

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023
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)

10 West Walnut Street, 5th Floor

Pasadena CA

(Address of principal executive offices)

95-3038279

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

91103

(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

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, 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

As of October 25, 2023, the Registrant had 15,443,006 shares of Common Stock outstanding.

Dine Brands Global, Inc. and Subsidiaries
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Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q 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.

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. These factors include, but are not limited to: general economic conditions, including the impact of inflation, particularly as it may impact our franchisees directly, particularly as it may impact our franchisees directly; 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; our ability to achieve the financial guidance we provide to investors; 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, pandemics, epidemics, 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 factors discussed from time to time in the “Risk Factors” section of the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and in the Corporation’s other filings with the Securities and Exchange Commission, many of which are beyond our control.

Fiscal Quarter End

The Company’s fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2023 began on January 2, 2023 and ended on April 2, 2023; the second fiscal quarter of 2023 ended on July 2, 2023; and the third fiscal quarter of 2023 ended October 1, 2023. The first fiscal quarter of 2022 began on January 3, 2022 and ended on April 3, 2022; the second quarter of 2022 ended on July 3, 2022; and the third fiscal quarter of 2022 ended on October 2, 2022.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

Assets	September 30, 2023 (Unaudited)	December 31, 2022
Current assets:		
Cash and cash equivalents	\$ 98,197	\$ 269,655
Receivables, net of allowance of \$5,433 (2023) and \$4,806 (2022)	85,742	119,981
Restricted cash	41,932	38,929
Prepaid gift card costs	23,550	30,235
Prepaid income taxes	3,063	3,063
Other current assets	11,317	17,901
Total current assets	263,801	479,764
Non-current restricted cash	19,500	16,400
Property and equipment, net	162,055	145,277
Operating lease right-of-use assets	283,854	289,123
Deferred rent receivable	35,537	42,329
Long-term receivables, net of allowance of \$5,152 (2023) and \$5,529 (2022)	35,678	39,697
Goodwill	254,057	253,956
Other intangible assets, net	588,692	597,028
Other non-current assets, net	16,407	17,917
Total assets	\$ 1,659,581	\$ 1,881,491
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current maturities of long-term debt	\$ 100,000	\$ 100,000
Accounts payable	28,880	52,067
Gift card liability	131,490	171,966
Current maturities of operating lease obligations	58,764	59,071
Current maturities of finance lease and financing obligations	6,922	7,542
Accrued employee compensation and benefits	19,970	23,456
Accrued advertising expenses	14,407	24,157
Dividends payable	—	8,017
Other accrued expenses	23,904	24,446
Total current liabilities	384,337	470,722
Long-term debt, net, less current maturities	1,084,011	1,241,914
Operating lease obligations, less current maturities	276,817	275,120
Finance lease obligations, less current maturities	32,646	30,377
Financing obligations, less current maturities	27,342	28,358
Deferred income taxes, net	70,229	74,651
Deferred franchise revenue, long-term	40,143	42,343
Other non-current liabilities	17,762	19,090
Total liabilities	1,933,287	2,182,575
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; September 30, 2023 - 24,883,740 issued, 15,484,512 outstanding; December 31, 2022 - 24,959,972 issued, 15,599,239 outstanding	249	250
Additional paid-in-capital	253,080	259,339
Retained earnings	124,806	84,538
Accumulated other comprehensive loss	(67)	(65)
Treasury stock, at cost; shares: September 30, 2023 - 9,399,228; December 31, 2022 - 9,360,733	(651,774)	(645,146)
Total stockholders' deficit	(273,706)	(301,084)
Total liabilities and stockholders' deficit	\$ 1,659,581	\$ 1,881,491

See the accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Revenues:				
Franchise revenues:				
Royalties, franchise fees and other	\$ 99,135	\$ 93,215	\$ 303,998	\$ 277,712
Advertising revenues	73,385	71,692	226,401	216,686
Total franchise revenues	172,520	164,907	530,399	494,398
Company restaurant sales	308	38,248	1,839	117,175
Rental revenues	29,128	29,207	90,519	87,080
Financing revenues	628	858	2,009	2,784
Total revenues	202,584	233,220	624,766	701,437
Cost of revenues:				
Franchise expenses:				
Advertising expenses	73,385	71,692	226,401	216,686
Bad debt (credit) expense	(51)	(77)	2,593	(523)
Other franchise expenses	9,804	8,649	29,790	24,402
Total franchise expenses	83,138	80,264	258,784	240,565
Company restaurant expenses	323	36,513	1,833	111,802
Rental expenses:				
Interest expense from finance leases	668	740	2,072	2,254
Other rental expenses	21,066	21,268	63,538	63,720
Total rental expenses	21,734	22,008	65,610	65,974
Financing expenses	91	104	283	317
Total cost of revenues	105,286	138,889	326,510	418,658
Gross profit	97,298	94,331	298,256	282,779
General and administrative expenses	48,618	46,335	147,545	131,946
Interest expense, net	19,059	15,300	51,549	46,192
Closure and impairment charges	1,774	1,636	3,088	3,093
Amortization of intangible assets	2,709	2,664	8,202	7,994
Loss on extinguishment of debt	—	1,161	10	1,161
Loss (gain) on disposition of assets	191	(1,502)	2,309	(3,032)
Income before income taxes	24,947	28,737	85,553	95,425
Income tax provision	(6,468)	(7,789)	(21,416)	(25,665)
Net income	18,479	20,948	64,137	69,760
Other comprehensive income net of tax:				
Foreign currency translation adjustment	(2)	(5)	(2)	(9)
Total comprehensive income	\$ 18,477	\$ 20,943	\$ 64,135	\$ 69,751
Net income available to common stockholders:				
Net income	\$ 18,479	\$ 20,948	\$ 64,137	\$ 69,760
Less: Net income allocated to unvested participating restricted stock	(431)	(575)	(1,551)	(1,852)
Net income available to common stockholders	\$ 18,048	\$ 20,373	\$ 62,586	\$ 67,908
Net income available to common stockholders per share:				
Basic	\$ 1.19	\$ 1.32	\$ 4.10	\$ 4.23
Diluted	\$ 1.19	\$ 1.32	\$ 4.09	\$ 4.22
Weighted average shares outstanding:				
Basic	15,217	15,377	15,275	16,049
Diluted	15,220	15,403	15,289	16,079

See the accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30, 2023							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares Outstanding	Amount				Shares	Cost	
Balance at June 30, 2023	15,587,934	\$ 249	\$ 250,808	\$ 114,226	\$ (65)	9,302,265	\$ (646,219)	\$ (281,001)
Net income	—	—	—	18,479	—	—	—	18,479
Other comprehensive expense	—	—	—	—	(2)	—	—	(2)
Purchase of Company common stock	(105,864)	—	—	—	—	105,864	(6,000)	(6,000)
Reissuance of treasury stock	8,901	—	(445)	—	—	(8,901)	445	—
Net issuance of shares for stock plans	(2,914)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(3,545)	—	(198)	—	—	—	—	(198)
Stock-based compensation	—	—	2,858	—	—	—	—	2,858
Dividends on common stock	—	—	57	(7,899)	—	—	—	(7,842)
Balance at September 30, 2023	<u>15,484,512</u>	<u>\$ 249</u>	<u>\$ 253,080</u>	<u>\$ 124,806</u>	<u>\$ (67)</u>	<u>9,399,228</u>	<u>\$ (651,774)</u>	<u>\$ (273,706)</u>

	Nine Months Ended September 30, 2023							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares Outstanding	Amount				Shares	Cost	
Balance at December 31, 2022	15,599,239	\$ 250	\$ 259,339	\$ 84,538	\$ (65)	9,360,733	\$ (645,146)	\$ (301,084)
Net income	—	—	—	64,137	—	—	—	64,137
Other comprehensive expense	—	—	—	—	(2)	—	—	(2)
Purchase of Company common stock	(318,356)	—	—	—	—	318,356	(20,017)	(20,017)
Reissuance of treasury stock	279,861	(1)	(9,576)	—	—	(279,861)	13,389	3,812
Net issuance of shares for stock plans	(19,329)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(56,903)	—	(4,139)	—	—	—	—	(4,139)
Stock-based compensation	—	—	8,167	—	—	—	—	8,167
Dividends on common stock	—	—	148	(23,869)	—	—	—	(23,721)
Tax payments for share settlement of restricted stock units	—	—	(859)	—	—	—	—	(859)
Balance at September 30, 2023	<u>15,484,512</u>	<u>\$ 249</u>	<u>\$ 253,080</u>	<u>\$ 124,806</u>	<u>\$ (67)</u>	<u>9,399,228</u>	<u>\$ (651,774)</u>	<u>\$ (273,706)</u>

Dine Brands Global, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit (Continued)
(In thousands except shares)
(Unaudited)

	Three Months Ended September 30, 2022							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares Outstanding	Amount				Shares	Cost	
Balance at June 30, 2022	15,823,390	\$ 250	\$ 253,213	\$ 68,265	\$ (63)	9,151,445	\$ (630,321)	\$ (308,656)
Net income	—	—	—	20,948	—	—	—	20,948
Other comprehensive loss	—	—	—	—	(5)	—	—	(5)
Purchase of Company common stock	(140,997)	—	—	—	—	140,997	(9,520)	(9,520)
Reissuance of treasury stock	8,051	—	(378)	—	—	(8,051)	378	—
Net issuance of shares for stock plans	(4,831)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(3,552)	—	(248)	—	—	—	—	(248)
Stock-based compensation	—	—	3,801	—	—	—	—	3,801
Dividends on common stock	—	—	122	(8,034)	—	—	—	(7,912)
Tax payments for share settlement of restricted stock units	—	—	(2)	—	—	—	—	(2)
Balance at September 30, 2022	<u>15,682,061</u>	<u>\$ 250</u>	<u>\$ 256,508</u>	<u>\$ 81,179</u>	<u>\$ (68)</u>	<u>9,284,391</u>	<u>\$ (639,463)</u>	<u>\$ (301,594)</u>

	Nine Months Ended September 30, 2022							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares Outstanding	Amount				Shares	Cost	
Balance at December 31, 2021	17,163,946	\$ 250	\$ 256,189	\$ 35,415	\$ (59)	7,828,329	\$ (534,602)	\$ (242,807)
Net income	—	—	—	69,760	—	—	—	69,760
Other comprehensive loss	—	—	—	—	(9)	—	—	(9)
Purchase of Company common stock	(1,642,097)	—	—	—	—	1,642,097	(113,573)	(113,573)
Reissuance of treasury stock	186,035	—	(8,471)	—	—	(186,035)	8,712	241
Net issuance of shares for stock plans	9,496	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(35,319)	—	(2,601)	—	—	—	—	(2,601)
Stock-based compensation	—	—	12,128	—	—	—	—	12,128
Dividends on common stock	—	—	218	(23,996)	—	—	—	(23,778)
Tax payments for share settlement of restricted stock units	—	—	(955)	—	—	—	—	(955)
Balance at September 30, 2022	<u>15,682,061</u>	<u>\$ 250</u>	<u>\$ 256,508</u>	<u>\$ 81,179</u>	<u>\$ (68)</u>	<u>9,284,391</u>	<u>\$ (639,463)</u>	<u>\$ (301,594)</u>

See the accompanying Notes to Consolidated Financial Statements

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

	Nine Months Ended	
	September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 64,137	\$ 69,760
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	26,221	28,870
Non-cash closure and impairment charges	3,088	2,975
Non-cash stock-based compensation expense	8,167	12,128
Non-cash interest expense	2,714	2,210
Loss on extinguishment of debt	10	1,161
Deferred income taxes	(3,582)	(1,376)
Deferred revenue	(2,590)	(3,773)
Loss (gain) on disposition of assets	2,309	(3,032)
Other	(1,577)	(3,816)
Changes in operating assets and liabilities:		
Accounts receivable, net	6,354	(734)
Deferred rent receivable	6,792	5,951
Current income tax receivables and payables	(186)	7,361
Gift card receivables and payables	(13,588)	(16,752)
Other current assets	6,358	(5,948)
Accounts payable	(15,527)	(6,855)
Operating lease assets and liabilities	2,438	(8,286)
Accrued employee compensation and benefits	(4,447)	(18,738)
Accrued advertising	(9,750)	5,052
Other current liabilities	1,965	(2,668)
Cash flows provided by operating activities	<u>79,306</u>	<u>63,490</u>
Cash flows from investing activities:		
Principal receipts from notes, equipment contracts and other long-term receivables	6,686	13,502
Net additions to property and equipment	(31,968)	(19,495)
Proceeds from sale of property and equipment	—	3,908
Additions to long-term receivables	(1,237)	(1,069)
Other	(113)	(255)
Cash flows used in investing activities	<u>(26,632)</u>	<u>(3,409)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	500,000	—
Repayment of long-term debt	(651,713)	—
Borrowing from revolving credit facility	30,000	100,000
Repayment of revolving credit facility	(30,000)	—
Payment of debt issuance costs	(8,044)	(6,286)
Dividends paid on common stock	(31,740)	(30,765)
Repurchase of common stock	(20,017)	(113,862)
Principal payments on finance lease and financing obligations	(5,329)	(7,001)
Proceeds from stock options exercised	3,812	241
Repurchase of restricted stock for tax payments upon vesting	(4,139)	(2,601)
Tax payments for share settlement of restricted stock units	(859)	(955)
Cash flows used in financing activities	<u>(218,029)</u>	<u>(61,229)</u>
Net change in cash, cash equivalents and restricted cash	(165,355)	(1,148)
Cash, cash equivalents and restricted cash at beginning of period	324,984	425,353
Cash, cash equivalents and restricted cash at end of period	<u>\$ 159,629</u>	<u>\$ 424,205</u>
Supplemental disclosures:		
Interest paid in cash	\$ 54,032	\$ 47,478
Income taxes paid in cash	\$ 25,774	\$ 20,832
Non-cash conversion of accounts receivable to notes receivable	\$ 969	\$ 84

See the accompanying Notes to Consolidated Financial Statements.

Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements of Dine Brands Global, Inc. (the “Company” or “Dine Brands Global”) have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2023.

The consolidated balance sheet at December 31, 2022 has been derived from the audited consolidated financial statements at that date but does not include all of information and footnotes required by U.S. GAAP for complete financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

2. Basis of Presentation

The Company’s fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2023 began on January 2, 2023 and ended on April 2, 2023; the second fiscal quarter of 2023 ended on July 2, 2023; and the third fiscal quarter of 2023 ended on October 1, 2023. The first fiscal quarter of 2022 began on January 3, 2022 and ended on April 3, 2022; the second fiscal quarter of 2022 ended on July 3, 2022; and the third fiscal quarter of 2022 ended on October 2, 2022.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with U.S. GAAP requires the Company’s management to make assumptions and estimates 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 may include the calculation and assessment of the following: impairment of goodwill, other intangible assets and tangible assets; income taxes; allowance for credit losses on 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.

3. Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted

Accounting Standards Adopted in the Current Fiscal Year

Additional new accounting guidance became effective for the Company as of the beginning of fiscal 2023 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

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.

4. Revenue

Franchise revenue and revenue from company-operated restaurants are recognized in accordance with current guidance for revenue recognition as codified in Accounting Standards Topic 606 (“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.

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

4. Revenue (Continued)

Franchise Revenues

The Company franchises the Applebee's Neighborhood Grill & Bar[®] ("Applebee's") concept in the American full-service restaurant segment within the casual dining category of the restaurant industry, the International House of Pancakes[®] ("IHOP") concept in the family dining mid-scale full-service category of the restaurant industry, and the Fuzzy's Taco Shop[®] ("Fuzzy's") concept in the Mexican food segment within the fast-casual dining category of the restaurant industry. The franchise arrangement for the 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 brands 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 respective 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 the 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 revenue 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 revenue are recognized when the franchisee's reported sales occur. Depending on timing within a fiscal period, the recognition of revenue results in either what is considered a contract asset (unbilled receivable) or once billed, accounts receivable, and are included in "receivables, net" on the balance sheet;
- Revenue from the sale of proprietary pancake and waffle dry mix and other proprietary products is recognized in the period in which distributors ship the franchisee's order; recognition of revenue results in an accounts receivable included in "receivables, net" on the balance sheet.

In determining the amount and timing of revenue from contracts with customers, the Company exercises significant judgment with respect to collectability of the amount; however, the timing of recognition does not require significant judgments 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.

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

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 judgements required.

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

4. Revenue (Continued)

The following table disaggregates franchise revenue by major type for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)			
Franchise Revenue:				
Royalties	\$ 79,426	\$ 76,418	\$ 245,632	\$ 229,666
Advertising fees	73,385	71,692	226,401	216,686
Proprietary product sales and other	17,576	14,563	51,988	41,571
Franchise and development fees	2,133	2,234	6,378	6,475
Total franchise revenue	\$ 172,520	\$ 164,907	\$ 530,399	\$ 494,398

Accounts and other receivables from franchisees as of September 30, 2023 and December 31, 2022 were \$66.2 million (net of allowance of \$3.6 million) and \$69.0 million (net of allowance of \$1.3 million), respectively, and were included in receivables, net in the Consolidated Balance Sheets.

Changes in the Company's contract liability for deferred franchise and development fees during the nine months ended September 30, 2023 were as follows:

	Deferred Franchise Revenue (short- and long-term) (In thousands)
Balance at December 31, 2022	\$ 49,493
Recognized as revenue during the nine months ended September 30, 2023	(6,141)
Fees deferred during the nine months ended September 30, 2023	3,550
Balance at September 30, 2023	\$ 46,902

The balance of deferred revenue as of September 30, 2023 is expected to be recognized as follows:

	(In thousands)
2023 (remaining three months)	\$ 2,402
2024	6,538
2025	5,781
2026	4,950
2027	4,056
Thereafter	23,175
Total	\$ 46,902

5. Current Expected Credit Losses ("CECL")

The 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. The Company records 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 Company's CECL methodology that assesses four components - historical losses, current conditions, reasonable and supportable forecasts, and a reversion to history, if applicable.

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.

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

5. Current Expected Credit Losses (Continued)

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 past due 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, and IHOP franchise fee and other notes. The notes are typically collateralized by the franchise. A significant portion of these notes have specific reserves recorded against them amounting to \$6.7 million as of September 30, 2023.

Equipment Leases Receivable

Equipment leases receivable primarily 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. Equipment lease contracts are collateralized by the equipment in the restaurant. 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. The weighted average remaining life of the Company's equipment leases is 3.4 years as of September 30, 2023.

Real Estate Leases Receivable

Real estate leases receivable primarily relate to IHOP franchise development activity prior to 2003 when IHOP provided the financing for leasing or subleasing the site. Real estate leases at September 30, 2023, comprised 29 leases with a weighted average remaining life of 10.8 years, and relate to locations that IHOP is leasing from third parties and subleasing to franchisees.

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.

	September 30, 2023	December 31, 2022
	(In millions)	
Accounts receivable	\$ 66.1	\$ 67.5
Gift card receivables	6.4	34.6
Notes receivable	16.0	17.2
Financing receivables:		
Equipment leases receivable	21.4	26.6
Real estate leases receivable	16.9	18.5
Other	5.2	5.6
	132.0	170.0
Less: allowance for credit losses and notes receivable	(10.6)	(10.3)
	121.4	159.7
Less: current portion	(85.7)	(120.0)
Long-term receivables	\$ 35.7	\$ 39.7

The Company's primary credit quality indicator for all portfolio segments is delinquency.

Changes in the allowance for credit losses during the nine months ended September 30, 2023 were as follows:

	Accounts Receivable	Notes receivable, short-term	Notes receivable, long-term	Lease Receivables	Equipment Notes	Other ⁽¹⁾	Total
	(In millions)						
Balance, December 31, 2022	\$ 1.2	\$ 3.5	\$ 5.3	\$ 0.1	\$ 0.1	\$ 0.1	\$ 10.3
Bad debt (credit) expense	1.5	0.2	(0.0)	(0.0)	0.8	0.1	2.6
Advertising provision adjustment	0.7	(0.2)	—	—	—	—	0.5
Write-offs	—	(1.6)	(0.4)	(0.0)	(0.8)	(0.0)	(2.8)
Balance, September 30, 2023	\$ 3.4	\$ 1.9	\$ 4.9	\$ 0.1	\$ 0.1	\$ 0.2	\$ 10.6

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

5. Current Expected Credit Losses (Continued)

⁽¹⁾ Primarily distributor receivables, gift card receivables and credit card receivables.

The delinquency status of receivables (other than accounts receivable, gift card receivables and distributor receivables) at September 30, 2023 was as follows:

	Notes receivable, short-term	Notes receivable, long-term	Real Estate Lease Receivable	Equipment Notes	Other ⁽¹⁾	Total
(In millions)						
Current	\$ 4.2	\$ 11.7	\$ 16.9	\$ 21.4	\$ 0.0	\$ 54.2
30-59 days	0.0	—	—	—	—	—
60-89 days	0.0	—	—	—	—	—
90-119 days	0.0	—	—	—	—	—
120+ days	0.1	—	—	—	—	0.1
Total	\$ 4.3	\$ 11.7	\$ 16.9	\$ 21.4	\$ 0.0	\$ 54.3

⁽¹⁾ Primarily credit card receivables.

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

	Notes receivable, short and long- term	Lease Receivables	Equipment Notes	Total
(In millions)				
2023	\$ 5.6	\$ 1.4	\$ 1.0	\$ 8.0
2022	1.0	8.1	—	9.1
2021	9.1	2.4	—	11.5
2020	0.3	1.3	—	1.6
2019	—	0.7	—	0.7
Prior	—	3.0	20.4	23.4
Total	\$ 16.0	\$ 16.9	\$ 21.4	\$ 54.3

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

6. Leases

The Company engages in leasing activity as both a lessee and a lessor. The Company currently leases from third parties the real property on which approximately 520 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 50 IHOP restaurants and one Applebee's restaurant. The Company leases from a third party the real property on which one Fuzzy's company-operated restaurant is located. The Company also leases office space for its principal corporate office in Pasadena, California and restaurant support centers in Leawood, Kansas, and Irving, Texas. 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 290 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 during the nine months ended September 30, 2023. Approximately 40 of the leases met the sales levels that required variable rent payments by the Company (as lessee), based on a percentage of restaurant sales during the nine months ended September 30, 2023.

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

6. Leases (Continued)

The Company's lease (income) cost for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In millions)			
Finance lease cost:				
Amortization of right-of-use assets	\$ 0.6	\$ 0.7	\$ 1.9	\$ 2.9
Interest on lease liabilities	0.7	1.2	2.1	3.7
Operating lease cost	18.5	21.5	56.7	63.8
Variable lease cost	1.8	2.1	5.9	5.7
Short-term lease cost	0.0	0.0	0.0	0.0
Sublease income	(26.8)	(26.8)	(83.3)	(79.9)
Lease income	<u>\$ (5.2)</u>	<u>\$ (1.3)</u>	<u>\$ (16.7)</u>	<u>\$ (3.8)</u>

Future minimum lease payments under noncancellable leases as lessee as of September 30, 2023 were as follows:

	Finance	Operating
	Leases	Leases
	(In millions)	
2023 (remaining three months)	\$ 1.5	\$ 12.9
2024	8.1	79.8
2025	6.7	70.1
2026	6.2	62.6
2027	5.2	44.4
Thereafter	22.1	135.9
Total minimum lease payments	49.8	405.7
Less: interest/imputed interest	(11.5)	(70.1)
Total obligations	38.3	335.6
Less: current portion	(5.7)	(58.8)
Long-term lease obligations	<u>\$ 32.6</u>	<u>\$ 276.8</u>

The weighted average remaining lease term as of September 30, 2023 was 6.1 years for finance leases and 6.1 years for operating leases. The weighted average discount rate as of September 30, 2023 was 9.3% for finance leases and 5.6% for operating leases.

