

Dine Brands Global, Inc.
Form 10-K
February 20, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark
One)

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

For the fiscal year ended December 31, 2017

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 95-3038279
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

450 North Brand Boulevard, Glendale, California 91203-2306

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (818) 240-6055

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

Title of each class Name of each exchange on which registered

Common Stock, \$.01 Par Value New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2017: \$750.2 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding as of February 13, 2018
Common Stock, \$.01 par value	17,997,911

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on Tuesday, May 15, 2018 (the "2018 Proxy Statement") are incorporated by reference into Part III.

DINE BRANDS GLOBAL, INC. AND SUBSIDIARIES

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2017

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Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this Annual Report on Form 10-K may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “goal” and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors,” as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and the Company does not intend to, nor does it assume any obligation to, update or supplement any forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Annual Report on Form 10-K include, among other things: general economic conditions; our level of indebtedness; compliance with the terms of our securitized debt; our ability to refinance our current indebtedness or obtain additional financing; our dependence on information technology; potential cyber incidents; the implementation

of restaurant development plans; our dependence on our franchisees; the concentration of our Applebee's franchised restaurants in a limited number of franchisees; the financial health of our franchisees; our franchisees' and other licensees' compliance with our quality

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standards and trademark usage; general risks associated with the restaurant industry; potential harm to our brands' reputation; possible future impairment charges; the effects of tax reform; 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; our ability to attract and retain management and other key employees; compliance with federal, state and local governmental regulations; risks associated with our self-insurance; natural disasters or other series 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.

Fiscal Year End

We have a 52/53 week fiscal year ending on the Sunday nearest to December 31 of each year. For convenience, in this annual report on Form 10-K, we refer to all fiscal years as ending on December 31 and all interim fiscal quarters as ending on March 31, June 30 and September 30 of the respective fiscal year. There were 52 calendar weeks in our 2017 and 2016 fiscal years that ended on December 31, 2017 and January 1, 2017, respectively, and 53 calendar weeks in our 2015 fiscal year that ended January 3, 2016.

PART I

Item 1. Business

Dine Brands Global, Inc.SM, together with its subsidiaries (referred to as the “Company,” “Dine Brands Global,” “we,” “our” and “us”), owns and franchises the Applebee's Neighborhood Grill & Bar (“Applebee's”) concept in the bar and grill segment within the casual dining category of the restaurant industry and the International House of Pancakes® (“IHOP”) concept in the family dining category of the restaurant industry. References herein to Applebee's® and IHOP® restaurants are to these two restaurant concepts, whether operated by franchisees or area licensees and their sub-licensees. As of December 31, 2017, all of our 3,722 restaurants across both brands were franchised. We believe this franchised business model requires less capital investment and general and administrative overhead, generates higher gross profit margins and reduces the volatility of adjusted free cash flow performance, as compared to a business model based on owning a significant number of company-operated restaurants.

We generated revenue from five operating segments during the year ended December 31, 2017, comprised as follows:

• Our two franchise operations - primarily royalties, fees and other income from 1,936 Applebee's franchised restaurants and 1,786 IHOP franchised and area licensed restaurants;

• Rental operations - primarily rental income derived from lease or sublease agreements covering 693 IHOP franchised restaurants and one Applebee's franchised restaurant;

• Financing operations - primarily interest income from approximately \$80 million of receivables for equipment leases and franchise fee notes generally associated with IHOP franchised restaurants developed before 2003; and

• Company restaurant operations - retail sales from 10 IHOP company restaurants we operated until June 2017.

Most of our revenue is derived from domestic sources within these five operating segments, with approximately 97% of our total 2017 revenues being generated from our franchise and rental operations. Revenue derived from all international operations comprised approximately 3% of total consolidated revenue for the year ended December 31, 2017. At December 31, 2017, there were no long-lived assets located outside of the United States. See Note 18 - Segment Reporting, of the Notes to the Consolidated Financial Statements included in this report for additional segment information.

This report should be read in conjunction with the cautionary statements under “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Statement Regarding Forward-Looking Statements.”

Our Goal

Our goal is to return to growth and continue to create significant future value for shareholders and franchisees.

Our Strategic Priorities

We are focused on generating strong adjusted free cash flow and returning a substantial portion of it to stockholders. Since announcing in 2013 our capital allocation strategy to return the majority of adjusted free cash flow to our stockholders, we have returned over \$500 million over the last five years, through a combination of quarterly cash dividends and stock repurchases.

