

2011 ECONOMIC OUTLOOK



IFA Member Webinar

January, 18, 2011

Introductions

▶ Presenters

- ▶ Ken Walker, CFE, IFA chairman and chairman & CEO, Driven Brands
- ▶ Steve Caldeira, IFA president & CEO
- ▶ Drew Lyon, principal, PwC National Economics & Statistics practice

2010—An Overview

- ▶ 2010 Economic Forecast predicted generally flat growth in the number of units, jobs and output
- ▶ 2010 Predictions reflected challenges facing the industry
 - ▶ Credit access down 40 to 50 percent
 - ▶ Intense pro-regulatory environment
 - ▶ Flat economic recovery

Credit Access—Road to Success

- ▶ IFA priorities
 - ▶ Increase SBA loan limits from \$2 million to \$5 million and extend the 90 percent guarantee through 2010
- ▶ We provided data showing impact of reduced lending
 - ▶ \$3.4 billion shortfall in lending in 2010 results in 134,000 total jobs not created or maintained and \$13.9 billion of annual economic output.
- ▶ Multiple testimony before Congress to highlight the impact of the credit crisis on franchise businesses and job creation
- ▶ Earned and paid media offensive
- ▶ Meetings with Treasury, SBA, Federal Reserve
- ▶ Key message during 09/10 fly-ins
- ▶ President signed bill with these provisions; IFA at White House signing ceremony.
- ▶ In late December, Congress extended SBA authority to approve loans (subject to available funds) with the 90% guarantee through March 4, 2011.
- ▶ January 2011 – SBA announces highest loan volume approvals ever. Final three months of 2010, SBA leveraged \$12 billion in new loans to small businesses due to higher loan limits.

The 2011 Franchise Business Outlook

- ▶ Annual Forecast prepared by PwC for the IFA Educational Foundation
- ▶ Presents forecast for changes in number of establishments, employment and economic output
- ▶ Does not include estimates for product distribution franchises such as automotive and truck dealers, gasoline service stations and beverage bottling
- ▶ The 2011 Outlook reflects a new base year (2007).
 - ▶ The baseline data was drawn from the first ever U.S. Census Bureau's *2007 Economic Census Franchise Report*, which contains information on franchise and non-franchise establishments, sales, employment and payroll in selected industries for businesses with paid employees.
 - ▶ For the 2011 Outlook, PwC supplemented these data with estimates of franchise activities in additional industries and in businesses without paid employees (primarily self-employed individuals operating small, unincorporated businesses).
 - ▶ **Estimates of franchising activity in the 2011 report supersede previous editions.**

The Results

- ▶ Franchise industry will see stronger growth in 2011 with slightly higher increases in establishments, jobs and economic output
- ▶ The report predicts
 - ▶ Establishments +2.5 percent (19,000)
 - ▶ Jobs +2.5 percent (194,000)
 - ▶ Output* +4.7 percent (\$33 Billion)
(gross value of goods & services a business produces)

Macroeconomic outlook

- ▶ Anticipates economy-wide real gross domestic product (GDP) growth of 3.0 percent
- ▶ In 2011, employment is projected to expand by 2.4 million jobs, reducing employment rate to 9.1 percent from a high of 9.8 percent in November 2010.

NOTE: December unemployment rate dropped to 9.4 percent, but the improvements reflected not only people finding jobs, but also an increased number giving up and dropping out of the workforce

- ▶ Real personal consumption expenditures will rise by about 3 percent in 2011, nearly doubling the actual growth rate for 2010

What this means for franchising

Table E-1: Franchised Business Economic Outlook: 2007-2011

	<u>Estimates</u>			<u>Forecast</u>		Annual percent change	
	2007	2008	2009	2010	2011	2009-2010	2010-2011
Establishments	788,285	791,560	763,094	765,723	784,802	0.3%	2.5%
Employment ('000)	7,760	7,792	7,572	7,614	7,808	0.6%	2.5%
Output (\$Billions)	\$654.2	\$680.7	\$683.2	\$706.6	\$739.9	3.4%	4.7%

