



IFA ANNUAL CONVENTION



20
22



Financial Summit

ApplePie Capital



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President

FRANdata

INVESTMENT UNDER \$350K



Geoff Seiber
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Jonathan Theissen
CDO
Home Franchise Concepts

INVESTMENT OVER \$350K



Paige Robinson, CFE
American Family Care



Randy Jones
Head of Originations
ApplePie Capital



Ron Stilwell
Chief Development Officer
FullSpeed Automotive

KEY TAKEAWAYS - if you pay attention;)

- Macroeconomic & Lending Environment
- Differences in Options Based on Item 7 Needs
- First Time Franchisee Strategies
- Multi-Unit Pros & Cons
- Resales/Consolidation
- Lightning Round

Macroeconomic & Lending Outlook

WHAT WE WILL REVIEW

- Franchising's Outlook for 2022
- SBA Loan Volume
- Why Does Loan Size Matter
- Lender Risk Assessment
- Summary of What Lenders Are Paying Attention To
- What Does This Mean For Franchisors

FRANCHISING'S OUTLOOK FOR 2022

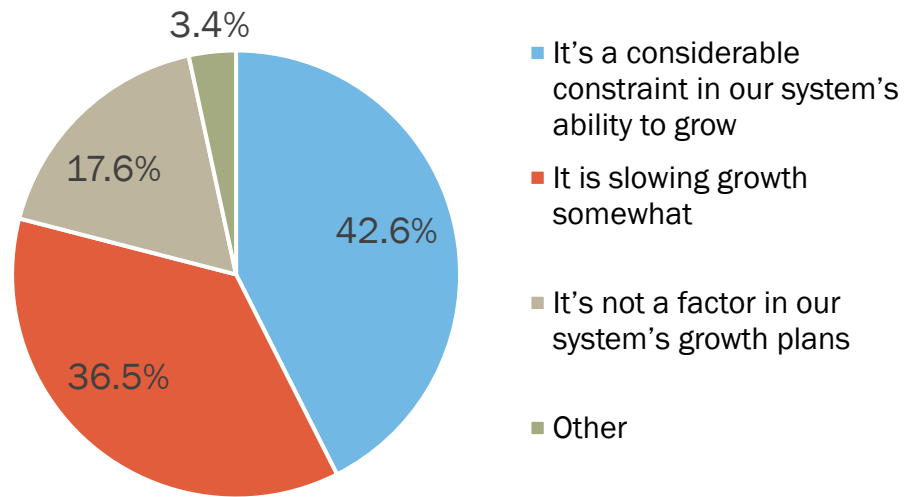
- In 2021, total output(revenue) generated by Franchised Businesses improved by 16.3%, to \$787.7 billion
- Franchise growth in 2022 is expected to continue at a slower pace due to headwinds in the economy and the Covid recovery
- Unit growth is projected at 2.2%, reaching 792,014 domestic franchise units, which is an increase of 17,000 from 2021.
- Franchise employment is forecasted to grow at a rate of 3.1% and recover to pre-pandemic levels. That is a net gain of almost 257,000 jobs compared to 2021

FRANCHISING'S OUTLOOK FOR 2022

- Labor shortages continue to impact the recovery
- Current indications are that labor shortages will persist, and this is one of the main inhibitors of franchise growth in 2022
- Not all industries will recover equally

Labor Pains Felt Across the Industry

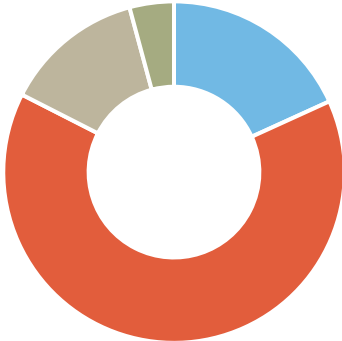
Impact of Labor Challenges on New Franchise Unit Growth



- 70% of the franchise brands experienced negative impact from labor challenges on system size growth.
- 43% reported that labor challenges are a considerable constraint in franchise system's ability to grow, and an additional 37% said labor challenges are slowing growth somewhat.