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

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

Our fundamental approach to brand building centers on a strategic combination of initiatives to continually innovate and evolve our existing brands as well as explore small investments in or acquisitions of new concepts. We have shifted our philosophy to one of actively supporting our brands, not overseeing them. Our management team has been restructured, establishing more responsibility and accountability at the brand level to create greater efficiency for both brands. We are making strategic investments to ensure the brands have the resources necessary to succeed. We are investing in store remodel design and culinary innovation to enhance the guest experience. In partnership with our franchisees, significant investments have been made and will continue to be made in marketing across traditional and digital channels to drive traffic to our restaurants. We are placing greater emphasis on quantitative analytics to know who our guests are, what matters to them and why they care about our brands. We are investing in technology to create more ways for customers to access our brands and in new growth platforms such as on-line ordering and

delivery.

We will continue to prioritize the return of a substantial portion of our adjusted free cash flow to stockholders. We have reduced the quarterly dividend on our common stock to \$0.63 per share, effective with the first quarter 2018 dividend. We believe this action allows for greater flexibility to provide for meaningful opportunistic stock repurchases in the future.

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Our History

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

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

The first restaurant in what became the Applebee’s chain opened in 1980 in Decatur, Georgia. In November 2007, we completed the acquisition of Applebee’s International, Inc., which comprised 1,455 franchised restaurants and 510 company-operated restaurants at the time of the acquisition. Since the acquisition, we have refranchised all of the Applebee’s company-operated restaurants and the Applebee’s system became 100% franchised in July 2015.

Restaurant Concepts

Applebee’s

We franchise Applebee’s restaurants in the bar and grill segment within the casual dining category of the restaurant industry. Each Applebee’s restaurant offers a lively, casual dining, table service experience combining simple American fare with flair, classic drinks and local drafts - all for a moderate price. All Applebee’s restaurants are owned and operated by franchisees dedicated to serving their communities and offering quality food and drinks with genuine, neighborly service.

Our menu features a selection of craveable grill and bar fare, such as appetizers, bar snacks, burgers, classic entrees and lighter fare, as well as cocktails, beers and desserts. Our commitment to industry-leading innovation is evident behind such products as Topped Steaks and Twisted Potatoes and Big & Bold Grill Combos. For guests looking for wholesome ingredients, satisfying portions, loaded with flavors and not calories, our Lighter Fare options include meals under 600 calories like the Shrimp Wonton Stir Fry or Cedar Grilled Lemon Chicken. To reinforce our connection to the communities in which we operate, we re-introduced our “Eatin’ Good in the Neighborhood” ad campaign in 2017.

As of December 31, 2017, 60 franchise groups operated 1,936 Applebee’s franchise restaurants. These restaurants were located in 50 states within the United States, in two United States territories and in 15 countries outside of the United States. The June 19, 2017 issue of Nation’s Restaurant News reported that Applebee’s was the largest casual dining concept in terms of 2016 United States system-wide sales.

IHOP

We franchise restaurants in the family dining category of the restaurant industry under the names IHOP and International House of Pancakes. IHOP restaurants feature full table service and high quality, moderately priced food and beverage offerings in an attractive and comfortable family atmosphere. Although the restaurants are best known for their award-winning pancakes, omelets and other breakfast specialties, IHOP restaurants also offer a variety of lunch, dinner and snack items. IHOP restaurants are open throughout the day and evening hours. Approximately half of IHOP restaurants operate 24 hours a day, seven days a week, with 226 additional restaurants operating 24 hours a day for some portion of the week. After announcing the most comprehensive remodel program in our brand’s 60-year history in late 2015, our domestic franchisees remodeled 620 of their restaurants in 2017 and 2016, representing approximately 37% of domestic IHOP restaurants. We continued our culinary innovation throughout 2017 with product offerings such as Latte Lovers Pancakes and Cheesecake Stuffed French Toast. With the 2017 roll-out of our new “IHOP ‘N Go” mobile ordering technology, IHOP is now more accessible than ever.

As of December 31, 2017, 321 franchise groups operated 1,786 IHOP franchise and area license restaurants. These restaurants were located in all 50 states within the United States, in the District of Columbia, in three United States

territories and in 13 countries outside of the United States. We no longer operate any company-owned restaurants, but we may operate, on a temporary basis until refranchised, IHOP restaurants that we re-acquire for a variety of reasons from IHOP franchisees. The June 19, 2017 issue of Nation's Restaurant News reported that IHOP was the largest family dining concept in terms of 2016 United States system-wide sales.