Outlook by business lines

Table E-2: Franchised Business Economic Outlook By Business Lines: 2011

Business Lines	Establishments		Employment (Thousands)		Output (Billions of dollars)	
	Amount	Percent change over prior year	Amount	Percent change over prior year	Amount	Percent change over prior year
Automotive	31,659	3.9%	185	3.9%	\$39.7	7.2%
Commercial and Residential Services	70,129	3.7%	281	3.7%	\$45.8	6.9%
Quick Service Restaurants	152,665	2.6%	2,982	2.6%	\$194.0	4.9%
Table/Full Service Restaurants	33,471	2.3%	1,003	2.3%	\$55.7	4.6%
Retail Food	60,841	3.2%	484	3.2%	\$38.2	6.2%
Lodging	26,011	4.4%	711	4.4%	\$70.8	4.0%
Real Estate	86,825	1.1%	341	1.1%	\$51.2	0.1%
Retail Products and Services	99,592	3.9%	402	3.9%	\$29.5	5.7%
Business Services	92,714	-0.2%	819	-0.2%	\$128.7	3.5%
Personal Services	130,895	2.5%	602	2.5%	\$86.2	6.5%
Total	784,802	2.5%	7,808	2.5%	\$739.9	4.7%

IFA Business Leader Sentiment

- ▶ Third Annual Business Leader Survey conducted in November 2010 to gauge their outlook for 2011
- ▶ 2010 survey separated franchisor and franchisee responses
 - ▶ 131 franchisors replied to the survey, and 142 franchisees replied
- ▶ Questions about the impact of credit access to businesses was added this year

