cash reconciling items (primarily impairment and closure charges, depreciation and amortization, deferred income taxes, stock-based compensation and loss on extinguishment of debt) increased \$115.3 million from 2019. The increase primarily was due to impairments of goodwill, intangible assets and long-lived tangible assets totaling \$129.6 million discussed in preceding sections of this MD&A.

Net changes in working capital provided cash of \$37.6 million during 2020 compared to providing cash of \$3.3 million during 2019. This favorable change of \$34.3 million between years primarily resulted from collection of a tax refund of \$12.3 million related to Internal Revenue Service audits of our tax returns for years 2014 to 2016 and an increase of \$14.1 million in accrued advertising due to the timing of payments of marketing accruals.

### *Investing Activities*

Investing activities provided net cash of \$18.7 million for the year ended December 31, 2020, as compared to using net cash of \$0.2 million in 2019. The components of the increase of \$18.9 million are as follows:

	2020	<i>Favorable (Unfavorable) Variance</i>	2019
	(In millions)		
Principal receipts from notes, equipment contracts and other long-term receivables .....	\$ 31.1	\$ 7.0	\$ 24.1
Additions to property and equipment .....	(10.9)	8.5	(19.4)
Additions to long-term receivables .....	(1.5)	5.5	(7.0)
Other .....	—	(2.2)	2.2
Cash provided by (used in) investing activities .....	<u>\$ 18.7</u>	<u>\$ 18.9</u>	<u>\$ (0.2)</u>

Principal receipts from notes, equipment contracts and other long-term receivables increased \$7.0 million compared to 2019 due to the early payoff of several notes. Investing cash outflows in 2020 for additions to property and equipment and loans to franchisees were lower than 2019 by \$8.5 million and \$5.5 million, respectively. The decrease in additions to property and equipment was primarily due to a more focused capital expenditure program as well as some impact of COVID-19.

The Company has long-term receivables for equipment and direct financing receivables as well as other notes receivable from franchisees totaling \$84.6 million at December 31, 2020. The following table represents the timing of principal receipts from these receivables:

	Principal Receipts Due By Period						
	2021	2022	2023	2024	2025	Thereafter	Total
	(In millions)						
Equipment leases <sup>(1)</sup> .....	\$ 7.9	\$ 7.7	\$ 7.3	\$ 6.7	\$ 5.5	\$ 8.8	\$ 43.9
Direct financing leases <sup>(2)</sup> .....	8.4	6.6	3.2	1.2	0.5	2.8	22.7
Other notes <sup>(3)</sup> .....	5.8	3.2	2.7	2.1	1.2	3.0	18.0
Total .....	<u>\$ 22.1</u>	<u>\$ 17.5</u>	<u>\$ 13.2</u>	<u>\$ 10.0</u>	<u>\$ 7.2</u>	<u>\$ 14.6</u>	<u>\$ 84.6</u>

<sup>(1)</sup> Equipment lease receivables extend through the year 2029.

<sup>(2)</sup> Direct financing lease receivables extend through the year 2040.

<sup>(3)</sup> Other notes receivable extend through the year 2024.

### *Financing Activities*

Financing activities provided cash of \$168.3 million for the year ended December 31, 2020, as compared to using cash of \$182.9 million in 2019. The components of the increase of \$351.3 million are as follows:

	2020	<i>(Increase) decrease in cash used</i>	2019
	(In millions)		
Repurchase of common stock .....	\$ (29.9)	\$ 79.8	\$ (109.7)
Dividends paid .....	(23.9)	23.0	(46.9)
Net (repayment) issuance of long-term debt, including issuance costs .....	(3.3)	(6.4)	3.1
Net borrowing (repayment) of revolving credit .....	220.0	245.0	(25.0)
All other .....	5.4	9.8	(4.4)
Cash provided by (used in) financing activities .....	<u>\$ 168.3</u>	<u>\$ 351.2</u>	<u>\$ (182.9)</u>

The actions noted above taken in response to the COVID-19 pandemic were the primary factors underlying the change. We drew \$220 million on our Revolver in 2020 as opposed to repaying the \$25 million outstanding balance of the Revolver in 2019, a net change of \$245 million. Additionally, we stopped repurchasing our common stock and paying dividends on common stock after the declaration of the pandemic. Prior to taking these actions, we used cash totaling \$53.8 million for dividends and stock repurchases in 2020 as compared to using cash of \$156.6 million for dividends and stock repurchases in 2019, conserving cash of approximately \$103 million as compared to the prior year.



## Adjusted Free Cash Flow

We define “adjusted free cash flow” for a given period as cash provided by operating activities, plus receipts from notes and equipment contract receivables, less additions to property and equipment. Management uses this liquidity measure in its periodic assessments of, among other things, the amount of cash dividends per share of common stock and repurchases of common stock and we believe it is important for investors to have the same measure used by management for that purpose. Adjusted free cash flow does not represent residual cash flow available for discretionary purposes.

Adjusted free cash flow is a non-U.S. GAAP measure. This non-U.S. GAAP measure is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies. Non-U.S. GAAP measures should be considered in addition to, and not as a substitute for, the U.S. GAAP information contained within our financial statements. Reconciliation of the cash provided by operating activities to adjusted free cash flow is as follows:

	2020	Favorable (Unfavorable) Variance	2019	Favorable (Unfavorable) Variance	2018
	(In millions)				
Cash flows provided by operating activities.....	\$ 96.5	\$ (58.7)	\$ 155.2	\$ 14.9	\$ 140.3
Net receipts from notes and equipment receivables.....	21.0	8.0	13.0	(1.9)	14.9
Additions to property and equipment.....	(10.9)	8.5	(19.4)	(5.1)	(14.3)
<b>Adjusted free cash flow</b> .....	<b>\$ 106.6</b>	<b>\$ (42.2)</b>	<b>\$ 148.8</b>	<b>\$ 7.9</b>	<b>\$ 140.9</b>

The decrease in adjusted free cash flow in 2020 compared to 2019 was primarily due to the decrease in cash provided by operating activities, partially offset by a decrease in capital expenditures, each of which was discussed in preceding sections of this MD&A.

At December 31, 2020, our cash and cash equivalents totaled \$383.4 million, including \$71.6 million of cash held for gift card programs and IHOP advertising funds.

## Capital Allocation

### Dividends

During the year ended December 31, 2020, we paid dividends on common stock of \$23.9 million, representing a cash dividend of \$0.69 per share declared in the fourth quarter of 2019, paid in January 2020, and a cash dividend of \$0.76 per share declared in the first quarter of 2020, paid in April 2020. In light of the COVID-19 pandemic, our Board of Directors did not declare a dividend for the second, third and fourth quarters of 2020. See Note 12 - Stockholders' Deficit, of the Notes to the Consolidated Financial Statements included in this report for dividends paid and declared in fiscal 2020, 2019 and 2018.

### Share Repurchases

In February 2019, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$200 million of our common stock (the “2019 Repurchase Program”) on an opportunistic basis from time to time in the open market or in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The 2019 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time. In light of the COVID-19 pandemic, we suspended repurchases of our common stock in March, 2020. See Note 12 - Stockholders' Deficit, of the Notes to the Consolidated Financial Statements included in this report for dividends paid and declared in fiscal 2020, 2019 and 2018.

A summary of shares repurchased under the 2019 Repurchase Program, during the year ended December 31, 2020 and cumulatively, is as follows:

	Shares	Cost of shares (In millions)
<u>2019 Repurchase Program:</u>		
Repurchased during the year ended December 31, 2020.....	459,899	\$ 26.5
Cumulative (life-of-program) repurchases.....	1,697,597	\$ 129.8
Remaining dollar value of shares that may be repurchased.....	n/a	\$ 70.2

We evaluate dividend payments on common stock and repurchases of common stock within the context of our overall capital allocation strategy with our Board of Directors on an ongoing basis, giving consideration to our current and forecast earnings, financial condition, cash requirements and other factors. We will continue to evaluate our capital allocation strategy as industry and overall economic conditions impacted by the COVID-19 pandemic evolve and normal restaurant operations resume.

From time to time, we also repurchase shares owned and tendered by employees to satisfy tax withholding obligations on the vesting of restricted stock awards. Shares are deemed purchased at the closing price of our common stock on the vesting date. See Part II, Item 5 for detail on all share repurchase activity during the fourth quarter of 2020.

## Off-Balance Sheet Arrangements

We have obligations for guarantees on certain franchisee lease agreements, as disclosed below in “Contractual Obligations and Commitments” and Note 11 - Commitments and Contingencies, of the Notes to Consolidated Financial Statements. Other than such guarantees, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4) of SEC Regulation S-K as of December 31, 2020.

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, sales, costs or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Contractual Obligations and Commitments

The following are our significant contractual obligations and commitments as of December 31, 2020:

Contractual Obligations	Payments Due By Period				
	1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years	Total
	(In millions)				
Debt <sup>(1)</sup>	\$ 70.3	\$ 114.0	\$ 981.7	\$ 606.5	\$ 1,772.5
Operating leases <sup>(2)</sup>	91.1	154.5	119.5	144.9	510.1
Finance leases <sup>(1)</sup>	15.9	26.2	18.3	50.9	111.3
Financing obligations <sup>(1)</sup>	4.5	8.9	10.0	34.8	58.2
Purchase commitments	83.6	4.4	2.0	—	90.0
Unrecognized income tax benefits <sup>(3)</sup>	0.8	—	—	1.4	2.2
Total minimum payments	266.2	308.0	1,131.5	838.5	2,544.3
Less interest	(88.0)	(159.3)	(102.7)	(57.4)	(407.4)
Total	\$ 178.2	\$ 148.7	\$ 1,028.8	\$ 781.1	\$ 2,136.9

<sup>(1)</sup> Includes interest calculated on balances as of December 31, 2020 using interest rates in effect as of December 31, 2020.

<sup>(2)</sup> Includes interest calculated on balances as of December 31, 2020 using interest rates used to calculate operating lease liability.

<sup>(3)</sup> While up to \$0.8 million is expected to be paid within one year, there is no contractual obligation to do so. For the remaining liability, due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate when a cash settlement with a taxing authority will occur.

Commitments	Expiration By Period				
	1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years	Total
	(In millions)				
Lease guarantees <sup>(4)</sup>	\$ 16.4	\$ 29.0	\$ 27.4	\$ 172.8	\$ 245.6
Letters of credit <sup>(5)</sup>	2.8	—	—	—	2.8
Food purchases <sup>(6)</sup>	11.2	—	—	—	11.2
Total	\$ 30.4	\$ 29.0	\$ 27.4	\$ 172.8	\$ 259.6

<sup>(4)</sup> This amount represents the maximum potential liability for future payment guarantees under leases that have been assigned to third-party buyers of Applebee's company-operated restaurants and expire at the end of the respective lease terms, which range from 2021 through 2048. See Note 11 - Commitments and Contingencies, of the Notes to Consolidated Financial Statements for additional information.

<sup>(5)</sup> Primarily used to satisfy insurance-related collateral requirements. These letters of credit expire annually, but typically are renewed in the same amount each year unless collateral requirements change.

<sup>(6)</sup> In some instances, IHOP and Applebee's may be required to guarantee their purchase of any remaining inventory of certain food and other items purchased by CSCS.

## Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. Our significant accounting policies are comprehensively described in Note 2 - Basis of Presentation and Significant Accounting Policies, of the Notes to the Consolidated Financial Statements. We believe the accounting policies discussed below are particularly important to the understanding of our consolidated financial statements and require higher degree of judgment and/or complexity in the preparation of those consolidated financial statements. In exercising those judgments, we make estimates and assumptions that affect the carrying values of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting periods covered by the financial statements. On an ongoing basis, we evaluate our estimates based on historical experience, current conditions and various other assumptions that we believe to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates. Changes in estimates and judgments could significantly affect our results of operations, financial condition and cash flow in the future.

### *Revenue Recognition*

We recognize revenue from our franchise and company-operated restaurants in accordance with Accounting Standards Codification 606 - Revenue from Contracts with Customers (“ASC 606”). Under ASC 606, revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration we expect to receive for those services or goods. Our rental and financing revenues are recognized in accordance with other U.S. GAAP accounting standards and are not subject to ASC 606.

In determining the amount and timing of revenue from contracts with customers, we make judgments as to whether uncertainty as to collectibility of the consideration that we are owed precludes recognition of the revenue on an accrual basis. These judgments are based on the facts specific to each circumstance. Primary factors considered include past payment history and our subjective assessment of the likelihood of receiving payment in the future. The timing of recognition does not require significant judgment as it is based on either the term of the franchise agreement, the month of reported sales by the franchisee or the date of product shipment, none of which require estimation.

Significant judgments with respect to rental revenues are discussed below under *Leases*. We do not have to make significant judgments with respect to revenues from our company-operated restaurants or our financing operations.

### *Goodwill and Intangible Assets*

Goodwill and intangible assets considered to have an indefinite life (primarily the Applebee's tradename) are evaluated throughout the year to determine if indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in our business, in the business overall climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments or a significant decline in the market price of our common stock.

If no indicators of impairment have been noted during these preliminary assessments, we perform an assessment of goodwill and intangible assets annually in the fourth fiscal quarter. We first assess qualitatively whether it is more-likely-than-not that an impairment does not exist. Significant factors considered in this assessment include, but are not limited to, macro-economic conditions, market and industry conditions, cost considerations, the competitive environment, share price fluctuations, overall financial performance and results of past impairment tests. If we do not qualitatively determine that it is more-likely-than-not that an impairment does not exist, we perform a quantitative impairment test.

In performing a quantitative test for impairment of goodwill, we primarily use the income approach method of valuation that includes the discounted cash flow method and the market approach that includes the guideline public company method to determine the fair value of goodwill and intangible assets. Significant assumptions made by management in estimating fair value under the discounted cash flow model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures, changes in working capital and an estimated income tax rate, along with an appropriate discount rate based on our estimated cost of equity capital and after-tax cost of debt. Significant assumptions used to determine fair value under the guideline public company method include the selection of guideline companies and the valuation multiples applied.

In the process of a quantitative test, if necessary, of the Applebee's tradename intangible asset, we primarily use the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate, an estimated income tax rate and a discount rate to be applied to the forecast revenue stream.

There is an inherent degree of uncertainty in preparing any forecast of future results. Future trends in system-wide sales are dependent to a significant extent on national, regional and local economic conditions, and, to a lesser extent, on global

economic conditions, particularly those conditions affecting the demographics of the guests that frequently patronize Applebee's restaurants. Accordingly, there are a number of potential events that could reasonably be expected to negatively affect the forecast of system-wide sales, including a decrease in customers' disposable income available for discretionary spending (because of circumstances such as job losses, credit constraints, higher housing costs, increased tax rates, energy costs, interest rates or other costs) or a decrease in the perceived wealth of customers (because of circumstances such as lower residential real estate values, increased foreclosure rates, increased tax rates or other economic disruptions). As a result, our business could experience a decline in sales and/or customer traffic as potential customers choose lower-cost alternatives (such as quick-service restaurants) or other alternatives to dining out. Additionally, negative trends in the availability of credit and in expenses such as interest rates and the cost of construction materials could affect our franchisees' ability to maintain and remodel existing restaurants. Any decreases in customer traffic or average customer check due to these or other reasons could reduce gross sales at franchise restaurants, resulting in lower royalty and other payments from franchisees. This could reduce the profitability of franchise restaurants, potentially impacting the ability of franchisees to make royalty payments owed to us when due (which could adversely impact our current cash flow from franchise operations) and negatively impacting franchisees' ability to develop new restaurants (which could adversely impact our future cash flows from franchise operations). Significant increases in either the estimated income tax rate or the discount rate could adversely impact estimated fair values used in quantitative tests for impairment.

### ***Long-Lived Assets***

On a regular basis, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets (primarily assets related to properties and equipment leased or subleased to franchisees) may not be recoverable. We test impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. Significant factors considered include, but are not limited to, current and forecast sales, current and forecast cash flows, the number of years the franchisee's restaurant has been in operation, its remaining lease life, and other factors which apply on a case-by-case basis. The analysis is performed at the individual restaurant level for indicators of permanent impairment. Recoverability of the Company's assets is measured by comparing the assets' carrying value to the undiscounted cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets.

On a regular basis, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of intangible assets with finite lives, primarily assets related to Applebee's franchise rights. Recoverability of the asset is measured by comparing the assets' carrying value to the discounted future cash flows expected to be generated over the asset's remaining useful life. Significant factors considered include, but are not limited to, current and forecast sales, current and forecast cash flows and a discount rate to be applied to the forecast revenue stream.

### ***Allowance for Credit Losses***

The allowance for credit losses is our best estimate of the amount of probable credit losses in our existing receivables; however, changes in circumstances relating to receivables may result in additional allowances in the future. We determine the allowance based on historical experience, current payment patterns, future obligations and our assessment of the ability to pay outstanding balances. The primary indicator of credit quality is delinquency, which is considered to be a receivable balance greater than 90 days past due. We continually review our allowance for credit losses. Past due balances and future obligations are reviewed individually for collectability. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

### ***Leases***

Our restaurants are located on (i) sites owned by us, (ii) sites leased by us from third parties and (iii) sites owned or leased by franchisees. For sites owned by or leased by us from third parties, we, in turn, sublease to our franchisees. At the inception of the lease, each property is evaluated to determine whether the lease will be accounted for as an operating or finance lease in accordance with the provisions of U.S. GAAP governing the accounting for leases.

The Company's lease agreements generally do not provide information to determine the implicit interest rate in the agreements. This requires the Company to make significant judgments in determining the incremental borrowing rate to be used in calculating operating lease liabilities as of the adoption date. The Company estimates the incremental borrowing rate primarily by reference to (i) yield rates on debt issuances by companies of a similar credit rating as the Company; (ii) U.S. Treasury rates as of the adoption or commencement date; and (iii) adjustments for differences between these rates and the lease term.

Management also makes judgments regarding the term for each restaurant property lease, which can impact the classification and accounting for a lease as finance or operating, the rent holiday and/or escalations in payment that are taken into consideration when calculating straight-line rent and the term over which the right-of-use asset (for operating leases) or equipment under finance lease is amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

### ***Income Taxes***

We provide for income taxes based on our estimate of federal and state income tax liabilities. We make certain estimates and judgments in the calculation of tax expense and the resulting tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense. Tax laws are complex and subject to different interpretations by the taxpayers and respective governmental authorities. We review our tax positions quarterly and adjust the balances as new information becomes available.

We recognize deferred tax assets and liabilities using the enacted tax rates for the effect of temporary differences between the financial reporting basis and the tax basis of recorded assets and liabilities. Deferred tax accounting requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portions or all the net deferred tax assets will not be realized. This test requires projection of our taxable income into future years to determine if there will be taxable income sufficient to realize the tax assets. The preparation of the projections requires considerable judgment and is subject to change to reflect future events and changes in the tax laws. When we establish or reduce the valuation allowance against our deferred tax assets, our income tax expense will increase or decrease, respectively, in the period such determination is made.

FASB ASC Topic 740-10 requires that a position taken or expected to be taken in a tax return be recognized in the financial statement when it is more likely than not (i.e. a likelihood of more than 50 percent) that the position would be sustained upon examination by taxing authorities including all appeals or litigation processes, based on its technical merits. A recognized tax position is then measured on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. For each reporting period, management applies a consistent methodology to measure and adjust all uncertain tax positions based on the available information.

### ***Legal Contingencies***

We are subject to various lawsuits, administrative proceedings, audits, and claims arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our consolidated financial statements.

### ***Stock-Based Compensation***

We account for stock-based compensation in accordance with U.S. GAAP governing share-based payments. Accordingly, we measure stock-based compensation expense at the grant date, based on the fair value of the award, and recognize the expense over the employee's requisite service period using the straight-line method. The fair value of each employee stock option and restricted stock award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our stock-based compensation. The Black-Scholes model meets the requirements of U.S. GAAP. The measurement of stock-based compensation expense is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate and forfeiture rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, we may change the input factors used in determining future stock-based compensation expense. Any such changes could impact our operations in the period in which the changes are made and in subsequent periods.

### **Accounting Standards Adopted in the Current Fiscal Year**

See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included in this report for a description of accounting standards we adopted in fiscal 2020.



## **New Accounting Pronouncements**

See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included in this report, for a description of newly issued accounting standards that may impact us in the future.

## **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to financial market risk, including interest rates and commodity prices. We address these risks through controlled risk management that may include the use of derivative financial instruments to economically hedge or reduce these exposures. We do not enter into financial instruments for trading or speculative purposes.

