

2009 INTERNATIONAL FRANCHISE ASSOCIATION ANNUAL CONVENTION

THE NEW SALES PARADIGM: WHAT LARGE MULTI-UNIT AND PRIVATE EQUITY INVESTORS WANT FROM FRANCHISORS

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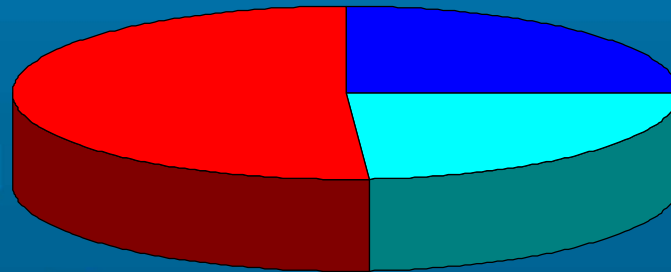


Franchising
Building local businesses,
one opportunity at a time.

FRANCHISE UNIT OWNERSHIP

Single Units
Operators
51%

Franchisees
Owning > 5 Units
25%



Franchisees
Owning 2 - 5 Units
24%

Statistics provided by
FranData

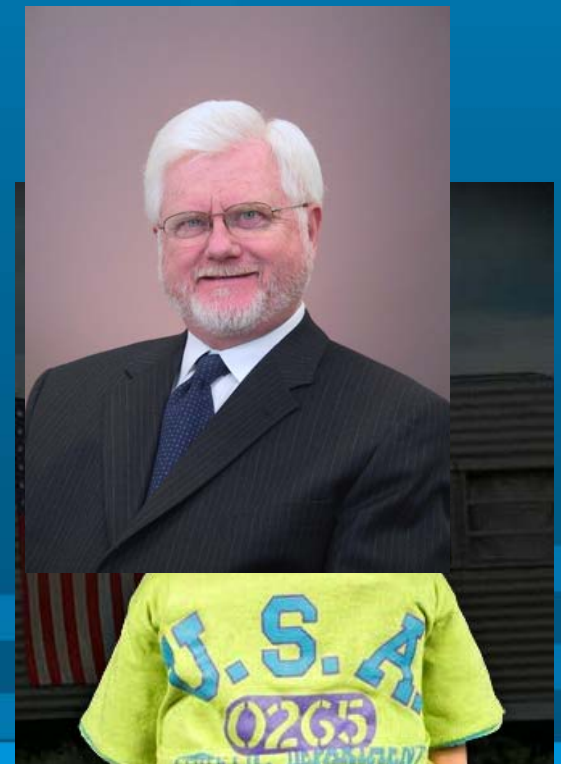
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Who is the multi-unit investor?

1. Private equity.
2. Existing/former multi-unit operator looking for a new opportunity.
3. The former "big company" executive.
4. Someone who just loves your concept and wants to make millions.





What Constitutes A Good Franchisor In Our Minds?

- Franchisors That Support Their Franchisees
- Franchisors That Balance Top-Line Growth And Profitability
- Franchisors That Cooperate With Lenders
- Franchisors That View Their Franchisees As Their Partners
- Franchisees With Some Level Of Representation
- Good Reporting Systems
- Buying Co-Op
- Franchisors That Can Be Creative In Structuring Deals



What We Expect From A Franchisor

- Support
- Flexibility
- Create Win-Win Products
- Understand ROI
- Provide Help In Reimaging Assets
- Be Cooperative With Lenders



PRIVATE EQUITY

STRENGTHS OF PRIVATE EQUITY

- Professional Management
- Capital To Reimage
- Capital To Buy & Fix Weaker Operators
- Systems & Controls
- Transparency

DIFFERENCES BETWEEN PRIVATE EQUITY & OWNER-OPERATORS

Not Focused On An Individual

We Eventually Want Liquidity

May Not Have A Single Decision Maker

What We Look For In A Brand

- Great Brands
 - Unique or Dominant Market Position
 - Predictability of Earnings
 - Significant Advertising Expenditures
- A Brand Which Is Heavily Supported By The Lending Community
- Professional Management
- Marketing Expertise

How Multi-Unit Operators are Changing Franchising

- Screening standards for prospective franchisees
- Training and operational support
- Purchasing
- Marketing

Areas of the standard agreement that may require negotiation.

1. Provisions as to who must attend training and operate the business
2. Who must own equity?
3. Personal guarantees
4. Confidentiality provisions
5. Non-compete agreements



Areas of the standard agreement that may require negotiation.

6. Restrictions on financing
7. Development expectations
8. Ability to transfer minority interests
9. Resale of the business



Impact Of Private Equity Ownership Of A Multi-unit Franchisee - Potential Positives

Aspect of PE sponsor

Implications

Reputations as savvy investors

Could be perceived as (or positioned as) a 'vote of confidence' if a successful PE fund invests in your system

Often seek to grow via acquisition

A PE sponsored franchisee could position themselves to acquire and improve smaller/weaker franchisees

Clear focus on growth and ROE growth

The PE investors are likely to be very supportive of initiatives that create profitable and/or high returns on capital

Often enable companies to access more/cheaper financing

A PE investment could enable the franchisee to rapidly develop/expand their business

Impact Of Private Equity Ownership Of A Multi-unit Franchisee - Potential Negatives

Aspect of PE sponsor

Implications

Short hold periods (4-7 years)

May create a barrier to capital investments that have long pay-back periods (reimaging, deferred maintenance)

Active in key decisions

Sometimes can become unclear who is in charge of the business – the franchisee or the PE sponsor.

Very focused ROI and margins

May push franchisee to squeeze short-term profits at the expense of the longer-term

Utilize high(er) financial leverage

Additional debt levels may decrease the franchisee's flexibility in downturns

Exit via a sale of the business

PE firm is likely to more focus on the sale price and not the operational capability or system-fit of the new operator/investor

Advice for the Franchisor

- Understand the PE firm's objectives, not just the franchisee's
 - Hurdle rate
 - Expected growth rate (sales, margins, cash flow)
 - Hold period
- Discuss the PE firm's 5-year plan to understand what investments they plan (and don't plan) to make
- Build a rapport with the key PE firm partner before there is an issue
- Understand the PE firm's exit strategy and get involved early to coordinate a smooth transfer of the franchise

What does it take to make the relationship work?



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How to Make the Sales Process Work for Everyone



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