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# Next-Gen Franchise Investing: How Private Equity is Reimagining Value in the Franchise Model

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**I. Introduction: The Evolution of Private Equity in Franchising**

In recent years, private equity (“PE”) has evolved from being an occasional acquirer of franchise brands into a foundational force reshaping the franchising landscape through innovative operating ecosystems and new investment strategies. The classic franchising model began with single-unit, single-brand owner-operators (“mom and pop” franchises), where expansion was slow and system growth relied on many small, independent franchisees. The traditional, or legacy, model of PE investments features limited operational intervention and cost consolidation, emphasizing growth multiples and passive royalty collection rather than system optimization. The traditional buy-and-build model involves holding investments for three to seven years, improving the franchise’s Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”), after which the brand would be sold to larger PE firms, public offerings, or other strategic acquirers.

The franchising industry has since shifted from viewing franchising as a brand, toward viewing the franchise as a scalable operating platform. The industry now prioritizes system-wide operational efficiency, infrastructure, and professional management; this is an evolution accelerated by PE and the rise of large multi-unit and multi-brand operators. The modern approach treats franchises less as isolated brand assets and more as integrated business platforms capable of driving sustainable, diversified growth across markets and concepts.

Franchising transaction structures have similarly evolved. For example, in a royalty transaction, investors acquire future royalties from a franchise system, enabling financial benefits while the franchisor retains control and ownership. This model is increasing in popularity, as it reframes franchise systems into long-duration contractual cash-flow vehicles by isolating royalty streams as investable assets. Another noteworthy transactional trend is PE's growing focus on large, multi-unit franchisees, which reflects a recognition that operational scale and value creation increasingly reside at the franchisee platform level rather than solely with franchisors.

In today's franchise environment, PE investment focuses on strategic growth partnerships with franchise systems demonstrating operational maturity, data discipline, and scalable governance. However, some of this growth is tempered by external pressures that influence the way PE funds are deployed in franchising. Currently, PE strategies for franchises are influenced by rising tariffs and the uncertain impact of Artificial Intelligence. These factors demand adaptive approaches, emphasizing resilience and innovation to navigate the evolving landscape effectively.

PE has evolved from a periodic buyer of franchise brands into a permanent and structural component of the franchising ecosystem. While early PE activity focused on traditional buy-and-build strategies at the franchisor level, the next phase of investment is defined by value engineering, platform strategies, data-driven decision-making, professional management, and non-traditional transaction structures. As franchising matures, PE sponsors are increasingly designing operating ecosystems— franchisors, franchisees, royalty streams, and multi-brand

platforms—rather than simply acquiring brands. This paper examines how and why that shift has occurred, and what it signals for the future of franchise investment, governance, and growth. First, this paper will canvass how PE investment has shifted from the traditional model of franchising to interdependent, engineered ecosystems. The paper will then discuss how royalty transactions and PE investment at the franchisee level have emerged as new and successful transaction structures. Following this, the paper will describe why PE investors, franchisors, and franchisees prefer the multi-unit multi-brand model, benefiting from shared infrastructure, economies of scale, and revenue diversification. The paper will shift to an explanation of how data, Artificial Intelligence, and technology fundamentally transform the measurement of franchisee performance metrics. Finally, the paper will conclude with a discussion of how tariffs and Artificial Intelligence exert pressure on PE strategy and how franchisors can position themselves for strategic growth partnerships with PE.

## **II. From Traditional Buy-and-Build to Value Engineering**

### **A. Characteristics of Legacy PE Franchise Investments**

The traditional PE buy-and-build model—once highly effective in franchising—has become insufficient in an environment defined by asset saturation, pricing pressure, and increasingly sophisticated operators. The traditional, or legacy, model of PE investments, features limited operational intervention, emphasizing growth multiples and passive royalty collection rather than system optimization. The traditional model focuses on “buy-and-build,” typically holding investments for three to seven years, then selling. Under this traditional model, it was far less common for franchisees to own more than one unit and for a franchisor to grant a single franchisee the right to open several franchised units.<sup>1</sup>

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<sup>1</sup> Harris J. Chernow, Edward Levitt & Tom Wells “Have Multi-Unit and Multi-Brand Franchisees Set a New Standard for Franchisors?” (Paper delivered at International Franchise Association 51st Annual Legal Symposium, Washington, 6 May 2018) at Section III [*Multi-Unit and Multi-Brand Franchisees*].