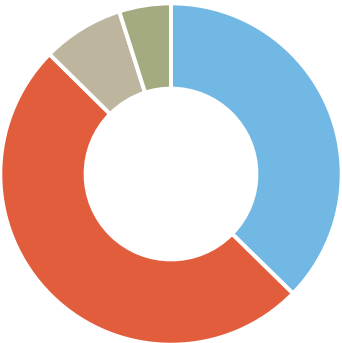
Wage Increases Likely to Continue

Over the past 6 months, how did your average franchisee employee wages change?



■ Increased a lot ■ Increased ■ About the same ■ Not sure

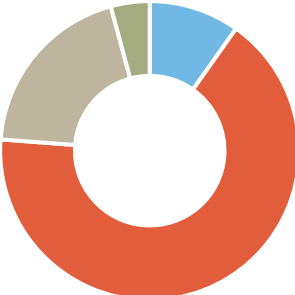
Between 2019 and now, how did your average franchisee employee wages change?



■ Increased a lot ■ Increased ■ About the same ■ Not sure

- Majority of the survey respondents reported recent increases on franchisee employee wages.
- Wage growth is anticipated to carry on in the next 6 months.

Looking ahead to the next 6 months, how do you anticipate your average franchisee employee wages changing?



■ Increasing a lot ■ Increasing ■ About the same ■ Not sure

REVENUE BY SECTOR

Franchise Output by Business Line (\$Billion)					
	2018	2019	2020	2021 (Est.)	2022 (Proj.)
Business Services	\$99.2	\$101.7	\$84.4	\$95.3	\$99.8
Percentage change		2.6%	-17.1%	13.0%	4.7%
Commercial & Residential Services	\$45.5	\$45.8	\$49.3	\$52.7	\$55.9
Percentage change		0.7%	7.7%	6.9%	5.9%
Quick Service Restaurants	\$256.6	\$267.9	\$241.0	\$261.2	\$276.2
Percentage change		4.4%	-10.1%	8.4%	5.8%

*Source: 2022 IFA/FRANdata Franchise Economic Outlook

UNIT RETENTION & GROWTH BY SECTOR

Franchise Establishments by Business Line					
	2018	2019	2020	2021 (Est.)	2022 (Proj.)
Business Services	103,886	102,645	97,732	99,296	100,727
Percentage change		-1.2%	-4.8%	1.6%	1.4%
Commercial & Residential Services	66,495	67,226	73,116	75,678	77,708
Percentage change		1.1%	8.8%	3.5%	2.7%
Quick Service Restaurants	194,395	196,794	183,543	188,402	192,426
Percentage change		1.2%	-6.7%	2.6%	2.1%

*Source: 2022 IFA/FRANdata Franchise Economic Outlook

EMPLOYMENT BY SECTOR

Franchise Employment by Business Line					
	2018	2019	2020	2021 (Est.)	2022 (Proj.)
Business Services	629,027	624,388	564,863	586,523	604,362
Percentage change		-0.7%	-9.5%	3.8%	3.0%
Commercial & Residential Services	250,318	252,803	253,682	288,542	303,096
Percentage change		1.0%	0.3%	13.7%	5.0%
Quick Service Restaurants	3,770,426	3,880,612	3,544,759	3,728,402	3,810,044
Percentage change		2.9%	-8.7%	5.2%	2.2%

*Source: 2022 IFA/FRANdata Franchise Economic Outlook

Sector Outlook Key Take-Aways

Good News For Some, Bad News for Others

Business Services

- Recovery is still ongoing with revenue increasing compared to 2021 but will not reach 2019 levels