During the three and nine months ended September 30, 2023 and 2022, the Company made the following cash payments for leases:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In millions)			
Principal payments on finance lease obligations	\$ 1.7	\$ 2.3	\$ 5.3	\$ 7.0
Interest payments on finance lease obligations	0.7	1.2	2.1	3.7
Payments on operating leases	20.1	23.7	61.3	70.0
Variable lease payments	1.9	1.8	6.0	5.7

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

6. Leases (Continued)

The Company's income from operating leases for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In millions)			
Minimum lease payments	\$ 24.6	\$ 24.1	\$ 76.3	\$ 71.9
Variable lease income	4.1	4.0	13.0	12.5
Total operating lease income	\$ 28.7	\$ 28.1	\$ 89.3	\$ 84.4

Minimum payments to be received as lessor under noncancellable operating leases as of September 30, 2023 were as follows:

	(In millions)
2023 (remaining three months)	\$ 26.5
2024	99.4
2025	86.7
2026	72.6
2027	55.1
Thereafter	152.9
Total minimum rents receivable	\$ 493.2

The Company's income from real estate leases for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In millions)			
Interest income	\$ 0.3	\$ 0.4	\$ 0.8	\$ 1.1
Variable lease income	0.1	0.1	0.3	0.5
Selling (loss) profit	—	0.5	—	1.0
Total real estate lease income	\$ 0.4	\$ 1.0	\$ 1.1	\$ 2.6

Minimum payments to be received as lessor under noncancellable real estate leases as of September 30, 2023 were as follows:

	(In millions)
2023 (remaining three months)	\$ 0.9
2024	2.8
2025	2.0
2026	2.0
2027	2.0
Thereafter	13.7
Total minimum rents receivable	23.4
Less: unearned income	(6.4)
Total net investment in real estate leases	17.0
Less: current portion	(2.2)
Long-term investment in real estate leases	\$ 14.8

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

7. Long-Term Debt

At September 30, 2023 and December 31, 2022, long-term debt consisted of the following components:

	September 30, 2023	December 31, 2022
	(In millions)	
Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I	\$ —	\$ 653.0
Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II	594.0	594.0
Series 2022-1 Variable Funding Senior Secured Notes, Class A-1, variable interest rate of 7.94% and 7.29% at September 30, 2023 and December 31, 2022, respectively	100.0	100.0
Series 2023-1 7.824% Fixed Rate Senior Secured Notes, Class A-2	500.0	—
Debt issuance costs	(10.0)	(5.1)
Long-term debt, net of debt issuance costs	1,184.0	1,341.9
Current portion of long-term debt	(100.0)	(100.0)
Long-term debt	<u>\$ 1,084.0</u>	<u>\$ 1,241.9</u>

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 ("2019 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 ("2019 Class A-2-II Notes") in an initial aggregate principal amount of \$600 million (the "2019 Class A-2-II Notes" and, together with the 2019 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.

On August 12, 2022, the Co-Issuers established a new revolving financing facility, the 2022-1 Variable Funding Senior Secured Notes, Class A-1 (the "Credit Facility"), that allows for drawings up to \$325 million of variable funding notes on a revolving basis and the issuance of letters of credit. In connection with this transaction, the Co-Issuers terminated their \$225 million revolving financing facility, the 2019-1 Variable Funding Senior Secured Notes, Class A-1 (the "Previous Credit Facility").

On April 17, 2023, the Co-Issuers completed a refinancing transaction and issued \$500 million of Series 2023-1 7.824% Fixed Rate Senior Secured Notes, Class A-2 (the "2023 Class A-2 Notes"). The 2023 Class A-2 Notes were issued pursuant to an offering exempt from registration under the Securities Act of 1933, as amended. The Company used the net proceeds of the 2023 Class A-2 Notes to repay the entire outstanding balance of approximately \$585 million of the 2019 Class A-2-I Notes and to pay fees and expenses incurred in connection with the issuance of the 2023 Class A-2 Notes. The remaining 2019 Class A-2-II Notes and the Credit Facility, together with the 2023 Class A-2 Notes are referred to collectively herein as the "Notes." The Notes were issued in securitization transactions pursuant to which substantially all the domestic revenue-generating assets and domestic intellectual property 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 Notes.

The Notes were issued under a Base Indenture, dated as of September 30, 2014, amended and restated as of June 5, 2019 and further amended and restated as of April 17, 2023 (the "Base Indenture"). In addition, the 2019 Class A-2-II Notes were issued under 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 Credit Facility was issued under the related Series 2022-1 Supplement to the Base Indenture, dated August 12, 2022 ("Series 2022-1 Supplement"), among the Co-Issuers and Citibank, N.A., as Trustee and securities intermediary, and the 2023 Class A-2 Notes were issued under the related Series 2023-1 Supplement to the Base Indenture, dated April 17, 2023 (the "Series 2023-1 Supplement"), among the Co-Issuers and Citibank, N.A., as Trustee and securities intermediary. The Base Indenture, Series 2019-1 Supplement, Series 2022-1 Supplement, and Series 2023-1 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.

2019 Class A-2 Notes

The 2019 Class A-2-I Notes were voluntarily repaid in full on April 17, 2023, while the 2019 Class A-2-II Notes remain outstanding as of September 30, 2023. For a description of the 2019 Class A-2-I Notes, refer to Note 8 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. The legal final maturity of the 2019 Class A-2-II Notes is June 2049, but rapid amortization will apply if the 2019 Class

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

7. Long-Term Debt (Continued)

A-2-II Notes are not repaid by June 2026 (the “2019 Class A-2-II Anticipated Repayment Date”). If the Co-Issuers have not repaid or refinanced the 2019 Class A-2-II Notes by the 2019 Class A-2-II Anticipated Repayment Date, then additional interest will accrue on the 2019 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 2019 Class A-2-II Note interest rate: (x) the yield to maturity (adjusted to a quarterly bond-equivalent basis) on the 2019 Class A-2-II Anticipated Repayment Date of the United States Treasury Security having a term closest to 10 years plus (y) 7.64% for the 2019 Class A-2-II Notes.

While the 2019 Class A-2-II Notes are outstanding, payment of principal and interest is required to be made on the 2019 Class A-2-II Notes on a quarterly basis. The quarterly principal payment of \$1.50 million on the 2019 Class A-2-II 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 Notes. In general, the leverage ratio is the Company's indebtedness (as defined in the Indenture) divided by adjusted EBITDA (as defined in the Indenture) for the four preceding quarterly periods. The complete definitions of all calculation elements of the leverage ratio are contained in the Indenture.

As of September 30, 2023, the Company's leverage ratio was approximately 4.6x. As a result, quarterly principal payments on the 2019 Class A-2-II Notes of \$1.50 million currently are not required.

The Company may voluntarily repay the 2019 Class A-2-II Notes at any time without any associated make-whole premium.

2019 Class A-1 Notes

The Previous Credit Facility allowed for drawings up to \$225 million of variable funding notes on a revolving basis and the issuance of letters of credit. There were no outstanding borrowings since March 2021 under the Previous Credit Facility until its termination in August 2022.

The interest rate for borrowings under the Previous Credit Facility was 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.

2022 Class A-1 Notes

In August 2022, the Co-Issuers entered into the Credit Facility that allows for drawings up to \$325 million of variable funding notes on a revolving basis and the issuance of letters of credit. The applicable interest rate under the Credit Facility 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 Term SOFR Rate, in either case, plus 2.50%. 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) 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) Term SOFR for a one-month tenor in effect at such time plus 0.50% plus (b) 2.00%.

The legal final maturity of the Credit Facility is June 2052, but rapid amortization will apply if there are outstanding amounts under the Credit Facility after June 2027 (the “Class A-1 Renewal Date”). The Class A-1 Renewal Date may be extended at the Co-Issuers' election for up to two successive one-year periods if certain conditions are met. If the Co-Issuers have not repaid or refinanced the Credit Facility by the Class A-1 Renewal Date (after giving effect to any extensions), then interest will accrue on the Credit Facility at a rate equal to 5.00% in addition to the regular interest rate applicable to the Credit Facility.

As of September 30, 2023, the outstanding balance of the Credit Facility was \$100 million. The amount of \$3.4 million was pledged against the Credit Facility for outstanding letters of credit, leaving \$221.6 million of the Credit Facility available for borrowing at September 30, 2023. It is anticipated that any principal and interest on the Credit Facility outstanding will be repaid in full on or prior to the quarterly payment date in June 2027, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions. The letters of credit are used primarily to satisfy insurance-related collateral requirements. The weighted average interest rate for the period outstanding during the nine months ended September 30, 2023 was 7.60%.

2023 Class A-2 Notes

The legal final maturity of the 2023 Class A-2 Notes is in March 2053, but it is anticipated that, unless repaid earlier to the extent permitted under the Indenture, the 2023 Class A-2 Notes will be repaid in June 2029 (the “2023 Class A-2 Anticipated Repayment Date”). If the Co-Issuers have not repaid or refinanced the 2023 Class A-2 Notes by the 2023 Class A-2 Anticipated Repayment Date, then additional interest will accrue on the 2023 Class A-2 Notes, as applicable, at the greater of: (A) 5.0% and

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

7. Long-Term Debt (Continued)

(B) the amount, if any, by which the sum of the following exceeds the Series 2023-1 Class A-2 Note interest rate: (x) the yield to maturity (adjusted to a quarterly bond-equivalent basis) on the 2023 Class A-2 Anticipated Repayment Date of the United States Treasury Security having a term closest to 10 years plus (y) 9.24% for the 2023 Class A-2 Notes.

While the 2023 Class A-2 Notes are outstanding, payment of principal and interest is required to be made on the 2023 Class A-2 Notes on a quarterly basis. The payment of principal on the 2023 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.

As of September 30, 2023, the Company's leverage ratio was approximately 4.6x. As a result, quarterly principal payments on the 2023 Class A-2 Notes of \$1.25 million currently are not required.

The Company may voluntarily repay the 2023 Class A-2 Notes at any time; however, if the 2023 Class A-2 Notes are repaid prior to certain dates, the Company would be required to pay make-whole premiums. As of September 30, 2023, the make-whole premium associated with voluntary prepayment of the 2023 Class A-2 Notes was approximately \$35.3 million. The Company also would 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 Notes that must be bifurcated for separate valuation. The Company estimated the fair value of these derivatives to be immaterial as of September 30, 2023, based on the probability-weighted discounted cash flows associated with either event.

Repurchase Program

On February 16, 2023, our Company's Board of Directors authorized a debt repurchase program of up to \$100 million. Repurchases of the Company's debt, if any, are expected to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption. Under the authorization, the Company may make repurchases of the Company's debt from time to time in the open market or in privately negotiated transactions upon such terms and at such prices as management may determine.

Covenants and Restrictions

The 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 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 Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The Notes are subject to customary rapid amortization events provided for in the Indenture, including events tied to failure of the Securitization Entities (as defined in the Indenture) 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 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 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 (each as defined in the Indenture) 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

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

7. Long-Term Debt (Continued)

The Company's DSCR for the reporting period ended September 30, 2023 was approximately 3.7x.

Debt Issuance Costs**2023 Class A-2 Notes**

The Company incurred costs of approximately \$8.0 million in connection with the issuance of the 2023 Class A-2 Notes. These debt issuance costs are being amortized using the effective interest method over the estimated life of the 2023 Class A-2 Notes. Amortization costs of \$0.3 million and \$0.5 million were included in interest expense for the three and nine months ended September 30, 2023, respectively. As of September 30, 2023, unamortized debt issuance costs of \$7.5 million are reported as a direct reduction of the 2023 Series Class A-2 Notes in the Consolidated Balance Sheets.

2022 Class A-1 Notes

In August 2022, the Company incurred costs of approximately \$6.3 million in connection with the issuance of the Credit Facility. These debt issuance costs are being amortized over the estimated life of the Credit Facility. Amortization of \$0.3 million and \$0.9 million, respectively, of these costs were included in interest expense for the three and nine months ended September 30, 2023. As of September 30, 2023, unamortized debt issuance costs of \$5.0 million related to the Credit Facility are classified as other non-current assets in the Consolidated Balance Sheets.

2019 Class A-2 Notes

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 \$0.2 million and \$1.3 million were included in interest expense for the three and nine months ended September 30, 2023, respectively. Amortization costs of \$0.1 million and \$1.1 million were included in interest expense for the three and nine months ended September 30, 2022, respectively. In connection with the repayment of the 2019 Class A-2-I Notes discussed above, the Company recognized as a loss on extinguishment of debt of \$1.7 million, representing the related remaining unamortized debt issuance costs. As of September 30, 2023, unamortized debt issuance costs of \$2.5 million are reported as a direct reduction of the 2019 Class A-2-II Notes in the Consolidated Balance Sheets.