Under the traditional build-and-buy model, most PE firms sought investment in brands that have already demonstrated market fit and operational maturity, strong unit-level economics, proven franchisee success, as opposed to concepts still under development.<sup>2</sup> Deal structuring was heavily based on anticipated cash flow and revenues, with less emphasis on integration or ecosystem development.<sup>3</sup> Disclosure and due diligence processes largely concentrated on validating royalty consistency and registration compliance.<sup>4</sup> Overall, the objectives of PE partners used to center around the passive collection of royalties and fees and attractive exit opportunities without focusing on substantial ongoing operational improvement.<sup>5</sup>

## **B. Drivers of Change**

### *Market Saturation and Slower Organic Unit Growth*

Since the inception of the franchising industry, single unit franchising has been the bedrock of the business model. Now, many of the top brand-name franchise outlets are owned by sophisticated multi-unit franchisees.<sup>6</sup> Traditional single-unit franchises expand more slowly and inefficiently when compared to multi-unit, multi-brand operators. With single-unit franchises, franchisors must spend more time and money on a single unit owner to expand its unit count.<sup>7</sup> Multi-unit and multi-brand franchise systems can grow faster and be more profitable than a single unit growth

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<sup>2</sup> Paul Wilbur, “A Growth Spurt: Looking At Private Equity In Early-Stage Franchises” (2025), online: [https://www.franchising.com/articles/20251011\\_a\\_growth\\_spurt\\_looking\\_at\\_private\\_equity\\_in\\_earlystage\\_franchises.html](https://www.franchising.com/articles/20251011_a_growth_spurt_looking_at_private_equity_in_earlystage_franchises.html) [*Private Equity In Early-Stage Franchises*].

<sup>3</sup> Dale Alexandra Cohen & David Kaufmann, “Private Equity Acquisitions of Franchisors” (Paper delivered at International Franchise Association 53<sup>rd</sup> Annual Legal Symposium, Virtual, 4 May 2021) at section IV [*Private Equity Acquisitions*].

<sup>4</sup> *Ibid* at sections II.A and IV.

<sup>5</sup> David Barr, Leonard MacPhee & Ted Pearce, “A Deep Dive into Due Diligence from a Private Equity Seller or Buyer’s Perspective” (Paper delivered at International Franchise Association 50<sup>th</sup> Annual Legal Symposium, Washington, 7 May 2017) at sections I and I.A [*Deep Dive into Due Diligence*].

<sup>6</sup> David B. Ramsey & Michelle Murray-Bertrand, “Issues in Growth by Multi-Unit Franchising” (2019) 38(3) *Franch. Law J* at 2 [*Issues in Growth*].

<sup>7</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 3.

strategy.<sup>8</sup> The single-unit growth strategy requires the franchisor to manage more franchise relationships, slowing the pace of growth and the expansion into new markets.<sup>9</sup>

### *Professionalization of Franchise Operators*

Franchisees today, particularly multi-unit franchisees and their principals, are established business entities with investors that contribute not only investment, but research, business planning, expertise, and execution to support growth. As a result, these franchisees operate competitive, standardized businesses that strengthen the franchisor's brand. The increased sophistication of franchisees provides their franchisors with greater confidence in their capabilities.<sup>10</sup>

### **C. Reframing Franchising as an Engineered Ecosystem**

PE's role in franchising has shifted from passive ownership of scalable brands to active value engineering across systems, governance, and operational infrastructure. The interdependence in the franchising ecosystem between investors, franchisors and franchisees is evidenced by the shift to earlier PE involvement, often before brands fully mature, increasing the incidence of franchising with PE backing at inception.<sup>11</sup> For example, in 2016, Navigator Partners provided a multi-million-dollar investment to K-9 Resorts Daycare & Luxury Hotels. At the time, the brand had four units, which is a relatively early stage for PE involvement.<sup>12</sup> Early PE investments help to drive growth, particularly with investments in capacity building, new leadership roles and enhanced company structuring.<sup>13</sup>

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<sup>8</sup> *Ibid* at 26.