QSR

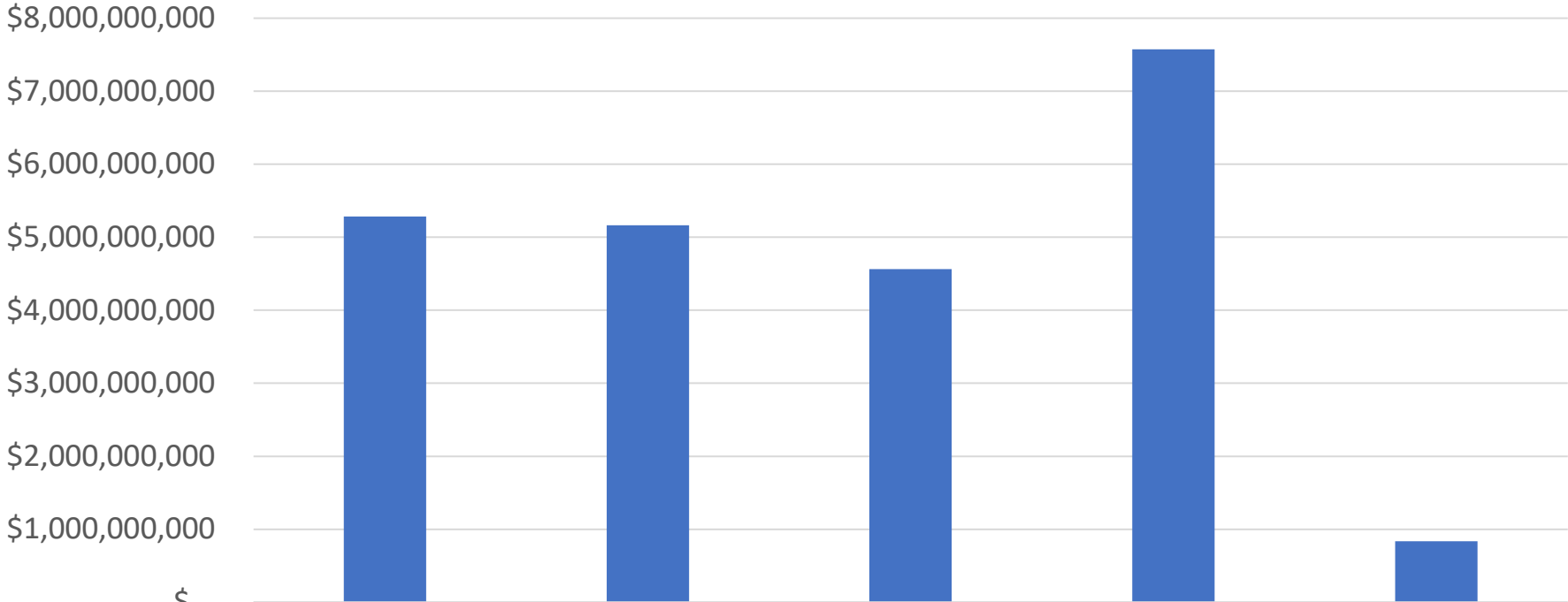
- 2022 revenues set to outpace 2019
- With fewer employees and shrinking number of units = Increased Efficiencies