### ***Interest Rate Risk***

The significant majority of our long-term debt outstanding at December 31, 2020 was issued at fixed interest rates (see Note 8 - Long-Term Debt, of the Notes to Consolidated Financial Statements). We are only exposed to interest rate risk on borrowings we make under our 2019 Class A-1 Notes, a revolving credit facility (the "Revolver"), borrowings from which are subject to variable interest rates. In March 2020, we drew down \$220.0 million from the Revolver, all of which was outstanding at December 31, 2020. A 1% increase or decrease in interest rates would increase or decrease our annual interest expense by approximately \$2.2 million.

We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes. We had no material amounts of derivative instruments at December 31, 2020 and did not hold any material amount of derivative instruments during the year ended December 31, 2020.

Investments in instruments earning a fixed rate of interest carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. We currently do not hold any fixed rate investments.

Based on our interest-earning cash, cash equivalents and restricted cash balances as of December 31, 2020, a 1% increase in interest rates would increase our annual interest income by approximately \$4.1 million. A 1% decline in interest rates would decrease our annual interest income by less than this amount as the majority of our cash, cash equivalents and restricted cash are currently yielding less than 1%.

Many of the food products purchased by our franchisees and area licensees are affected by commodity pricing and are therefore subject to unpredictable price volatility. Extreme increases in commodity prices and/or long-term changes could affect our franchisees, area licensees and company-operated restaurants adversely. We expect that, in most cases, the IHOP and Applebee's systems would be able to pass increased commodity prices through to their customers via increases in menu prices. From time to time, competitive circumstances could limit short-term menu price flexibility, and in those cases, franchisees' margins would be negatively impacted by increased commodity prices. Since the significant majority of our restaurants are franchised, we believe that any changes in commodity pricing that cannot be adjusted for by changes in menu pricing or other strategies would not be material to our financial condition, results of operations or cash flows.

The Company and owners of Applebee's and IHOP franchise restaurants are members of CSCS, a Co-op that manages procurement activities for the Applebee's and IHOP restaurants that belong to the Co-op. We believe the larger scale created by combining the supply chain requirements of both brands under one organization can provide cost savings and efficiency in the purchasing function. As of December 31, 2020, 100% of Applebee's domestic franchise restaurants and 97% IHOP domestic franchise restaurants are members of CSCS. In some instances, IHOP and Applebee's may be required to guarantee their purchase of any remaining inventory of certain food and other items purchased by CSCS for the purpose of supplying limited time promotions on behalf of the Applebee's and IHOP systems as a whole. None of these food product guarantees is a derivative instrument. At December 31, 2020, our outstanding guarantees for food product purchases were \$11.2 million.

### ***International Currency Exchange Rate Risk***

We have minimal exposure to international currency exchange rate fluctuations. Revenue derived from all international country operations comprised less than 2% of total consolidated revenue for the year ended December 31, 2020, such that a hypothetical concurrent 10% adverse change in the currency of every international country in which our franchisees operate restaurants would have a negative impact of less than 0.2% of our consolidated revenue. We do not hold a material amount of cash and cash equivalents in currencies other than the U.S. Dollar.

**Item 8. Financial Statements and Supplementary Data.**

**Index to Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Dine Brands Global, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Dine Brands Global, Inc. and Subsidiaries (the Company) as of January 3, 2021 and December 29, 2019, the related consolidated statements of comprehensive (loss) income, stockholders' deficit and cash flows for each of the three years in the period ended January 3, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 3, 2021 and December 29, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 3, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 3, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Impairment of Goodwill and Indefinite Lived Intangible Assets***

*Description of the Matter*

At January 3, 2021, the Company's goodwill and indefinite lived tradename intangible asset (tradename) were \$251.6 million and \$468.0 million, respectively. The majority of the goodwill and the entirety of the tradename relates to the Applebee's franchised restaurants reporting unit (Applebee's franchise unit). As discussed in Notes 2, 6 and 7 to the consolidated financial statements, goodwill and tradename are tested for impairment at least annually, and more frequently if the Company believes indicators of impairment exist. During the second quarter of fiscal 2020, due primarily to the impact of the COVID-19 pandemic on the Company's operations and stock price, management determined that impairment indicators existed and performed quantitative impairment tests. As a result of the impairment tests, the Company recognized a \$92.2 million impairment related to goodwill and an \$11.0 million impairment related to tradename, which represented the amounts by which the carrying values exceeded the estimated fair values of the reporting unit and tradename assets, respectively.

Auditing management's goodwill and tradename impairment tests was especially challenging and complex due to the significant estimation underlying the determination of fair values. In particular, the fair value estimates were sensitive to changes in the significant assumptions used under the income and market approaches utilized to determine the fair value of goodwill and the relief of royalty method utilized to determine the fair value of tradename. Significant assumptions made by management in estimating fair value under the income and market approaches included future trends in sales and the appropriate discount rate, as well as the selection of guideline companies and the valuation multiples applied. Significant assumptions used to determine fair value under the relief of royalty method included future trends in sales, royalty rate and discount rate.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill and tradename impairment tests, including controls over the review of the indicators of potential impairment, assumptions used, financial forecasts and the accuracy of the underlying data.

Our testing of the Company's impairment measurements included, among other procedures, evaluating the significant assumptions and data used in estimating fair values. For example, we compared the forecasted future sales growth rates to historical results, analyst projections and industry trends. We also performed sensitivity analyses on the significant assumptions used, agreed historical balances to accounting records, and recalculated management's estimates. Additionally, we involved our valuation specialists to assist with our evaluation of the methodology used and to assess whether assumptions such as discount rates were comparable to observable market data.

We have served as the Company's auditor since 2004.

/s/ ERNST & YOUNG LLP

Los Angeles, California  
March 2, 2021

**Dine Brands Global, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(In thousands, except share amounts)

Assets	December 31,	
	2020	2019
Current assets:		
Cash and cash equivalents	\$ 383,369	\$ 116,043
Receivables, net of allowance of \$15,057 (2020) and \$3,138 (2019)	121,897	136,869
Restricted cash	39,884	40,732
Prepaid gift card costs	29,080	36,077
Prepaid income taxes	6,178	13,290
Other current assets	6,098	3,906
Total current assets	586,506	346,917
Other intangible assets, net	549,671	575,103
Operating lease right-of-use assets	346,086	366,931
Goodwill	251,628	343,862
Property and equipment, net	187,977	216,420
Long-term receivables, net of allowance of \$7,999 (2020) and \$8,155 (2019)	54,512	85,999
Deferred rent receivable	56,449	70,308
Non-current restricted cash	32,800	15,700
Other non-current assets, net	9,316	28,271
Total assets	\$ 2,074,945	\$ 2,049,511
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 13,000	\$ —
Accounts payable	37,424	40,925
Gift card liability	144,159	159,019
Current maturities of operating lease obligations	69,672	72,815
Current maturities of finance lease and financing obligations	11,293	13,669
Accrued employee compensation and benefits	21,237	23,904
Accrued advertising expenses	21,641	8,760
Deferred franchise revenue, short-term	7,682	10,086
Dividends payable	—	11,702
Other accrued expenses	22,460	17,032
Total current liabilities	348,568	357,912
Long-term debt, net, less current maturities	1,491,996	1,288,248
Operating lease obligations, less current maturities	345,163	359,025
Finance lease obligations, less current maturities	69,012	77,393
Financing obligations, less current maturities	32,797	37,682
Deferred income taxes, net	78,293	98,499
Deferred franchise revenue, long-term	52,237	56,944
Other non-current liabilities	11,530	15,582
Total liabilities	2,429,596	2,291,285
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$1 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value; shares: 40,000,000 authorized; 2020 -24,882,122 issued, 16,452,174 outstanding; 2019 - 24,925,447 issued, 16,521,921 outstanding	249	249
Additional paid-in-capital	257,625	246,192
(Accumulated deficit) retained earnings	(55,553)	61,653
Accumulated other comprehensive loss	(55)	(58)
Treasury stock, at cost; shares: 2020 - 8,429,948; 2019 - 8,403,526	(556,917)	(549,810)
Total stockholders' deficit	(354,651)	(241,774)
Total liabilities and stockholders' deficit	\$ 2,074,945	\$ 2,049,511

See the accompanying notes to the consolidated financial statements.



**Dine Brands Global, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive (Loss) Income**  
(In thousands, except per share amounts)

	Year Ended December 31,		
	2020	2019	2018
<b>Revenues:</b>			
Franchise revenues:			
Royalties, franchise fees and other .....	\$ 267,959	\$ 368,171	\$ 375,640
Advertising revenues .....	201,494	283,015	268,294
Total franchise revenues .....	469,453	651,186	643,934
Company restaurant sales .....	108,054	131,214	7,084
Rental revenues .....	105,939	120,666	121,934
Financing revenues .....	5,822	7,112	7,979
Total revenues .....	689,268	910,178	780,931
<b>Cost of revenues:</b>			
Franchise expenses:			
Advertising expenses .....	202,012	281,781	269,590
Bad debt expense (credit) .....	12,756	(365)	452
Other franchise expenses .....	24,204	31,338	60,577
Total franchise expenses .....	238,972	312,754	330,619
Company restaurant expenses .....	111,550	123,272	5,872
Rental expenses:			
Interest expense from finance leases .....	4,563	5,602	6,894
Other rental expenses .....	84,939	85,157	83,862
Total rental expenses .....	89,502	90,759	90,756
Financing expenses .....	528	579	597
Total cost of revenues .....	440,552	527,364	427,844
<b>Gross profit</b> .....	248,716	382,814	353,087
General and administrative expenses .....	144,791	162,815	166,683
Impairment and closure charges .....	132,620	1,487	2,107
Interest expense, net .....	66,895	60,393	61,686
Amortization of intangible assets .....	10,903	11,702	10,105
Loss on extinguishment of debt .....	—	8,276	—
Debt refinancing costs .....	—	—	2,523
Loss (gain) on disposition of assets .....	2,069	(332)	(625)
(Loss) income before income tax benefit (provision) .....	(108,562)	138,473	110,608
Income tax benefit (provision) .....	4,568	(34,127)	(30,254)
<b>Net (loss) income</b> .....	(103,994)	104,346	80,354
<b>Other comprehensive (loss) income, net of tax:</b>			
Adjustment to unrealized loss on available-for-sale investments .....	—	—	50
Foreign currency translation adjustment .....	3	2	(5)
<b>Total comprehensive (loss) income</b> .....	\$ (103,991)	\$ 104,348	\$ 80,399
<b>Net (loss) income available to common stockholders:</b>			
Net (loss) income .....	\$ (103,994)	\$ 104,346	\$ 80,354
Less: Net income allocated to unvested participating restricted stock .....	(420)	(3,532)	(2,711)
Net (loss) income available to common stockholders .....	\$ (104,414)	\$ 100,814	\$ 77,643
<b>Net (loss) income available to common stockholders per share:</b>			
Basic .....	\$ (6.43)	\$ 5.95	\$ 4.43
Diluted .....	\$ (6.43)	\$ 5.85	\$ 4.37
<b>Weighted average shares outstanding:</b>			
Basic .....	16,230	16,934	17,533
Diluted .....	16,230	17,245	17,789

See the accompanying notes to the consolidated financial statements.

**Dine Brands Global, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Deficit**  
(In thousands)

	Common Stock			(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares Outstanding	Amount	Additional Paid-in Capital			Shares	Cost	
<b>Balance at December 31, 2017</b> .....	17,993	\$ 250	\$ 276,408	\$ (69,940)	\$ (105)	7,029	\$ (422,153)	\$ (215,540)
Net income.....	—	—	—	80,354	—	—	—	80,354
Other comprehensive gain.....	—	—	—	—	45	—	—	45
Purchase of common stock.....	(479)	—	—	—	—	479	(34,929)	(34,929)
Reissuance of treasury stock.....	167	—	(2,551)	—	—	(167)	6,479	3,928
Net use of shares for stock plans.....	(11)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes.....	(27)	—	(1,972)	—	—	—	—	(1,972)
Stock-based compensation.....	—	—	10,546	—	—	—	—	10,546
Dividends on common stock in excess of retained earnings.....	—	—	(44,705)	—	—	—	—	(44,705)
<b>Balance at December 31, 2018</b> .....	17,644	250	237,726	10,414	(60)	7,341	(450,603)	(202,273)
Adoption of lease accounting guidance.....	—	—	—	(5,030)	—	—	—	(5,030)
Net income.....	—	—	—	104,346	—	—	—	104,346
Other comprehensive gain.....	—	—	—	—	2	—	—	2
Purchase of common stock.....	(1,348)	—	—	—	—	1,348	(111,697)	(111,697)
Reissuance of treasury stock.....	285	(1)	(520)	—	—	(285)	12,490	11,969
Net use of shares for stock plans.....	(30)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes.....	(30)	—	(2,728)	—	—	—	—	(2,728)
Stock-based compensation.....	—	—	10,808	—	—	—	—	10,808
Dividends on common stock.....	—	—	982	(48,077)	—	—	—	(47,095)
Tax withheld related to settlement of restricted stock units.....	—	—	(76)	—	—	—	—	(76)
<b>Balance at December 31, 2019</b> .....	16,522	249	246,192	61,653	(58)	8,404	(549,810)	(241,774)
Adoption of credit loss accounting guidance (Note 2).....	—	—	—	(497)	—	—	—	(497)
Net loss.....	—	—	—	(103,994)	—	—	—	(103,994)
Other comprehensive gain.....	—	—	—	—	3	—	—	3
Purchase of common stock.....	(460)	—	—	—	—	460	(26,527)	(26,527)
Reissuance of treasury stock.....	433	—	1,102	—	—	(433)	19,420	20,522
Net use of shares for stock plans.....	(8)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes.....	(36)	—	(2,479)	—	—	—	—	(2,479)
Stock-based compensation.....	—	—	12,508	—	—	—	—	12,508
Dividends on common stock.....	—	—	507	(12,715)	—	—	—	(12,208)
Tax withheld related to settlement of restricted stock units.....	—	—	(205)	—	—	—	—	(205)
<b>Balance at December 31, 2020</b> .....	16,452	\$ 249	\$ 257,625	\$ (55,553)	\$ (55)	8,430	\$ (556,917)	\$ (354,651)

See the accompanying notes to the consolidated financial statements.

**Dine Brands Global, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	Year Ended December 31,		
	2020	2019	2018
<b>Cash flows from operating activities</b>			
Net (loss) income	\$ (103,994)	\$ 104,346	\$ 80,354
Adjustments to reconcile net (loss) income to cash flows provided by operating activities:			
Impairment and closure charges	132,501	1,485	2,038
Depreciation and amortization	42,829	42,493	32,175
Non-cash stock-based compensation expense	12,508	10,808	10,546
Non-cash interest expense	2,698	3,369	3,792
Deferred income taxes	(20,049)	(5,494)	(11,847)
Deferred revenue	(7,111)	(7,695)	(5,577)
Loss on extinguishment of debt	—	8,276	—
Loss (gain) on disposition of assets	2,069	(332)	(623)
Other	(2,566)	(5,374)	(949)
Changes in operating assets and liabilities:			
Accounts receivable, net	(9,750)	(396)	3,149
Current income tax receivables and payables	16,143	8,677	8,119
Gift card receivables and payables	12,231	(1,037)	(1,488)
Other current assets	(2,191)	(498)	10,425
Accounts payable	6,455	583	(9,940)
Accrued employee compensation and benefits	(1,909)	(3,575)	13,183
Accrued advertising expenses	12,881	(1,166)	—
Other current liabilities	3,758	710	6,989
Cash flows provided by operating activities	<u>96,503</u>	<u>155,180</u>	<u>140,346</u>
<b>Cash flows from investing activities</b>			
Principal receipts from notes, equipment contracts and other long-term receivables	31,155	24,075	25,771
Net additions to property and equipment	(10,927)	(19,424)	(14,279)
Proceeds from sale of property and equipment	537	2,540	655
Additions to long-term receivables	(1,475)	(6,955)	(6,500)
Acquisition of business	—	—	(20,155)
Other	(565)	(389)	(293)
Cash flows provided by (used in) investing activities	<u>18,725</u>	<u>(153)</u>	<u>(14,801)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of long-term debt	—	1,300,000	—
Repayment of long-term debt	(3,250)	(1,283,750)	(13,000)
Borrowings from revolving credit facility	220,000	—	75,000
Repayments of revolving credit facility	—	(25,000)	(50,000)
Payment of debt issuance costs	—	(13,150)	(3,633)
Dividends paid on common stock	(23,934)	(46,859)	(51,125)
Repurchase of common stock	(29,853)	(109,698)	(33,603)
Principal payments of finance lease obligations	(12,451)	(13,639)	(13,907)
Proceeds from stock options exercised	20,523	11,969	3,928
Tax payments for restricted stock upon vesting	(2,480)	(2,728)	(1,972)
Tax payments for share settlement of restricted stock units	(205)	(76)	—
Cash flows provided by (used in) financing activities	<u>168,350</u>	<u>(182,931)</u>	<u>(88,312)</u>
Net change in cash, cash equivalents and restricted cash	283,578	(27,904)	37,233
Cash, cash equivalents and restricted cash at beginning of year	172,475	200,379	163,146
Cash, cash equivalents and restricted cash at end of year	<u>\$ 456,053</u>	<u>\$ 172,475</u>	<u>\$ 200,379</u>
<b>Supplemental disclosures</b>			
Interest paid	\$ 69,208	\$ 66,104	\$ 66,059
Income taxes paid	\$ 11,873	\$ 44,748	\$ 34,246
Non-cash conversion of accounts receivable to notes receivable	\$ 1,307	\$ 185	\$ 11,959

See the accompanying notes to the consolidated financial statements.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

## **1. The Company**

The first International House of Pancakes® (“IHOP”) restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter, the Company began developing and franchising additional restaurants. The Company was incorporated as IHOP Corp. under the laws of the State of Delaware in 1976. In November 2007, the Company acquired Applebee's International, Inc., which became a wholly-owned subsidiary of the Company. Effective June 2, 2008, the name of the Company was changed to DineEquity, Inc. and on February 20, 2018, the name of the Company was changed to Dine Brands Global, Inc.<sup>SM</sup> (“Dine Brands Global”). The Company owns, franchises and operates two restaurant concepts: Applebee's Neighborhood Grill + Bar® (“Applebee's”), in the bar and grill segment within the casual dining category of the restaurant industry, and IHOP® in the family dining category of the restaurant industry.

As of December 31, 2020, there were 1,772 IHOP restaurants, of which 1,611 were subject to franchise agreements and 158 were subject to area license agreements. These IHOP restaurants were located in all 50 states of the United States, the District of Columbia, two United States territories and nine countries outside the United States. As of December 31, 2020, there were 1,711 Applebee's® restaurants, of which 1,642 were subject to franchise agreements and 69 were company-operated restaurants. These Applebee's restaurants were located in 49 states of the United States, two United States territories and 11 countries outside the United States.

References herein to Applebee's and IHOP restaurants are to these restaurant concepts, whether operated by franchisees, area licensees or the Company. Retail sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company.

## **2. Basis of Presentation and Summary of Significant Accounting Policies**

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of Dine Brands Global, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

### ***Fiscal Periods***

The Company has a 52/53 week fiscal year that ends on the Sunday nearest to December 31 of each year. In a 52-week fiscal year, each fiscal quarter contains 13 weeks, comprised of two, four-week fiscal months followed by a five-week fiscal month. In a 53-week fiscal year, the last month of the fourth fiscal quarter contains six weeks. For convenience, the Company refers to its fiscal years as ending on December 31 and its fiscal quarters as ending on March 31, June 30 and September 30. The December 31, 2020 fiscal year ended January 3, 2021 and contained 53 weeks. The 2019 and 2018 fiscal years ended December 29, 2019 and December 30, 2018, respectively, and each contained 52 weeks.

### ***Use of Estimates***

The preparation of financial statements in conformity with United States generally accepted accounting principles (“U.S. GAAP”) requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the calculation and assessment of the following: impairment of tangible and intangible assets and goodwill; income taxes; allowance for doubtful accounts and notes receivables; lease accounting estimates; contingencies; and stock-based compensation. On an ongoing basis, the Company evaluates its estimates based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from those estimates.