<sup>9</sup> *Issues in Growth*, *supra* note 6 at 3.

<sup>10</sup> *Issues in Growth*, *supra* note 6 at 5.

<sup>11</sup> *Private Equity In Early-Stage Franchises*, *supra* note 1.

<sup>12</sup> Steve Beagelman, "Private Equity is More Art Than Science" (24 July 2019), online: [Private Equity is More Art Than Science - International Franchise Association](#) [*More Art Than Science*].

<sup>13</sup> Joe Halpern, "Strategic Shift for Neighborly as Private Equity Money Flows to Franchisee Level" (06 March 2024), online: [Strategic Shift for Neighborly as Private Equity Money Flows to Franchisee Level | Franchise News | franchisetimes.com](#) [*Strategic Shift for Neighborly*].

The PE firms that get involved early act as incubators by providing the introduction of professional leadership, marketing, technology, and franchise development expertise for scaling from a small number of locations to substantial growth.<sup>14</sup> Although PE firms remain interested in mature systems, they are increasingly interested in fueling the growth and expansion of emerging franchises.<sup>15</sup> The engineered ecosystem is bolstered by the strategic support offered by PE firms, which includes operational guidance, industry and development experience, and broad networks.<sup>16</sup> PE involvement is correlated with increased average unit revenues, highlighting a pattern of stronger unit economics post-investment.<sup>17</sup>

The platform model, involving the bringing together of multiple brands under umbrella companies, leverages best practices and shared resources for enhanced franchisee and franchisor performance. Similar to a roundtable meeting, the model produces improved operational learning and collaborative success for all ecosystem stakeholders.<sup>18</sup> The relationship between PE, franchisors, and franchisees is mutually reinforcing, as PE investments help both management teams and franchisees develop. PE is no longer simply acquiring brands—it is designing scalable operating environments.

#### **D. Why Franchising Remains Attractive Despite Complexity**

Despite the increased complexity and sophistication required in today's franchise investment landscape, franchising remains attractive to PE investors for several key reasons. First and foremost are the predictable, contract-based cash flows that provide a stable foundation for generating dependable return on investment. Franchise systems can reliably collect recurring

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<sup>14</sup> *Private Equity In Early-Stage Franchises*, *supra* note 2.

<sup>15</sup> *Private Equity Acquisitions*, *supra* note 3 at section IV.

<sup>16</sup> Tori Wagner, "Stepping on the Accelerator: Are you ready for private equity to speed up growth?" (2025), online: [Stepping on the Accelerator: Are you ready for private equity to speed up growth?](#)

<sup>17</sup> Paul Wilbur, "Everyone Likes Sales": Private Equity Changes Culture and Boosts Business" (2025), online: ["Everyone Likes Sales": Private Equity Changes Culture and Boosts Business](#).

<sup>18</sup> Sara Wykes, "Brand Consolidation: What's driving today's "mega" franchisors?" (2022), online: [Brand Consolidation: What's driving today's "mega" franchisors?](#) [*Brand Consolidation*].

royalties and fees from franchisees, enabling more accurate forecasting during the PE firm's holding period.<sup>19</sup> PE investors aim to enhance their return on investment by increasing the target's EBITDA, after recouping the acquisition price. This is achieved through cost savings from consolidation, such as eliminating duplicative management and facilities (e.g. warehouses, distribution centers, offices, IT systems), leveraging combined purchasing power, and redirecting procurement to the PE firm's other holdings.<sup>20</sup>

The asset-light expansion model of franchising continues to be a compelling feature. Franchisors primarily own the rights conveyed through franchise agreements, rather than physical assets, thereby reducing the need for substantial capital expenditures.<sup>21</sup> Franchisees supply the capital and bear much of the operational responsibilities, freeing the franchisor and its PE investors to focus on growth and brand management.<sup>22</sup> The minimized need to re-invest in physical inventory, equipment and brick and mortar locations allows the franchise system to command higher value multiples than a more traditional company.