Commercial Residential Services

- Outpacing 2019 on all fronts- Revenue, Unit Growth, and Employment

SBA 7A FRANCHISE LOAN VOLUME

Franchised SBA Loan Volume



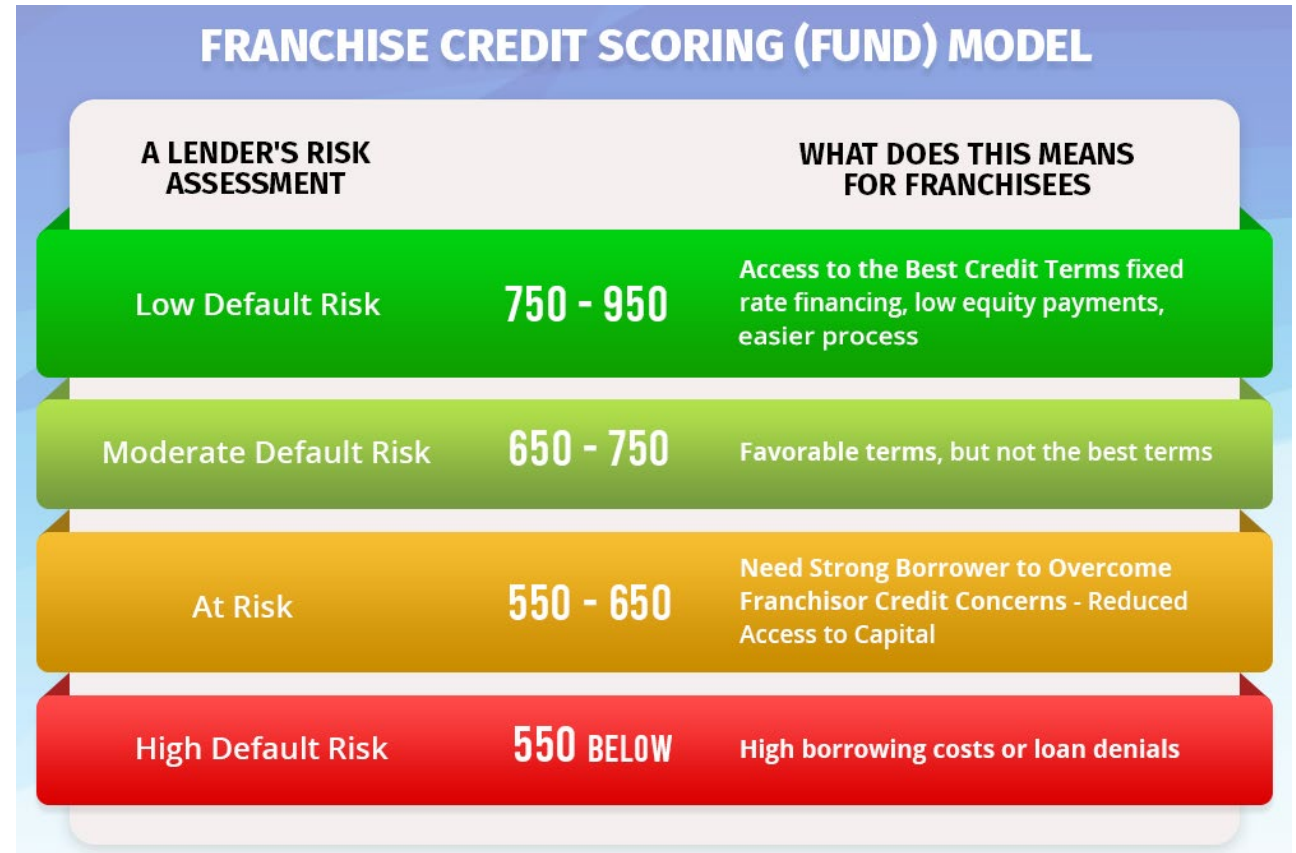
	2018	2019	2020	2021	FY 2022 (till Dec 2021)
■ Franchised SBA Loan Volume	\$5,283,635,800	\$5,164,068,000	\$4,561,546,500	\$7,571,872,000	\$837,523,700

WHY DOES LOAN SIZE MATTER?

INDUSTRY	AVERAGE OF FUND SCORE	AVERAGE INVESTMENT	MAX FUND SCORE	MIN FUND SCORE
Pet-Related	743	\$ 816,289	820	705
Beauty-Related	666	\$ 541,885	845	560
Food	663	\$ 933,611	910	320
Child-Related	648	\$ 1,176,957	900	320
Services	639	\$ 396,271	890	360
Automotive	638	\$ 435,385	865	525
Sports & Recreation	625	\$ 1,819,215	790	320
Fitness	591	\$ 416,135	710	335
Retail	576	\$ 239,860	740	370
Building & Construction	569	\$ 188,815	765	385
Health	542	\$ 140,491	785	375
Business-Related	516	\$ 290,560	680	335
Real Estate	505	\$ 111,807	515	495
Maintenance Services	491	\$ 148,067	780	345