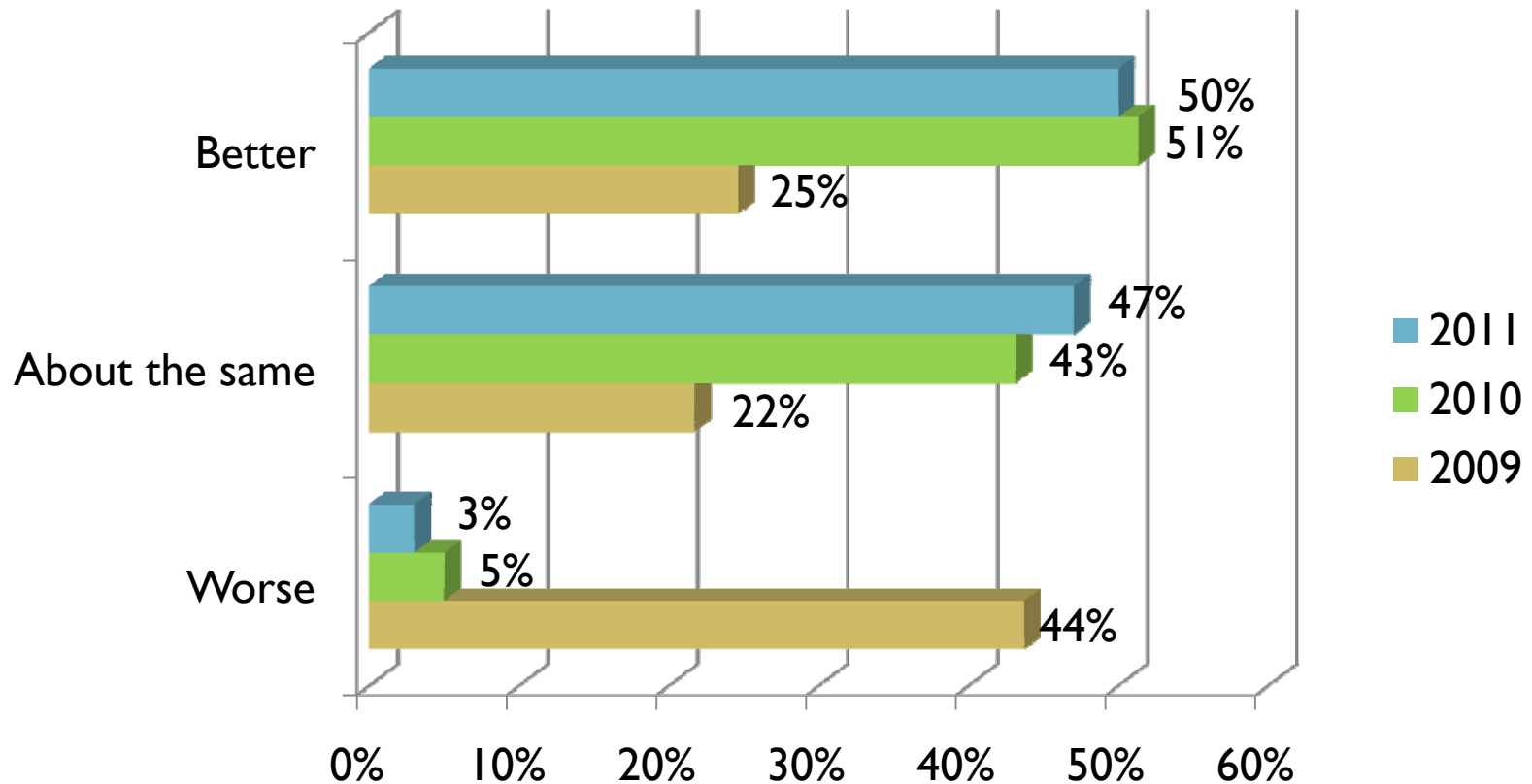
IFA Business Leader Sentiment

▶ Notable quotes

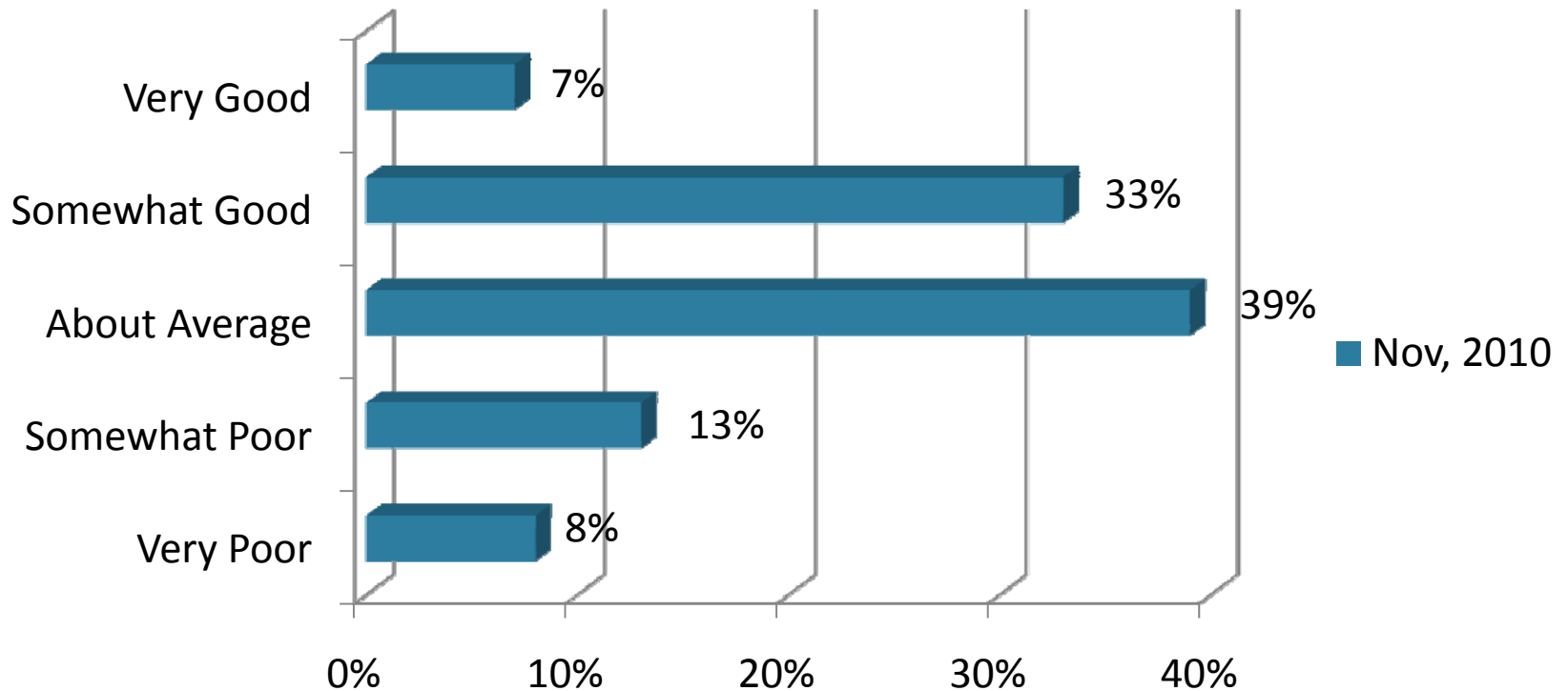
- ▶ *“Things are tough but manageable. We are seeing some improvement on the horizon.”*
- ▶ *“We are doing all we can, but at some point the government has got to come back to reality with a more stable tax, regulatory and business environment”*
- ▶ *We’re business owners, not miracle workers. We can’t grow our businesses and create more jobs without access to credit.”*