Scalability is another major attraction. The franchising model allows for expansion across new geographies or market segments with minimal direct capital outlay by the franchisor or its PE investors.<sup>23</sup> Standardized systems, protocols, and brand guidelines facilitate consistent replication and oversight. PE investors value this ability to efficiently scale a proven business model across multiple markets.<sup>24</sup>

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<sup>19</sup> *Deep Dive into Due Diligence*, *supra* note 5 at sections I and I.A.

<sup>20</sup> *Private Equity Acquisitions*, *supra* note 3 at section IV.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Private Equity In Early-Stage Franchises*, *supra* note 2.

<sup>23</sup> *Ibid.*

<sup>24</sup> *Private Equity Acquisitions*, *supra* note 3; M. Scott Morris, "Picking Private Equity Partners: Alignment is Key When Looking for Investors" (2025), online: [Picking Private Equity Partners: Alignment is Key When Looking for Investors](#).

Moreover, the franchise sector offers robust exit opportunities.<sup>25</sup> Well-run, fast-growing franchisors with strong unit-level economics often command premium valuations at exit, whether in sales to larger PE firms, public offerings, or other strategic acquirers.<sup>26</sup> The recurring revenue base, brand power, and potential for further operational synergies continue to command high multiples in a competitive deal market.<sup>27</sup>

### **III. Emerging Transaction Structures in the Franchise Ecosystem**

#### **A. Royalty Transactions as a Standalone Investment Strategy**

Royalty transactions represent a fundamental departure from traditional franchisor acquisitions by allowing investors to monetize predictable franchise cash flows without assuming operational control of the system. The existence of royalty transactions in the mining and natural resources industry dates back to the 1980's, but it has more recently emerged in franchising.<sup>28</sup>

##### *Transaction Mechanics*

In a royalty transaction, the owner of a franchisor receives substantial liquidity by selling the right to receive a stream of future royalties based on franchise revenue, while uniquely retaining 100 percent ownership and operational control of the franchise business.<sup>29</sup>

As a standalone investment strategy, the royalty transaction allows investors to monetize predictable cash flows from franchised businesses without requiring them to acquire, manage, or exert control over the underlying franchisor. The investor's investment is secured by a contractual

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<sup>25</sup> *Deep Dive into Due Diligence*, *supra* note 5 at sections I and I.A.

<sup>26</sup> *Private Equity In Early-Stage Franchises*, *supra* note 2.

<sup>27</sup> *Deep Dive into Due Diligence*, *supra* note 5 at sections I and I.A.

<sup>28</sup> McKinsey & Company, "Streaming and royalties in mining: Let the music play on" (retrieved 22 April 2026), online (article): [McKinsey & Company | Streaming and royalties in mining: Let the music play on](#). [Streaming and royalties in mining: Let the music play on]

<sup>29</sup> Greg Gutmanis, "Have Your Cake and Eat It Too with Royalty Transactions" (16 August 2017), online: (article): [Have Your Cake and Eat It Too with Royalty Transactions - International Franchise Association](#). [Have Your Cake and Eat it Too with Royalty Transactions].

entitlement to a specified percentage of the franchisor's gross sales (the royalty), not by equity or direct operational involvement.<sup>30</sup>

The structure of a royalty transaction captures most of the present value of predictable royalty cash flows, usually at a multiple similar to outright sales multiples (for example, nine to ten times current EBITDA), and converts that into immediate liquidity for the franchisor owner.<sup>31</sup> Unlike in PE transactions, where ownership and future growth are shared or relinquished, the franchisor owner in a royalty transaction continues to benefit from future value creation, new store expansion, and all upside from operating and strategic decisions, since no operational control is handed to the royalty investor.<sup>32</sup>

Furthermore, annual and incremental royalty transactions can be implemented, franchisors may sell royalties on new locations as they grow, providing additional rounds of liquidity while the royalty investor's participation remains limited to receiving defined royalty streams, without governance rights or managerial input. This dynamic ensures that the role of the investor remains that of a passive income recipient, not an active business operator or controller.<sup>33</sup> The royalty transaction is particularly targeted at individually owned franchisor businesses seeking liquidity but wishing to avoid PE involvement while maintaining participation in ongoing business growth.<sup>34</sup>

### *Comparison of Franchisor Liquidity Options*

#### 1. Royalty Transactions:

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<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*

<sup>32</sup> *Ibid.*

<sup>33</sup> *Ibid.*

<sup>34</sup> Diversified Royalty Corp, *Royalty Transaction: A Unique Liquidity & Monetization Strategy for Franchise Founders*, Presentation, (IFA Webinar Series, 2023): [IFA Presentation: Royalty Transaction: A Unique Liquidity & Monetization Strategy for Franchise Founders](#) at 7 [*Liquidity & Monetization Strategy*].