LOAN PERFORMANCE

FUND SCORE	EXPECTED LOAN PERFORMANCE
>800	>93.5%
700-800	90.1%-93.5%
600-700	89.5%-90.1%
500-600	87.6%-89.7%
<500	<87.6%



FUND CREDIT MODEL

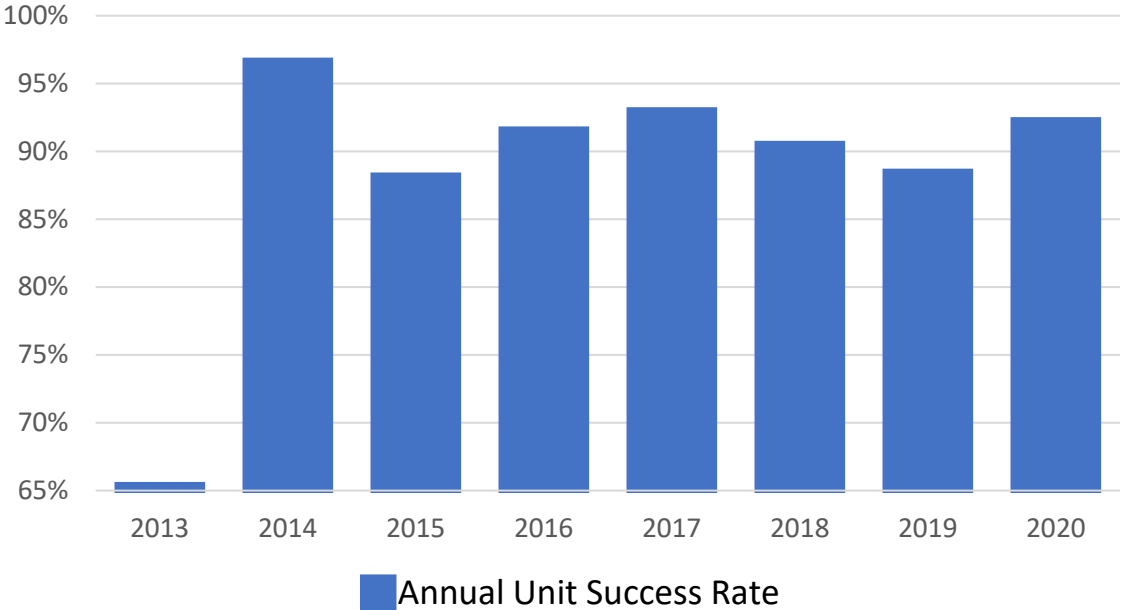
Franchise System Performance	43%
<u>Unit Level Outcomes</u>	
Historical Unit Success Rate™ (HSR)	21%
Resale Activity Level	
<u>Unit Level Performance</u>	
Same-Store Sales Growth/Average Unit Revenue Growth	18%
Unit Economics	
<u>Franchisee Level Assessment</u>	
Franchisor-Franchisee Relationship	4%
Franchisor Performance Rating	30%
<u>Financial Performance</u>	
Recurring Revenue Self-Sufficiency™	5%
Financial Statement Strength	5%
System Support and Expense Commitment	9%
Management Experience/Stability	4%
Prospect Screening	4%
Franchise Agreement Assessment	4%
Unit Level Projections	26%
<u>Projected Unit Success™</u>	26%
	100