### ***Risks and Uncertainties***

The Company was subject to risks and uncertainties as a result of the outbreak of a novel strain of coronavirus, designated “COVID-19” and declared to be a pandemic in March 2020. The Company first began to experience impacts from COVID-19 in March 2020, as federal, state and local governments reacted to the COVID-19 pandemic by encouraging or requiring social distancing, instituting shelter-in-place orders, and requiring, in varying degrees, reduced operating hours, restaurant dine-in and/or indoor dining limitations, capacity limitations or other restrictions that largely limited restaurants to off-premise sales (take-out and delivery) in the early stages of the pandemic. Most of the Company's international restaurants were impacted as well as

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

a result of restrictions put in place in various countries similar to those in the United States. Over the course of 2020, certain of these restrictions were relaxed as incidents of infection from the initial outbreak declined, but many of the restrictions were reinstated as incidents of infection surged. The degree and duration of restriction varied by individual geographic area. The extent of the continuing impact of the COVID-19 pandemic on the Company's business remains highly uncertain and difficult to predict, as the operating status of our restaurants remains fluid and subject to change as government authorities modify existing restrictions or implement new restrictions on restaurant operations in response to changes in the number of COVID-19 infections and the availability and acceptance of vaccines in their respective jurisdictions. Additionally, economies worldwide have been negatively impacted by the COVID-19 pandemic, which possibly could cause a domestic and/or global economic recession.

The Company has taken several actions to mitigate the effects of the COVID-19 pandemic on its operations and its franchisees, as follows: (i) drew down \$220 million from its revolving credit facility, leaving available remaining borrowing under the facility of approximately \$2 million; (ii) terminated repurchases of common stock for the foreseeable future; (iii) the Company's Board of Directors decided not to declare a dividend for the second, third and fourth quarters of 2020; (iv) voluntarily increased the interest reserve for securitized debt from the required \$16.4 million (one quarter of estimated interest) to \$32.8 million; (v) reduced discretionary costs, limited new hiring and reduced the use of independent contractors; (vi) temporarily furloughed certain team members across various functional groups at its restaurant support centers during 2020; (vii) deferred franchisee payment of royalty, advertising and other fees, and lease obligations for up to two months on a case-by-case basis; (viii) deferred franchisee development obligations for up to 15 months and franchisee remodel obligation until the end of 2022; (ix) engaged a national real estate firm to assist franchisees with landlord discussions regarding rent deferrals, abatements and other modifications to lease agreements; (x) negotiated deferrals and abatements for properties on which the Company was lessee and (xi) hired external consultants to work with franchisees in assessing their financial health and to better understand performance variability.

The severity of the continued impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus may arise, what restrictions on in-restaurant dining may be enacted or re-enacted, the availability and acceptance of vaccines, the timing and extent of customer re-engagement with the Company's brands and, in general, what the short- and long-term impact on consumer discretionary spending the COVID-19 pandemic might have on the Company and the restaurant industry as a whole, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be impacted adversely by the length of time dine-in restrictions are in place and the success of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by itself and its franchisees. As such, the extent to which the COVID-19 pandemic may continue to materially impact the Company's financial condition, liquidity, or results of operations remains highly uncertain.

***Concentration of Credit Risk***

The Company's cash, cash equivalents, restricted cash and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are creditworthy. The Company does not believe that it is exposed to any significant credit risk on cash, cash equivalents and restricted cash. At times, cash, cash equivalents and restricted cash balances may be in excess of FDIC insurance limits.

Accounts receivable are derived from revenues earned from franchisees and area licensees located primarily in the United States. Financing receivables arise from the financing of restaurant equipment, leases or franchise fees with the Company by IHOP franchisees. The Company is subject to a concentration of credit risk with respect to receivables from franchisees that own a large number of Applebee's or IHOP restaurants. As of December 31, 2020, two franchisees (one Applebee's franchisee and one franchisee with cross-brand ownership) operated a combined total of 830 Applebee's and IHOP restaurants in the United States, which comprised 26.0% of the total Applebee's and IHOP franchise and area license restaurants in the United States. Revenues from these two franchisees represented 17.1%, 17.4%, and 19.8% of total consolidated revenue for the years ended December 31, 2020, 2019 and 2018, respectively. One franchisee represented 11.0%, 10.6% and 11.9% of total consolidated revenue for the years ended December 31, 2020, 2019 and 2018, respectively. Receivables from these franchisees totaled \$20.4 million and \$14.4 million at December 31, 2020 and 2019, respectively.



**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

***Cash and Cash Equivalents***

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents. These cash equivalents are stated at cost which approximates market value. Cash held related to IHOP advertising funds and the Company's gift card programs is not considered to be restricted cash as there are no restrictions on the use of these funds. The components of cash and cash equivalents were as follows:

	December 31,	
	2020	2019
	(In millions)	
Money market funds .....	\$ 175.0	\$ —
IHOP advertising funds and gift card programs .....	71.6	56.6
Other depository accounts .....	136.8	59.4
Total cash and cash equivalents .....	<u>\$ 383.4</u>	<u>\$ 116.0</u>

***Restricted Cash***

*Current*

Current restricted cash primarily consisted of funds required to be held in trust in connection with the Company's securitized debt and funds from Applebee's franchisees pursuant to franchise agreements, usage of which was restricted to advertising activities. The components of current restricted cash were as follows:

	December 31,	
	2020	2019
	(In millions)	
Securitized debt reserves .....	\$ 27.0	\$ 38.3
Applebee's advertising funds .....	12.8	2.3
Other .....	0.1	0.1
Total current restricted cash .....	<u>\$ 39.9</u>	<u>\$ 40.7</u>

*Non-current*

Non-current restricted cash of \$32.8 million and \$15.7 million at December 31, 2020 and 2019, respectively, represents interest reserves set aside for the duration of the securitized debt. The required reserve is approximately one quarter's interest payment on the Company's securitized. The Company voluntarily increased the amount held in non-current cash to twice the required amount during the year ended December 31, 2020.

***Property and Equipment***

Property and equipment are stated at cost, net of accumulated depreciation. Properties under finance leases are stated at the present value of the minimum lease payments. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or remaining useful lives. Leasehold improvements and properties under finance leases are amortized on a straight-line basis over their estimated useful lives or the lease term, if less. The general ranges of depreciable and amortizable lives are as follows:

Category	Depreciable Life
Buildings and improvements .....	25 to 40 years
Leaseholds and improvements .....	Shorter of primary lease term or between three to 40 years
Equipment and fixtures .....	Three to five years
Internal-use software .....	Three to 10 years
Properties under finance leases .....	Primary lease term or remaining primary lease term

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

***Long-Lived Assets***

On a regular basis, the Company assesses whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets (primarily assets related to property and equipment leased or subleased to franchisees) may not be recoverable. The Company tests impairment using historical cash flows and other relevant facts and circumstances as the primary basis for estimates of future cash flows. The Company considers factors such as the number of years the franchisee's restaurant has been in operation, sales trends, cash flow trends, remaining lease life and other factors which apply on a case-by-case basis. The analysis is performed at the restaurant level for indicators of permanent impairment.

Recoverability of the Company's assets is measured by comparing the assets' carrying value to the undiscounted future cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. Total expected undiscounted future cash flows that are less than the carrying amount of the assets is an indicator of impairment. If it is decided that there has been an impairment, the carrying amount of the asset is written down to the estimated fair value as determined in accordance with U.S. GAAP governing fair value measurements. The primary method of estimating fair value is based on a discounted cash flow analysis. Any loss resulting from impairment is recognized as a charge against operations.

See Note 13 - Long-lived Tangible Asset Impairment and Closure Charges, of the Notes to the Consolidated Financial Statements for additional information.

***Goodwill and Intangible Assets***

Goodwill is recorded when the aggregate purchase price of an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Intangible assets resulting from an acquisition are accounted for using the purchase method of accounting and are estimated by management based on the fair value of the assets received. The Company's identifiable intangible assets are comprised primarily of the Applebee's tradename and Applebee's franchise agreements. Identifiable intangible assets with finite lives (franchise agreements) are amortized over the period of estimated benefit using the straight-line method and estimated useful lives. Goodwill and intangible assets considered to have an indefinite life (primarily the Applebee's tradename) are not subject to amortization. The determination of indefinite life is subject to reassessment if changes in facts and circumstances indicate the period of benefit has become finite.

Goodwill has been allocated to three reporting units. The significant majority of the Company's goodwill resulted from the November 29, 2007 acquisition of Applebee's and was allocated to the Applebee's franchised restaurants unit ("Applebee's franchise unit"). Smaller amounts of goodwill arising from other business combinations have been allocated to the IHOP franchised restaurants unit ("IHOP franchise unit") and the Applebee's company restaurants unit ("Applebee's company unit"). See Note 6 - Goodwill, of the Notes to the Consolidated Financial Statements for additional information.

The Company evaluates the goodwill of the Applebee's franchise and company units and the indefinite-lived Applebee's tradename for impairment as of October 31 of each year. The Company evaluates the goodwill of the IHOP franchise unit for impairment as of December 31 of each year. In addition to the annual evaluation for impairment, goodwill and indefinite-lived intangible assets are evaluated more frequently if the Company believes indicators of impairment exist.

When evaluating goodwill and indefinite-lived intangible assets for impairment, under U.S. GAAP, the Company may first perform an assessment of qualitative factors to determine if the fair value of the reporting unit or the intangible asset is more-likely-than-not greater than the carrying amount. Such qualitative factors include, but are not limited to, macro-economic conditions, market and industry conditions, cost considerations, the competitive environment, share price fluctuations, overall financial performance and results of past impairment tests. If, based on a review of the qualitative factors, the Company determines it is more-likely-than-not that the fair value is greater than the carrying value, the Company may bypass a quantitative test for impairment.

In performing the quantitative test for impairment of goodwill, the Company primarily uses the income approach method of valuation that includes the discounted cash flow method and the market approach that includes the guideline public company method. Significant assumptions used to determine fair value under the discounted cash flow method include expected future trends in sales, operating expenses, overhead expenses, capital expenditures and changes in working capital, along with an appropriate discount rate based on the Company's estimated cost of equity capital and after-tax cost of debt. Significant assumptions used to determine fair value under the guideline public company method include the selection of guideline companies and the valuation multiples applied. The Company measures impairment as the excess of a reporting unit's carrying amount over its fair value as determined by the quantitative test described above.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

In the process of performing its quantitative impairment review of intangible assets considered to have an indefinite life, the Company primarily uses the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and an appropriate discount rate based on the Company's estimated cost of equity capital and after-tax cost of debt to be applied to the forecast revenue stream.

***Revenue Recognition***

The Company's revenues are recorded in four categories: franchise operations, company restaurant operations, rental operations and financing operations. Franchise revenue (which comprises most of the Company's revenues) and revenue from company-operated restaurants are recognized in accordance with Accounting Standards Codification 606 - Revenue from Contracts with Customers ("ASC 606"). Under ASC 606, revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive for those services or goods. The Company's rental and financing revenues are recognized in accordance with other U.S. GAAP accounting standards and are not subject to ASC 606.

Franchise Revenues

The Company owns and franchises the Applebee's and IHOP restaurant concepts. The franchise arrangement for both brands is documented in the form of a franchise agreement and, in most cases, a development agreement. The franchise arrangement between the Company as the franchisor and the franchisee as the customer requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead represent a single performance obligation, which is the transfer of the franchise license. The intellectual property subject to the franchise license is symbolic intellectual property as it does not have significant standalone functionality, and substantially all the utility is derived from its association with the Company's past or ongoing activities. The nature of the Company's promise in granting the franchise license is to provide the franchisee with access to the brand's symbolic intellectual property over the term of the license. The services provided by the Company are highly interrelated with the franchise license and as such are considered to represent a single performance obligation.

The transaction price in a standard franchise arrangement for both brands primarily consists of (a) initial franchise/development fees; (b) continuing franchise fees (royalties); and (c) advertising fees. Since the Company considers the licensing of the franchising right to be a single performance obligation, no allocation of the transaction price is required. Additionally, all domestic IHOP franchise agreements require franchisees to purchase proprietary pancake and waffle dry mix from the Company.

The Company recognizes the primary components of the transaction price as follows:

- Franchise and development fees are recognized as revenues ratably on a straight-line basis over the term of the franchise agreement commencing with the restaurant opening date. As these fees are typically received in cash at or near the beginning of the franchise term, the cash received is initially recorded as a contract liability until recognized as revenue over time;
- The Company is entitled to royalties and advertising fees based on a percentage of the franchisee's gross sales as defined in the franchise agreement. Royalty and advertising revenues are recognized when the franchisee's reported sales occur. Depending on timing within a fiscal period, the recognition of revenue results in either a contract asset (unbilled receivable) or, once billed, accounts receivable, on the balance sheet;
- Revenue from the sales of proprietary pancake and waffle dry mix is recognized in the period in which distributors ship the franchisee's order; recognition of revenue results in accounts receivable on the balance sheet.

In determining the amount and timing of revenue from contracts with customers, the Company exercises significant judgment with respect to collectibility of the amount; however, the timing of recognition does not require significant judgment as it is based on either the franchise term, the month of sale as reported by the franchisee or the date of product shipment, none of which require estimation.

The Company does not incur a significant amount of contract acquisition costs in conducting its franchising activities. The Company believes its franchising arrangements do not contain a significant financing component.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

Any excess or deficiency of advertising fee revenue compared to advertising expenditures, is recognized in the fourth quarter of the Company's fiscal year. Any excess of revenue over expenditures is recognized only to the extent of previously recognized deficits. When advertising revenues exceed the related advertising expenses and there is no recovery of a previously recognized deficit of advertising revenues, advertising costs are accrued up to the amount of revenues.

Company Restaurant Revenues

Company restaurant revenues comprise retail sales at company-operated restaurants. Sales by company-operated restaurants are recognized when food and beverage items are sold. Company restaurant sales are reported net of sales taxes collected from guests that are remitted to the appropriate taxing authorities, with no significant judgments required.

Rental Revenues

Rental operations revenues include revenues from operating leases and interest income from direct financing leases. See *Basis of Presentation and Summary of Significant Accounting Policies - Leases*.

Financing Revenues

Financing operations revenues consist primarily of interest income from the financing of franchise fees and equipment leases, other notes receivable from franchisees and sales of equipment associated with refranchised IHOP restaurants. Interest income is recorded as earned.

Gift Card

The Company administers gift card programs for Applebee's and IHOP. The Company records a liability in the period in which a gift card is sold and recognizes costs associated with its administration of the gift card programs as prepaid assets when the costs are incurred. The liability and prepaid asset recorded on the Company's books are relieved when gift cards are redeemed. If redemption occurs at a franchisee-operated restaurant, the gift card revenue, net of costs, is remitted to the franchisee. The Company receives gift card breakage revenue only from gift cards redeemed at company-operated restaurants. Breakage revenue for gift cards redeemed at company-operated restaurants for the year ended December 31, 2020 was not material. Breakage revenue was not recorded for the years ended 2019 and 2018 as the Company did not have sufficient history from operating the restaurants on which to base an estimate for breakage.

***Allowance for Credit Losses***

The allowance for credit losses is the Company's best estimate of the amount of probable credit losses incurred on existing receivables; however, changes in circumstances relating to receivables may result in changes to the allowance in the future. The Company determines the allowance based on historical losses, current conditions, and reasonable and supportable forecasts used in assessing the franchisee's or area licensee's ability to pay outstanding balances. The primary indicator of credit quality is delinquency, which is considered to be a receivable balance greater than 90 days past due. The Company continually reviews the allowance for credit losses. Past due balances and future obligations are reviewed individually for collectability. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote. Credit losses historically have been within management's estimates.

***Leases***

The Company accounts for its leasing activities in accordance with accounting guidance for leases, as codified in Accounting Standards Topic 842 ("ASC 842"), adopted as of the beginning of its 2019 fiscal year. In adopting ASC 842, the Company utilized expedients that allowed it to retain the classification, as either an operating lease or a finance lease, that was previously determined under prior accounting guidance for leases. The Company reassesses this classification upon renewal, extension or the modification of an existing lease agreement. The Company determines the appropriate classification upon entering into a new contract determined to contain a lease.

Operating lease assets and liabilities are recognized at the lease commencement date, or were recognized upon adoption of ASC 842. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent the Company's right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

The Company's lease agreements generally do not provide information to determine the implicit interest rate in the agreements. This requires the Company to make significant judgments in determining the incremental borrowing rate to be used in calculating operating lease liabilities as of the adoption or commencement date. The Company estimates the incremental borrowing rate primarily by reference to (i) yield rates on debt issuances by companies of a similar credit rating as the Company; (ii) U.S. Treasury rates as of the adoption or commencement date; and (iii) adjustments for differences between these rates and the lease term.

The cost of an operating lease is recognized over the lease term on a straight-line basis. The lease term commences on the date the Company has the right to control the use of the leased property. Certain leases may contain provisions for rent holidays and fixed-step escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and fixed-step escalations are reflected in rent expense on a straight-line basis over the expected lease term. Differences between amounts paid and amounts expensed are recorded as deferred rent. Certain leases may include rent escalations based on inflation indexes and fair market value adjustments. Certain leases may contain contingent rental provisions that include a fixed base rent plus an additional percentage of the restaurant's sales. Subsequent escalations subject to such an index and contingent rental payments are recognized as variable lease expense.

The rental payments or receipts on those property leases that meet the finance lease criteria result in the recognition of interest expense or interest income and a reduction of finance lease obligation or financing lease receivable, respectively. Finance lease obligations are amortized based on the Company's incremental borrowing rate and direct financing lease receivables are amortized using the implicit interest rate.

***Pre-opening Expenses***

Expenditures related to the opening of new or relocated restaurants are charged to expense when incurred.

***Advertising***

Advertising fees included as franchise revenue for the years ended December 31, 2020, 2019 and 2018 were \$201.5 million, \$283.0 million and \$268.3 million, respectively.

Advertising expense reflected in the Consolidated Statements of Comprehensive (Loss) Income includes contributions to the national advertising fund made by Applebee's and IHOP, local marketing advertising costs incurred by company-operated restaurants, and certain advertising costs incurred by the Company to benefit future franchise operations. Costs of advertising typically are expensed either as incurred or the first time the advertising takes place. Advertising expense included in company restaurant operations for the years ended December 31, 2020, 2019 and 2018 was \$5.2 million, \$6.1 million, and \$0.3 million, respectively.

***Fair Value Measurements***

The Company determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in U.S. GAAP. As necessary, the Company measures its financial assets and liabilities using inputs from the following three levels of the fair value hierarchy:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities.
- Level 3 inputs are unobservable and reflect the Company's own assumptions.

The Company does not have a material amount of financial assets or liabilities that are required under U.S. GAAP to be measured at fair value on a recurring basis. None of the Company's non-financial assets or non-financial liabilities is required to be measured at fair value on a recurring basis. Assets recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis include items such as property and equipment, operating lease assets, goodwill and other intangible assets, which are measured at fair value if determined to be impaired. The Company has not elected to use fair value measurement for any assets or liabilities for which fair value measurement is not presently required.

The Company believes the fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their carrying amounts due to their short duration.



**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

The fair values of non-current financial instruments, determined based on Level 2 inputs, are shown in the following table:

	December 31,	
	2020	2019
	(In millions)	
Face value of Series 2019-1 Fixed Rate Senior Secured Notes.....	\$ 1,296.8	\$ 1,300.0
Fair value of Series 2019-1 Fixed Rate Senior Secured Notes.....	\$ 1,259.5	\$ 1,326.3

***Income Taxes***

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. The Company records estimated tax liabilities to the extent the contingencies are probable and can be reasonably estimated. The Company recognizes interest accrued related to unrecognizable tax benefits and penalties as a component of the income tax provision recognized in the Consolidated Statements of Comprehensive (Loss) Income.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by taxing authorities based on its technical merits, including all appeals or litigation processes. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. For each reporting period, management applies a consistent methodology to measure and adjust all uncertain tax positions based on the available information.

***Stock-Based Compensation***

Members of the Board of Directors and certain employees are eligible to receive stock options, restricted stock, restricted stock units and performance units pursuant to the Dine Brands Global, Inc. 2019 Stock Incentive Plan. Shares of unvested restricted stock are subject to restrictions on transfer and forfeiture under certain circumstances. The holder of unvested restricted stock has the right to vote and receive regular cash dividends with respect to the shares of unvested restricted stock.

The Company accounts for all stock-based payments to employees and non-employee directors, including grants of stock options, restricted stock, restricted stock units and performance units to be recognized in the financial statements, based on their respective grant date fair values. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods.