As described above, royalty transactions deliver significant immediate liquidity without equity dilution, allowing franchisors to maintain full control and ownership.<sup>35</sup> Consequently, the franchisor-franchisee relationship remains unaffected and the franchisor in economic upside of continued new store growth.<sup>36</sup> By isolating royalty streams as investable assets, royalty transactions reframe franchise systems as long-duration contractual cash-flow vehicles, rather than as operating companies. The model is best suited for franchisors with operational scale, consistent profitability, and stable earnings, and it may not be ideal for businesses with volatile earnings due to the fixed royalty burden.<sup>37</sup>

## 2. Master Franchise Transactions:

Master franchise transaction structures, on the other hand, involve granting territorial development and sub-franchising rights to a master franchisee in exchange for upfront fees and a share of ongoing royalties.<sup>38</sup> Liquidity is realized through territory fees and a share of future cash flows rather than a large single monetization event. While the franchisor retains brand ownership, significant operational control within the territory is delegated to the master franchisee.<sup>39</sup> This can reduce central control over market execution compared to corporate-franchised growth. The introduction of a master franchisee adds a layer between the franchisor and unit franchisees, which can streamline local expansion but may dilute direct franchisor influence over unit economics and standards. This model is advantageous for lower corporate capital requirements and local operator know-how but may result in potential inconsistency in brand execution and reduced central control.<sup>40</sup>

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<sup>35</sup> Greg Gutmanis, "Royalty Transactions" (Fall 2017), online (article):[Franchise-Voice-Royalty-Transactions.pdf](#). [*Royalty Transactions*].

<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

<sup>40</sup> *Ibid.*

### 3. Securitization Models:

Securitization models combine elements of royalty monetization and debt capital markets by securitizing defined revenue streams into a bankruptcy-remote vehicle while retaining equity ownership at the parent level.<sup>41</sup> This approach provides upfront proceeds at financing rates tied to asset performance, with flexibility to add new assets over time. The franchisor remains the equity owner but is subject to securitization covenants, cash-flow waterfalls, and performance triggers that can restrict operational flexibility.<sup>42</sup> Typically neutral at the unit level, this model may indirectly affect franchisee interactions through heightened enforcement of payment terms and performance standards. Securitization offers a potentially lower cost of capital and scalability but involves structural complexity and ongoing reporting considerations.<sup>43</sup>

### 4. PE Transactions:

PE transactions offer franchisors significant upfront liquidity and access to board-level expertise but typically require selling control (50 per cent or more), adding significant leverage to the business, and targeting a subsequent exit within three to seven years, which may misalign with founder objectives and result in loss of control. PE provides significant liquidity and often values franchise businesses at attractive EBITDA multiples.<sup>44</sup> Compared to master franchise structures or hybrid securitization models, PE's advantages lie in immediate scale capital and governance resources, but its disadvantages, such as control transfer, leverage, and exit timelines, contrast with the non-dilutive, founder-controlled liquidity path of royalty transactions and the more modest, repayable proceeds of debt recapitalizations. Debt recapitalizations provide lower proceeds (around four times EBITDA) and must be repaid with interest while owners retain control.<sup>45</sup>

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<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

<sup>43</sup> *Ibid.*

<sup>44</sup> *Ibid.*

<sup>45</sup> *Ibid.*

To summarize, for franchisors seeking substantial liquidity while preserving ownership and participating in future growth, a royalty transaction is an alternative to PE, an outright sale, or a debt recapitalization, provided the system exhibits stable, scalable performance. PE transactions offer significant liquidity and governance resources but often require relinquishing control and adhering to exit timelines. Master franchise and hybrid securitization models can complement or substitute depending on the franchisor's priorities for liquidity, operational control, and the desired interface with franchisees.<sup>46</sup>