2019 Class A-1 Notes

Amortization costs incurred in connection with the Previous Credit Facility of \$0.2 million were included in interest expense for the nine months ended September 30, 2022. In connection with the termination of the Previous Credit Facility in August 2022, the Company recognized as a loss on extinguishment of debt of \$1.2 million, representing the remaining unamortized debt issuance costs associated with the Previous Credit Facility.

Loss (Gain) on Extinguishment of Debt

The Company purchased \$67.9 million of its 2019 Class A-2-I Notes under par and recognized a \$1.7 million gain on extinguishment of debt during the nine months ended September 30, 2023.

In connection with the repayment of the 2019 Class A-2-I Notes, the Company recognized a loss on extinguishment of debt of \$1.7 million, representing the remaining unamortized costs related to the 2019 Class A-2-I Notes.

Maturities of Long-term Debt

- The final maturity of the 2019 Class A-2 Notes is in June 2049, but it is anticipated that, unless repaid earlier, the 2019 Class A-2-II Notes will be repaid in June 2026.
- The final maturity of the 2023 Class A-2 Notes is in March 2053, but it is anticipated that, unless repaid earlier, the 2023 Class A-2 Notes will be repaid in June 2029.
- The renewal date of the Credit Facility is June 2027, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions.
- Quarterly principal payments on the 2019 Class A-2-II Notes totaling \$1.50 million (\$6.0 million per annum) are required if the Company's leverage ratio is greater than 5.25x.
- Quarterly principal payments on the 2023 Class A-2 Notes totaling \$1.25 million (\$5.0 million per annum) are required if the Company's leverage ratio is greater than 5.25x.

8. Stockholders' Deficit

Dividends

Dividends declared and paid per share for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Dividends declared per common share	\$ 0.51	\$ 0.51	\$ 1.53	\$ 1.48
Dividends paid per common share	\$ 1.02	\$ 1.02	\$ 2.04	\$ 1.88

On December 2, 2022, the Board of Directors declared a fourth quarter 2022 cash dividend of \$0.51 per share of common stock, paid on January 6, 2023 to the stockholders of record as of the close of business on December 17, 2022.

On February 21, 2023, the Board of Directors declared a first quarter 2023 cash dividend of \$0.51 per share of common stock, paid on March 31, 2023 to the stockholders of record as of the close of business on March 20, 2023.

On May 11, 2023, the Board of Directors declared a second quarter 2023 cash dividend of \$0.51 per share of common stock, paid on July 7, 2023 to the stockholders of record as of the close of business on June 20, 2023.

On September 7, 2023, the Board of Directors declared a third quarter 2023 cash dividend of \$0.51 per share of common stock, paid on September 29, 2023 to the stockholders of record as of the close of business on September 19, 2023.

Stock Repurchase Program

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.

On February 17, 2022, the Company's Board of Directors authorized a new share repurchase program, effective April 1, 2022, of up to \$250 million (the "2022 Repurchase Program"). In connection with the approval of the 2022 Repurchase Program, the 2019 Repurchase Program terminated effective April 1, 2022.

During the nine months ended September 30, 2023, the Company repurchased 318,356 shares of common stock at a cost of \$20.0 million. Cumulatively, the Company repurchased 1,467,945 shares at a cost of \$98.7 million under the 2022 Repurchase Program.

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 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 ("FIFO") method. During the nine months ended September 30, 2023, the Company re-issued 279,861 shares of treasury stock at a total FIFO cost of \$13.4 million.

9. Income Taxes

The Company's effective tax rate was 25.0% for the nine months ended September 30, 2023, as compared to 26.9% for the nine months ended September 30, 2022. The effective tax rate for the nine months ended September 30, 2023 was different than the rate of the prior comparable period primarily due to the recognition of higher excess tax benefits from stock-based compensation and lower non-deductible executive compensation.

The total gross unrecognized tax benefit as of September 30, 2023 and December 31, 2022 was \$2.6 million and \$2.1 million, respectively, excluding interest, penalties and related tax benefits. The Company estimates the unrecognized tax benefit as of September 30, 2023 may decrease over the upcoming 12 months by an amount up to \$0.5 million related to settlements with taxing authorities and expiring statutes of limitations. 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.

As of September 30, 2023, accrued interest was \$0.8 million and accrued penalties were less than \$0.1 million, excluding any related income tax benefits. As of December 31, 2022, accrued interest was \$0.7 million and accrued penalties were less

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

9. Income Taxes (Continued)

than \$0.1 million, 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 Income.

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. With few exceptions, the Company is no longer subject to federal tax examinations by tax authorities for years before 2018 and state or non-United States tax examinations by tax authorities for years before 2011. The Company believes that adequate reserves have been provided related to all matters contained in the tax periods open to examination.

10. Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense included in general and administrative expenses in the Consolidated Statements of Comprehensive Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In millions)			
Equity classified awards expense	\$ 2.9	\$ 3.8	\$ 8.2	\$ 12.2
Liability classified awards (credit) expense	0.2	0.3	(0.4)	1.7
Total stock-based compensation expense	\$ 3.1	\$ 4.1	\$ 7.8	\$ 13.9

As of September 30, 2023, total unrecognized compensation expense of \$19.9 million related to restricted stock and restricted stock units and \$3.0 million related to stock options are expected to be recognized over a weighted average period of 1.4 years for restricted stock and restricted stock units and 1.4 years for stock options.

Fair Value Assumptions

The following table summarizes the assumptions used in the Black-Scholes model for stock options granted during the nine months ended September 30, 2023:

Risk-free interest rate	4.4 %
Historical volatility	70.9 %
Dividend yield	2.7 %
Expected years until exercise	4.5
Fair value of options granted	\$37.35

Equity Classified Awards - Stock Options

Stock option balances at September 30, 2023, and activity for the nine months ended September 30, 2023 were 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, 2022	539,575	\$ 75.65		
Granted	72,291	74.94		
Exercised	(69,443)	54.90		
Expired	(55,879)	82.17		
Forfeited	(20,876)	79.11		
Outstanding at September 30, 2023	465,668	77.69	5.99	\$ —
Vested and Expected to Vest at September 30, 2023	449,236	77.84	5.9	\$ —
Exercisable at September 30, 2023	325,063	\$ 79.62	4.8	\$ —

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price of the Company's common stock on the last trading day of the third quarter of 2023 and the exercise price,

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

10. Stock-Based Compensation (Continued)

multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2023. The aggregate intrinsic value will change based on the fair market value of the Company's common stock and the number of in-the-money options.

Equity Classified Awards - Restricted Stock and Restricted Stock Units

Outstanding balances as of September 30, 2023, and activity related to restricted stock and restricted stock units for the nine months ended September 30, 2023 were as follows:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value	Stock-Settled Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2022	355,900	\$ 73.57	123,895	\$ 62.11
Granted	210,418	73.28	21,654	74.01
Released	(151,920)	74.11	(47,857)	64.04
Forfeited	(54,723)	73.10	(39,294)	77.23
Outstanding at September 30, 2023	<u>359,675</u>	<u>\$ 73.24</u>	<u>58,398</u>	<u>\$ 54.05</u>

Liability Classified Awards - Cash-settled Restricted Stock Units

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

There have been no liabilities related to cash-settled restricted stock units since the first quarter of 2022. For the nine months ended September 30, 2022, an expense of \$0.2 million 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 ("LTIP awards") to certain employees. Annual LTIP awards vest over a three-year period and are determined using multipliers from 0% to 200% of the target award based on the total stockholder return of Dine Brands Global common stock compared to the total stockholder returns of a peer group of companies. The awards are considered stock-based compensation and are classified as liabilities measured at fair value as of the respective period end. For the three months ended September 30, 2023 and 2022, an expense of \$0.2 million and \$0.2 million, respectively, were included in total stock-based compensation expense related to LTIP awards. For the nine months ended September 30, 2023 and 2022, a credit of \$0.4 million and an expense of \$1.5 million, respectively, was included in total stock-based compensation expense related to LTIP awards. At September 30, 2023 and December 31, 2022, liabilities of \$1.7 million and \$2.1 million, respectively, related to LTIP awards was included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

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

11. Net Income per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(In thousands, except per share data)				
Numerator for basic and diluted income per common share:				
Net income	\$ 18,479	\$ 20,948	\$ 64,137	\$ 69,760
Less: Net income allocated to unvested participating restricted stock	(431)	(575)	(1,551)	(1,852)
Net income available to common stockholders - basic	18,048	20,373	62,586	67,908
Effect of unvested participating restricted stock in two-class calculation	1	—	—	3
Net income available to common stockholders - diluted	<u>\$ 18,049</u>	<u>\$ 20,373</u>	<u>\$ 62,586</u>	<u>\$ 67,911</u>
Denominator:				
Weighted average outstanding shares of common stock - basic	15,217	15,377	15,275	16,049
Dilutive effect of stock options	3	26	14	30
Weighted average outstanding shares of common stock - diluted	<u>15,220</u>	<u>15,403</u>	<u>15,289</u>	<u>16,079</u>
Net income per common share:				
Basic	<u>\$ 1.19</u>	<u>\$ 1.32</u>	<u>\$ 4.10</u>	<u>\$ 4.23</u>
Diluted	<u>\$ 1.19</u>	<u>\$ 1.32</u>	<u>\$ 4.09</u>	<u>\$ 4.22</u>

12. Segments

The Company identifies its reporting segments based on the organizational units used by management to monitor performance and make operating decisions. The Company currently has six operating segments: Applebee's franchise operations, IHOP franchise operations, Fuzzy's franchise operations, rental operations, financing operations, and company-operated restaurant operations. The Company has four reporting segments: franchise operations (an aggregation of each restaurant concept's franchise operations), company-operated restaurant operations, rental operations and financing operations.

As of September 30, 2023, the franchise operations segment consisted of 1,652 restaurants operated by Applebee's franchisees in the United States, two U.S. territories and 13 countries outside the United States; 1,794 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and 13 countries outside the United States; and 137 restaurants operated by Fuzzy's franchisees in the United States. Franchise operations revenue consists primarily of franchise royalty revenues, franchise advertising revenue, sales of proprietary products to franchisees, 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 operations revenue includes revenue from operating leases and interest income from real estate leases. Rental operations expenses are costs of operating leases and interest expense from finance leases on which the Company is the lessee.

Financing operations revenue primarily consists of interest income from the financing of IHOP equipment leases and franchise fees and interest income on notes receivable due from franchisees. Financing operations expenses primarily are the cost of taxes related to IHOP equipment leases.

During the three and nine months ended September 30, 2023, the company restaurants segment consisted of three Fuzzy's restaurants that were acquired in December 2022 of which two were subsequently refranchised in the second quarter of 2023. During three and nine months ended September 30, 2022, the Company operated 69 Applebee's restaurants that were refranchised in October 2022. All company-operated restaurants are located in the United States. Company-operated restaurant operation revenue consists of retail sales at company operated restaurants. Company-operated restaurant operation expenses are operating expenses such as food, beverage, labor, benefits, utilities, rent and other operating costs.

Dine Brand Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

12. Segments (Continued)

Information on segments is as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
(In millions)				
Revenues from external customers:				
Franchise operations	172.5	\$ 164.9	530.4	\$ 494.4
Rental operations	29.1	29.2	90.5	87.1
Company restaurants	0.3	38.2	1.8	117.2
Financing operations	0.6	0.9	2.0	2.8
Total	<u>\$ 202.6</u>	<u>\$ 233.2</u>	<u>\$ 624.8</u>	<u>\$ 701.4</u>
Interest expense:				
Rental operations	\$ 0.9	\$ 1.1	\$ 2.9	\$ 3.2
Company restaurants	—	0.7	—	2.4
Corporate	19.1	15.3	51.5	46.2
Total	<u>\$ 20.0</u>	<u>\$ 17.1</u>	<u>\$ 54.4</u>	<u>\$ 51.8</u>
Depreciation and amortization:				
Franchise operations	\$ 2.4	\$ 2.5	\$ 7.3	\$ 7.5
Rental operations	2.6	2.7	7.8	8.0
Company restaurants	0.0	0.5	0.0	4.3
Corporate	3.6	3.2	11.1	9.1
Total	<u>\$ 8.6</u>	<u>\$ 8.9</u>	<u>\$ 26.2</u>	<u>\$ 28.9</u>
Gross profit by segment:				
Franchise operations	\$ 89.4	\$ 84.6	\$ 271.6	\$ 253.8
Rental operations	7.4	7.2	24.9	21.1
Company restaurants	0.0	1.7	0.0	5.4
Financing operations	0.5	0.8	1.7	2.5
Total gross profit	<u>97.3</u>	<u>94.3</u>	<u>298.3</u>	<u>282.8</u>
Corporate and unallocated expenses, net	(72.4)	(65.6)	(212.7)	(187.4)
Income before income taxes	<u>\$ 24.9</u>	<u>\$ 28.7</u>	<u>\$ 85.6</u>	<u>\$ 95.4</u>

13. Closure and Impairment Charges

Closure and impairment charges for the three and nine months ended September 30, 2023 and 2022 were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
(In millions)				
Closure charges	\$ 0.3	\$ 0.5	\$ 1.1	\$ 1.7
Long-lived tangible asset impairment	1.5	1.1	2.0	1.4
Total closure and impairment charges	<u>\$ 1.8</u>	<u>\$ 1.6</u>	<u>\$ 3.1</u>	<u>\$ 3.1</u>

The closure charges for the three and nine months ended September 30, 2023 were primarily related to the establishment of or revisions to existing closure reserves, including accretion, for approximately 30 IHOP restaurants.

