



How to Secure Private Equity Funds for your Franchise

Wed, Feb 15, 2023 2:00 PM - 3:00 PM ET

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Speakers



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Franchising and Private Equity: A Match Made in Heaven



Jill Abrahamsen

November 25, 2022 6:00 am

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DEEP DIVE

While chains seek multi-unit franchisees, small operators have room to grow in 2023

Franchisees will continue to push franchisors to boost store-level profitability as many brace for high development and operating costs.

Published Jan. 30, 2023

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Today's Agenda

- Private equity basics
- Why PE firms are attracted to franchising
- The items PE Firms are looking for in a brand
- Red Flags
- The types of deals (Non-Control vs Control)
- Valuation
- The Process
- Q & A

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About Nick & College Hunks



College Hunks Hauling Junk is the largest and fastest growing U.S.-based hauling and moving company, providing collegiate teams to move home and business.

- Founded in 2005
- 2008 opened franchise
- 2009 appeared on Shark Tank
- Today, College H.U.N.K.S has over 200 franchises and over 3,000 employees nationwide.

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About John

John Goldasich – Managing Director, Lazard Freres & Co.

- Email address: john.goldasich@lazard.com
- 20 years of corporate finance and investment banking experience
- Lazard is a global investment bank, advising clients on mergers, acquisitions and raising capital
- John leads Lazard's franchising, multi-unit retail restaurant and consumer services practice
- Notable former clients for John and Lazard include ServiceMaster, College Hunks Hauling Junk & Moving, MySalon Suite, Camp Bow Wow, Burger King, Pure Barre Fitness, Milan Laser, C2 Education, Velvet Taco, Newk's Eatery, Moe's Southwest Grill, Anthony's Coal Fired Pizza



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The Basics With John Goldasich



What is private equity?

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Why Are Franchise Companies In Such High Demand With Private Equity Firms?

- High margin cash flow that can be leveraged or securitized
- Scalable without too much capital expenditure
- Recurring cash flow- constancy of recurring revenue from royalty income
- History and established brand
- Encourages entrepreneurship and ownership of the brand and mutual support and growth

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What Do Private Equity Firms Look For In Franchises ?

Important Deal Metrics to Consider

- a) Number of Units - How big do you need to be?
- b) Size – revenue and profitability
- c) Underlying success and profitability of franchisee base (Unit Economics)
- d) History
- e) Legal history
- f) Control

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Red Flags



When PE firms are evaluating a brand what would cause red flags?

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Transaction Alternatives

Non-Control

Private Debt	Higher priced debt, cheaper priced than equity. Private debt fund provides high-leverage loan, typically with warrant coverage
Growth Equity	Non-control private equity investment, typically in a high-growth company. Founder/Selling shareholders retain governance and operational control with support and board participation from PE investor
Royalty Funds	Ability to monetize a significant portion of the business in exchange for future royalty payments to the royalty fund, seller remains in control of the business
Strategic Investment	Non-control investment in a company by a strategic company. Typically, strategic investments have a path to control for the strategic investor

Control

Private Equity Recap	Private Equity investment of more than 50% of the company's equity. PE firm gains control of the board. Structure typically requires significant rollover investment from the selling shareholders/founder/management team.
Strategic Sale	Sale of company to a larger company, typically 100% buyout or significant majority with rollover interests in combined business.

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Valuation

- What is a business valuation?
- What are the most important factors to consider when valuing a business?
- What should a franchisor know when discussing their brand's valuation with a PE firm?
- Does it vary by type of business?
Example Pet Brand vs Home Service



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The Process

Private Equity Process

Franchisor



Transaction

- ✓ *Where to Start*
- ✓ *Average Timeline*
- ✓ *What To Expect*

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Closing Comments



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Q&A

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Thank you for attending!

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