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

Franchising

Franchisee Relationships

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

Franchise Agreements and Fees

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

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

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

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

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

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

In limited instances, we have agreed to accept reduced royalties and/or lease payments from franchisees or have provided other accommodations to franchisees for specified periods of time in order to assist them in either establishing or reinvigorating their businesses. We have the contractual right, subject to applicable law, to terminate a development and franchise agreement for a variety of reasons, such as a franchisee's failure to make required payments when due, failure to timely develop restaurants and failure to adhere to specified brand policies and standards.

Advertising Fees

We currently require domestic franchisees of Applebee's restaurants to contribute 3.25% of their gross sales to a national advertising fund, which funds the development of national promotions, television and radio commercials and print advertising materials. Applebee's franchisees are also required to spend at least 0.5% of their gross sales on local marketing and promotional activities. Under the current Applebee's franchise agreements, we have the ability to increase the amount of the required combined contribution to the national advertising fund and the amount required to be spent on local marketing and promotional activities to a maximum of 5% of gross sales. Virtually all Applebee's franchisees have entered into an amendment to their franchise agreements that increased their contribution to the Applebee's national advertising fund (the "Applebee's NAF") to 3.50% of their gross sales and decreased their minimum local promotional expenditures by 0.25% of their gross sales, in each case, for the period from January 1, 2018 to December 31, 2019. Such franchisees have also agreed to an incremental temporary increase in the advertising contribution rate, subject to certain contingencies.

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

The local IHOP advertising cooperatives have historically used advertising fees for various local marketing programs. The IHOP NAF is primarily used for buying media and national advertising, in addition to the related production costs. The IHOP NAF is also used to defray certain expenses associated with our marketing and advertising functions. Beginning in 2005, and every year thereafter, we and the IHOP franchisees agreed to reallocate portions of the local advertising fees to purchase national broadcast, syndication and cable television time in order to reach our target audience more frequently and more cost effectively.

In 2014, we and franchisees whose restaurants account for a large majority of total annual contributions to the IHOP NAF entered into franchise agreement amendments that increased the advertising contribution percentage of those restaurants' gross sales. Pursuant to the amendment, for the period from June 30, 2014 to December 31, 2014, 2.74% of each participating restaurant's gross sales was contributed to the IHOP NAF and 0.76% was contributed to local advertising cooperatives. For the period from January 1, 2015 to December 31, 2017, 3.50% of each participating restaurant's gross sales was contributed to the IHOP NAF with no significant contribution to local advertising cooperatives required. The amended advertising contribution percentage was also applicable to all new franchise agreements and to IHOP company-operated restaurants open at the time. In 2016, we and franchisees whose restaurants account for a large majority of total annual contributions to the IHOP NAF extended this additional contribution through 2022.

Franchise advertising fees designated for the IHOP NAF and local marketing and advertising cooperatives are recognized as revenue and expense of franchise operations. However, because we have less contractual control over Applebee's advertising expenditures, Applebee's NAF activity has not historically been recognized as franchise revenue and expense. However, effective with the adoption in 2018 of accounting guidance promulgated by the Financial Accounting Standards Board with respect to revenue recognition, we will treat contributions to and

expenditures from the Applebee's NAF as revenue and expense of franchise operations, as is currently done with contributions to and expenditures from the IHOP NAF. See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements.

IHOP Area License Agreements

We have entered into two long-term area license agreements for IHOP restaurants covering the state of Florida and certain counties in the state of Georgia, and the province of British Columbia, Canada. The area license agreements provide the

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licensees with the right to develop and franchise new IHOP restaurants in their respective territories and provide for royalties ranging from 1.0% to 2.0% of gross sales and advertising fees ranging from 0.25% to approximately 2.0% of gross sales. During 2014, the advertising fee contribution provisions of the Florida area license agreement were amended for the period through December 31, 2017 on substantially similar terms as the franchise agreement amendment described above and such amendments were subsequently extended through 2022. We also derive revenues from the sale of proprietary products to these area licensees and, in certain instances, to their sub-franchisees. Revenues from our area licensees are included in franchise operations revenues.

As of December 31, 2017, the area licensee for the state of Florida and certain counties in Georgia operated or sub-franchised a total of 152 IHOP restaurants. The area licensee for the province of British Columbia, Canada operated or sub-franchised a total of 12 IHOP restaurants. The area license for British Columbia expires in 2026. The area license for Florida and Georgia expires in 2119.