The closure charges for the three and nine months ended September 30, 2022 were primarily related to the establishment of or revisions to existing closure reserves, including accretion, for approximately 35 and 40 IHOP restaurants, respectively.

The long-lived asset impairment for the three months ended September 30, 2023 related to the impairment of four IHOP master land and building leases. The long-lived asset impairment for the nine months ended September 30, 2023 primarily related to technology that was developed in connection with the IHOP Flip'd initiative that was stopped, and the impairment of four IHOP master land and building leases in the third quarter of 2023.

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

Long-lived intangible asset impairment charges for the three months ended September 30, 2022 related to the refranchising and sale of related restaurant assets of 69 Applebee's company-operated restaurants located in North Carolina and South Carolina. Long-lived tangible asset impairment charges for the nine months ended September 30, 2022 related to the Applebee's company-operated restaurants for \$1.1 million and the impairment of land and buildings for two IHOP restaurants located on sites owned by the Company.

14. Fair Value Measurements

The Company does not have a material amount of financial assets or liabilities that are required under U.S. GAAP to be measured on a recurring basis at fair value. The Company is not a party to any material derivative financial instruments. The Company does not have a material amount of non-financial assets or non-financial liabilities that are required under U.S. GAAP to be measured at fair value on a recurring basis. The Company has not elected to use the fair value measurement option, as permitted under U.S. GAAP, for any assets or liabilities for which fair value measurement is not presently required.

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

The fair values of the Company's long-term debt, excluding the Credit Facility, at September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023	December 31, 2022
	(In millions)	
Face Value	\$ 1,094.0	\$ 1,247.0
Fair Value	\$ 1,044.1	\$ 1,736.9

The fair values were determined based on Level 2 inputs, including information gathered from brokers who trade in the Company's long-term debt, as well as information on notes that are similar to those of the Company.

15. Commitments and Contingencies

Litigation, Claims and Disputes

The Company is 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 Company is required under U.S. GAAP 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 the Company's litigation are expensed as such fees and expenses are incurred. Management regularly assesses the Company's insurance coverage, analyzes litigation information with the Company's attorneys and evaluates the Company's loss experience in connection with pending legal proceedings. While the Company does not presently believe that any of the legal proceedings to which it is currently a party will 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.

Lease Guarantees

In connection with the refranchising of Applebee's restaurants to franchisees, the Company has, in certain cases, guaranteed or has potential continuing liability for lease payments totaling \$405.5 million as of September 30, 2023. This amount represents the maximum potential liability for future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2023 through 2058. Excluding unexercised option periods, the Company's potential liability for future payments under these leases is \$91.9 million. In the event of default, the indemnity and default clauses in the sale or assignment agreements govern the Company's ability to pursue and recover damages incurred.

16. Cash, Cash Equivalents and Restricted Cash

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

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

16. Cash, Cash Equivalents and Restricted Cash (Continued)

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:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(In millions)	
Money market funds	\$ 12.0	\$ 75.0
IHOP advertising funds and gift card programs	67.5	96.7
Other depository accounts	18.7	98.0
Total cash and cash equivalents	<u>\$ 98.2</u>	<u>\$ 269.7</u>

Current Restricted Cash

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:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(In millions)	
Securitized debt reserves	\$ 35.9	\$ 32.4
Applebee's advertising funds	4.4	5.4
Other	1.6	1.1
Total current restricted cash	<u>\$ 41.9</u>	<u>\$ 38.9</u>

Non-current Restricted Cash

Non-current restricted cash was \$19.5 million and \$16.4 million at September 30, 2023 and December 31, 2022, respectively, and represents interest reserves required to be set aside for the duration of the Company's securitized debt.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this report and the MD&A contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022. Statements contained in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the section of this report under the heading “Cautionary Statement Regarding Forward-Looking Statements” for more information. Except where the context indicates otherwise, the words “we,” “us,” “our,” “Dine Brands Global” and the “Company” refer to Dine Brands Global, Inc., together with its subsidiaries that are consolidated in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

Overview

Through various subsidiaries, we own and franchise the Applebee’s Neighborhood Grill & Bar® (“Applebee’s”) concept in the American full-service segment within the casual dining category of the restaurant industry, the International House of Pancakes® (“IHOP”) concept in the mid-scale full-service restaurant segment within the family dining category of the restaurant industry, and the Fuzzy’s Taco Shop® (“Fuzzy’s”) concept in the Mexican limited-service restaurant segment within the fast-casual dining category of the restaurant industry. References herein to Applebee’s®, IHOP® and Fuzzy’s Taco Shop® restaurants are to these three restaurant concepts, whether operated by franchisees, area licensees and their sub-licensees (collectively, “area licensees”) or by us. With almost 3,600 franchised and company-operated restaurants combined, we believe we are one of the largest full-service restaurant companies in the world.

We identify our business segments based on the organizational units used by management to monitor performance and make operating decisions. We currently have six operating segments: Applebee’s franchise operations, IHOP franchise operations, Fuzzy’s franchise operations, rental operations, financing operations, and company-operated restaurant operations. We have four reportable segments: franchise operations (an aggregation of each restaurant concept’s franchise operations), rental operations, financing operations, and company-operated restaurant operations.

We acquired Fuzzy’s in December 2022 and the results of its operations are included herein. However, comparative key performance indicators in the following sections only include the results of operations of Applebee’s and IHOP, unless otherwise noted, as prior period data is not available for Fuzzy’s.

Key Financial Results

The financial tables appearing in this MD&A 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 crossfoot due to rounding.

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
(In millions, except per share data)						
Income before income taxes	\$ 24.9	\$ 28.7	\$ (3.8)	\$ 85.6	\$ 95.4	\$ (9.8)
Income tax provision	(6.5)	(7.8)	1.3	(21.4)	(25.7)	4.3
Net income	\$ 18.5	\$ 20.9	\$ (2.5)	\$ 64.1	\$ 69.8	\$ (5.6)
Effective tax rate	25.9 %	27.1 %	1.2 %	25.0 %	26.9 %	1.9 %
Net income per diluted share	\$ 1.19	\$ 1.32	\$ (0.13)	\$ 4.09	\$ 4.22	\$ (0.13)
			% decrease			% decrease
Weighted average diluted shares	15.2	15.4	(1.3)%	15.3	16.1	(5.0)%

The effective tax rate for the three and nine months ended September 30, 2023 was different than the rate of the prior comparable periods primarily due to the recognition of higher excess tax benefits from stock-based compensation and lower non-deductible executive compensation.

The following table highlights the primary components of the decrease in our income before income taxes for the three and nine months ended September 30, 2023, compared to our income before income taxes for the comparable prior periods (in millions):

	Favorable (Unfavorable) Variance	
	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
(Decrease) increase in gross profit:		
Applebee's franchise operations	\$ (1.4)	\$ (0.6)
IHOP franchise operations	3.3	8.7
Fuzzy's franchise operations	2.8	9.6
Company restaurant operations	(1.8)	(5.4)
Rental and financing operations	0.0	3.1
Total increase in gross profit	3.0	15.4
Increase in general and administrative ("G&A") expenses	(2.3)	(15.6)
Increase in interest expense, net	(3.8)	(5.4)
Loss on disposition of assets	(1.7)	(5.3)
Other	1.0	0.9
Decrease in income before income taxes	<u>\$ (3.8)</u>	<u>\$ (9.9)</u>

Income before income taxes for the three months ended September 30, 2023 decreased compared to the comparable prior period due to increases in interest expense and G&A expenses (see the discussion under the header "G&A Expenses" below), as well as the decrease in company restaurant operations primarily due to the refranchising of the 69 Applebee's company-operated restaurants in October 2022. The increased costs were partially offset by the increase in IHOP franchise operations from increased same-restaurant sales and effective restaurants, and the inclusion of the acquired Fuzzy's Taco Shop® brand.

Income before income taxes for the nine months ended September 30, 2023 decreased compared to the comparable prior period due to increased G&A expenses (see the discussion under the header "G&A Expenses" below), interest expense, and loss on disposition of assets. The increased costs were partially offset by the inclusion of the acquired Fuzzy's brand, increase in IHOP franchise operations from increased domestic same-restaurant sales and effective restaurants, and increases in rental and financing operations related to three IHOP lease buyouts.

Increases in commodity, labor and other restaurant operating costs experienced at restaurants owned and operated by our franchisees could impact us to the extent our franchisees are adversely impacted by a sustained decline in their operating margins. At company operated restaurants, when applicable, increases in commodity, labor and other restaurant operating costs impact us directly.

See "Consolidated Results of Operations - Comparison of the Three and Nine Months Ended September 30, 2023 and 2022" for additional discussion of the changes shown above.

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 and the change in 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. Restaurant development 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. As noted above, the comparative key performance indicators in the following sections only include the results of operations of Applebee's and IHOP, unless otherwise noted, as prior period data is not available for Fuzzy's.

Our key performance indicators for the three and nine months ended September 30, 2023 were as follows:

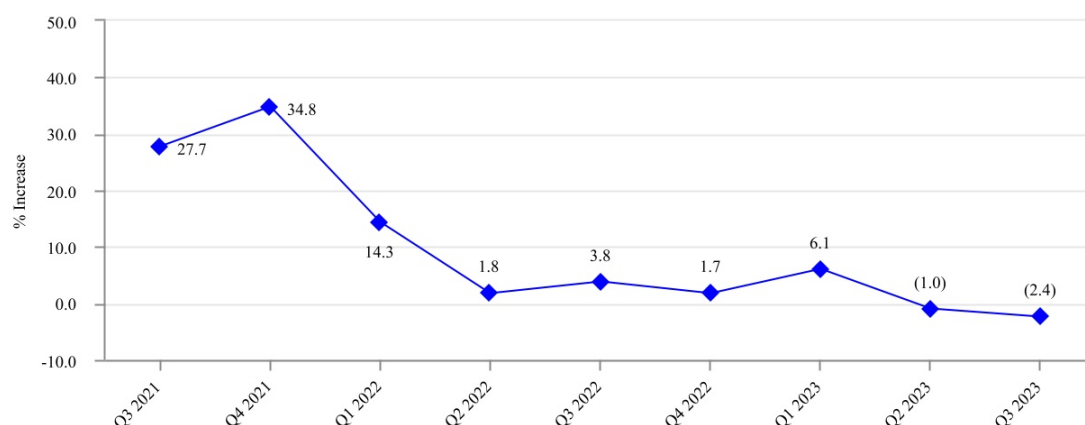
	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Applebee's	IHOP	Applebee's	IHOP
Sales percentage (decrease) increase in reported retail sales - 2023 vs. 2022	(3.2)%	4.2 %	0.3 %	6.6 %
% (decrease) increase in domestic system-wide same-restaurant sales - 2023 vs. 2022	(2.4)%	2.0 %	0.9 %	4.2 %
Net franchise restaurant (reduction) increase ⁽¹⁾	(9)	4	(26)	13
Net (decrease) increase in total effective restaurants ⁽²⁾	(16)	28	(10)	32

⁽¹⁾ Franchise and area license restaurant closings, net of openings, during the three and nine months ended September 30, 2023 and 2022.