The grant date fair value of restricted stock and stock-settled restricted stock units is determined based on the Company's stock price on the grant date. The Company estimates the grant date fair value of stock option awards using the Black-Scholes option pricing model, which considers, among other factors, a risk-free interest rate, the expected life of the award and the historical volatility of the Company's stock price. The Company estimates the grant date fair value of awards with performance-based market conditions using a Monte Carlo simulation method which considers, among other factors, the performance-based market condition, a risk-free interest rate, the expected life of the award and the historical volatility of the Company's stock price. Awards of cash-settled restricted stock units are classified as liabilities with the liability and compensation expense related to cash-settled awards adjusted to fair value at each balance sheet date.

***Net (Loss) Income Per Share***

Net (loss) income per share is calculated using the two-class method prescribed in U.S. GAAP. Basic net (loss) income per share is computed by dividing the net (loss) income available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net (loss) income per share is computed by dividing the net (loss) income available to common stockholders for the period by the weighted average number of common shares and potential shares of common stock outstanding during the period if their effect is dilutive. The Company uses the treasury stock method to calculate the weighted average shares used in the diluted earnings per share calculation. Potentially dilutive common shares include the assumed exercise of stock options and assumed vesting of restricted stock.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

***Other Comprehensive (Loss) Income***

For the years ended December 31, 2020, 2019 and 2018, the income tax benefit or provision allocated to items of other comprehensive (loss) income was not significant.

***Treasury Stock***

The Company may from time to time utilize treasury stock when vested stock options are exercised, when restricted stock awards are granted and when restricted stock units settle in stock upon vesting. The cost of treasury stock re-issued is determined using the first-in, first-out method.

***Dividends***

Dividends declared on common stock are recorded as a reduction of retained earnings to the extent retained earnings are available at the close of the period prior to the date of the declared dividend. Dividends declared in excess of retained earnings are recorded as a reduction of additional paid-in capital.

***Reporting Segments***

The Company identifies its reporting segments based on the organizational units used by management to monitor performance and make operating decisions. The Company has five operating segments: Applebee's franchise operations, IHOP franchise operations, rental operations, financing operations and company-operated restaurant operations. The Company has four reporting segments: franchise operations, (an aggregation of Applebee's and IHOP franchise operations), rental operations, financing operations and company-operated restaurant operations. The Company considers these to be its reportable segments, regardless of whether any segment exceeds 10% of consolidated revenues, income before income tax provision or total assets.

Franchise Segment

As of December 31, 2020, the franchise operations reportable segment consisted of 1,642 restaurants operated by Applebee's franchisees in the United States, two United States territories and 11 countries outside the United States and 1,769 restaurants operated by IHOP franchisees and area licensees in the United States, two United States territories and 9 countries outside the United States. Franchise operations revenue consists primarily of royalties and advertising fees based on a percentage of the franchisee's gross sales, sales of proprietary products (primarily IHOP pancake and waffle dry mixes) and other franchise fees.

Franchise operations expenses include advertising expense, the cost of proprietary products, pre-opening training expenses and other franchise-related costs.

Rental Segment

Rental operations revenue includes revenue from operating leases and interest income from direct financing leases. Rental operations expenses are costs of operating leases and interest expense of finance leases on franchisee-operated restaurants. The rental operations revenue and expenses are primarily generated by IHOP. Applebee's has an insignificant amount of rental activity.

Financing Segment

Financing operations revenue primarily consists of interest income from the financing of IHOP franchise fees and equipment leases, notes receivable from Applebee's franchisees and sales of equipment associated with refranchised IHOP restaurants. Financing expenses are the cost of restaurant equipment.

Company Segment

As of December 31, 2020, the Company operated 69 Applebee's restaurants that were acquired from a former franchisee in December 2018. The company segment presented in these financial statements consists of these 69 Applebee's restaurants in 2020 and 2019 and for three weeks in December of 2018. All company-operated restaurants were located in the United States. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, beverage, labor, benefits, utilities, rent and other operating costs.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

***Accounting Standards Adopted Effective January 1, 2020***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance on the measurement of current expected credit losses (“CECL”) on financial instruments. The new guidance has replaced the incurred loss methodology of recognizing credit losses on financial instruments with a methodology that estimates the expected credit loss on financial instruments and reflects the net amount expected to be collected on the financial instrument. The Company adopted this change in accounting principle as of the first day of the first fiscal quarter of 2020 using the modified retrospective method. Accordingly, financial information for periods prior to the date of initial application has not been adjusted.

Upon adoption of the new CECL guidance, the Company recognized an increase to its allowance for credit losses of \$0.7 million. The Company recognized an adjustment to retained earnings upon adoption of \$0.5 million, net of tax of \$0.2 million.

Additional new accounting guidance became effective for the Company as of the beginning of fiscal 2020 that the Company reviewed and concluded was either not applicable to its operations or had no material effect on its consolidated financial statements in the current or future fiscal years.

***Newly Issued Accounting Standards Not Yet Adopted***

In December 2019, the FASB issued new guidance intended to simplify the accounting for income taxes, change the accounting for certain income tax transactions, and make other minor changes. The Company will be required to adopt the new guidance beginning with its first fiscal quarter of 2021; early adoption in any interim period after issuance of the new guidance is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements but does not expect this standard to have a material effect on its financial statements. The Company did not adopt the standard early.

In March 2020 with an update in January 2021, the FASB issued guidance which provides optional expedients and exceptions for applying current U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (“LIBOR”) or by another reference rate expected to be discontinued. The guidance can be adopted immediately and is applicable to contracts entered into on or before December 31, 2022. The Company is currently evaluating our contracts that reference LIBOR and the potential effects of adopting this new guidance. The Company is currently assessing the impact this guidance will have on its consolidated financial statements but does not expect this standard to have a material effect on its financial statements. The Company does not intend to adopt the standard early.

The Company reviewed all other newly issued accounting pronouncements and concluded that they either are not applicable to the Company's operations or that no material effect is expected on the Company's financial statements when adoption is required in the future.

**3. Revenue Disclosures**

The following table disaggregates our franchise revenues by major type for the years ended December 31, 2020, 2019 and 2018:

	Year ended December 31,		
	2020	2019	2018
	(In thousands)		
Franchise Revenues:			
Royalties .....	\$ 215,214	\$ 302,169	\$ 311,568
Advertising fees .....	201,494	283,015	268,294
Pancake and waffle dry mix sales and other .....	38,936	53,973	52,108
Franchise and development fees .....	13,809	12,029	11,964
<b>Total franchise revenues .....</b>	<b>\$ 469,453</b>	<b>\$ 651,186</b>	<b>\$ 643,934</b>

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**3. Revenue Disclosures (Continued)**

Accounts and other receivables related to franchise revenues as of December 31, 2020 and 2019 were \$76.3 million (net of allowance of \$11.4 million) and \$63.5 million (net of allowance of \$0.7 million), respectively, and were included in receivables, net in the Consolidated Balance Sheets.

Changes in the Company's contract liability for deferred franchise revenues during the year ended December 31, 2020 were as follows:

	<b>Deferred Franchise Revenue (short- and long-term)</b>
	(In thousands)
Balance at December 31, 2019 .....	67,030
Recognized as revenues during the year ended December 31, 2020 .....	(12,913)
Fees deferred during the year ended December 31, 2020 .....	5,802
Balance at December 31, 2020 .....	\$ 59,919

The balance of deferred franchise revenues as of December 31, 2020 is expected to be recognized as follows:

	(In thousands)
2021 .....	\$ 7,682
2022 .....	7,273
2023 .....	6,758
2024 .....	6,158
2025 .....	5,372
Thereafter .....	26,676
Total .....	\$ 59,919

**4. Current Expected Credit Losses**

Prior to the adoption of CECL, the Company recorded incurred loss reserves against receivable balances based on current and historical information, with delinquency status being the primary indicator of a deterioration in credit quality. The recently adopted CECL reserve methodology requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instrument. Under the CECL model, reserves may be established against financial asset balances even if the risk of loss is remote or has not yet manifested itself.

Upon adoption of the CECL methodology, the Company developed its estimated loss reserves in the following manner. The Company continued to record specific reserves against account balances of franchisees deemed "at-risk" when a potential loss is likely or imminent as a result of prolonged payment delinquency (greater than 90 days past due) and where notable credit deterioration has become evident. For financial assets that are not currently deemed "at-risk," an allowance is recorded based on expected loss rates derived pursuant to the following CECL methodology that assesses four components - historical losses, current conditions, reasonable and supportable forecasts, and a reversion to history, if applicable.

Historical Losses

Historical loss rates over a five-year span were calculated for financial assets with common risk characteristics. The Company determined historical loss rate data for each franchise brand concept was more relevant than a single blended rate. Historical losses were determined based on the average charge-off method. Historical loss rates are further adjusted by factors related to current conditions and forecasts of future economic conditions.

Current Conditions

The Company identified three metrics that it believes provide the most relevant reflection of the current risks inherent in the Company's franchisee-based restaurant business, as follows: (1) delinquency status, (2) system-wide same-restaurant sales, and (3) restaurant unit-level economics. The current conditions adjustment factor was increased to account for the impact of the COVID-19 pandemic.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**4. Current Expected Credit Losses (Continued)**

Reasonable and Supportable Forecasts

The third component in the CECL methodology involves consideration of macroeconomic conditions that can impact the estimate of expected credit losses in the future. The Company has not developed an internal methodology in this regard; rather, the Company utilizes existing, publicly accessible sources of economic data, primarily forecasts of overall unemployment rate as well as consumer spending based on the personal consumption expenditure index.

Reversion to History

The Company has determined that reversion to history was not required since the remaining average lives of the Company's financial assets are not exceedingly lengthy.

The Company considers its portfolio segments to be the following:

Accounts Receivable (Franchise-Related)

Most of the Company's short-term receivables due from franchisees are derived from royalty, advertising and other franchise-related fees.

Gift Card Receivables

Gift card receivables consist primarily of amounts due from third-party vendors. Receivables related to gift card sales are subject to seasonality and usually peak around year end as a result of the December holiday season.

Notes Receivable

Notes receivable balances primarily relate to the conversion of certain Applebee's franchisee accounts receivable to notes receivable, cash loans to franchisees for working capital purposes, a note receivable in connection with the sale of IHOP company restaurants in June 2017, and IHOP franchise fee and other notes. The notes are typically collateralized by the franchise. The notes have a term from two to ten years and bear interest averaging 4.7% and 5.1% per annum at December 31, 2020 and 2019, respectively. Due to the risk inherent in Applebee's notes that were converted from previously delinquent franchisee accounts receivable balances, a significant portion of these notes have specific reserves recorded against them totaling \$8.9 million as of December 31, 2020.

Equipment Leases Receivable

Equipment leases receivable also relate to IHOP franchise development activity prior to 2003. IHOP provided the financing for the leasing of the equipment. Equipment lease contracts are collateralized by the equipment in the restaurant. Equipment lease contracts are due in equal weekly installments, primarily bear interest averaging 9.8% and 9.9% per annum at December 31, 2020 and 2019, respectively. The term of an equipment lease contract coincides with the term of the corresponding restaurant building lease. The weighted average remaining life of the Company's equipment leases is 5.5 years as of December 31, 2020. The estimated fair value of the equipment collateralizing these lease contracts are not deemed to be significant given the very seasoned and mature nature of this portfolio.

Direct Financing Leases Receivable

Direct financing lease receivables relate to IHOP franchise development activity prior to 2003 when IHOP typically leased or purchased the restaurant site, built and equipped the restaurant, then franchised the restaurant to a franchisee. IHOP provided the financing for leasing or subleasing the site. Direct financing leases at December 31, 2020, comprised 90 leases with a weighted average remaining life of 4.1 years, and relate to locations that IHOP is leasing from third parties and subleasing to franchisees. Where applicable, building leases and equipment contracts contain cross-default provisions wherein a default under one constitutes a default under all.



**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**4. Current Expected Credit Losses (Continued)**

Distributor Receivables

Receivables due from distributors are related to the sale of IHOP's proprietary pancake and waffle dry mix to franchisees through the Company's network of suppliers and distributors and are included as part of Other receivables.

Total receivables balances at December 31, 2020 and 2019 were as follows:

<u>Receivables</u>	2020	2019
	(In millions)	
Accounts receivable.....	\$ 85.7	\$ 60.8
Gift card receivables.....	22.5	46.7
Notes receivable.....	18.6	28.9
Financing receivables:		
Equipment leases receivable.....	43.9	56.3
Direct financing leases receivable.....	22.7	34.0
Franchise fee notes receivable.....	0.1	0.2
Other.....	6.0	7.3
	<u>199.5</u>	<u>234.2</u>
Less: allowance for doubtful accounts and notes receivable.....	(23.1)	(11.3)
	<u>176.4</u>	<u>222.9</u>
Less: current portion.....	(121.9)	(136.9)
Long-term receivables.....	<u>\$ 54.5</u>	<u>\$ 86.0</u>

Changes in the allowance for credit losses during the year ended December 31, 2020 were as follows:

	Accounts Receivable	Notes receivable, short-term	Notes receivable, long-term	Lease Receivables	Equipment Receivables	Other <sup>(1)</sup>	Total
	(In millions)						
Balance, December 31, 2019.....	\$ 0.7	\$ 2.4	\$ 8.2	\$ —	\$ —	\$ —	\$ 11.3
Increase due to CECL adoption.....	0.3	0.0	0.1	0.1	0.1	0.1	0.7
Bad debt expense for the year ended December 31, 2020.....	5.0	2.5	0.5	1.2	3.4	0.2	12.8
Advertising provision adjustment.....	5.4	(0.7)	(1.2)	—	—	—	3.5
Write-offs.....	(0.2)	(0.6)	(2.3)	(0.9)	(1.2)	—	(5.2)
Recoveries.....	0.0	—	—	0.0	—	—	—
Balance, December 31, 2020.....	<u>\$ 11.2</u>	<u>\$ 3.6</u>	<u>\$ 5.3</u>	<u>\$ 0.4</u>	<u>\$ 2.3</u>	<u>\$ 0.3</u>	<u>\$ 23.1</u>

<sup>(1)</sup> Primarily distributor receivables, gift card receivables and credit card receivables

The Company's primary credit quality indicator for all portfolio segments is delinquency. The delinquency status of receivables (other than accounts receivable, gift card receivables and distributor receivables) at December 31, 2020 was as follows:

	Notes receivable, short-term	Notes receivable, long-term	Lease Receivables	Equipment Receivables	Other <sup>(1)</sup>	Total
	(In millions)					
Current.....	\$ 3.9	\$ 12.2	\$ 22.7	\$ 43.9	\$ 2.0	\$ 84.7
30-59 days.....	0.1	—	—	—	—	0.1
60-89 days.....	0.1	—	—	—	—	0.1
90-119 days.....	0.1	—	—	—	—	0.1
120+ days.....	2.3	—	—	—	—	2.3
Total.....	<u>\$ 6.5</u>	<u>\$ 12.2</u>	<u>\$ 22.7</u>	<u>\$ 43.9</u>	<u>\$ 2.0</u>	<u>\$ 87.3</u>

<sup>(1)</sup> Primarily credit card receivables

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**4. Current Expected Credit Losses (Continued)**

The year of origination of the Company's financing receivables is as follows:

	Notes receivable, short and long- term	Lease Receivables	Equipment Receivables	Total
	(In millions)			
2020.....	\$ 1.5	\$ 1.5	\$ —	\$ 3.0
2019.....	2.6	0.9	—	3.5
2018.....	8.1	—	—	8.1
2017.....	6.4	—	—	6.4
2016.....	—	1.3	—	1.3
Prior.....	0.1	19.0	43.9	63.0
Total.....	<u>\$ 18.7</u>	<u>\$ 22.7</u>	<u>\$ 43.9</u>	<u>\$ 85.3</u>

The Company does not place its financing receivables in non-accrual status.

The following table summarizes the activity in the allowance for doubtful accounts and notes receivable for the years ended December 31, 2019 and 2018, prior to the adoption of CECL:

<b><u>Allowance for Doubtful Accounts</u></b>	(In millions)
Balance at December 31, 2017.....	\$ 22.2
Provision.....	10.3
Charge-offs.....	(15.3)
Balance at December 31, 2018.....	<u>17.2</u>
Provision.....	(0.4)
Charge-offs.....	(5.0)
Recoveries.....	(0.5)
Balance at December 31, 2019.....	<u>\$ 11.3</u>

**5. Property and Equipment**

Property and equipment by category at December 31, 2020 and 2019 were as follows:

	2020	2019
	(In millions)	
Leaseholds and improvements.....	\$ 221.7	\$ 235.4
Properties under finance leases.....	95.2	100.5
Equipment and fixtures.....	62.1	60.7
Buildings and improvements.....	55.4	56.6
Land.....	52.1	55.9
Internal-use software.....	37.0	34.7
Construction in progress.....	5.0	4.7
Property and equipment, gross.....	<u>528.5</u>	<u>548.5</u>
Less: accumulated depreciation and amortization.....	(340.5)	(332.1)
Property and equipment, net.....	<u>\$ 188.0</u>	<u>\$ 216.4</u>

The Company recorded depreciation expense on property and equipment of \$31.9 million, \$30.8 million and \$22.1 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Accumulated depreciation and amortization includes accumulated amortization for properties under finance leases in the amount of \$49.6 million and \$51.1 million at December 31, 2020 and 2019, respectively.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**6. Goodwill**

The significant majority of the Company's goodwill arose from the November 29, 2007 acquisition of Applebee's. Changes in the carrying amount of goodwill for the years ended December 31, 2020, 2019 and 2018 are as follows:

	Applebee's Franchise Unit	Applebee's Company Unit	IHOP Franchise Unit	Total
	(In millions)			
Balance at December 31, 2017	\$ 328.4	\$ —	\$ 10.8	\$ 339.2
Business acquisition	—	6.1	—	6.1
Balance at December 31, 2018	328.4	6.1	10.8	345.3
Purchase price adjustment related to business acquisition	—	(1.5)	—	(1.5)
Balance at December 31, 2019	328.4	4.6	10.8	343.9
Impairment loss	(92.2)	—	—	(92.2)
Balance at December 31, 2020	<u>\$ 236.2</u>	<u>\$ 4.6</u>	<u>\$ 10.8</u>	<u>\$ 251.6</u>

Gross and net carrying amounts of goodwill at December 31, 2020 and 2019 are as follows:

	December 31, 2020			December 31, 2019		
	Gross	Accumulated Impairment Loss	Net	Gross	Accumulated Impairment Loss	Net
	(In millions)					
Applebee's Franchise Unit	\$ 686.7	\$ (450.5)	\$ 236.2	\$ 686.6	\$ (358.2)	\$ 328.4
Applebee's Company Unit	4.6	—	4.6	4.6	—	4.6
IHOP Franchise Unit	10.8	—	10.8	10.8	—	10.8
Total	<u>\$ 702.1</u>	<u>\$ (450.5)</u>	<u>\$ 251.6</u>	<u>\$ 702.1</u>	<u>\$ (358.2)</u>	<u>\$ 343.9</u>

The Company assesses goodwill for impairment in accordance with its policy described in Note 2 - Basis of Presentation and Summary of Significant Accounting Policies.

Because of the risks and uncertainties associated with the COVID-19 pandemic, the Company performed an interim assessment to determine whether the impact of COVID-19 indicated a potential impairment to its goodwill and intangible assets. In the second quarter of 2020, the Company noted that its common stock had recovered less of its early March 2020 (pre-pandemic) market value than the overall U.S. stock market had recovered. The Company also was able to assess several months of data as to the impact of the COVID-19 pandemic on its operations and, in turn, assess the impact that might have on the risk premium incorporated into its discount rate. Based on these developments, the Company determined that an interim quantitative test for impairment of the goodwill of the Applebee's Franchise and Company units should be performed as of May 24, 2020. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The fair value technique used in this instance is classified as Level 3, where unobservable inputs are used when little or no market data is available.

As a result of performing the quantitative test of impairment, the Company recognized an impairment loss of \$92.2 million to the goodwill of the Applebee's Franchise unit. The majority of the impairment was due to an increase in the assessed risk premium incorporated into the discount rate assumption. There was no impairment of the Applebee's Company unit.