### *Appeal to PE-Backed Investors*

Royalty transactions present an alternative proposition for PE firms by aligning predictable, contractually defined cash flow with portfolio construction objectives while preserving issuer equity.<sup>47</sup> Royalty streams are typically tied to system-wide sales or EBITDA and so royalty transactions are secured by the consistent annuity-like revenue streams, upon which investors can rely.<sup>48</sup> Additionally, as a non-dilutive source of capital to operating companies, royalties can finance growth without altering ownership or control, which in turn supports value creation at the portfolio level without incurring the signaling costs of equity issuance.<sup>49</sup>

The royalty transaction model is also features the structure of scalability that arises from the ability to replicate standardized instruments across sectors and stages, aggregate diversified royalty streams into platforms, and deploy follow-on capital against proven revenue bases, thereby enhancing risk pooling.<sup>50</sup> Flexibility further strengthens the investment case, as royalty transactions are typically customizable, keep decision making with the founding team, avoid

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<sup>46</sup> *Ibid.*

<sup>47</sup> *Have Your Cake and Eat it Too with Royalty Transactions*, *supra* note 29.

<sup>48</sup> *Liquidity & Monetization Strategy*, *supra* note 34 at 7; FASTFARE Royalty Company, "Non-dilutive capital for restaurant brands" (retrieved 25 April 2026), online (homepage): [FASTFARE Royalty Company | Non-dilutive capital for restaurant brands](#). [*Non-dilutive capital for restaurant brands*].

<sup>49</sup> *Have Your Cake and Eat it Too with Royalty Transactions*, *supra* note 34.

<sup>50</sup> *Ibid.*

disruptions to management-franchisee relationships, and allow the owners to align proceeds with strategic business milestones or growth phases.<sup>51</sup> Taken together, these features make royalties a strategic tool for PE investors to balance risk and reward, smooth cash yield with embedded growth optionality, and support sustainable business expansion without equity dilution.

### *Key Risks/Constraints of Royalty Transactions*

The model is best suited to franchisors with operational scale, consistent profitability, steady same-store sales growth, and relatively stable earnings. It is not well suited to price-takers or commodity businesses with volatile earnings due to the fixed royalty burden.<sup>52</sup>

Royalty transactions embed a distinct risk profile: because payments are tied to top-line sales, earnings to the royalty holder remain exposed to sales cyclicity and same-store-sales variability, making businesses with volatile earnings or commodity-style price exposure poor candidates for the structure.<sup>53</sup> Growth-related constraints also arise where franchisors lack robust store-level economics, positive same-store-sales growth, or credible white space, since qualification typically requires established profitability, scale (ideal for franchisors with a minimum of 100 units<sup>54</sup>), and strong new unit prospects.<sup>55</sup> Operational scale is pivotal because the economics rely on franchisor operating leverage at scale, with incremental royalties only available as new units drive incremental EBITDA.<sup>56</sup> Moreover, market conditions, particularly the pipeline for net new locations

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<sup>51</sup> *Non-dilutive capital for restaurant brands*, *supra* note 52; Beth Ewen, “Stratus Sells to Diversified Royalty but Keeps 100% Equity in ‘Unique’ Deal”, *Franchise Times* (16 December 2022), online: [Stratus Sells to Diversified Royalty but Keeps 100% Equity in 'Unique' Deal | Franchise Mergers and Acquisitions | franchisetimes.com](https://www.franchisetimes.com/status-sells-to-diversified-royalty-but-keeps-100-equity-in-unique-deal-franchise-mergers-and-acquisitions). [*Status Sells*]; Diversified, “First US Royalty Transaction” (28 November 2022), online (article): [FIRST US ROYALTY TRANSACTION - International Franchise Association](https://www.ifa.com/first-us-royalty-transaction). [*First US Royalty Transaction*].

<sup>52</sup> *Liquidity & Monetization Strategy*, *supra* note 34.

<sup>53</sup> *Liquidity & Monetization Strategy*, *supra* note 34.

<sup>54</sup> *Stratus Sells*, *supra* note 52.