Other Franchise-related Revenues and Fees

Approximately 87% of franchise segment revenue for the year ended December 31, 2017 consisted of Applebee's and IHOP royalties and advertising revenue from domestic IHOP restaurants and international restaurants of both brands. Most of the remaining 13% consisted of sales of proprietary products (primarily IHOP pancake and waffle dry-mixes), initial franchise and renewal fees and software maintenance and support fees. Depending on circumstances, we may seek to recover a portion of any royalties and fees lost due to early termination of a franchise agreement; however, not all franchise restaurant closures necessarily result in our receipt of such fees.

International Franchising

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

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

Domestic and International Franchise Restaurant Development

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

As of December 31, 2017, we had signed commitments from IHOP franchisees to build 298 IHOP restaurants over the next 15 years, comprised of four restaurants under single restaurant or non-traditional development agreements, 190 restaurants under domestic multi-restaurant development agreements and 104 restaurants under international development agreements. The signed agreements include options to build an additional 40 restaurants over the next 12 years, primarily under domestic multi-restaurant development agreements. As of December 31, 2017, Applebee's development agreements in place call for the opening of 35 international restaurants over the next six years. While Applebee's also has domestic development agreements in place, we do not expect a significant number of Applebee's restaurants will be opened domestically in the near future. Developers' level of compliance with development obligations vary per year and could change and, therefore, may not be a reliable indicator of future development activity for any given period of time.

Franchise Operations

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

Composition of Franchise Systems

As of December 31, 2017, 35 Applebee's franchisees owned a total of 1,782 domestic Applebee's restaurants. The number of domestic restaurants held by a single franchisee ranged from one restaurant to 475 restaurants. As of December 31, 2017, 25 franchisees owned a total of 154 international Applebee's restaurants. The number of international restaurants held by a single franchisee ranged from one restaurant to 22 restaurants. Our five largest Applebee's franchisees owned 50% of the total 1,936 Applebee's restaurants.

As of December 31, 2017, 301 franchisees owned a total of 1,671 domestic IHOP restaurants, including 127 franchisees that each owned one restaurant. The largest single IHOP franchisee owned 295 domestic restaurants. As of December 31, 2017, 20 franchisees owned a total of 115 international IHOP franchise restaurants. The number of international restaurants held by a single franchisee ranged from one restaurant to 29 restaurants. Our five largest IHOP franchisees owned 32% of the total 1,786 IHOP restaurants.

Company-Operated Restaurants

In June 2017, we refranchised nine of our ten company-operated IHOP restaurants in the Cincinnati, Ohio market area; the one restaurant not refranchised was permanently closed. We previously had refranchised the last 23 company-operated Applebee's restaurants in 2015. As a result, we no longer operate any restaurants on a permanent basis. From time to time, we may reacquire restaurants from franchisees for a variety of reasons. Historically, we have been able to quickly refranchise these restaurants to new franchisees. When reacquired restaurants are not quickly refranchised, we typically operate the reacquired restaurants until they can be refranchised. These temporarily reacquired restaurants may require investments in remodeling and rehabilitation before they can be refranchised. As a result, a reacquired restaurant may incur operating losses for some period of time. At December 31, 2017, we did not operate any reacquired restaurants.

Supply Chain

In February 2009, Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op"), an independent cooperative entity, was formed by us and franchisees of Applebee's and IHOP domestic restaurants. CSCS has been appointed as the sole authorized purchasing organization and purchasing agent for goods, equipment and distribution services for Applebee's and IHOP restaurants in the United States. As of December 31, 2017, 100% of Applebee's domestic franchise restaurants and 99% of IHOP domestic franchise restaurants were members of CSCS.

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

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

Industry Overview and Competition

Applebee's and IHOP are among the numerous restaurant chains and independent restaurants competing in the restaurant industry in the United States. The restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered and the types of service available to customers. These segments include, among others, fast food or quick service restaurants ("QSR"), fast-casual dining, family dining, casual dining and fine dining. Casual dining restaurants offer full table service and typically have bars or serve liquor, wine and

beer, while family dining restaurants offer full table service, typically do not have bars or serve liquor, and usually offer breakfast in addition to lunch and dinner items.