In the fourth quarter of 2020, the Company performed qualitative assessments of the goodwill of the Applebee's Franchise unit, the Applebee's Company unit and the IHOP franchise unit. In performing that analysis the Company considered, among other things, the Company's operating performance subsequent to May 2020 and what, if any, impact that performance had on the long-term forecast of future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures and changes in working capital that had been used in performing a quantitative impairment test as of May 2020. The Company also considered the market value of the Company's stock, absolute and relative to peers, the continuing favorable impact of the Tax Cuts and Jobs Act (the "Tax Act") on future cash flows and general economic conditions and the impact these changes might have on an appropriate discount rate. As result of the qualitative test, the Company concluded it was more likely than not that the fair values of each unit exceeded the respective carrying amounts and therefore, a quantitative test of impairment was not necessary.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**6. Goodwill (Continued)**

In the fourth quarter of 2019, the Company performed qualitative assessments of the goodwill of the Applebee's Franchise unit, the Applebee's Company unit and the IHOP franchise unit. In performing that analysis the Company considered, among other things, Applebee's key performance indicators during 2019 and what, if any, impact that performance had on the long-term forecast of future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures and changes in working capital that had been used in performing a quantitative impairment test in the third quarter of 2017. The Company also considered the current market price of its common stock, the favorable impact of the Tax Act on future cash flows and the impact these changes would have on an appropriate discount rate. As result of the qualitative test, the Company concluded it was more likely than not that the fair values of each unit exceeded the respective carrying amounts and therefore, a quantitative test of impairment was not necessary.

**7. Other Intangible Assets**

The significant majority of the Company's other intangible assets arose from the November 29, 2007 acquisition of Applebee's. Changes in the carrying amount of intangible assets for the years ended December 31, 2020, 2019 and 2018 are as follows:

	Not Subject to Amortization		Subject to Amortization			Total
	Tradename	Other	Franchising Rights	Reacquired Franchise Rights	Favorable Leaseholds	
	(In millions)					
Balance at December 31, 2017.....	\$ 479.0	\$ 2.4	\$ 99.0	\$ —	\$ 2.3	\$ 582.8
Amortization expense.....	—	—	(10.0)	(0.1)	—	(10.1)
Additions.....	—	0.3	—	11.6	1.3	13.2
Balance at December 31, 2018.....	479.0	2.7	89.0	11.5	3.6	585.9
Amortization expense.....	—	—	(10.0)	(1.7)	(0.1)	(11.7)
Additions.....	—	0.5	—	—	0.5	1.0
Balance at December 31, 2019.....	479.0	3.2	79.0	9.8	4.1	575.1
Impairment.....	(11.0)	—	—	(3.3)	(0.8)	(15.1)
Amortization expense.....	—	—	(10.0)	(0.8)	(0.1)	(10.9)
Additions.....	—	0.6	—	—	—	0.6
Balance at December 31, 2020.....	<u>\$ 468.0</u>	<u>\$ 3.8</u>	<u>\$ 69.0</u>	<u>\$ 5.7</u>	<u>\$ 3.2</u>	<u>\$ 549.7</u>

In December 2018, the Company acquired 69 Applebee's restaurants. In its allocation of the purchase price, the Company recorded \$11.6 million of reacquired franchise rights as an intangible asset. Other additions to favorable leaseholds and other intangibles for the years ended December 31, 2020, 2019 and 2018 are individually insignificant.

As discussed in Note 6 - Goodwill, the Company determined that indicators of impairment existed prior to the annual test for impairment and performed an interim quantitative test for impairment of Applebee's tradename and reacquired franchise rights in the second quarter of 2020. In performing the impairment test of the tradename, the Company used the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate applied to the forecast revenue stream. As a result of performing the quantitative test of impairment, the Company recognized an impairment of \$11.0 million to Applebee's tradename. The majority of the impairment was due to an increase in the assessed risk premium incorporated into the discount rate assumption. In addition, the Company determined that the carrying amounts of reacquired franchise rights and favorable leaseholds exceeded the estimated fair value by \$3.3 million and \$0.8 million, respectively, and recorded impairments to those intangible assets.

Annual amortization expense for the next five fiscal years is estimated to be approximately \$10.7 million per year. The weighted average life of the intangible assets subject to amortization was 19.9 years and 18.5 years at December 31, 2020 and 2019, respectively.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**7. Other Intangible Assets (Continued)**

Gross and net carrying amounts of intangible assets subject to amortization at December 31, 2020 and 2019 are as follows:

	December 31, 2020			December 31, 2019		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(In millions)					
Franchising rights	\$ 200.0	\$ (131.0)	\$ 69.0	\$ 200.0	\$ (121.0)	\$ 79.0
Reacquired franchise rights	8.3	(2.6)	5.7	11.6	(1.8)	9.8
Favorable leaseholds	3.4	(0.2)	3.2	\$ 4.2	\$ (0.1)	4.1
Total	\$ 211.7	\$ (133.7)	\$ 78.0	\$ 215.8	\$ (122.9)	\$ 92.9

In the fourth quarter of fiscal 2020 and 2019, the Company performed a qualitative assessment of the Applebee's tradename and concluded the fair value exceeded the carrying amount.

**8. Long-Term Debt**

Long-term debt at December 31, 2020 and 2019 consists of the following components:

	2020	2019
	(In millions)	
Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I	\$ 698.3	\$ 700.0
Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II	598.5	600.0
Series 2019-1 Variable Funding Senior Notes Class A-1, variable interest rate of 2.42% at December 31, 2020	220.0	—
Debt issuance costs	(11.8)	(11.8)
Long-term debt, net of debt issuance costs	1,505.0	1,288.2
Current portion of long-term debt	(13.0)	—
Long-term debt	\$ 1,492.0	\$ 1,288.2

**Long-Term Debt**

On June 5, 2019, Applebee's Funding LLC and IHOP Funding LLC (the "Co-Issuers"), each a special purpose, wholly-owned indirect subsidiary of the Company, issued two tranches of fixed rate senior secured notes, the Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I ("Class A-2-I Notes") in an initial aggregate principal amount of \$700 million and the Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II ("Class A-2-II Notes") in an initial aggregate principal amount of \$600 million (the "Class A-2-II Notes" and, together with the Class A-2-I Notes, the "2019 Class A-2 Notes"). The 2019 Class A-2 Notes were issued pursuant to an offering exempt from registration under the Securities Act of 1933, as amended.

The Co-Issuers also replaced their existing revolving financing facility, the 2018-1 Variable Funding Senior Notes, Class A-1 ("2018 Class A-1 Notes"), with a new revolving financing facility, the 2019-1 Variable Funding Senior Notes, Class A-1 (the "Revolver"), on substantially the same terms as the 2018 Class A-1 Notes in order to conform the term of the Revolver to the anticipated repayment dates for the 2019 Class A-2 Notes. The Revolver and the 2019 Class A-2 Notes are referred to collectively herein as the "New Notes."

The New Notes were issued in a securitization transaction pursuant to which substantially all of the domestic revenue-generating assets and domestic intellectual property, as further described below, held by the Co-Issuers and certain other special-purpose, wholly-owned indirect subsidiaries of the Company (the "Guarantors") were pledged as collateral to secure the New Notes.

**2019 Class A-2 Notes**

The New Notes were issued under a Base Indenture, dated as of September 30, 2014, amended and restated as of June 5, 2019 (the "Base Indenture"), and the related Series 2019-1 Supplement to the Base Indenture, dated June 5, 2019 (the "Series 2019-1 Supplement"), among the Co-Issuers and Citibank, N.A., as the trustee (in such capacity, the "Trustee") and securities



**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**8. Long-Term Debt (Continued)**

intermediary. The Base Indenture and the Series 2019-1 Supplement (collectively, the “Indenture”) will allow the Co-Issuers to issue additional series of notes in the future subject to certain conditions set forth therein.

While the 2019 Class A-2 Notes are outstanding, payment of principal and interest is required to be made on the Class A-2 Notes on a quarterly basis. The payment of principal on the 2019 Class A-2 Notes may be suspended when the leverage ratio for the Company and its subsidiaries is less than or equal to 5.25x. Exceeding the leverage ratio of 5.25x does not violate any covenant related to the New Notes.

The Company's leverage ratio exceeded 5.25x as of June 30, 2020 and has remained greater than 5.25x since then. As of December 31, 2020 the Company's leverage ratio was 7.20x. Accordingly, the Company began making principal payments in the fourth quarter of 2020, and will continue to make payments as long as the leverage ratio exceeds 5.25x.

The Company may voluntarily repay the New Notes at any time; however, if the Company repays the New Notes prior to certain dates, it would be required to pay make-whole premiums. As of December 31, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-I Notes was approximately \$35 million; this amount declines each quarter to zero in June 2022. As of December 31, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-II Notes was approximately \$74 million; this amount declines each quarter to zero in June 2024. The Company would also be subject to a make-whole premium in the event of a mandatory prepayment required following a Rapid Amortization Event or certain asset dispositions. The mandatory make-whole premium requirements are considered derivatives embedded in the New Notes that must be bifurcated for separate valuation. The Company estimated the fair value of these derivatives to be immaterial as of December 31, 2020, based on the probability-weighted discounted cash flows associated with either event.

The legal final maturity of the 2019 Class A-2 Notes is in June 2049, but it is anticipated that, unless earlier prepaid to the extent permitted under the Indenture, the Class A-2-I Notes will be repaid in June 2024 (the “Class A-2-I Anticipated Repayment Date”) and the Class A-2-II Notes will be repaid in June 2026 (the “Class A-2-II Anticipated Repayment Date”). If the Co-Issuers have not repaid or refinanced the Class A-2-I Notes by the Class A-2-I Anticipated Repayment Date or the Class A-2-II Notes by the Class A-2-II Anticipated Repayment Date, then additional interest will accrue on the Class A-2-I Notes and the Class A-2-II Notes, as applicable, at the greater of: (A) 5.0% and (B) the amount, if any, by which the sum of the following exceeds the applicable Class A-2 Note interest rate: (x) the yield to maturity (adjusted to a quarterly bond-equivalent basis) on the applicable anticipated repayment date of the United States Treasury Security having a term closest to 10 years plus (y) 5.0%, plus (z) 2.15% for the Class A-2-I Notes and 2.64% for the Class A-2-II Notes.

**2019 Class A-1 Notes**

The Co-Issuers also entered into the Revolver that allows for drawings up to \$225 million of variable funding notes and the issuance of letters of credit. The Revolver Notes were issued under the Indenture. Drawings and certain additional terms related to the Revolver are governed by the 2019 Class A-1 Note Purchase Agreement, dated June 5, 2019, among the Co-Issuers, certain special-purpose, wholly-owned indirect subsidiaries of the Company, each as a Guarantor (“the Guarantors”), the Company, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters of credit, swingline lender and administrative agent (the “Purchase Agreement”).

The Revolver is governed, in part, by the Purchase Agreement and by certain generally applicable terms contained in the Indenture. The applicable interest rate under the Revolver depends on the type of borrowing by the Co-Issuers. The applicable interest rate for advances is generally calculated at a per annum rate equal to the commercial paper funding rate or one-, two-, three- or six-month Eurodollar Funding Rate, in either case, plus 2.15%. The applicable interest rate for swingline advances and unreimbursed draws on outstanding letters of credit is a per annum base rate equal to the sum of (a) 1.15% plus (b) the greatest of (i) the Prime Rate in effect from time to time, (ii) the Federal Funds Rate in effect from time to time plus 0.50% and (iii) the one-month Eurodollar Funding Rate plus 1.00%. There is no upfront fee for the Revolver. There is a fee of 50 basis points on any unused portion of the Revolver. Undrawn face amounts of outstanding letters of credit that are not cash collateralized accrue a fee of 2.15% per annum. It is anticipated that the principal and interest on the Revolver will be repaid in full on or prior to the quarterly payment date in June 2024 (the “2019 Class A-1 Anticipated Repayment Date”), subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions.

**Management Agreement**

Under the terms of the Management Agreement, dated September 30, 2014, as amended and restated as of September 5, 2018, as further amended and restated as of June 5, 2019 and as amended by that certain Amendment No. 1 to Management Agreement dated November 21, 2019, among the Co-Issuers and the Guarantors (collectively, the “Securitization Entities”), the Company, Applebee’s Services, Inc., International House of Pancakes, LLC and the Trustee, the Company will act as the

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**8. Long-Term Debt (Continued)**

manager with respect to substantially all of the assets of the Securitization Entities (the “Securitized Assets”). The primary responsibilities of the manager will be to perform certain franchising, distribution, intellectual property and operational functions on behalf of the Securitization Entities with respect to the Securitized Assets pursuant to the Management Agreement. The manager will be entitled to the payment of the weekly management fee, as set forth in the Management Agreement and will be subject to the liabilities set forth in the Management Agreement. The Company, as Manager, voluntarily began waiving its receipt of the weekly management fee in April 2020 and this waiver remains in place as of December 31, 2020.

**Covenants and Restrictions**

The New Notes are subject to a series of covenants and restrictions customary for transactions of this type, including: (i) that the Co-Issuers maintain specified reserve accounts to be used to make required payments in respect of the New Notes, (ii) provisions relating to optional and mandatory prepayments, and the related payment of specified amounts, including specified call redemption premiums in the case of Class A-2 Notes under certain circumstances; (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the New Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The New Notes are subject to customary rapid amortization events provided for in the Indenture, including events tied to failure of the Securitization Entities to maintain the stated debt service coverage ratio (“DSCR”), the sum of domestic retail sales for all restaurants being below certain levels on certain measurement dates, certain manager termination events, certain events of default and the failure to repay or refinance the Class A-2 Notes on the anticipated repayment dates. The New Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the New Notes, failure of the Securitization Entities to maintain the stated DSCR, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties and certain judgments.

In general, the DSCR ratio is Net Cash Flow (as defined in the Indenture) for the four quarters preceding the calculation date divided by the total debt service payments (as defined in the Indenture) of the preceding four quarters. The complete definitions of the DSCR and all calculation elements are contained in the Indenture. Failure to maintain a prescribed DSCR can trigger a Cash Flow Sweeping Event, a Rapid Amortization Event, a Manager Termination Event or a Default Event as described below. In a Cash Flow Sweeping Event, the Trustee is required to retain 50% of excess Cash Flow (as defined in the Indenture) in a restricted account. In a Rapid Amortization Event, all excess Cash Flow is retained and used to retire principal amounts of debt. In a Manager Termination Event, the Company may be replaced as manager of the assets securitized under the Indenture. In a Default Event, the outstanding principal amount and any accrued but unpaid interest can be called to become immediately due and payable. Key DSCRs are as follows:

- DSCR less than 1.75x - Cash Flow Sweeping Event
- DSCR less than 1.20x - Rapid Amortization Event
- Interest-only DSCR less than 1.20x - Manager Termination Event
- Interest-only DSCR less than 1.10x - Default Event

The Company's DSCR for the reporting period ended December 31, 2020 was approximately 3.3x.

**Use of Credit Facilities**

In March 2020, the Co-Issuers drew down a total of \$220.0 million of the amount then available under the Revolver. Although the Company had no immediate need for additional liquidity, the Co-Issuers drew on the Revolver to increase the Company's financial flexibility in light of then-current market conditions and uncertainty due to the COVID-19 outbreak. It is anticipated that the principal and interest on the Revolver will be repaid in full on or prior to the quarterly payment date in June 2024, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions. The current interest rate for borrowings under the Revolver is the three-month LIBOR rate plus 2.15% for 60% of the advances and the commercial paper funding rate of our conduit investor plus 2.15% for 40% of the advances. The interest rate on Revolver borrowings at December 31, 2020 was 2.42%. The weighted average interest rate on Revolver borrowings for the period outstanding during the year ended December 31, 2020 was 2.72%.

At December 31, 2020, \$2.8 million was pledged against the Revolver for outstanding letters of credit, leaving \$2.2 million of the Revolver available for borrowing. The letters of credit are used primarily to satisfy insurance-related collateral requirements.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**8. Long-Term Debt (Continued)**

**Loss on Extinguishment of Debt**

In connection with the repayment of the 2014 Class A-2 Notes, during the year ended December 31, 2019, the Company recognized a loss on extinguishment of debt of \$8.3 million, representing the remaining unamortized costs related to the 2014 Class A-2 Notes at the time of repayment. Prior to the extinguishment on June 5, 2019, amortization costs of \$1.4 million and \$3.4 million associated with the 2014 Class A-2 Notes was included in interest expense for the years ended December 31, 2019 and 2018 respectively.

**Debt Issuance Costs**

The Company incurred costs of approximately \$12.9 million in connection with the issuance of the 2019 Class A-2 Notes. These debt issuance costs are being amortized using the effective interest method over estimated life of each tranche of the 2019 Class A-2 Notes. Amortization costs of \$2.1 million and \$1.2 million were included in interest expense for the years ended December 31, 2020 and 2019, respectively. Unamortized debt issuance costs of \$9.6 million are reported as a direct reduction of the Class A-2 Notes in the Consolidated Balance Sheets.

The Company incurred costs of approximately \$0.2 million in connection with the replacement of the 2018-1 Class A-1 Notes with the Revolver in 2019. These debt issuance costs have been added to the remaining unamortized costs of approximately \$2.8 million related to the 2018 Class A-1 Notes, the total of which costs is now being amortized using the effective interest method over the estimated five-year life of the Revolver. Amortization costs of \$0.6 million were included in interest expense for the year ended December 31, 2020. Unamortized debt issuance costs of \$2.2 million are reported as a direct reduction of the Class A-1 Notes in the Consolidated Balance Sheets.

At December 31, 2019, \$2.7 million of unamortized debt issuance costs related to the Revolver were classified as other long-term assets because there had been no borrowing against the Revolver.

**Debt Refinancing Costs**

In connection with the termination of the 2014 Purchase Agreement, the Company recognized as expense \$0.9 million of unamortized debt issuance costs associated with the 2014 Variable Funding Notes during the year ended December 31, 2018. In addition, the Company incurred costs of \$1.6 million associated with the evaluation of various alternatives for refinancing the Company's securitized indebtedness that were also charged to expense during the year ended December 31, 2018. These costs totaling \$2.5 million were reported as "Debt refinancing costs" in the Consolidated Statements of Comprehensive (Loss) Income for the year ended December 31, 2018.

**Maturities of Long-term Debt**

Face-value maturities of long-term debt for each of the next five years, assuming the Company's leverage ratio remains greater than 5.25x and the Revolver is not extended beyond the 2019 Class A-1 Anticipated Repayment Date, are as follows:

	<u>(In millions)</u>
2021.....	\$ 13.0
2022.....	13.0
2023.....	13.0
2024.....	903.3
2025.....	6.0
Thereafter.....	568.5
Total	<u>\$ 1,516.8</u>

**9. Financing Obligations**

On May 19, 2008, the Company entered into a Purchase and Sale Agreement relating to the sale and leaseback of 181 parcels of real property (the “Sale-Leaseback Transaction”), each of which is improved with a restaurant operating as an Applebee’s Neighborhood Grill and Bar (the “Properties”). On June 13, 2008, the closing date of the Sale-Leaseback Transaction, the Company entered into a Master Land and Building Lease (“Master Lease”) for the Properties. The proceeds received from the transaction were \$337.2 million. The Master Lease calls for an initial term of twenty years and four, five-year options to extend the term.

The Sale-Leaseback Transaction does not qualify as a sale under current U.S. GAAP. Accordingly, the Sale-Leaseback Transaction continues to be recorded under the financing method. The value of the land and leasehold improvements will remain on the Company’s books and the leasehold improvements will continue to be depreciated over their remaining useful lives. The net proceeds received were recorded as a financing obligation. A portion of the lease payments is recorded as a decrease to the financing obligation and a portion is recognized as interest expense. In the event the lease obligation of any individual property or group of properties is assumed by a qualified franchisee, the portion of the transaction related to that property or group of properties is recorded as a sale in accordance with U.S. GAAP and the net book value of those properties will be removed from the Company’s books, along with a ratable portion of the remaining financing obligation.

As of December 31, 2020, the portion of the original Sale-Leaseback Transaction related to 158 of the 181 Properties has qualified as a sale by assignment of the lease obligation to a qualified franchisee or a release from the lessor. In accordance with the accounting described above, the property and equipment and financing obligations have each been cumulatively reduced by approximately \$284.2 million.

As of December 31, 2020, future minimum lease payments under financing obligations during the initial terms of the leases related to the sale-leaseback transactions are as follows:

<u>Fiscal Years</u>	<u>(In millions)</u>
2021 .....	\$ 4.5
2022 .....	4.5
2023 .....	4.4
2024 .....	5.0
2025 .....	5.0
Thereafter .....	34.8
Total minimum lease payments .....	<u>58.2</u>
Less: interest .....	<u>(24.7)</u>
Total financing obligations .....	33.5
Less: current portion <sup>(1)</sup> .....	<u>(0.7)</u>
Long-term financing obligations .....	<u>\$ 32.8</u>

<sup>(1)</sup> Included in current maturities of finance lease and financing obligations on the consolidated balance sheet.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**10. Lease Disclosures**

The Company engages in leasing activity as both a lessee and a lessor. The majority of the Company's lease portfolio originated when the Company was actively involved in the development and financing of IHOP restaurants prior to the franchising of the restaurant to the franchisee. This activity included the Company's purchase or leasing of the site on which the restaurant was located and subsequently leasing/subleasing the site to the franchisee. With a few exceptions, the Company ended this practice in 2003 and the Company's current lease activity is predominantly comprised of renewals of existing lease arrangements and exercises of options on existing lease arrangements.