⁽²⁾ Change in the weighted average number of franchise, area license and company-operated restaurants open during the three and nine months ended September 30, 2023, compared to the weighted average number of those open during the same periods of 2022.

The change in total effective restaurants for each brand reflects both permanent closures, net of openings, over the past 12 months as well as the weighted effect of restaurants temporarily closed during each period.

Quarterly Domestic Same-Restaurant Sales - Applebee's



Domestic Same-Restaurant Sales

Applebee's system-wide domestic same-restaurant sales decreased 2.4% for the three months ended September 30, 2023 and increased 0.9% for the nine months ended September 30, 2023 as compared to the same periods of 2022. The decrease for the three months ended September 30, 2023 was primarily due to a decrease in traffic, offset by an increase in average check. The increase for the nine months ended September 30, 2023 was primarily due to an increase in average check resulting from the successful promotional food offerings and menu price increases by franchisees, offset by a decrease in traffic.

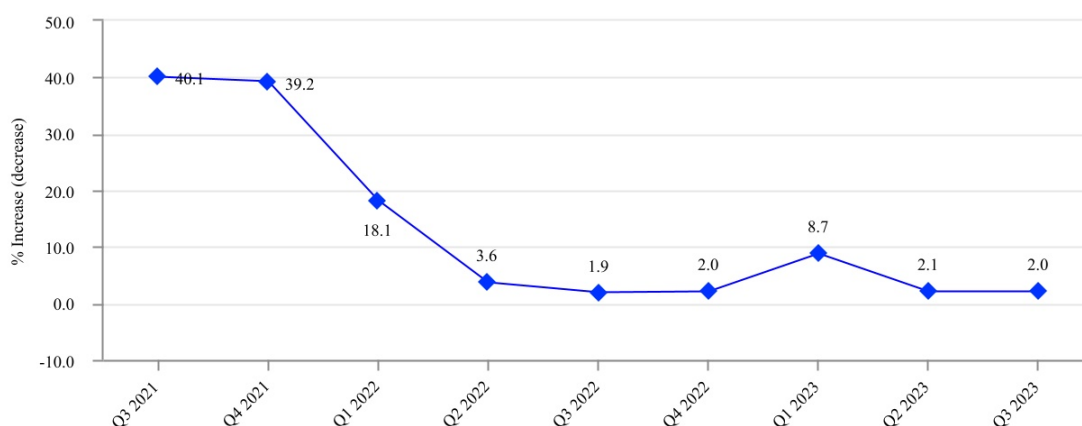
Applebee's Off-Premise Sales Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Off-premise sales (in millions) ⁽¹⁾	\$ 221.4	\$ 259.0	\$ 729.3	\$ 837.7
% sales mix	21.5 %	24.2 %	22.4 %	25.8 %

⁽¹⁾ Primarily to-go, delivery and catering sales for comparable 2023 and 2022 restaurants.

Based on data from Black Box Intelligence, a restaurant sales reporting firm ("Black Box"), Applebee's same-restaurant sales for the three and nine months ended September 30, 2023 underperformed the casual dining segment of the restaurant industry (excluding Applebee's) during the same periods of 2023.

Quarterly Domestic Same-Restaurant Sales - IHOP



IHOP's system-wide domestic same-restaurant sales increased 2.0% for the three months ended September 30, 2023 and 4.2% for the nine months ended September 30, 2023 as compared to the same periods of 2022. The improvement was due to an increase in average check, offset by a decrease in traffic. The increase in average check was primarily due to an increase in menu prices as well as a general increase in consumer spending due to larger party sizes and greater spending per person.

IHOP Off-Premise Sales Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Off-premise sales (in millions) ⁽¹⁾	\$ 143.2	\$ 143.6	\$ 460.6	\$ 464.4
% sales mix	19.5 %	20.4 %	20.6 %	22.0 %

⁽¹⁾ Primarily to-go, delivery and catering sales for comparable 2023 and 2022 restaurants.

Based on data from Black Box, IHOP's increase in same-restaurant sales for the three and nine months ended September 30, 2023 underperformed the family dining segment of the restaurant industry (excluding IHOP) during the same periods of 2023.

Restaurant Data

The following table sets forth 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 period of the prior year. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company and, as such, the percentage change in sales at Effective Restaurants is 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 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 plans for future development of additional restaurants as well as evaluation of current operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Applebee's Restaurant Data				
Global Effective Restaurants^(a)				
Franchise	1,654	1,601	1,663	1,604
Company	—	69	—	69
Total	1,654	1,670	1,663	1,673
System-wide^(b)				
Domestic sales percentage change ^(c)	(3.2)%	3.2 %	0.3 %	5.9 %
Domestic same-restaurant sales percentage change ^(d)	(2.4)%	3.8 %	0.9 %	6.3 %
Franchise^(b)				
Domestic sales percentage change ^(c)	0.4 %	3.1 %	4.0 %	5.8 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Domestic same-restaurant sales percentage change ^(d)	(2.4)%	3.6 %	0.9 %	6.3 %
Average weekly domestic unit sales (in thousands)	\$ 52.1	\$ 53.5	\$ 54.4	\$ 54.2

IHOP Restaurant Data

Global Effective Restaurants^(a)

Franchise	1,631	1,602	1,626	1,594
Area license	156	157	156	156
Total	<u>1,787</u>	<u>1,759</u>	<u>1,782</u>	<u>1,750</u>

System-wide^(b)

Sales percentage change ^(c)	4.2 %	3.7 %	6.6 %	9.1 %
Domestic same-restaurant sales percentage change, including area license restaurants ^(d)	2.0 %	1.9 %	4.2 %	7.2 %

Franchise^(b)

Sales percentage change ^(c)	4.5 %	3.6 %	6.9 %	9.2 %
Domestic same-restaurant sales percentage change ^(d)	2.0 %	1.6 %	4.2 %	7.3 %
Average weekly unit sales (in thousands)	\$ 37.8	\$ 36.8	\$ 38.3	\$ 36.5

Area License^(b)

Sales percentage change ^(c)	1.1 %	5.2 %	4.0 %	8.4 %
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(a) “Effective Restaurants” are the weighted average number of restaurants open in each 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, which consist of restaurants owned by franchisees and area licensees as well as those owned by the Company. Effective Restaurants do not include units operated as ghost kitchens (small kitchens with no store-front presence, used to fill off-premise orders).

(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 Applebee’s restaurants. System-wide sales do not include retail sales of ghost kitchens. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. An increase in franchisees’ reported sales will result in a corresponding increase in our royalty revenue, while a decrease in franchisees’ reported sales will result in a corresponding decrease in our royalty revenue. Unaudited reported sales for Applebee’s domestic franchise restaurants, Applebee’s company-operated restaurants, IHOP franchise restaurants and IHOP area license restaurants were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>Reported sales (in millions)</i>	(Unaudited)			
Applebee’s domestic franchise restaurant sales	\$ 1,048.5	\$ 1,044.5	\$ 3,303.9	\$ 3,176.2
Applebee’s company-operated restaurants	—	38.2	—	117.2
IHOP franchise restaurant sales	801.0	766.8	2,425.9	2,270.3
IHOP area license restaurant sales	74.3	73.5	228.1	219.3
Total	<u>\$ 1,923.8</u>	<u>\$ 1,923.0</u>	<u>\$ 5,957.9</u>	<u>\$ 5,783.0</u>

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

(d) “Domestic same-restaurant sales percentage change” reflects the percentage change in sales in any given fiscal period, compared to the same weeks in the prior fiscal period, for domestic restaurants that have been operated during both fiscal periods 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 both fiscal periods being compared may be different from period to period.

<i>Restaurant Development Activity</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Applebee's	(Unaudited)			
Summary - beginning of period:				
Franchise	1,661	1,604	1,678	1,611
Company	—	69	—	69
Beginning of period	1,661	1,673	1,678	1,680
Franchise restaurants opened:				
Domestic	2	—	3	2
International	2	1	5	1
Total franchise restaurants opened	4	1	8	3
Franchise restaurants permanently closed:				
Domestic	(12)	(3)	(28)	(9)
International	(1)	(1)	(6)	(4)
Total franchise restaurants permanently closed	(13)	(4)	(34)	(13)
Net franchise restaurant reduction	(9)	(3)	(26)	(10)
Summary - end of period:				
Franchise	1,652	1,601	1,652	1,601
Company	—	69	—	69
Total Applebee's restaurants, end of period	1,652	1,670	1,652	1,670
Domestic	1,544	1,571	1,544	1,571
International	108	99	108	99

Restaurant Development Activity (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
IHOP				
Summary - beginning of period:				
Franchise	1,634	1,608	1,625	1,595
Area license	156	156	156	156
Total IHOP restaurants, beginning of period	1,790	1,764	1,781	1,751
Franchise/area license restaurants opened:				
Domestic franchise	5	5	27	20
Domestic area license	—	1	2	2
International franchise	5	3	11	10
Total franchise/area license restaurants opened	10	9	40	32
Franchise/area license restaurants permanently closed:				
Domestic franchise	(5)	(5)	(23)	(12)
Domestic area license	—	(1)	(2)	(2)
International franchise	(1)	(1)	(2)	(3)
Total franchise/area license restaurants permanently closed	(6)	(7)	(27)	(17)
Net franchise/area license restaurant additions	4	2	13	15
Refranchised by the Company	—	—	—	—
Franchise restaurants reacquired by the Company	—	—	—	—
Net increase in franchise/area license restaurants	4	2	13	15
Summary - end of period:				
Franchise	1,638	1,610	1,638	1,610
Area license	156	156	156	156
Company	—	—	—	—
Total IHOP restaurants, end of period	1,794	1,766	1,794	1,766
Domestic	1,681	1,665	1,681	1,665
International	113	101	113	101

As of September 30, 2023, 47 franchise groups operated 137 Fuzzy's restaurants in 18 states within the United States and we had one company-owned restaurant in Texas, totaling 138 restaurants. Fuzzy's average weekly sales for the three and nine months ended September 30, 2023 were \$30,628 and \$31,575, respectively.

The restaurant counts and activity presented above do not include one domestic Applebee's ghost kitchen (small kitchens with no store-front presence, used to fill off-premise orders), 10 international Applebee's ghost kitchens and 38 international IHOP ghost kitchens.

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 this table and are included in the summary counts at the beginning and end of each period shown. Temporary closures are reflected in the weighted calculation of Effective Restaurants presented in the preceding Restaurant Data table.

Closures of 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 the loss of such income, as well as our obligation to make rental or other payments for such properties.

CONSOLIDATED RESULTS OF OPERATIONS
Comparison of the Three and Nine Months Ended September 30, 2023 and 2022

Financial Results

Revenue

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
	(In millions)					
Franchise operations	\$ 172.5	\$ 164.9	\$ 7.6	\$ 530.4	\$ 494.4	\$ 36.0
Rental operations	29.1	29.2	(0.1)	90.5	87.1	3.4
Company restaurant operations	0.3	38.2	(37.9)	1.8	117.2	(115.4)
Financing operations	0.6	0.9	(0.3)	2.0	2.8	(0.8)
Total revenue	\$ 202.5	\$ 233.2	\$ (30.7)	\$ 624.7	\$ 701.5	\$ (76.8)
Change vs. prior period	(13.1)%			(10.9)%		

Total revenue for the three months ended September 30, 2023 decreased compared with the same period of the prior year, primarily due to the decrease in company restaurant operations primarily as a result of refranchising the Applebee's company-operated restaurants, partially offset by an increase in IHOP franchise operations revenue and the inclusion of Fuzzy's franchise operations revenue.

Total revenue for the nine months ended September 30, 2023 decreased compared with the same period of the prior year, primarily due to the decrease in company restaurant operations as a result of refranchising the Applebee's company-operated restaurants, partially offset by increases in Applebee's and IHOP franchise operations revenue and the inclusion of Fuzzy's franchise operations revenue.