HISTORIC UNIT SUCCESS RATES

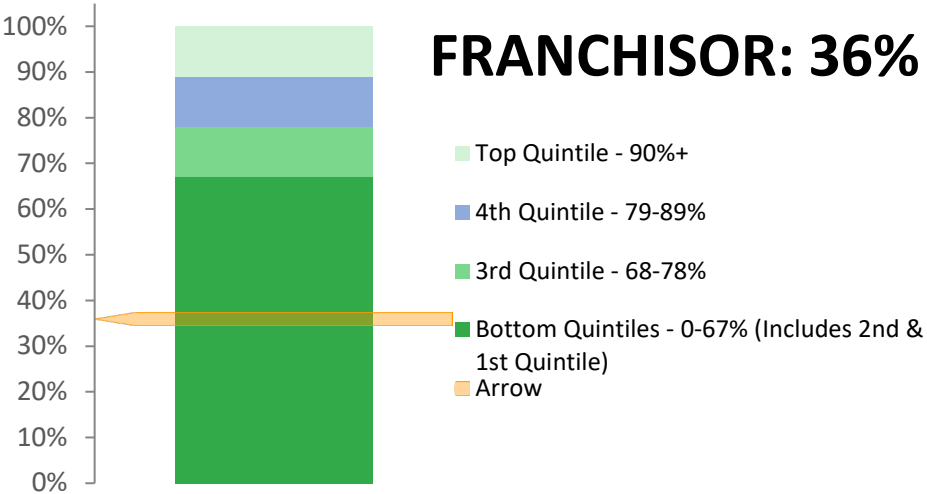
Actual Brand Example

- 100 franchised unit brand
- At one point had close to 210 franchised units.
- Lost 201 units over 8 years.
- 195 units stopped within a few years of operating.
- SBA Data for this brand shows zero losses for five loans over a 10-year period.

Historical Unit Success Rate



Compounded Unit Success Rate Distribution (all franchising)



NO UNIT ECONOMIC NEWS= BAD NEWS

BAD NEWS AND NO NEWS IS THE SAME: BAD NEWS
INDUSTRIES % of brands with score >0

CONSIDERED EASY TO LEND TO

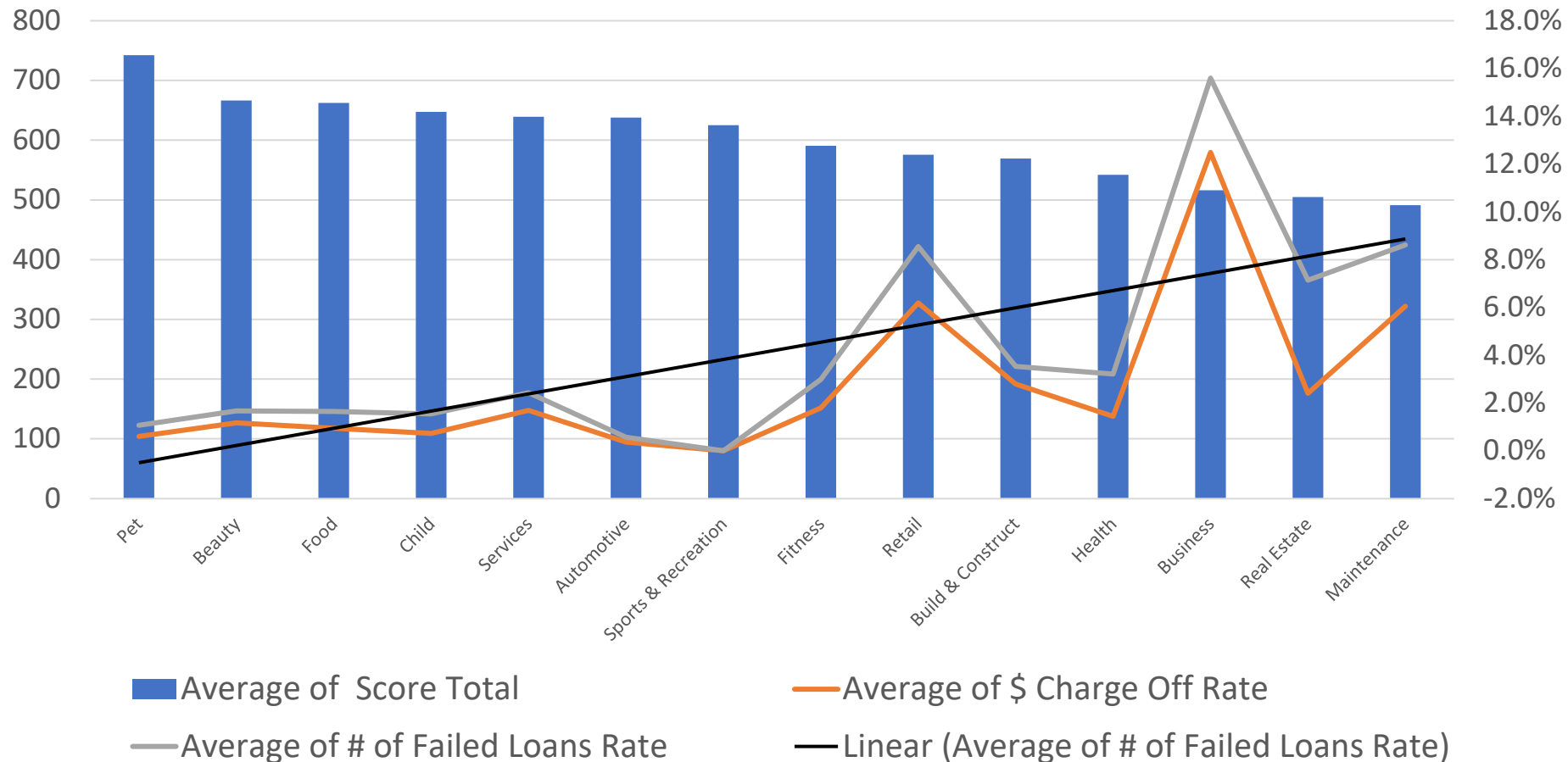
INDUSTRY	SSS/AUV	UNIT ECONOMICS
Pet-Related	83%	67%
Food	88%	64%
Building & Construction	82%	59%
Automotive	70%	55%