The Company currently leases from third parties the real property on which approximately 600 IHOP franchisee-operated restaurants and one Applebee's franchisee-operated restaurant are located; the Company (as lessor) subleases the property to the franchisees that operate those restaurants. The Company also leases property it owns to the franchisees that operate approximately 60 IHOP restaurants and one Applebee's restaurant. The Company leases from third parties the real property on which 69 Applebee's company-operated restaurants are located. The Company also leases office space for its principal corporate office in Glendale, California and restaurant support centers in Kansas City, Missouri and Raleigh, North Carolina. The Company does not have a significant amount of non-real estate leases.

The Company's existing leases/subleases related to IHOP restaurants generally provide for an initial term of 20 to 25 years, with most having one or more five-year renewal options. Leases related to Applebee's restaurants generally have an initial term of 10 to 20 years, with renewal terms of five to 20 years. Option periods were not included in determining liabilities and right-of-use assets related to operating leases. Approximately 320 of the Company's leases met the sales levels that required variable rent payments to the Company (as lessor), based on a percentage of restaurant sales in 2020. Approximately 50 of the leases met the sales levels that required variable rent payments by the Company (as lessee), based on a percentage of restaurant sales in 2020.

The individual lease agreements do not provide information to determine the implicit interest rate in the agreements. The Company made significant judgments in determining the incremental borrowing rates that were used in calculating operating lease liabilities as of the adoption date. Due to the large number of leases, the Company applied a portfolio approach by grouping the leases based on the original lease term. The Company estimated the interest rate for each grouping primarily by reference to (i) yield rates on debt issuances by companies of a similar credit rating as the Company; (ii) U.S. Treasury rates as of the adoption date; and (iii) adjustments for differences in years to maturity.

The Company's lease cost for the years ended December 31, 2020 and 2019 was as follows:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(In millions)</b>	
Finance lease cost:		
Amortization of right-of-use assets .....	\$ 5.0	\$ 5.3
Interest on lease liabilities .....	6.6	7.7
Operating lease cost .....	109.8	106.2
Variable lease cost .....	0.8	2.7
Short-term lease cost .....	0.0	0.0
Sublease income .....	(96.8)	(110.9)
Lease cost .....	<u>\$ 25.4</u>	<u>\$ 11.0</u>

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**10. Lease Disclosures (Continued)**

Future minimum lease payments under noncancelable leases as lessee as of December 31, 2020 were as follows:

	Finance Leases	Operating Leases
	(In millions)	
2021 .....	\$ 15.9	\$ 91.1
2022 .....	14.5	84.7
2023 .....	11.7	69.8
2024 .....	9.7	64.3
2025 .....	8.6	55.3
Thereafter .....	50.9	144.9
Total minimum lease payments .....	<u>111.3</u>	<u>510.1</u>
Less: interest/imputed interest .....	<u>(31.7)</u>	<u>(95.2)</u>
Total obligations .....	79.6	414.9
Less: current portion .....	<u>(10.6)</u>	<u>(69.7)</u>
Long-term lease obligations .....	<u>\$ 69.0</u>	<u>\$ 345.2</u>

The weighted average remaining lease term as of December 31, 2020 was 9.2 years for finance leases and 7.3 years for operating leases. The weighted average discount rate as of December 31, 2020 was 10.2% for finance leases and 5.7% for operating leases.

During the years ended December 31, 2020 and 2019, the Company made the following cash payments for leases:

	Year Ended December 31,	
	2020	2019
	(In millions)	
Principal payments on finance lease obligations .....	\$ 12.5	\$ 13.6
Interest payments on finance lease obligations .....	\$ 6.6	\$ 7.7
Payments on operating leases .....	\$ 101.1	\$ 91.9
Variable lease payments .....	\$ 0.7	\$ 2.5

The Company's income from operating leases for the years ended December 31, 2020 and 2019 was as follows:

	Year Ended December 31,	
	2020	2019
	(In millions)	
Minimum lease payments .....	\$ 97.2	\$ 102.8
Variable lease income .....	5.2	11.5
Total operating lease income .....	<u>\$ 102.4</u>	<u>\$ 114.3</u>

Future minimum payments to be received as lessor under noncancelable operating leases as of December 31, 2020 were as follows:

	(In millions)
2021 .....	\$ 101.7
2022 .....	98.8
2023 .....	94.4
2024 .....	86.0
2025 .....	73.4
Thereafter .....	155.8
Total minimum rents receivable .....	<u>\$ 610.1</u>



**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**10. Lease Disclosures (Continued)**

The Company's income from direct financing leases at December 31, 2020 and 2019 was as follows:

	Year Ended December 31,	
	2020	2019
	(In millions)	
Interest income.....	\$ 3.4	\$ 5.0
Variable lease income.....	0.3	1.3
Total financing lease income.....	\$ 3.7	\$ 6.3

Future minimum payments to be received as lessor under noncancelable direct financing leases as of December 31, 2020 were as follows:

	(In millions)
2021.....	\$ 10.5
2022.....	7.7
2023.....	3.7
2024.....	1.5
2025.....	0.7
Thereafter.....	3.1
Total minimum rents receivable.....	27.2
Less: unearned income.....	(4.5)
Total direct financing leases receivable.....	22.7
Less: current portion.....	(8.4)
Long-term direct financing leases receivable.....	\$ 14.3

**11. Commitments and Contingencies**

***Purchase Commitments***

In some instances, the Company enters into commitments to purchase advertising and other items. Most of these agreements are fixed price purchase commitments. At December 31, 2020, the outstanding purchase commitments were \$90.0 million, the majority of which related to advertising.

***Lease Guarantees***

In connection with the sale of Applebee's restaurants to franchisees and other parties, the Company has, in certain cases, guaranteed or had potential continuing liability for lease payments. The Company had outstanding lease guarantees or was contingently liable for approximately \$245.6 million and \$257.2 million as of December 31, 2020 and 2019 respectively. These amounts represent the maximum potential liability of future payments under these leases. Excluding unexercised option periods, the Company's potential liability for future payments under these leases as of December 31, 2020 was \$36.6 million. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2021 through 2048. In the event of default, the indemnity and default clauses in our sale or assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities for these guarantees have been recorded as of December 31, 2020.

***Litigation, Claims and Disputes***

The Company is subject to various lawsuits, governmental inspections, administrative proceedings, audits, and claims arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. The Company is required to record an accrual for litigation loss contingencies that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of the Company's litigation are expensed as such fees and expenses are incurred. In the opinion of management, these matters are adequately covered by insurance or, if not so covered, are without merit or are of such a nature or involve amounts that would not have a material adverse impact on the Company's business or consolidated financial statements. Management regularly assesses the Company's insurance deductibles, analyzes litigation information with the Company's attorneys and evaluates its loss experience in connection with pending legal proceedings. While the Company does not presently believe that any of the legal proceedings to which the Company is currently a party will

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**11. Commitments and Contingencies (Continued)**

ultimately have a material adverse impact on the Company, there can be no assurance that the Company will prevail in all the proceedings the Company is party to, or that the Company will not incur material losses from them.

**Letters of Credit**

The Company provides letters of credit, primarily to various insurance carriers to collateralize obligations for outstanding claims. As of December 31, 2020, the Company had approximately \$2.8 million of unused letters of credit outstanding that reduce the Company's available borrowing under its 2019 Class A-1 Notes. These letters of credit expire on various dates in 2021 and are automatically renewed for an additional year if no cancellation notice is submitted.

**12. Stockholders' Deficit**

**Stock Repurchase Programs**

In February 2019, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to \$200 million of the Company's common stock (the "2019 Repurchase Program") on an opportunistic basis from time to time in the open market or in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The 2019 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time. In connection with the approval of the 2019 Repurchase Program, the Board of Directors terminated the prior repurchase program approved in October 2015 (the "2015 Repurchase Program") which had authorized the Company to repurchase up to \$150 million of the Company's common stock.

A summary of shares repurchased under the 2019 Repurchase Program and the 2015 Repurchase Program, during the years ended December 31, 2020 and 2019, and cumulatively for each program, is as follows:

	<b>Shares</b>	<b>Cost of shares</b>
		<b>(In millions)</b>
<u>2019 Repurchase Program:</u>		
Repurchased during the year ended December 31, 2020 .....	459,899	\$ 26.5
Repurchased during the year ended December 31, 2019 .....	1,237,698	\$ 103.3
Cumulative (life-of-program) repurchases .....	1,697,597	\$ 129.8
Remaining dollar value of shares that may be repurchased .....	n/a	\$ 70.2
 <u>2015 Repurchase Program:</u>		
Repurchased during the year ended December 31, 2019 .....	110,499	\$ 8.4
Cumulative (life-of-program) repurchases .....	1,589,995	\$ 126.2
Remaining dollar value of shares that may be repurchased .....	n/a	n/a

**Dividends**

On February 20, 2020, our Board of Directors approved payment of a cash dividend of \$0.76 per share of common stock, payable at the close of business on April 3, 2020 to the stockholders of record as of the close of business on March 20, 2020. Dividends were not declared for the second, third and fourth quarters of 2020.

During the fiscal years ended December 31, 2020, 2019 and 2018, the Company declared and paid dividends on common stock as follows:

<b>Year ended December 31, 2020</b>	<b>Declaration Date</b>	<b>Payment Date</b>	<b>Dividends declared per share</b>	<b>Dividends paid per share</b>	<b>Total dividends paid<sup>(1)</sup></b>
					<b>(In millions)</b>
Payment of prior year declaration .....	(2)	January 10, 2020	—	\$ 0.69	\$ 11.7
First quarter .....	February 20, 2020	April 3, 2020	\$ 0.76	0.76	12.7
Total .....			\$ 0.76	\$ 1.45	\$ 24.4

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**12. Stockholders' Deficit (Continued)**

<u>Year ended December 31, 2019</u>	<u>Declaration Date</u>	<u>Payment Date</u>	<u>Dividends declared per share</u>	<u>Dividends paid per share</u>	<u>Total dividends paid<sup>(1)</sup></u>
Payment of prior year declaration .....	(3)	January 4, 2019	—	\$ 0.63	\$ 11.4
First quarter .....	February 20, 2019	April 5, 2019	\$ 0.69	0.69	12.5
Second quarter .....	May 13, 2019	July 12, 2019	0.69	0.69	12.2
Third quarter .....	August 1, 2019	October 4, 2019	0.69	0.69	11.8
Fourth quarter .....	October 8, 2019	(2)	0.69	—	—
Total .....			<u>\$ 2.76</u>	<u>\$ 2.70</u>	<u>\$ 47.9</u>
<b><u>Year ended December 31, 2018</u></b>					
Payment of prior year declaration .....	(4)	January 5, 2018	\$ —	\$ 0.97	\$ 17.7
First quarter .....	February 14, 2018	April 6, 2018	\$ 0.63	0.63	11.5
Second quarter .....	May 14, 2018	July 6, 2018	0.63	0.63	11.4
Third quarter .....	August 2, 2018	October 5, 2018	0.63	0.63	11.4
Fourth quarter .....	October 6, 2018	(3)	0.63	—	—
Total .....			<u>\$ 2.52</u>	<u>\$ 2.86</u>	<u>\$ 52.0</u>

(1) Includes dividend equivalents paid on restricted stock units

(2) The fourth quarter 2019 dividend of \$11.7 million was paid on January 10, 2020.

(3) The fourth quarter 2018 dividend of \$11.4 million was paid on January 4, 2019.

(4) The fourth quarter 2017 dividend of \$17.7 million was paid on January 5, 2018.

Dividends declared on common stock are recorded as a reduction of retained earnings to the extent retained earnings are available at the close of the period prior to the date of the declared dividend. Dividends in excess of retained earnings are recorded as a reduction of additional paid-in capital.

Dividends recorded during the fiscal years ended December 31, 2020, 2019 and 2018 were as follows:

	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In millions)		
Dividends declared from retained earnings .....	\$ 12.7	\$ 48.1	\$ —
Dividends declared from additional paid-in capital .....	\$ —	\$ —	\$ 44.7

**Treasury Stock**

Repurchases of the Company's common stock are included in treasury stock at the cost of shares repurchased plus any transaction costs. Treasury stock may be re-issued when vested stock options are exercised, when restricted stock awards are granted and when restricted stock units settle in stock upon vesting. The cost of treasury stock re-issued is determined on the first-in, first-out ("FIFO") method. The Company re-issued 433,477 shares, 285,302 shares and 167,396 shares, respectively, during the years ended December 31, 2020, 2019 and 2018 at a total FIFO cost of \$19.4 million, \$12.5 million and \$6.5 million, respectively.

**13. Long-lived Tangible Asset Impairment and Closure Charges**

Long-lived tangible asset impairment and closure charges for the years ended December 31, 2020, 2019 and 2018 were as follows:

	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In millions)		
Long-lived tangible asset impairment .....	\$ 22.3	\$ —	\$ 0.1
Closure charges .....	3.0	1.5	2.0
Total long-lived tangible asset impairment and closure charges .....	<u>\$ 25.3</u>	<u>\$ 1.5</u>	<u>\$ 2.1</u>

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**13. Long-lived Tangible Asset Impairment and Closure Charges (continued)**

***Long-lived Tangible Asset Impairment***

The long-lived asset impairment for the year ended December 31, 2020 related to 29 Applebee's company-operated restaurants and 41 IHOP franchisee-operated restaurants for which the carrying amount exceeded the undiscounted cash flows. The primary method of estimating fair value is based on a discounted cash flow analysis. The Company also considers factors such as the number of years the restaurant has been in operation, sales trends, cash flow trends, remaining lease life and other factors which apply on a case-by-case basis. For locations owned by the Company, current purchase offers, if any, or valuations from independent third party sources are utilized, if available. The analysis is performed at the restaurant level for indicators of permanent impairment. The impairment recorded represents the difference between the carrying value and the estimated fair value. Approximately \$15.1 million of the total impairment related to operating lease right-of-use assets that had been recorded in 2019 upon adoption of new lease accounting guidance codified in ASC 842, while \$7.2 million related to impairments of land, building, leasehold improvements and finance leases. The impairments by individual property varied in amount, ranging from the largest single-property impairment of \$1.3 million to less than \$5,000.

There were no long-lived tangible asset impairment charges for the year ended December 31, 2019. Long-lived tangible asset impairment charges for the year ended December 31, 2018 were insignificant.

***Closure Charges***

Approximately \$1.6 million of closure charges for the year ended December 31, 2020 related to seven IHOP restaurants closed during 2020, with the remainder primarily related to adjustments to the reserve for IHOP and Applebee's restaurants closed prior to 2020. Approximately \$0.5 million of closure charges for the year ended December 31, 2019 related to two IHOP restaurants and one Applebee's restaurant closed during 2019, with the remainder primarily related to adjustments to the reserve for IHOP and Applebee's restaurants closed prior to 2019. Approximately \$1.8 million of closure charges for the year ended December 31, 2018 related to one IHOP franchise restaurant closed during 2018, with the remainder primarily related to adjustments to the reserve for IHOP and Applebee's restaurants closed prior to 2018.

**14. Stock-Based Incentive Plans**

***General Description***

Currently, the Company is authorized to grant stock options, stock appreciation rights, restricted stock, cash-settled and stock-settled restricted stock units and performance units to officers, other employees and non-employee directors under the Dine Brands Global, Inc. 2019 Stock Incentive Plan (the "2019 Plan"). The 2019 Plan was approved by stockholders on May 14, 2019 to permit the issuance of up to 2,050,000 shares (subject to adjustment as defined in the 2019 Plan for shares that may become available from prior plans) of the Company's common stock for incentive stock awards. The 2019 Plan will expire in May 2029.

The Dine Brands Global, Inc. 2016 Stock Incentive Plan (the "2016 Plan") was adopted in 2016 to permit the issuance of up to 3,750,000 shares of the Company's common stock for incentive stock awards. The 2016 Plan was terminated upon adoption of the 2019 Plan, but there are stock options (vested and unvested) and unvested restricted stock and restricted stock units issued under the 2016 Plan that are outstanding as of December 31, 2020.

The DineEquity, Inc. 2011 Stock Incentive Plan (the "2011 Plan") was adopted in 2011 to permit the issuance of up to 1,500,000 shares of the Company's common stock for incentive stock awards. The 2011 Plan was terminated upon adoption of the 2016 Plan, but there are vested stock options issued under the 2011 Plan that are outstanding as of December 31, 2020.

The 2019 Plan, 2016 Plan and the 2011 Plan are collectively referred to as the "Plans."

***Stock-Based Compensation Expense***

From time to time, the Company has granted nonqualified stock options, restricted stock, cash-settled and stock-settled restricted stock units and performance units to officers, other employees and non-employee directors of the Company under the Plans. The nonqualified stock options generally vest ratably over a three-year period in one-third increments and have a maturity of ten years from the grant date. Options vest immediately upon a change in control of the Company, as defined in the Plans. Option exercise prices equal the closing price of the Company's common stock on the New York Stock Exchange on the date of grant. Restricted stock and restricted stock units are issued at no cost to the holder and vest over terms determined by the Compensation Committee of the Company's Board of Directors, generally three years from the date of grant or immediately

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**14. Stock-Based Incentive Plans (Continued)**

upon a change in control of the Company, as defined in the Plans. The Company either utilizes treasury stock or issues new shares from its authorized but unissued share pool when vested stock options are exercised, when restricted stock awards are granted and when restricted stock units settle in stock upon vesting.

The following table summarizes the Company's stock-based compensation expense included as a component of general and administrative expenses in the consolidated financial statements:

	Year Ended December 31,		
	2020	2019	2018
	(In millions)		
Total stock-based compensation expense:			
Equity classified awards expense	\$ 12.6	\$ 10.9	\$ 10.6
Liability classified awards expense	1.0	3.2	3.1
Total pretax stock-based compensation expense	13.6	14.1	13.7
Book income tax benefit	(3.4)	(3.5)	(3.5)
Total stock-based compensation expense, net of tax	<u>\$ 10.2</u>	<u>\$ 10.6</u>	<u>\$ 10.2</u>

As of December 31, 2020, total unrecognized compensation cost related to restricted stock and restricted stock units of \$16.5 million and \$2.6 million related to stock options is expected to be recognized over a weighted average period of approximately 1.2 years for restricted stock and restricted stock units and 1.3 years for stock options.

**Equity Classified Awards - Stock Options**

The per share fair values of the stock options granted have been estimated as of the date of grant using the Black-Scholes option pricing model. The Black-Scholes model considers, among other factors, the expected life of the option and the historical volatility of the Company's stock price. The Black-Scholes model meets the requirements of U.S. GAAP, but the fair values generated by the model may not be indicative of the actual fair values of the Company's stock-based awards.

The Company granted 167,969 stock options during the year ended December 31, 2020 for which the fair value was estimated using a Black-Scholes option pricing model. The following table summarizes the assumptions used in the Black-Scholes model:

	2020	2019	2018
Risk free interest rate	1.2 %	2.5 %	2.6 %
Weighted average historical volatility	30.5 %	30.3 %	26.1 %
Dividend yield	3.5 %	2.8 %	3.6 %
Expected years until exercise	4.6	4.7	4.6
Weighted average fair value of options granted	<u>\$ 17.53</u>	<u>\$ 21.93</u>	<u>\$ 11.94</u>

The Company granted 25,330 performance-based stock options and 55,245 performance-based restricted stock units during the year ended December 31, 2018, with performance periods ranging from 36 to 40 months. The following summarizes the assumptions used in estimating the fair values:

	2018
Risk free interest rate	2.5 %
Weighted average historical volatility	34.4 %
Dividend yield	3.4 %
Expected years until exercise	3.0
Weighted average fair value of options granted	<u>\$ 9.79</u>
Weighted average fair value of restricted stock units granted	<u>\$ 53.72</u>

As of December 31, 2020, all of the stock options and 26,670 of the restricted stock units have been forfeited.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**14. Stock-Based Incentive Plans (Continued)**

Stock option activity for the years ended December 31, 2020, 2019 and 2018 is summarized as follows:

	Number of Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at December 31, 2017	1,272,048	\$ 61.44		
Granted	248,899	69.12		
Exercised	(74,930)	52.43		
Forfeited	(6,309)	68.80		
Outstanding at December 31, 2018	1,439,708	63.21		
Granted	132,832	98.97		
Exercised	(211,352)	57.36		
Forfeited	(106,745)	72.19		
Expired	(37,005)	93.06		
Outstanding at December 31, 2019	1,217,438	66.43		
Granted	167,969	87.17		
Exercised	(270,024)	76.01		
Forfeited	(45,247)	86.39		
Expired	(55,466)	107.78		
Outstanding at December 31, 2020	1,014,670	\$ 64.16	6.4	\$ 7.0
Vested and Expected to Vest at December 31, 2020	996,118	\$ 63.71	6.4	\$ 7.0
Exercisable at December 31, 2020	415,914	\$ 70.43	5.0	\$ 0.9

The total intrinsic value of options exercised during the years ended December 31, 2020, 2019 and 2018 was \$4.3 million, \$6.9 million and \$2.4 million, respectively.