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Applebee's competes in the casual dining segment against national and multi-state restaurant chains such as Olive Garden, Buffalo Wild Wings, Chili's, Outback Steakhouse and Red Lobster, among others, as well as fast-casual restaurant chains. In addition, there are many independent restaurants across the country in the casual dining segment. The June 19, 2017 issue of Nation's Restaurant News reported that Applebee's was the largest casual dining concept in terms of 2016 United States system-wide sales.

IHOP competes in the family dining segment against national and multi-state restaurant chains such as Cracker Barrel Old Country Store, Denny's, Golden Corral, Waffle House and Bob Evans Restaurants. IHOP also faces competition from QSR restaurant chains and fast-casual restaurant chains that serve breakfast. In addition, there are many independent restaurants and diners across the country in the family dining segment. The June 19, 2017 issue of Nation's Restaurant News reported that IHOP was the largest family dining concept in terms of 2016 United States system-wide sales.

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

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

Trademarks and Service Marks

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

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

Information Technology

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

Protection of financial and personal information is a high priority for us, led by our Cybersecurity department with a committee representing key functional areas. We continuously focus on enhancing our cyber security capabilities, educating our staff members on cyber security importance, and managing our cyber risks. In addition, we participate

in annual audits of our financial and human resources systems to verify that measures are in place to protect our employees' personally identifiable information. We accept credit cards, third party gift cards, and branded gift cards as payment in our restaurants. We submit our systems to regular audit and review, as required by Payment Card Industry Standards, including periodic scanning of our networks to check for vulnerability. To further secure customers' payment data, in working with our franchisees, we are deploying encryption and tokenization technologies, ensuring credit card data is not stored in our franchisees' restaurants systems. This includes installation of equipment to improve authentication and to prevent fraud using EMV (Europay, Mastercard, Visa) technology. As a franchisor, we are not responsible for ensuring that our franchisees maintain compliance;

however, we regularly encourage them to take similar steps to maintain compliance and to mitigate risk. For further information regarding Information Technology, see Item 1A, Risk Factors.

Research and Development

We do not engage in any material amount of research and development activity from a financial accounting perspective. We do engage in ongoing culinary development and testing, in addition to consumer research into customers' preferences and opinions as well as overall industry trends.

Seasonality

We do not consider our operations to be seasonal to any material degree. We do experience a slight increase in system-wide sales in the first quarter due to redemptions of gift cards sold during the December holiday season. Over the past five years, 26% of our annual system-wide sales (retail sales reported to us by our franchisees plus sales at our company-operated restaurants) occurred in the first quarter of the fiscal year. Sales at restaurants owned by franchisees are not attributable to the Company.

Government Regulation

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

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

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

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

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

We are subject to a number of privacy and data protection laws and regulations globally. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been increased attention in privacy and data protection issues. This has the potential to affect directly our business, including recently enacted laws and regulations in the United States and internationally requiring notification to individuals and government authorities of security breaches involving certain categories of personal information.

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 (the "ACA") are far-reaching and are intended to expand access to health insurance coverage over time by adjusting the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax credits to subsidize a portion of the cost of health insurance coverage. The laws include a requirement that most individuals obtain health insurance coverage and a requirement that certain large employers offer coverage to their employees or pay a financial penalty. In October 2017, the President of the United States of

America issued an executive order titled “Promoting Healthcare Choice and Competition Across the United States.” We do not know how our franchisees will be affected (if at all) by this new executive order. The Patient Protection and Affordable Care Act has increased our franchisees' employee costs in some respects and may continue to do so.

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

Environmental Matters

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

Employees

At December 31, 2017, we had approximately 520 full-time employees. Our employees are not presently represented by any collective bargaining agreements and we have never experienced a work stoppage. We believe our relations with employees are good. Our franchisees are independent business owners and their employees are not our employees. Therefore, their employees are not included in our employee count.

Corporate Information

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

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed with or furnished to the United States Securities and Exchange Commission (the "SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website as soon as reasonably practicable after electronically filing such material with the SEC. The SEC maintains an Internet site that contains periodic reports, proxy and information statements and other information regarding our filings at www.sec.gov. In addition, the public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The above references to our website and the SEC's website do not constitute incorporation by reference of the information contained on those websites and should not be considered part of this document.

Item 1A. Risk Factors.

This Item 1A includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements included in Item 7.

The occurrence of any of the events discussed in the following risk factors may materially adversely affect our business, financial condition and results of operations, which may materially adversely affect the value of our common stock. It is