CONSIDERED HARD(ER) TO LEND TO

INDUSTRY	SSS/AUV	UNIT ECONOMICS
Sports & Recreation	45%	27%
Business-Related	59%	27%
Maintenance Services	79%	20%
Real Estate	47%	6%

WHAT DOES THE SBA DATA SHOW?

SBA Loan Failure Relationship to FUND Score



WHAT ARE LENDERS PAYING ATTENTION TO?

- Success rates and franchisee unit level economics
- Franchise brand performance relative to 2019
- Industry specific challenges (over-saturation, lack of demand, COVID)
- Start-up cost and labor cost projections.
- Lenders saw fewer defaults than would have been expected in a crisis, but some are concerned that defaults are yet to come, while others are using it to justify opening their credit box
 - Example...SBA made payments for a year...hard to default in that circumstance
- Extra cash on the balance sheet does not mean franchisee is doing well

WHAT ARE LENDERS PAYING ATTENTION TO?

- No payment defaults 2 years does not mean franchisee is doing well
- Lenders are faced with unknowns because “we don’t know who's teetering and who's not”
- The traditional metrics by which lenders evaluate opportunities are no longer reliable, so lenders are creating new metrics
- These uncertainties are making Credit Officers more conservative

WHAT DOES THIS MEAN FOR FRANCHISORS?

- Need to do what it takes to keep franchisees open
- Know what the SBA data says on your brand and your FUND report because lenders are looking for validation from 3rd parties
- Transparency – explain what is going on – in the FDD, through a Bank Credit Report & Direct Relationship w Lenders
- Education - Preparing franchisee borrowers for the deeper level of due diligence that lenders will require

First Time Franchisees Under/Over \$350k

SBA/ROBS Updates

Multi Unit Strategies

Transfers/Resales

Item 7 Inflation / Supply Chain Issues

Covid Fatigue/Windfall

Lender Quirkiness

Lightning Round

KEY TAKEAWAYS

- ✓ Your franchisees need to make money – they're relying on you tweaking your system to assure that they do.
 - ?? What can you do as a brand to support this?
- ✓ Buildout costs are skyrocketing
 - ?? How can you mitigate that?
- ✓ Interest rates are rising
 - ?? Can your business model tolerate 8%, 10%?
- ✓ Financing involves more than lending - Operational competency is as important
- ✓ Know the SBA rules or partner with someone who does
- ✓ Have a reasonable plan for unit 2 before unit one is open
- ✓ Unit economics and transparency matter
- ✓ Resales/Consolidation strategy is imperative for franchisors
- ✓ It's not about the initial franchise fee/ Multi packs have risk to your brand