Cash received from options exercised under all stock-based payment arrangements for the years ended December 31, 2020, 2019 and 2018 was \$20.5 million, \$12.0 million and \$3.9 million, respectively. The actual tax benefit realized for the tax deduction from option exercises under the stock-based payment arrangements totaled \$1.1 million, \$1.8 million and \$0.6 million, respectively, for the years ended December 31, 2020, 2019 and 2018.

**Equity Classified Awards - Restricted Stock and Restricted Stock Units**

Activity in equity classified awards of restricted stock and restricted stock units for the years ended December 31, 2020, 2019 and 2018 is as follows:

	Shares of Restricted Stock	Weighted Average Grant-Date Per Share Fair Value	Restricted Stock Units	Weighted Average Grant-Date Per Share Fair Value
Outstanding at December 31, 2017	275,191	\$ 65.97	303,348	\$ 28.39
Granted	92,466	69.20	86,990	57.21
Released	(74,253)	81.07	(15,737)	98.54
Forfeited	(26,162)	61.27	(72)	53.49
Outstanding at December 31, 2018	267,242	64.21	374,529	31.05
Granted	75,556	96.86	23,427	95.77
Released	(76,962)	76.25	(12,347)	90.34
Forfeited	(41,321)	67.20	(27,802)	34.53
Outstanding at December 31, 2019	224,515	70.52	357,807	30.35
Granted	163,522	73.68	30,997	77.33
Released	(95,211)	55.75	(33,234)	63.98
Forfeited	(38,495)	85.03	—	—
Outstanding at December 31, 2020	254,331	\$ 76.50	355,570	\$ 28.01



**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**14. Stock-Based Incentive Plans (Continued)**

***Liability Classified Awards - Cash-settled Restricted Stock Units***

The Company has granted cash-settled restricted stock units to certain employees. These instruments are recorded as liabilities at fair value as of the respective period end.

	<b>Cash-Settled Restricted Stock Units</b>
Outstanding at December 31, 2019 .....	63,852
Granted .....	2,658
Released .....	(1,426)
Forfeited .....	(12,128)
Outstanding at December 31, 2020 .....	52,956

For the years ended December 31, 2020, 2019 and 2018, \$0.3 million, \$1.6 million and, \$0.8 million respectively, was included as stock-based compensation expense related to cash-settled restricted stock units.

***Liability Classified Awards - Long-Term Incentive Awards***

The Company has granted cash long-term incentive awards to certain employees (“LTIP awards”). Annual LTIP awards vest over a three-year period and are determined using a multiplier from 0% to 200% of the target award based on the total stockholder return of the Company's common stock compared to the total stockholder returns of a peer group of companies. Though LTIP awards are only paid in cash, since the multiplier is primarily based on the price of the Company's common stock, the awards are considered stock-based compensation in accordance with U.S. GAAP and are classified as liabilities. For the years ended December 31, 2020, 2019 and 2018, expense of \$0.7 million, \$1.7 million and \$2.3 million, respectively, was included in stock-based compensation expense related to the LTIP awards. At December 31, 2020 and 2019, liabilities of \$2.1 million and \$2.9 million, respectively, were included as accrued employee compensation and benefits in the Consolidated Balance Sheets.

**15. Employee Benefit Plans**

***401(k) Savings and Investment Plan***

Effective January 1, 2013, the Company amended the Dine Brands Global, Inc. 401(k) Plan to (i) modify the Company matching formula and (ii) eliminate the one-year completed service requirement that previously had to be met to become eligible for Company matching contributions. As amended, the Company matches 100% of the first four percent of the employee's eligible compensation deferral and 50% of the next two percent of the employee's eligible compensation deferral. All contributions under this plan vest immediately. Company common stock is not an investment option for employees in the 401(k) Plan, other than shares transferred from a prior employee stock ownership plan. Substantially all of the administrative cost of the 401(k) plan is borne by the Company. The Company's matching contribution expense was \$2.8 million, \$3.0 million and \$2.4 million for the years ended December 31, 2020, 2019 and 2018, respectively.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**16. Income Taxes**

The (benefit) provision for income taxes for the years ended December 31, 2020, 2019 and 2018 was as follows:

	Year Ended December 31,		
	2020	2019	2018
(Benefit) provision for income taxes:	(In millions)		
Current			
Federal .....	\$ 11.0	\$ 31.2	\$ 33.6
State .....	3.1	6.5	6.4
Foreign .....	1.3	1.9	2.1
	<u>15.4</u>	<u>39.6</u>	<u>42.1</u>
Deferred			
Federal .....	(17.3)	(3.8)	(7.8)
State .....	(2.7)	(1.7)	(4.0)
	<u>(20.0)</u>	<u>(5.5)</u>	<u>(11.8)</u>
(Benefit) provision for income taxes .....	<u>\$ (4.6)</u>	<u>\$ 34.1</u>	<u>\$ 30.3</u>

The (benefit) provision for income taxes differs from the expected federal income tax rates as follows:

	Year Ended December 31,		
	2020	2019	2018
Statutory federal income tax rate .....	21.0 %	21.0 %	21.0 %
Non-deductibility of goodwill impairment .....	(17.9)	—	—
State and other taxes, net of federal tax benefit .....	1.2	2.8	3.6
Change in unrecognized tax benefits .....	2.0	1.8	3.3
Change in valuation allowance .....	(1.5)	0.5	0.4
Changes in tax rates and state tax laws .....	(0.4)	(0.5)	(1.6)
Change in accounting for excess tax deficiencies/benefits .....	0.1	(0.6)	0.1
General business credits .....	0.8	(1.3)	(0.2)
Other .....	(1.1)	0.9	0.8
Effective tax rate .....	<u>4.2 %</u>	<u>24.6 %</u>	<u>27.4 %</u>

The Company recognized \$92.2 million impairment of goodwill during the second quarter of 2020 that was not deductible for federal income tax purposes and therefore had no associated tax benefit. The impairment of goodwill lowered the 2020 effective tax rate by 17.9% when compared to the U.S. statutory rate.

The difference in the 2019 overall effective tax rate from the U.S. statutory rate was primarily attributed to state taxes and unrecognized tax benefits offset by benefits associated with an increase in general business credits.

The Company applied a lower state tax rate to the deferred tax balances during fourth quarter of 2018, a result of the state legislative changes and the acquisition of 69 Applebee's restaurants in December 2018. The change in the state tax rate applied to the deferred tax balances lowered the 2018 effective tax rate by 1.6%.

The Company files federal income tax returns and the Company or one of its subsidiaries file income tax returns in various state and international jurisdictions. The Internal Revenue Service examination of tax years 2014 to 2016 concluded during the fourth quarter of 2020, and the Company received a refund of \$12.3 million, inclusive of interest income of \$1.1 million. With few exceptions, the Company is no longer subject to federal tax examinations by tax authorities for years before 2017 and state or non-United States tax examinations by tax authorities for years before 2011. The Company believes that adequate reserves have been recorded relating to all matters contained in the tax periods open to examination.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**Note 16. Income Taxes (Continued)**

Net deferred tax assets (liabilities) at December 31, 2020 and 2019 consisted of the following components:

	2020	2019
	(In millions)	
Lease liability <sup>(1)</sup> .....	\$ 119.6	\$ 125.9
Employee compensation.....	7.5	9.2
Revenue recognition.....	36.6	32.8
Other.....	10.2	5.9
Deferred tax assets.....	173.9	173.8
Valuation allowance.....	(3.0)	(1.5)
Total deferred tax assets after valuation allowance.....	170.9	172.3
Recognition of franchise and equipment sales.....	(10.7)	(13.7)
Capitalization and depreciation <sup>(2)</sup> .....	(123.2)	(130.8)
Lease assets <sup>(1)</sup> .....	(114.2)	(125.8)
Other.....	(1.1)	(0.5)
Deferred tax liabilities.....	(249.2)	(270.8)
Net deferred tax liabilities.....	\$ (78.3)	\$ (98.5)

<sup>(1)</sup> Primarily related to the adoption of ASC 842

<sup>(2)</sup> Primarily related to the 2007 Applebee's acquisition.

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regards to future realization of deferred tax assets. As of December 31, 2020, management determined it is more likely than not that the benefit from foreign tax credit carryforward and certain state deferred tax assets, including net operating loss carryforwards from the Applebee's company-operated restaurants, will not be realized. In recognition of this risk, the Company provided a valuation allowance of \$3.0 million.

The Company had gross operating loss carryforwards for state tax purposes of \$13.3 million and \$0.5 million as of December 31, 2020 and 2019, respectively. The net operating loss carryforwards begin to expire in 2032 if not utilized.

The total gross unrecognized tax benefit as of December 31, 2020 and 2019 was \$2.2 million and \$7.6 million, respectively, excluding interest, penalties and related income tax benefits. If recognized, these amounts would affect the Company's effective income tax rates.

The Company estimates the unrecognized tax benefits may decrease over the upcoming 12 months by an amount up to \$0.8 million related to settlements with taxing authorities, statutes of limitations expirations and method changes. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonable estimate as to when cash settlement with a taxing authority will occur. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2020	2019	2018
	(In millions)		
Unrecognized tax benefit as of January 1.....	\$ 7.6	\$ 5.2	\$ 5.9
Changes for tax positions of prior years.....	—	2.1	3.8
Increases for tax positions related to the current year.....	0.2	0.5	0.4
Decreases relating to settlements and lapsing of statutes of limitations.....	(5.6)	(0.2)	(4.9)
Unrecognized tax benefit as of December 31.....	\$ 2.2	\$ 7.6	\$ 5.2

As of December 31, 2020, the accrued interest was \$0.9 million and accrued penalties were less than \$0.1 million, excluding any related income tax benefits. As of December 31, 2019, the accrued interest and penalties were \$2.5 million and less than \$0.1 million, respectively, excluding any related income tax benefits. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of the income tax provision recognized in the Consolidated Statements of Comprehensive (Loss) Income.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act did not result in a material impact on our income tax benefit for the year ended December 31, 2020.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**17. Net (Loss) Income Per Share**

The computation of the Company's basic and diluted net (loss) income per share is as follows:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except per share data)		
Numerator for basic and diluted (loss) income per common share:			
Net (loss) income	\$ (103,994)	\$ 104,346	\$ 80,354
Less: Net income allocated to unvested participating restricted stock	(420)	(3,532)	(2,711)
Net (loss) income available to common stockholders - basic	(104,414)	100,814	77,643
Effect of unvested participating restricted stock	—	33	16
Numerator - (loss) income available to common shareholders - diluted	<u>\$ (104,414)</u>	<u>\$ 100,847</u>	<u>\$ 77,659</u>
Denominator:			
Weighted average outstanding shares of common stock - basic	16,230	16,934	17,533
Effect of dilutive securities:			
Stock options	—	311	256
Weighted average outstanding shares of common stock - diluted	<u>16,230</u>	<u>17,245</u>	<u>17,789</u>
Net (loss) income per common share:			
Basic	<u>\$ (6.43)</u>	<u>\$ 5.95</u>	<u>\$ 4.43</u>
Diluted	<u>\$ (6.43)</u>	<u>\$ 5.85</u>	<u>\$ 4.37</u>

For the year ended December 31, 2020, diluted loss per common share was computed using the basic weighted average number of shares outstanding during the period as the 100,056 shares from common stock equivalents would have been antidilutive.

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**18. Segment Reporting**

Information on segments and a reconciliation of gross profit to income before income tax provision is as follows:

	Year Ended December 31,		
	2020	2019	2018
<b>Revenues</b>	(In millions)		
Franchise operations	\$ 469.5	\$ 651.2	\$ 643.9
Rental operations	105.9	120.7	121.9
Company restaurants	108.1	131.2	7.1
Financing operations	5.8	7.1	8.0
Total	\$ 689.3	\$ 910.2	\$ 780.9
<b>Gross profit (loss), by segment</b>			
Franchise operations	\$ 230.5	\$ 338.4	\$ 313.3
Rental operations	16.4	29.9	31.2
Company restaurants	(3.5)	8.0	1.2
Financing operations	5.3	6.5	7.4
Total gross profit	248.7	382.8	353.1
Corporate and unallocated expenses, net	(357.3)	(244.3)	(242.5)
(Loss) income before income taxes	\$ (108.6)	\$ 138.5	\$ 110.6
<b>Interest expense</b>			
Rental operations	\$ 6.3	\$ 7.7	\$ 9.2
Company restaurants	2.7	2.1	0.1
Corporate	66.9	60.4	61.7
Total	\$ 75.9	\$ 70.2	\$ 71.0
<b>Depreciation and amortization</b>			
Franchise operations	\$ 10.1	\$ 10.3	\$ 10.5
Rental operations	12.3	13.4	11.7
Company restaurants	7.0	6.4	0.4
Corporate	13.4	12.4	9.6
Total	\$ 42.8	\$ 42.5	\$ 32.2
<b>Impairment of goodwill and intangible assets, closure and other impairment charges</b>			
Franchise operations	\$ 122.1	\$ —	\$ —
Company restaurants	10.5	1.5	2.1
Total	\$ 132.6	\$ 1.5	\$ 2.1
<b>Capital expenditures</b>			
Franchise operations	\$ —	\$ 0.6	\$ —
Company restaurants	2.7	3.2	—
Corporate	8.2	15.6	14.3
Total	\$ 10.9	\$ 19.4	\$ 14.3
<b>Goodwill (franchise segment)</b>	\$ 251.6	\$ 343.9	\$ 345.3
<b>Total assets</b>			
Franchise operations	\$ 997.7	\$ 1,116.2	\$ 1,152.1
Rental operations	451.5	503.8	255.6
Company restaurants	121.1	134.3	66.5
Financing operations	49.9	72.0	73.7
Corporate	454.7	223.2	226.8
Total	\$ 2,074.9	\$ 2,049.5	\$ 1,774.7

**Dine Brands Global, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

**19. Selected Quarterly Financial Data (Unaudited)**

	<u>Revenues</u>	<u>Gross Profit</u>	<u>Net Income (Loss)</u>	<u>Net Income Per Share— Basic<sup>(2)</sup></u>	<u>Net Income Per Share— Diluted<sup>(2)</sup></u>
	(In thousands, except per share amounts)				
<b>2020</b>					
1st Quarter.....	\$ 206,884	\$ 84,427	\$ 22,328	\$ 1.33	\$ 1.31
2nd Quarter <sup>(1)</sup> .....	109,712	30,122	(134,779)	(8.33)	(8.33)
3rd Quarter.....	176,643	66,784	10,018	0.60	0.60
4th Quarter.....	196,029	67,383	(1,561)	(0.10)	(0.10)
<b>2019</b>					
1st Quarter.....	\$ 237,182	\$ 102,571	\$ 31,643	\$ 1.76	\$ 1.73
2nd Quarter.....	228,080	94,855	21,390	1.20	1.18
3rd Quarter.....	217,405	89,720	23,917	1.38	1.36
4th Quarter.....	227,511	95,668	27,396	1.61	1.59

<sup>(1)</sup> The Company recognized a pretax charge of \$123.7 million for impairments of goodwill, intangible assets and long-lived assets in the second quarter of 2020. See Note 6 - Goodwill, Note 7 - Other Intangible Assets and Note 13 - Long-lived Tangible Asset Impairment and Closure Charges, of Notes to the Consolidated Financial Statements.

<sup>(2)</sup> The quarterly amounts of earnings per share may not add to the full year amount as each quarterly calculation is discrete from the full-year calculation.



**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

We maintain “disclosure controls and procedures,” as such terms are defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act of 1934, as amended, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their assessment as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

## **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 3, 2021 based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of January 3, 2021.

The effectiveness of our internal control over financial reporting as of January 3, 2021 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report that appears herein.

## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Dine Brands Global, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited Dine Brands Global, Inc. and Subsidiaries' internal control over financial reporting as of January 3, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Dine Brands Global, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 3, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 3, 2021 and December 29, 2019, the related consolidated statements of comprehensive (loss) income, stockholders' deficit and cash flows for each of the three years in the period ended January 3, 2021, and the related notes and our report dated March 2, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP

Los Angeles, California  
March 2, 2021

## Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information.

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

The information included in the sections entitled “Corporate Governance” and “Executive Compensation-Executive Officers of the Corporation” to be set forth in our Proxy Statement for the 2021 Annual Meeting of Shareholders (“2021 Proxy Statement”) is hereby incorporated by reference into this Item.

### Item 11. Executive Compensation.

The information required included in the sections entitled “Executive Compensation” and “Director Compensation” to be set forth in our 2021 Proxy Statement is hereby incorporated by reference into this Item.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information included in the section entitled “Security Ownership of Certain Beneficial Owners and Management” to be set forth in our 2021 Proxy Statement is hereby incorporated by reference into this Item.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2020, regarding shares outstanding and available for issuance under the Dine Brands Global, Inc. 2019 Stock Incentive Plan (the “2019 Plan”):

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders .....	1,014,670	\$ 64.16	1,707,882
Equity compensation plans not approved by security holders...	—	—	—
Total.....	<u>1,014,670</u>	<u>\$ 64.16</u>	<u>1,707,882</u>

The number of securities remaining available for future issuance represents shares under the 2019 Plan. Please refer to Note 14 - Stock-Based Incentive Plans, of the Notes to the Consolidated Financial Statements for a description of the 2019 Plan.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information included in the sections entitled “Corporate Governance—Certain Relationships and Related Transactions” and “Corporate Governance—Director Independence” to be set forth in our 2021 Proxy Statement is hereby incorporated by reference into this item.

### Item 14. Principal Accountant Fees and Services.

The information included in the section entitled “Audit-Related Matters” to be set forth in our 2021 Proxy Statement is hereby incorporated by reference into this item.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

#### (a)(1) Consolidated Financial Statements

The following documents are contained in Part II, Item 8 of this Annual Report on Form 10-K:

- Reports of Independent Registered Public Accounting Firm.
- Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019.
- Consolidated Statements of Comprehensive (Loss) Income for each of the three years in the period ended December 31, 2020.
- Consolidated Statements of Stockholders' Deficit for each of the three years in the period ended December 31, 2020.
- Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2020.
- Notes to the Consolidated Financial Statements.

#### (a)(2) Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

#### (a)(3) Exhibits

Exhibits that are not filed herewith have been previously filed with the Securities and Exchange Commission and are incorporated herein by reference.