Outlook for U.S. Economy – 2011

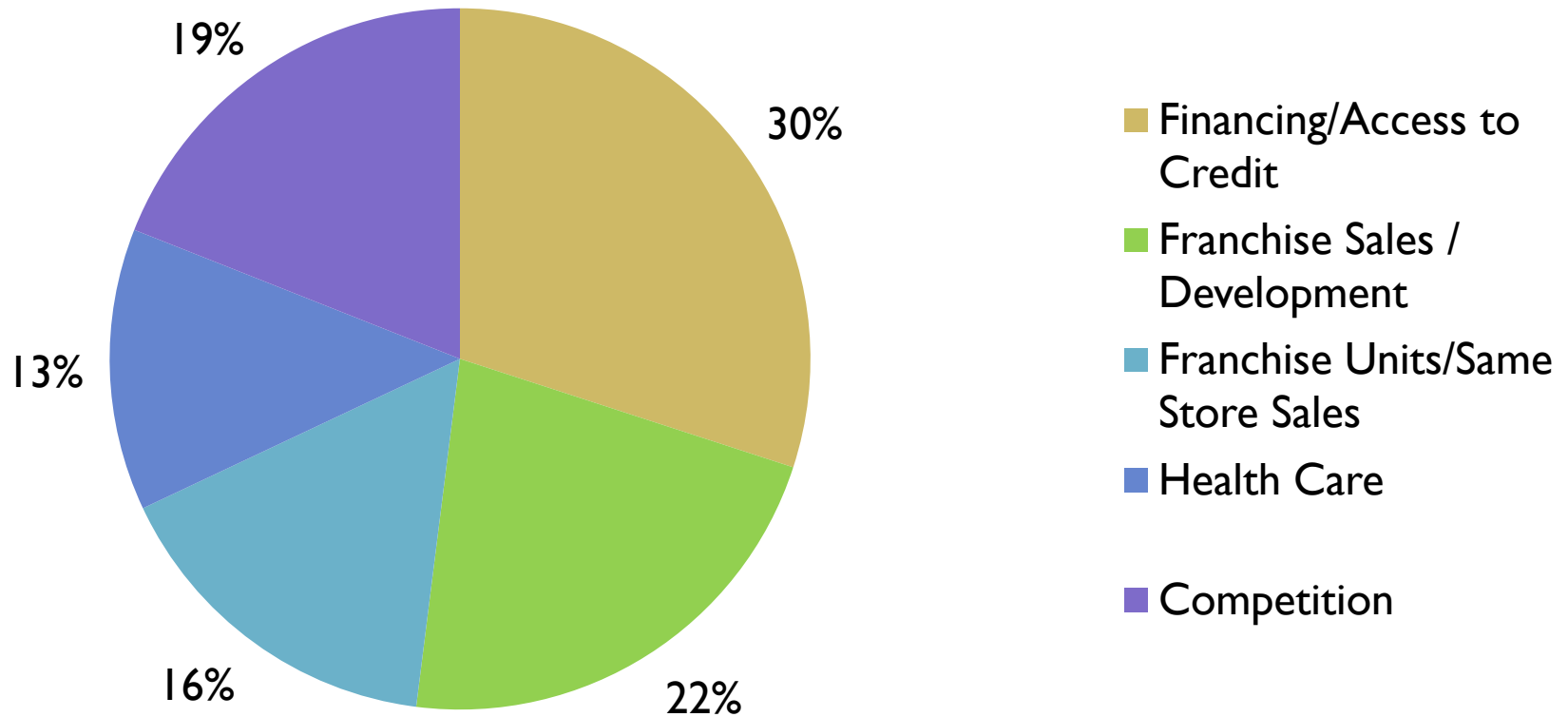
Franchisors



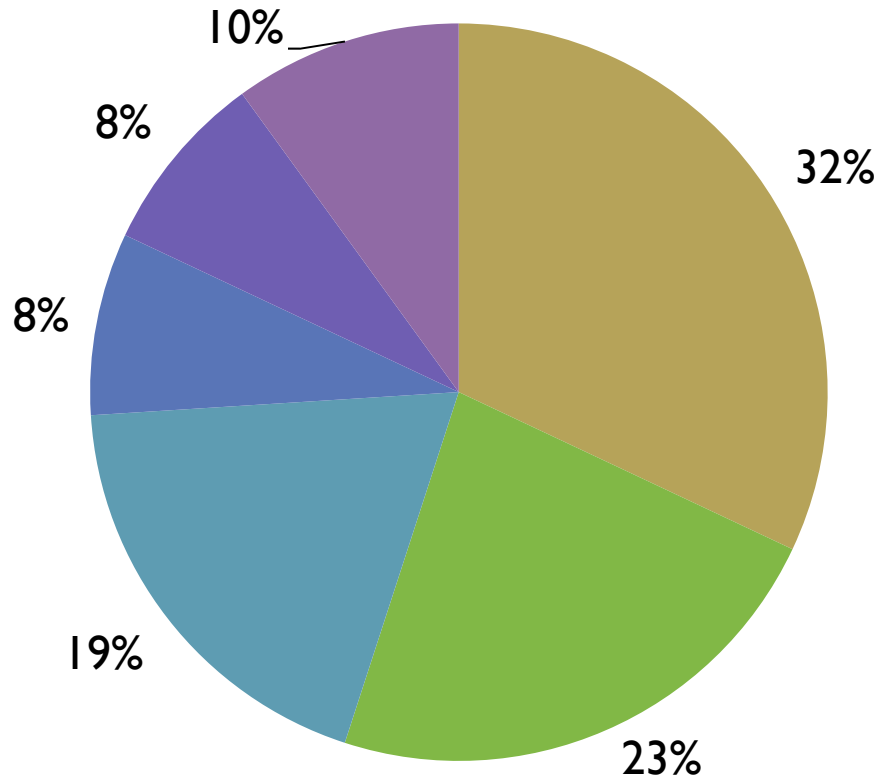
Overall Business Conditions for Your Business in Next 12 Months - Franchisees



