

Private Equity Consolidators

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Some Practical Advice

You can get a great workout just a short walk from here.



What is Private Equity/Institutional Investment?

- Broad range of investment vehicles
- Characteristics of private equity
- Not an owner-operator model

Potential Benefits to PE Investment

- Capital infusion
- Exit ramp/succession plan for franchisees
- Consolidation of fragmented industries
- Operational/management upgrade

Potential Downsides to PE Investment

- Short investment horizon/lack of focus on new development
- Highly-leveraged financial structure
- Lack of system loyalty/less willing to support system changes
- Power concentration risk
- Challenging negotiating dynamics
- Potential displacement of franchisee management/loss of “institutional knowledge”

Preparing for Private Equity

- Franchisees
 - Unit Economics
 - Management Platform
 - Opportunities for Growth
 - Scale
 - Willingness to Cede Control
 - Records

Preparing for Private Equity

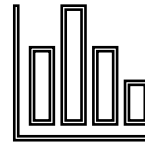


- Franchisor
 - Unit Economics
 - System Growth
 - Size/Maturity
 - Management Team
 - Collaborative Approach with Franchisees

Preparing for Private Equity

- Contractual Protections, Standards & Policies

- Financial structure



- Franchisee size



- Development



- Enforcing brand standards



Key Negotiation Issues – Franchisor and PE

- General negotiation posture
- Balancing need for “form” franchise agreement consistency with legitimate PE needs
 - Create a form “Relationship Agreement” for the FDD?
- Non-compete and confidentiality
 - Individuals bound
- Guarantees and/or letters of credit
- Additional financial covenants/requirements
 - Reporting requirements



Key Negotiation Issues – Franchisor and PE

- Transfers/ROFRs
 - ROFO vs ROFR
 - Potential for IPO
- Development obligations/limitation on number of units
 - New development vs. acquisitions
 - Additional conditions for expansion
 - ROFR to PE for nearby markets?



Key Negotiation Issues – Franchisor and PE

- Operating requirements
 - Separation from other businesses
 - Higher or lower standards?
 - Test markets and new initiatives
 - Business review
- Cross defaults and other termination rights
 - Purchase option on termination
- Lender issues