Gross Profit

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
	(In millions)					
Franchise operations	\$ 89.4	\$ 84.6	\$ 4.8	\$ 271.6	\$ 253.8	\$ 17.8
Rental operations	7.4	7.2	0.2	24.9	21.1	3.8
Company restaurant operations	0.0	1.7	(1.7)	0.0	5.4	(5.4)
Financing operations	0.5	0.8	(0.3)	1.7	2.5	(0.8)
Total gross profit	\$ 97.3	\$ 94.3	\$ 3.0	\$ 298.3	\$ 282.8	\$ 15.4
Change vs. prior period	3.1 %			5.5 %		

Total gross profit for the three and nine months ended September 30, 2023 increased compared with the same periods of the prior year, primarily due to the increased revenue from franchise operations, partially offset by the refranchising of Applebee's company-operated restaurants.

Franchise Operations	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
(In millions, except number of restaurants)						
Effective Franchise Restaurants: ⁽¹⁾						
Applebee's	1,654	1,601	53	1,663	1,604	59
IHOP	1,787	1,759	28	1,782	1,750	32
Franchise Revenues:						
Applebee's franchise fees	\$ 41.7	\$ 43.1	\$ (1.4)	\$ 131.7	\$ 131.1	\$ 0.6
IHOP franchise fees	54.1	50.1	4.0	161.8	146.6	15.2
Advertising fees	73.4	71.7	1.7	226.4	216.7	9.7
Fuzzy's franchise fees	3.3	—	3.3	10.5	—	10.5
Total franchise revenues	172.5	164.9	7.6	530.4	494.4	36.0
Franchise Expenses:						
Applebee's	1.0	0.9	(0.1)	3.7	2.5	(1.2)
IHOP	8.3	7.6	(0.7)	27.8	21.4	(6.4)
Advertising expenses	73.4	71.7	(1.7)	226.4	216.7	(9.7)
Fuzzy's	0.5	—	(0.5)	0.9	—	(0.9)
Total franchise expenses	83.1	80.3	(2.8)	258.8	240.6	(18.2)
Franchise Gross Profit:						
Applebee's	40.7	42.2	(1.5)	128.0	128.6	(0.6)
IHOP	45.8	42.5	3.3	134.0	125.3	8.7
Fuzzy's	2.8	—	2.8	9.6	—	9.6
Total franchise gross profit	\$ 89.4	\$ 84.6	\$ 4.8	\$ 271.6	\$ 253.9	\$ 17.7
Gross profit as % of franchise revenue ⁽²⁾	51.8 %	51.3 %		51.2 %	51.3 %	
Gross profit as % of franchise fees ⁽²⁾⁽³⁾	90.2 %	90.8 %		89.3 %	91.4 %	

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

⁽²⁾ Percentages calculated on actual amounts, not rounded amounts presented above.

⁽³⁾ From time to time, advertising fee revenue may be different from advertising expenses in a given accounting period. Over the long term, advertising activity should not generate gross profit or loss.

Applebee's franchise fee revenue for the three months ended September 30, 2023 decreased 3.2% as compared with the same period of the prior year, primarily due to the unfavorable impact on royalties of a 2.4% decrease in domestic same-restaurant sales. Applebee's franchise fee revenue for the nine months ended September 30, 2023 increased 0.5% as compared with the same period of the prior year primarily due to an increase in termination fees, an increase in international revenue and the favorable impact on royalties of a 0.9% increase in domestic same-restaurant sales and increase in the number of effective franchise restaurants.

Applebee's franchise expenses for the nine months ended September 30, 2023 increased \$0.1 million as compared with the same period of the prior year primarily due to an increase in costs related to franchisee support fees offset by a decrease in bad debt expense. Applebee's franchise expenses for the nine months ended September 30, 2023 increased \$1.2 million as compared with the same periods of the prior year primarily due to increases in bad debt expense and costs related to franchisee support fees.

IHOP's franchise fee revenue for the three and nine months ended September 30, 2023 increased 8.0% and 10.3%, respectively, as compared with the same periods of the prior year, primarily due to favorable domestic same-restaurant sales and an increase in the number of effective franchise restaurants which resulted in higher sales of proprietary products and increased royalties.

IHOP's franchise expenses for the three and nine months ended September 30, 2023 increased \$0.7 million and \$6.4 million, respectively, as compared with same periods of the prior year, primarily due to an increase in cost of proprietary products and increases in bad debt expense and costs related to franchisee support fees.

Advertising revenue and expense by brand for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Increase	2023	2022	Increase
(In millions)						
Advertising Revenues and Expenses:						
Applebee's	\$ 43.7	\$ 44.0	\$ (0.3)	\$ 136.4	\$ 133.8	\$ 2.6
IHOP	28.7	27.7	1.0	87.0	82.9	4.1
Fuzzy's	1.0	—	1.0	2.9	—	2.9
Total advertising revenues and expenses	\$ 73.4	\$ 71.7	\$ 1.7	\$ 226.3	\$ 216.7	\$ 9.6

Applebee's advertising revenue and expense for the three months ended September 30, 2023 decreased slightly compared to the same period of the prior year, primarily due to the 2.4% decrease in domestic franchise same-restaurant sales. IHOP advertising revenue and expense for the three months ended September 30, 2023 increased compared to the same period of the prior year, primarily due to the 2.0% increase in domestic franchise same-restaurant sales and an increase in the number of effective franchise restaurants.

Applebee's and IHOP's advertising revenue and expense for the nine months ended September 30, 2023 increased 1.9% and 5.0%, respectively, compared to the same period of the prior year primarily due to the increase in their respective domestic franchise same-restaurant sales.

It is our accounting policy to recognize any deficiency in advertising fee revenue compared to advertising expenditure or any recovery of a previously recognized deficiency in advertising fee revenue compared to advertising expenditure in the fourth quarter of our fiscal year.

Rental Operations

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
(In millions)						
Rental revenues	\$ 29.1	\$ 29.2	\$ (0.1)	\$ 90.5	\$ 87.1	\$ 3.4
Rental expenses	21.7	22.0	0.3	65.6	66.0	0.4
Rental operations gross profit	\$ 7.4	\$ 7.2	\$ 0.2	\$ 24.9	\$ 21.1	\$ 3.8
Gross profit as % of revenue ⁽¹⁾	25.4 %	24.6 %		27.5 %	24.2 %	

⁽¹⁾ Percentages calculated on actual amounts, not rounded amounts presented above.

Rental operations relate primarily to IHOP franchise restaurants. Rental income includes sublease revenue from operating leases and interest income from real estate leases. Rental expenses are costs of prime operating leases and interest expense on prime finance leases.

Rental operations gross profit for the three months ended September 30, 2023 increased from the same period of the prior year, primarily due to operating lease renewals and extensions.

Rental operations gross profit for the nine months ended September 30, 2023 increased as compared to the same period of the prior year, primarily due to lease buyouts and operating lease renewals and extensions.

Company Restaurant Operations

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
Effective Restaurants	1	69	(68)	1	69	(68)
	(In millions)					
Applebee's company restaurant sales ⁽¹⁾	\$ —	\$ 38.2	\$ (38.2)	\$ —	\$ 117.2	\$ (117.2)
Applebee's company restaurant expenses ⁽¹⁾	—	36.5	36.5	—	111.8	111.8
Fuzzy's company restaurant sales ⁽²⁾	0.3	—	0.3	1.8	—	1.8
Fuzzy's company restaurant expenses ⁽²⁾	0.3	—	(0.3)	1.8	—	(1.8)
Company restaurant gross profit	\$ —	\$ 1.7	\$ (74.1)	\$ —	\$ 5.4	\$ (225.4)
Gross profit as % of revenue ⁽³⁾	(4.9)%	4.5 %		0.3 %	4.6 %	

⁽¹⁾ Related to 69 Applebee's company-operated restaurants that were still operating through October 2022.

⁽²⁾ Related to three Fuzzy's company-operated restaurants that were acquired in December 2022 of which two restaurants were refranchised in April 2023.

⁽³⁾ Percentages calculated on actual amounts, not rounded amounts presented above.

Applebee's company restaurant gross profit for the three and nine months ended September 30, 2023 decreased 100% compared to the same period of 2022, due to the refranchising of the company-operated restaurants in October 2022.

For the three and nine months ended September 30, 2023, company restaurant operations included three Fuzzy's restaurants, following the acquisition of Fuzzy's in December 2022 of which two out of three restaurants were refranchised in April 2023.

Company segment restaurant expenses may include costs associated with reacquired restaurants in the process of being refranchised. There were no reacquired restaurants expenses during the nine months ended September 30, 2023.

Financing Operations

Financing revenues primarily consist of interest income from the financing of IHOP equipment leases and franchise fees as well as interest income on notes receivable due from franchisees. Financing expenses are the cost of taxes related to IHOP equipment leases.

Financing revenue and gross profit for the three and nine months ended September 30, 2023 declined compared to the same period of the prior year, primarily due to progressive decline in interest income as note balances are repaid.

G&A Expenses

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
	(In millions)					
Total G&A expenses	\$ 48.6	\$ 46.3	\$ (2.3)	\$ 147.5	\$ 131.9	\$ (15.6)

G&A expenses for the three months ended September 30, 2023 increased 4.9% compared to the same period of the prior year, primarily due to an increase in personnel-related costs as well as increases in travel, conference and software maintenance expenses partially offset by a decrease in occupancy and recruiting costs. Included in total G&A expenses for the three months ended September 30, 2023 was \$1.2 million of expense related to Fuzzy's, which was acquired in December 2022.

G&A expenses for the nine months ended September 30, 2023 increased 11.8% compared to the same period of the prior year, primarily due to increases in professional services and personnel-related costs, the stopping of our IHOP Flip'd initiative, and increases in software maintenance, travel and conference expenses. Included in total G&A expenses for the nine months ended September 30, 2023 was \$4.3 million of expense related to Fuzzy's, which was acquired in December 2022.

Other Income and Expense Items

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
(In millions)						
Interest expense, net	\$ 19.1	\$ 15.3	\$ (3.8)	\$ 51.5	\$ 46.2	\$ (5.3)
Loss on extinguishment of debt	—	1.2	1.2	0.0	1.2	(1.1)
Closure and impairment charges	1.8	1.6	(0.2)	3.1	3.1	—
Amortization of intangible assets	2.7	2.7	—	8.2	8.0	(0.2)
Loss (gain) on disposition of assets	0.2	(1.5)	(1.7)	2.3	(3.0)	(5.3)
Total	\$ 23.7	\$ 19.3	\$ (4.5)	\$ 65.1	\$ 55.4	\$ (11.9)

Loss on extinguishment of debt and interest expense, net

On August 12, 2022, the Company established a new revolving financing facility and the debt financing costs related to the previous credit facility were expensed for the three and nine months ended September 30, 2022. For additional details, please refer to Note 7, Long-Term Debt, in the Notes to Consolidated Financial Statements.

The Company repaid the entire outstanding balance of approximately \$585.1 million of its 2019 Class A-2 Notes during the nine months ended September 30, 2023 and recognized a \$1.7 million loss on extinguishment of debt from the write-off of the related remaining issuance costs. This loss was offset by a \$1.7 million gain on extinguishment of debt from the purchase of \$67.9 million of its 2019 Class A-2 Notes under par value during the nine months ended September 30, 2023.

Interest expense, net for the three months ended September 30, 2023 increased compared to the same period of the prior year primarily due to the higher interest rate on our refinanced securitized notes as well as borrowings from and the increase in interest rate on our Credit Facility, partially offset by the increase in interest income from improved yields. Interest expense, net for the nine months ended September 30, 2023 increased compared to the same period of the prior year primarily due to borrowings from and the increase in interest rate on our Credit Facility as well as the higher interest rate on our refinanced securitized notes, partially offset by the increase in interest income from improved yields.

Loss (gain) on disposition of assets

There were no individually significant asset dispositions during the three months ended September 30, 2023. The loss on disposition of assets for the nine months ended September 30, 2023 primarily related to the disposition of certain IHOP Flip'd assets. The gain on disposition of assets for the three and nine months ended September 30, 2022 primarily related to the sale of land and buildings for three IHOP restaurants located on sites owned by us and termination of an IHOP restaurant lease.

Income Taxes

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2023	2022		2023	2022	
(In millions)						
Income before income taxes	\$ 24.9	\$ 28.7	\$ (3.8)	\$ 85.6	\$ 95.4	\$ (9.8)
Income tax provision	\$ 6.5	\$ 7.8	\$ 1.3	\$ 21.4	\$ 25.7	\$ 4.3
Effective tax rate	25.9 %	27.1 %	1.2 %	25.0 %	26.9 %	1.9 %

Our income tax provision or benefit will vary from period to period in our normal course of business for two reasons: a change in income before income taxes and a change in the effective tax rate. Changes in our income before income taxes were addressed in the preceding sections of "Consolidated Results of Operations - Comparison of the Three and Nine Months Ended September 30, 2023 and 2022."