Top Issues of Greatest Concern -- Franchisors

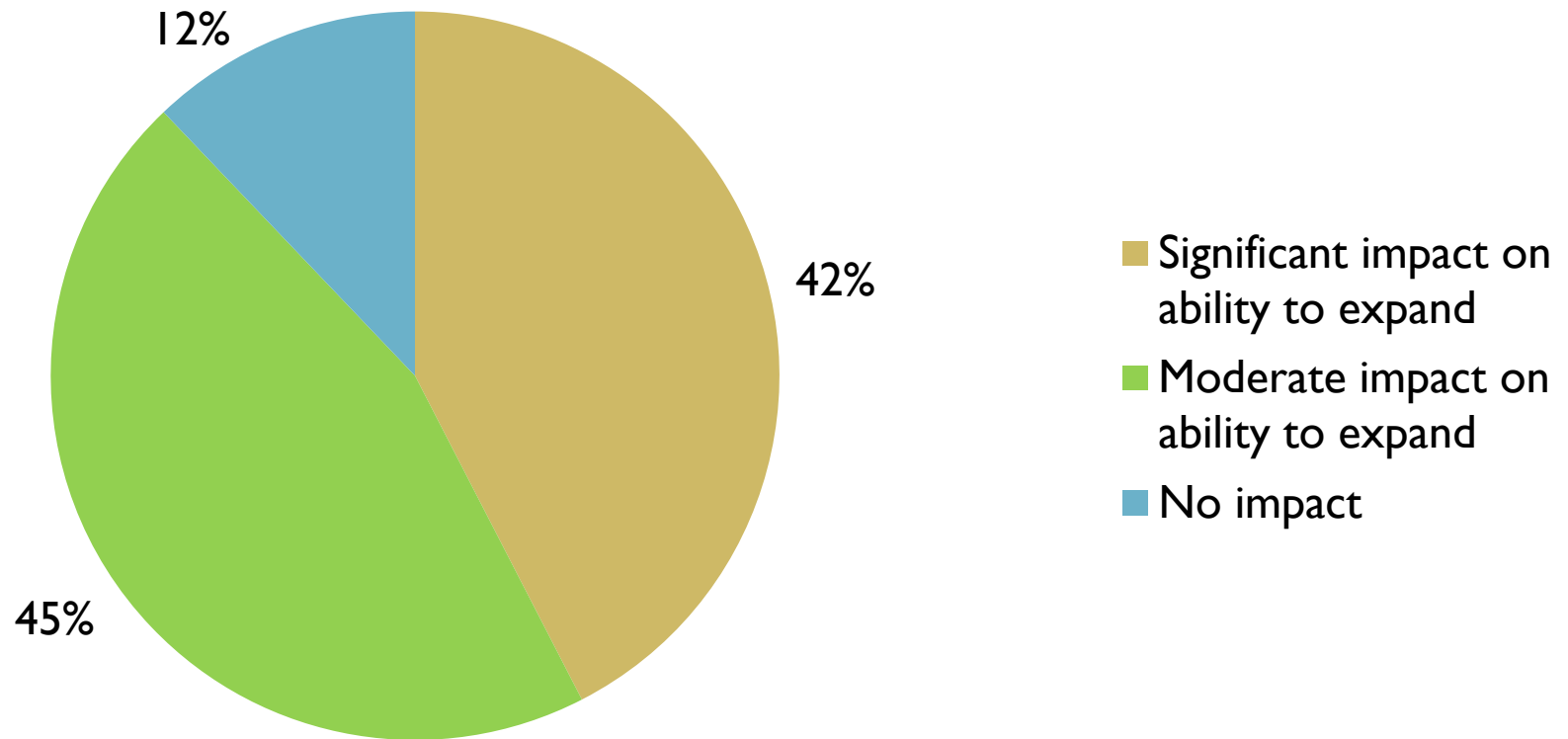


Credit Access & Impact -- Franchisors

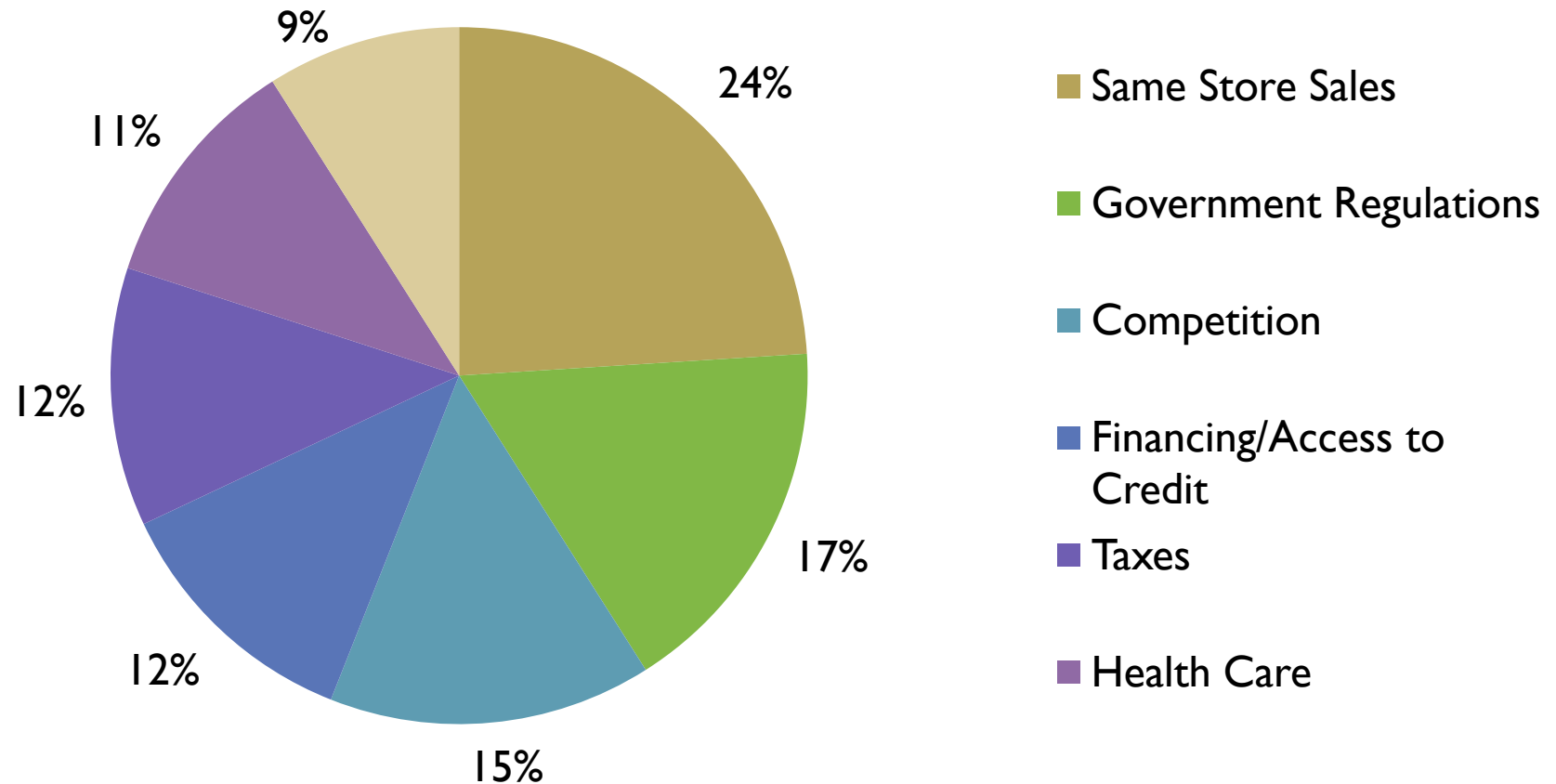


- More than 50% Unable to Get Financing
- 25% - 50% Unable to Get Financing
- 10% to 25% Unable to Get Financing
- Less than 10% Unable to Get Financing
- No Problems With Financing
- Not Applicable*