- 3.1 Restated Certificate of Incorporation of Dine Brands Global, Inc. (Exhibit 3.1 to Registrant's Form 10-K filed on February 20, 2018 is incorporated herein by reference).
- 3.2 Certificate of Amendment to Restated Certificate of Incorporation (Exhibit 3.1 to Registrant's Form 8-K filed on May 14, 2019 is incorporated herein by reference).
- 3.3 Amended and Restated Bylaws of Dine Brands Global, Inc. (Exhibit 3.2 to Registrant's Form 8-K filed on May 14, 2019 is incorporated herein by reference).
- 4.1 Base Indenture, dated as of September 30, 2014, and amended and restated as of June 5, 2019, among Applebee's Funding LLC and IHOP Funding LLC, each as Co-Issuer, and Citibank, N.A., as Trustee and Securities Intermediary (Exhibit 4.1 to Registrant's Form 8-K filed on June 5, 2019 is incorporated herein by reference).
- 4.2 Series 2019-1 Supplement to Base Indenture, dated as of June 5, 2019, among Applebee's Funding LLC and IHOP Funding LLC, each as Co-Issuer, and Citibank, N.A., as Trustee and Securities Intermediary (Exhibit 4.2 to Registrant's Form 8-K filed on June 5, 2019 is incorporated herein by reference).
- 4.3 Omnibus Supplement to Series 2019-1 Base Indenture and Series 2019-1 Supplement (Exhibit 4.1 to Registrant's Form 10-Q filed on July 29, 2020 is incorporated herein by reference).
- 4.4 Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (Exhibit 4.3 to Registrant's Form 10-K filed on February 24, 2020 is incorporated herein by reference)
- †#10.1 Employment Agreement dated as of August 9, 2017 by and between the Corporation and Stephen P. Joyce (Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended September 30, 2017 is incorporated herein by reference).
- †#10.2 DineEquity, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement by and between the Corporation and Stephen P. Joyce (Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended September 30, 2017 is incorporated herein by reference).
- †#10.3 DineEquity, Inc. 2016 Stock Incentive Plan Restricted Stock Unit Award Agreement by and between the Corporation and Stephen P. Joyce - Performance-Based (Exhibit 10.3 to Registrant's Form 10-Q for the quarter ended September 30, 2017 is incorporated herein by reference).
- †10.4 DineEquity, Inc. 2016 Stock Incentive Plan Restricted Stock Unit Award Agreement by and between the Corporation and Stephen P. Joyce - Time-Based (Exhibit 10.4 to Registrant's Form 10-Q for the quarter ended September 30, 2017 is incorporated herein by reference).
- †10.5 Employment Agreement between Dine Brands Global, Inc. and Thomas H. Song dated May 7, 2018 (Exhibit 10.2 to Registrant's Form 8-K filed May 8, 2018 is incorporated herein by reference).
- †10.6 Offer Letter between Dine Brands Global, Inc. and Thomas H. Song dated May 7, 2018 (Exhibit 10.1 to Registrant's Form 8-K filed May 8, 2018 is incorporated herein by reference).

- †10.7 Employment Agreement between DineEquity, Inc. and John C. Cywinski dated March 9, 2017 (Exhibit 10.1 to Registrant’s Form 10-Q for the quarter ended March 31, 2017 is incorporated herein by reference).
- †10.8 Dine Brands Global, Inc. 2019 Stock Incentive Plan (Appendix B to Registrant’s Definitive Proxy Statement with respect to the 2019 Annual Meeting of Stockholders filed on April 1, 2019 is incorporated herein by reference).
- †10.9 Dine Brands Global, Inc. 2019 Stock Incentive Plan Cash-Settled Restricted Stock Unit Agreement - Employees - 3-year Ratable Vesting (Exhibit 10.2 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.10 Dine Brands Global, Inc. 2019 Stock Incentive Plan Cash-Settled Restricted Stock Unit Agreement - Employees - 3-year Cliff Vesting (Exhibit 10.3 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.11 Dine Brands Global, Inc. 2019 Stock Incentive Plan Stock-Settled Restricted Stock Unit Agreement - Employees - Performance-Based Vesting (Exhibit 10.4 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.12 Dine Brands Global, Inc. 2019 Stock Incentive Plan Stock-Settled Restricted Stock Unit Agreement - International Employees -- 3-year Ratable Vesting (Exhibit 10.5 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.13 Dine Brands Global, Inc. 2019 Stock Incentive Plan Stock-Settled Restricted Stock Unit Agreement - International Employees - 3-year Cliff Vesting (Exhibit 10.6 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.14 Dine Brands Global, Inc. 2019 Stock Incentive Plan Stock-Settled Restricted Stock Unit Agreement - Non-Employee Directors - 1-year Cliff Vesting (Exhibit 10.7 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.15 Dine Brands Global, Inc. 2019 Stock Incentive Plan Nonqualified Stock Option Agreement - Employees - 3-year Ratable Vesting (Exhibit 10.8 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.16 Dine Brands Global, Inc. 2019 Stock Incentive Plan Nonqualified Stock Option Agreement - International Employees - 3-year Ratable Vesting (Exhibit 10.9 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.17 Dine Brands Global, Inc. 2019 Stock Incentive Plan Nonqualified Stock Option Agreement - Employees - Performance-Based Vesting (Exhibit 10.10 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.18 Dine Brands Global, Inc. 2019 Stock Incentive Plan Performance Unit Award Agreement - Double Metric (Exhibit 10.11 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.19 Dine Brands Global, Inc. 2019 Stock Incentive Plan Restricted Stock Award Agreement - Employees - 3-year Ratable Vesting (Exhibit 10.12 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.20 Dine Brands Global, Inc. 2019 Stock Incentive Plan Restricted Stock Award Agreement - Employees - 3-year Cliff Vesting (Exhibit 10.13 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.21 Dine Brands Global, Inc. 2019 Stock Incentive Plan Restricted Stock Award Agreement - Employees - 3-year Cliff Vesting with Accelerated Vesting for Termination without Cause (Exhibit 10.14 to Registrant’s Form 10-Q for the quarter ended June 30, 2019 is incorporated herein by reference).
- †10.22 Dine Brands Global, Inc. 2016 Stock Incentive Plan (Exhibit 10.1 to Registrant’s Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.23 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement One-Fourth Annual Vesting - Employees (Exhibit 10.22 to Registrant’s Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.24 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement One-Third Annual Vesting - Employees (Exhibit 10.23 to Registrant’s Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.25 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement 25/25/50% Annual Vesting - Employees (Exhibit 10.17 to Registrant’s Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.26 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement - Employees (Exhibit 10.18 to Registrant’s Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).



- †10.27 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement - Non-Employee Directors (Exhibit 10.19 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.28 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement - Employees - Specified Date Vesting (Exhibit 10.20 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.29 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement - Employees - 50/50% Annual Vesting (Exhibit 10.21 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.30 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement - Employees - Annual Vesting (Exhibit 10.24 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.31 Dine Brands Global, Inc. 2016 Stock Incentive Plan Restricted Stock Agreement - Employees - 20/40/20/20 Vesting (Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended June 30, 2018 is incorporated herein by reference).
- †10.32 Dine Brands Global, Inc. 2016 Stock Incentive Plan Stock-Settled RSU Agreement -Employees (Exhibit 10.8 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.33 Dine Brands Global, Inc. 2016 Stock Incentive Plan Stock-Settled RSU Agreement -Employees - Performance Based (Exhibit 10.5 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.34 Dine Brands Global, Inc. 2016 Stock Incentive Plan Stock-Settled RSU Agreement - Non-Employee Directors - 1 Year Vesting. (Exhibit 10.21 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- †10.35 Dine Brands Global, Inc. 2016 Stock Incentive Plan Stock-Settled RSU Agreement 50/50% Annual Vesting - International Employees (Exhibit 10.6 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.36 Dine Brands Global, Inc. 2016 Stock Incentive Plan Stock-Settled RSU Agreement - International Employees (Exhibit 10.7 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.37 DineEquity, Inc. 2016 Stock Incentive Plan Stock-Settled RSU Agreement - Non-Employee Directors - 3 Year Vesting (Exhibit 10.8 to Registrant's Form 10-Q for the quarter ended June 30, 2016 is incorporated herein by reference).
- †10.38 Dine Brands Global, Inc. 2016 Stock Incentive Plan Cash-Settled RSU Agreement - Employees (Exhibit 10.3 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.39 Dine Brands Global, Inc. 2016 Stock Incentive Plan Cash-Settled RSU Agreement - Non-Employee Directors (Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.40 Dine Brands Global, Inc. 2016 Stock Incentive Plan Cash-Settled RSU Agreement - International Employees (Exhibit 10.4 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.41 Dine Brands Global, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement - Employees (Exhibit 10.9 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.42 Dine Brands Global, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement - Employees - Accelerated Retirement Vesting (Exhibit 10.29 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- †10.43 Dine Brands Global, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement - Non-Employee Directors (Exhibit 10.11 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.44 Dine Brands Global, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement - International Employees (Exhibit 10.10 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.45 Dine Brands Global, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement - International Employees - Accelerated Retirement Vesting (Exhibit 10.32 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- †10.46 Dine Brands Global, Inc. 2016 Stock Incentive Plan Nonqualified Stock Option Agreement - Employees - Performance Based (Exhibit 10.12 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.47 Dine Brands Global, Inc. 2016 Stock Incentive Plan Performance Shares Agreement - Employees (Exhibit 10.15 to Registrant's Form 10-Q for the quarter ended June 30, 2016 is incorporated herein by reference).

- †10.48 Dine Brands Global, Inc. 2016 Stock Incentive Plan Performance Shares Agreement 50% stock / 50% cash - Employees (Exhibit 10.16 to Registrant's Form 10-Q for the quarter ended June 30, 2016 is incorporated herein by reference).
- †10.49 Dine Brands Global, Inc. 2016 Stock Incentive Plan Performance Award Agreement - Employees - Single Metric (Exhibit 10.15 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.50 Dine Brands Global, Inc. 2016 Stock Incentive Plan Performance Award Agreement - Employees - Double Metric (Exhibit 10.16 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.51 Dine Brands Global, Inc. 2016 Stock Incentive Plan Performance Award Agreement - Employees - Double Metric - Accelerated Retirement Vesting (Exhibit 10.38 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- †10.52 Dine Brands Global, Inc. 2016 Stock Incentive Plan SAR Agreement - Employees (Exhibit 10.25 to Registrant's Form 10-Q for the quarter ended March 31, 2018 is incorporated herein by reference).
- †10.53 Dine Brands Global, Inc. 2016 Stock Incentive Plan Performance Award Agreement - Employees - Double Metric - Cycle 10 (Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended March 31, 2019 is incorporated herein by reference).
- †10.54 DineEquity, Inc. 2011 Stock Incentive Plan (Annex A to Registrant's Proxy Statement, filed on April 13, 2011 is incorporated herein by reference).
- †10.55 DineEquity, Inc. 2011 Stock Incentive Plan Nonqualified Stock Option Agreement (Employees) (Exhibit 10.10 to Registrant's Form 10-K for the year ended December 31, 2011 is incorporated herein by reference).
- †10.56 DineEquity, Inc. 2011 Stock Incentive Plan Restricted Stock Award Agreement (Employees) (Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2011 is incorporated herein by reference).
- †10.57 DineEquity, Inc. 2011 Stock Incentive Plan Restricted Stock Award Agreement (1/4th Annual Vesting - Employees) (Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended June 30, 2015 is incorporated herein by reference).
- †10.58 DineEquity, Inc. 2011 Stock Incentive Plan Stock-Settled Restricted Stock Unit Award Agreement (Employees) (Exhibit 10.15 to Registrant's Form 10-K for the year ended December 31, 2011 is incorporated herein by reference).
- †10.59 DineEquity, Inc. 2011 Stock Incentive Plan Stock-Settled Restricted Stock Unit Award Agreement (Non-Employee Directors) (Exhibit 10.16 to Registrant's Form 10-K for the year ended December 31, 2011 is incorporated herein by reference).
- †10.60 DineEquity, Inc. 2011 Stock Incentive Plan Restricted Stock Award Agreement (Ratable Vesting - Employees) (Exhibit 10.19 to Registrant's Form 10-K for the year ended December 31, 2013 is incorporated herein by reference).
- †10.61 DineEquity, Inc. 2011 Stock Incentive Plan Stock-Settled Restricted Stock Unit Award Agreement (International Employees) (Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended September 30, 2014 is incorporated herein by reference).
- †10.62 IHOP Corp. 2001 Stock Incentive Plan Non-Qualified Stock Option Agreement (Exhibit 10.15 to Registrant's 2003 Form 10-K is incorporated herein by reference).
- †10.63 IHOP Corp 2001 Stock Incentive Plan as amended and restated (Appendix A to Registrant's Proxy Statement, filed on April 17, 2008 is incorporated herein by reference).
- †10.64 DineEquity, Inc. Senior Executive Incentive Plan as amended and restated (Annex A to Registrant's Proxy Statement, filed on April 5, 2012 is incorporated herein by reference).
- †10.65 Dine Brands Global, Inc. Amended and Restated Executive Severance and Change in Control Policy (Exhibit 10.51 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- †10.66 Form of DineEquity, Inc. Indemnification Agreement (Exhibit 10.27 to Registrant's Form 10-K for the year ended December 31, 2011 is incorporated herein by reference).
- †10.67 Dine Brands Global, Inc. Nonqualified Deferred Compensation Plan (Exhibit 10.53 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- †10.68 Amendment to Dine Brands Global, Inc. Nonqualified Deferred Compensation Plan (Exhibit 10.54 to Registrant's Form 10-K for the year ended December 31, 2018 is incorporated herein by reference).
- 10.69 Purchase Agreement, dated May 28, 2019, among the Registrant, certain subsidiaries of the Registrant, Barclays Capital Inc. and Credit Suisse Securities (USA) LLC. (Exhibit 99.1 to the Registrant's Form 8-K filed on May 28, 2019 is incorporated herein by reference).

- 10.70 Class A-1 Note Purchase Agreement, dated June 5, 2019, among Applebee's Funding LLC and IHOP Funding LLC, each a Co-Issuer, certain special-purpose, wholly-owned indirect subsidiaries of the Registrant, each as a Guarantor, the Registrant, as manager, certain conduit investors, financial institutions and funding agents, Barclays Bank PLC as provider of letters credit and swingline lender and as administrative agent (Exhibit 10.1 to Registrant's Form 8-K filed on June 5, 2019 is incorporated herein by reference).
- 10.71 Guarantee and Collateral Agreement, dated September 30, 2014, and amended and restated as of June 5, 2019, among certain special-purpose, wholly-owned indirect subsidiaries of the Registrant, each as guarantor, in favor of Citibank, N.A., as Trustee (Exhibit 10.2 to Registrant's Form 8-K filed on June 5, 2019 is incorporated herein by reference).
- 10.72 Management Agreement, dated September 30, 2014, and amended and restated as of September 5, 2018, and further amended and restated as of June 5, 2019, among Applebee's Funding LLC and IHOP Funding LLC, each a Co-Issuer, other securitization entities party thereto from time to time, the Registrant, Applebee's Services, Inc. and International House of Pancakes, LLC as Sub-managers and Citibank, N.A., as Trustee (Exhibit 10.3 to Registrant's Form 8-K filed on June 5, 2019 is incorporated herein by reference).
- 10.73 Amendment No. 1 to Management Agreement, dated November 21, 2019, among Applebee's Funding LLC and IHOP Funding LLC, other securitization entities party thereto from time to time, the Registrant, Applebee's Services, Inc. and International House of Pancakes, LLC, other securitization entities party thereto from time to time, the Registrant, Applebee's Services, Inc. and International House of Pancakes, LLC (Exhibit 10.73 to Registrant's Form 10-K for the year ended December 31, 2019 is incorporated herein by reference).
- †10.74 Separation Agreement and General Release between Gregory H. Kalvin and Dine Brands Global, Inc. dated February 20, 2019 (Exhibit 10.1 to Registrant's Form 8-K filed on February 21, 2019 is incorporated herein by reference).
- †10.75 Amendment to Employment Agreement, dated as of February 14, 2020, by and between the Registrant and John C. Cywinski. (Exhibit 10.75 to Registrant's Form 10-K for the year ended December 31, 2019 is incorporated herein by reference).
- \*†10.76 Employment Agreement dated as of November 13, 2020 by and between the Registrant and John W. Peyton.
- \*†10.77 Amendment to Employment Agreement, dated as of November 16, 2020, by and between the Registrant and Stephen P. Joyce.
- \*21 Subsidiaries of Dine Brands Global, Inc.
- \*23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- \*31.1 Certification of CEO pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- \*31.2 Certification of CFO pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- \*32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Schema Document.\*\*\*
- 101.CAL Inline XBRL Calculation Linkbase Document.\*\*\*
- 101.DEF Inline XBRL Definition Linkbase Document.\*\*\*
- 101.LAB Inline XBRL Label Linkbase Document.\*\*\*
- 101.PRE Inline XBRL Presentation Linkbase Document.\*\*\*
- 104 Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* The certifications attached as Exhibits 32.1 and 32.2 accompany this Annual Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\*\* Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 and 104 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

† A contract, compensatory plan or arrangement in which directors or executive officers are eligible to participate.

# Portions of this exhibit have been omitted per an Order Granting Confidential Treatment Under the Securities Exchange Act of 1934 issued by the Securities and Exchange Commission on January 3, 2018.

**Item 16. Form 10-K Summary**

None.



**SUBSIDIARIES OF DINE BRANDS GLOBAL, INC.**  
**As of December 31, 2020**

Name of Entity	State or Other Jurisdiction of Incorporation or Organization
Dine Brands Global,	DE
Dine Brands International,	DE
International House of Pancakes,	DE
III Industries of Canada	Canada
IHOP of Canada	Canada
IHOP TPGC,	OH
IHOP SPV Guarantor	DE
IHOP Funding	DE
IHOP Restaurants	DE
IHOP Franchisor	DE
IHOP Property	DE
IHOP Leasing	DE
ACM Cards,	FL
Applebee's Brazil,	KS
Applebee's Canada	Canada
Applebee's International,	DE
Applebee's Investments,	KS
Applebee's Restaurantes de Mexico S.de R.L.de C.V	Mexico
Applebee's UK,	KS
Applebee's Restaurant Holdings,	DE
Applebee's Restaurants Kansas	KS
Applebee's Restaurants Mid-Atlantic	DE
Applebee's Restaurants North	DE
Applebee's Restaurants Texas	TX
Applebee's Restaurants Vermont,	VT
Applebee's Restaurants West	DE
Applebee's Restaurants	KS
Applebee's Services,	KS
Applebee's SPV Guarantor	DE
Applebee's Funding	DE
Applebee's Restaurants	DE
Applebee's Franchisor	DE
Gourmet Systems of Brazil,	KS
Gourmet Systems Massachusetts,	MA
Gourmet Systems of New York,	NY
Gourmet Systems of Tennessee,	TN
Gourmet Systems USA,	KS
Neighborhood Insurance,	VT
Shanghai Applebee's Restaurant Management Co.,	Xuhui District, Puxi, China
Dine Brands Foundation, Inc. (dba The Heidi Fund, Inc.)	KS
DineEquity Philippines Holdings, Inc.	Philippines



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- Registration Statement (Form S-8 No. 333-71768) pertaining to the IHOP Corp. 2001 Stock Incentive Plan of DineEquity, Inc.,
- Registration Statement (Form S-8 No. 333-151682) pertaining to the 2001 Stock Incentive Plan of DineEquity, Inc.,
- Registration Statement (Form S-8 No. 333-174847) pertaining to the 2011 Stock Incentive Plan of DineEquity, Inc.,
- Registration Statement (Form S-8 No. 333-211429) pertaining to the 2016 Stock Incentive Plan of Dine Brands Global, Inc., and
- Registration Statement (Form S-8 No. 333-231473) pertaining to the 2019 Stock Incentive Plan of Dine Brands Global, Inc.;

of our reports dated March 2, 2021, with respect to the consolidated financial statements of Dine Brands Global, Inc. (formerly known as DineEquity, Inc.) and Subsidiaries and the effectiveness of internal control over financial reporting of Dine Brands Global, Inc. and Subsidiaries, included in this Annual Report (Form 10-K) for the year ended January 3, 2021.

/s/ Ernst & Young LLP

Los Angeles, California  
March 2, 2021

**Certification Pursuant to  
Rule 13a-14(a) of the  
Securities Exchange Act of 1934, As Amended**

I, John W. Peyton, certify that:

1. I have reviewed this Annual Report on Form 10-K of Dine Brands Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: 2nd day of March, 2021

/s/ John W. Peyton

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John W. Peyton  
*Chief Executive Officer*  
*(Principal Executive Officer)*

**Certification Pursuant to  
Rule 13a-14(a) of the  
Securities Exchange Act of 1934, As Amended**

I, Allison Hall, certify that:

1. I have reviewed this Annual Report on Form 10-K of Dine Brands Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: 2nd day of March, 2021

/s/ Allison Hall  

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Allison Hall  
*Interim Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)*

**Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Dine Brands Global, Inc. (the “Company”) for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the 2nd day of March, 2021 (the “Report”), John W. Peyton, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 2nd day of March, 2021

\_\_\_\_\_  
/s/ John W. Peyton

John W. Peyton  
*Chief Executive Officer*  
*(Principal Executive Officer)*

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent the Company expressly and specifically incorporates it by reference in such filing.

**Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Dine Brands Global, Inc. (the “Company”) for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the 2nd day of March, 2021 (the “Report”), Allison Hall, as Interim Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 2nd day of March, 2021

/s/ Allison Hall

\_\_\_\_\_  
Allison Hall  
*Interim Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)*

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent the Company expressly and specifically incorporates it by reference in such filing.