Our effective tax rate for the three and nine months ended September 30, 2023 was different than the rate of the prior comparable periods primarily due to the recognition of higher excess tax benefits from stock-based compensation and lower non-deductible executive compensation.

Liquidity and Capital Resources

Key provisions of our long-term debt potentially impacting liquidity are summarized below. See Note 7 - Long-Term Debt, of the Notes to the Consolidated Financial Statements, for additional detail on long-term debt, including the balances outstanding at September 30, 2023 and 2022.

Instruments

Our long-term debt includes two series of fixed rate senior secured notes, the Series 2019-1 4.723% Fixed Rate Senior Secured Notes in an initial aggregate principal amount of \$600 million (the "2019 Class A-2-II Notes") and the Series 2023-1 7.824% Fixed Rate Senior Secured Notes, Class A-2 in an initial aggregate principal amount of \$500 million (the "2023 Class A-2 Notes" and, together with the 2019 Class A-2-II Notes, the "Class A-2 Notes"). The Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I (the "Class A-2-I Notes") were voluntarily repaid in full on April 17, 2023. For a description of the 2019 Class A-2-I Notes, refer to Note 8 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Our long-term debt also includes a revolving financing facility, the 2022-1 Variable Funding Senior Notes, Class A-1 (the "Credit Facility") that allows for drawings up to \$325 million of variable funding notes on a revolving basis and the issuance of letters of credit.

Maturity

The final maturity of the 2019 Class A-2-II Notes is in June 2049, but it is anticipated that, unless repaid earlier, the 2019 Class A-2-II Notes will be repaid in June 2026.

The final maturity of the 2023 Class A-2 Notes is in March 2053, but it is anticipated that, unless repaid earlier, to the extent permitted under the Indenture, the 2023 Class A-2 Notes will be repaid in June 2029.

The renewal date of the Credit Facility is June 2027, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions.

Payment of Principal and Interest

While the 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 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. As of September 30, 2023, our leverage ratio was approximately 4.6x. Therefore, quarterly principal payments are not required.

Exceeding the leverage ratio of 5.25x does not violate any covenant related to the Class A-2 Notes.

On February 16, 2023, our Company's Board of Directors authorized a debt repurchase program of up to \$100 million. Repurchases of the Company's debt, if any, are expected to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption. Under the authorization, the Company may make repurchases of the Company's debt from time to time in the open market or in privately negotiated transactions upon such terms and at such prices as management may determine.

Make-whole Premiums

We may voluntarily repay the Class A-2 Notes at any time; however, if repaid prior to certain dates we would be required to pay make-whole premiums. As of September 30, 2023, there was no make-whole premium associated with voluntary prepayment of the 2019 Class A-2-II Notes. As of September 30, 2023, the make-whole premium associated with voluntary prepayment of the 2023 Class A-2 Notes was approximately \$35.3 million. We also would be subject to a make-whole premium in the event of a mandatory prepayment required following certain rapid amortization events or certain asset dispositions. The mandatory make-whole premium requirements are considered derivatives embedded that must be bifurcated for separate valuation. We estimated the fair value of these derivatives to be immaterial as of September 30, 2023, based on the probability-weighted discounted cash flows associated with either event.

Covenants and Restrictions

Our long-term debt is subject to a series of covenants and restrictions customary for transactions of this type, including maintenance of a debt service coverage ratio ("DSCR"). In general, the DSCR ratio is net cash flow for the four quarters preceding the calculation date divided by the total debt service payments of the preceding four quarters. The complete definitions of the DSCR and all calculation elements are contained in the indenture, and subsequent amendments thereto, under which the Class A-2 Notes were issued.

Failure to maintain a prescribed DSCR can trigger the following events:

- 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 September 30, 2023 was approximately 3.7x.

Credit Facility

In August 2022, the Co-Issuers entered into the Credit Facility that allows for drawings up to \$325 million of variable funding notes on a revolving basis and the issuance of letters of credit. The applicable interest rate under the Credit Facility 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 Secured Overnight Financing Rate (“SOFR”), in either case, plus 2.50%. 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) 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) SOFR for a one-month tenor in effect at such time plus 0.50% plus (b) 2.00%.

As of September 30, 2023, the outstanding balance of the Credit Facility was \$100 million. The amount of \$3.4 million was pledged against the Credit Facility for outstanding letters of credit, leaving \$221.6 million of the Credit Facility available for borrowing at September 30, 2023. It is anticipated that any principal and interest on the Credit Facility outstanding will be repaid in full on or prior to the quarterly payment date in June 2027, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions. The letters of credit are used primarily to satisfy insurance-related collateral requirements. The weighted average interest rate on Credit Facility borrowings for the period outstanding during the nine months ended September 30, 2023 was 7.60%.

Capital Allocation

Dividends

Dividends declared and paid per share for the three and nine months ended September 30, 2023 and 2022 were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Dividends declared per common share	\$ 0.51	\$ 0.51	\$ 1.53	\$ 1.48
Dividends paid per common share	\$ 1.02	\$ 1.02	\$ 2.04	\$ 1.88

During the nine months ended September 30, 2023 and 2022, the Company paid dividends of \$31.7 million and \$30.8 million, respectively.

On September 7, 2023, the Board of Directors declared a third quarter 2023 cash dividend of \$0.51 per share of common stock, paid on September 29, 2023 to the stockholders of record as of the close of business on September 19, 2023.

Stock Repurchases

On February 17, 2022, the Company's Board of Directors authorized a new share repurchase program, effective April 1, 2022, of up to \$250 million (the “2022 Repurchase Program”). In connection with the approval of the 2022 Repurchase Program, the 2019 Share Repurchase Program terminated effective April 1, 2022.

During the nine months ended September 30, 2023, the Company repurchased 318,356 shares of common stock at a cost of \$20.0 million. Cumulatively, the Company repurchased 1,467,945 shares at a cost of \$98.7 million under the 2022 Repurchase Program.

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 2 for detail on this stock repurchase activity during the nine months ended September 30, 2023.

Cash Flows

In summary, our cash flows for the nine months ended September 30, 2023 and September 30, 2022 were as follows:

	Nine Months Ended September 30,		Variance
	2023	2022	
	(In millions)		
Net cash provided by operating activities	\$ 79.3	\$ 63.5	\$ 15.8
Net cash used in investing activities	(26.6)	(3.4)	(23.2)
Net cash used in financing activities	(218.0)	(61.2)	(156.8)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (165.3)</u>	<u>\$ (1.1)</u>	<u>\$ (164.2)</u>

Operating Activities

Cash provided by operating activities is primarily driven by revenues earned and collected from our franchisees, and profit from our rental operations, financing operations and our company-owned restaurants. Cash provided by operating activities increased \$15.8 million during the nine months ended September 30, 2023 compared to the same period of the prior year. This increase was primarily attributable to a decrease in payment for incentive compensation for the 2022 fiscal year paid in 2023, tenant improvement reimbursements received, financing activities prepaid in 2022, and the increase in gross segment profit as discussed in the preceding sections of this MD&A, offset by an increase in advertising and marketing spend primarily due to the utilization of carryover advertising fund balances from prior periods.

Investing Activities

Investing activities used net cash of \$26.6 million for the nine months ended September 30, 2023 compared to investing activities provided net cash of \$3.4 million for the nine months ended September 30, 2022, an unfavorable change of \$23.2 million. Capital expenditures of \$32 million was partially offset by principal receipts from notes, equipment contracts and other long-term receivables of \$6.7 million.

Financing Activities

Financing activities used net cash of \$218.0 million for the nine months ended September 30, 2023. The net increase in cash used by financing activities was primarily due to the repayment and issuance of long-term debt of \$159.7 million during the nine months ended September 30, 2023. This was partially offset by a decrease of repurchase of common stock of \$93.8 million.

Cash and Cash Equivalents

Our total cash balances, net of revolving credit facility borrowings, as of September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023	December 31, 2022
	(In millions)	
Cash and cash equivalents	\$ 98.2	\$ 269.7
Restricted cash, current	41.9	38.9
Restricted cash, non-current	19.5	16.4
Total	\$ 159.6	\$ 325.0
Less: Revolving credit facility borrowing	(100.0)	(100.0)
Total cash, restricted cash and cash equivalents, net	<u>\$ 59.6</u>	<u>\$ 225.0</u>

Cash and cash equivalents include \$67.5 million and \$96.6 million of cash held for gift card programs and advertising funds as of September 30, 2023 and December 31, 2022, respectively. The decrease in cash and cash equivalents between September 30, 2023 and December 31, 2022 was primarily due to repayment of long-term debt, additions to property and equipment, payments to repurchase common stock, dividend payments and other payments including employee bonuses and advertising.

We believe that our unrestricted cash and cash equivalents on hand, cash flow from operations and the borrowing capacity available under our Credit Facility will provide us with adequate liquidity for at least the next twelve months.

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 assessment of, among other things, payment of cash dividends on 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:

	Nine Months Ended September 30,		Variance
	2023	2022	
	(In millions)		
Cash flows provided by operating activities	\$ 79.3	\$ 63.5	\$ 15.8
Principal receipts from notes and equipment contracts	6.7	8.4	(1.7)
Net additions to property and equipment	(32.0)	(19.5)	(12.5)
Adjusted free cash flow	<u>\$ 54.0</u>	<u>\$ 52.4</u>	<u>\$ 1.6</u>

Adjusted free cash flow for the nine months ended September 30, 2023 improved compared to the same period of the prior year due to the increase in cash flows provided by operating activities, partially offset by the increase in capital expenditures and a decrease in receipts from notes and equipment contracts receivable.

Contractual Obligations and Commitments

There were no material changes to the contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. We continually review the estimates and underlying assumptions to ensure they are appropriate for the circumstances. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

A summary of our critical accounting estimates is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2022. During the nine months ended September 30, 2023, there were no significant changes in our critical accounting policies or in our critical accounting estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes from the information contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. 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 1A. Risk Factors.

There are no material changes from the risk factors set forth under Item 1A of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Company

Period	Total number of shares purchased to satisfy tax withholding obligations (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Approximate dollar value of shares that may yet be purchased under the plans or programs (b)
July 3, 2023 - July 30, 2023	949	\$ 57.92	34,553	\$ 155,266,000
July 31, 2023 - August 27, 2023	1,742	58.24	34,237	\$ 153,266,000
August 28, 2023 - October 1, 2023	854	53.94	37,074	\$ 151,266,000
	<u>3,545</u>	\$ 56.65	<u>105,864</u>	\$ 151,266,000

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

^(b) On February 17, 2022, the Company's Board of Directors authorized a share repurchase program, effective April 1, 2022, of up to \$250 million (the "2022 Repurchase Program"). In connection with the approval of the 2022 Repurchase Program, the 2019 Share Repurchase Program terminated effective April 1, 2022. The 2022 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.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified, or terminated a Rule 10b5-1 trading plan or a non-Rule 10b5-1 trading arrangement for our securities (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits.

3.1	Amended and Restated Bylaws of Dine Brands Global, Inc., effective as of September 6, 2023 (Exhibit 3.1 to Registrant's Form 8-K filed September 8, 2023 is incorporated herein by reference).
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer 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 Chief Financial Officer 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 Quarterly 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.

**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 Quarterly Report on Form 10-Q 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: 1st day of November, 2023

/s/ John W. Peyton

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, Vance Y. Chang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: 1st day of November, 2023

/s/ Vance Y. Chang

Vance Y. Chang
Chief Financial Officer
(Principal Financial 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 Quarterly Report on Form 10-Q of Dine Brands Global, Inc. (the “Company”) for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the 1st day of November, 2023 (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: 1st day of November, 2023

/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 Quarterly Report on Form 10-Q of Dine Brands Global, Inc. (the “Company”) for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the 1st day of November, 2023 (the “Report”), Vance Y. Chang, as 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 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: 1st day of November, 2023

/s/ Vance Y. Chang

Vance Y. Chang
Chief Financial Officer
(Principal Financial 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.