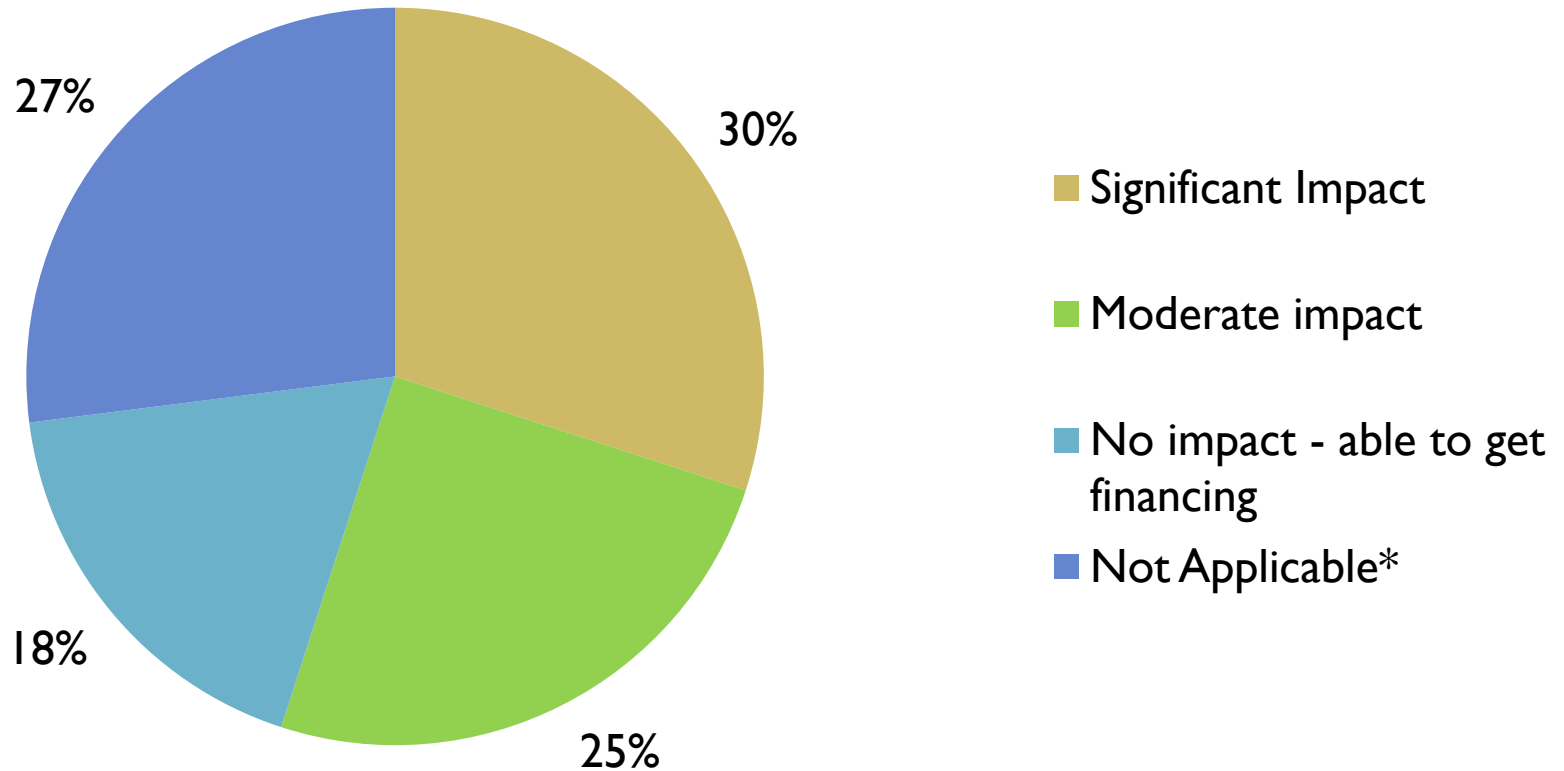
Credit Impact On Ability To Expand - Franchisors



Top Issues of Greatest Concern -- Franchisees



Credit Access & Impact -- Franchisees



IFA Agenda for 2011

- ▶ **Franchise Business Lending Summit**
 - ▶ IFA is updating analysis of lending environment
 - ▶ The Summit will gather franchise business leaders, policy makers and lenders to discuss solutions
 - ▶ Scheduled for early Spring in Washington, DC
- ▶ **Congress needs to send pro-growth signals to the economy**
 - ▶ Make current tax rates permanent
 - ▶ Repeal or significantly improve healthcare law
 - ▶ Fair labor laws
 - ▶ Veterans business incentives

Summary

- ▶ The franchise Industry will see stronger growth in 2011 across units, jobs and output
- ▶ IFA top priorities include continuing efforts to unlock credit for new and existing businesses
- ▶ Legislative agenda will focus on pro-growth issues

Questions