<sup>55</sup> *First US Royalty Transaction*, *supra* note 52 at 4; Diversified, *Liquidity & Monetization Strategy*, *supra* note 52 at 7.

<sup>56</sup> *Liquidity & Monetization Strategy*, *supra* note 34 at 5, 9.

and macro demand for the underlying category, directly affect the ability to monetize incremental royalties over time.<sup>57</sup>

### *History of the Royalty Transaction and Key Players*

Diversified Royalty Corp (“DIV”) is a Canadian company that generates revenue by collecting royalties from successful multi-location businesses and franchisors across North America. Sean Morrison, DIV’s founder says that he created the transaction model for franchising in 1998 and launched it in the early 2000s, while working alongside several well-known Canadian franchisors, such as A & W Food Services Canada, the Keg Steakhouse and Boston Pizza.<sup>58</sup> Morrison invented this unique royalty transaction to generate a meaningful upfront liquidity event without requiring the franchisors to sell equity, thus providing the owners of these businesses an alternative liquidity option to selling to PE.

DIV describes their royalty transaction process in the following steps:

1. DIV purchases the worldwide trademarks and intellectual property (IP) of a franchisor for approximately nine to ten times trailing twelve months (TTM) EBITDA, providing cash to the franchisor company. This transaction is taxed as a capital gain for the seller. The franchisor retains 100% equity ownership and operational control of the business after the transaction.<sup>59</sup>
2. DIV then licenses back the North American trademarks/IP to the franchisor in exchange for a royalty approximately equal to TTM EBITDA. The royalty payments can fluctuate based on system same-store sales growth (SSSG) or be set at a fixed rate.<sup>60</sup>

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<sup>57</sup> *Ibid* at 8-9.

<sup>58</sup> *Stratus Sells*, *supra* note 52.

<sup>59</sup> *Liquidity & Monetization Strategy*, *supra* note 34, at 8.

<sup>60</sup> *Ibid*.

3. As the franchisor continues expanding and becomes more profitable, DIV may purchase incremental EBITDA generated from new store expansion at a similar multiple (about nine times EBITDA), further monetizing the future growth of the franchisor for its owners.<sup>61</sup>

DIV is pioneering the royalty transaction model in Canada and has done so with many successful franchisors including A & W, The Keg Steakhouse, Mr. Lube, Boston Pizza, Pizza Pizza, Sutton Group Realty, Oxford Learning, Nurse Next Door, Mr. Mikes Steakhouse Casual, Stratus Building Solutions, and BarBurrito.<sup>62</sup> Recently, DIV completed its second transaction in the United States, with its \$36 million transaction with Cheba Hut Toasted Subs.<sup>63</sup>

FASTFARE Royalty Company is an American counterpart operating in the same space as DIV. FASTFARE provides non-dilutive capital to restaurant brands by utilising a royalty investment model. The company offers financial support to established and emerging brands in the restaurant sector, particularly those with strong potential and a need for substantial capital to accelerate their growth while maintaining control and avoiding equity dilution or restrictive debt covenants.<sup>64</sup>

FASTFARE's main product involves the sale of a royalty, where the company receives, in cash, a percentage of the brand's gross sales, calculated as Gross Sales multiplied by a Royalty Rate. This approach enables brands to access capital without giving up equity ownership, retain decision-making authority, and avoid refinancing risk.<sup>65</sup>

In contrast with DIV, FASTFARE primarily targets Quick Service Restaurants (QSR) and Fast Casual Restaurants (FCR), operating in North America. The capital obtained can be used for

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<sup>61</sup> *Ibid* at 9.

<sup>62</sup> Diversified, "Franchisors – Prospective Royalty Partners", (as of 25 April 2026), online (webpage): [Diversified Royalty Corp – Franchisors – Prospective Royalty Partners](#).

<sup>63</sup> Franchise Times, "How Cheba Hut Kept the Equity in a Notable \$36 Million Royalty Deal". (as of 30 April 2026), online (article): [Franchise Times – How Cheba Hut Kept the Equity in a Notable \\$36 Million Royalty Deal](#).

<sup>64</sup> *Non-dilutive capital for restaurant brands, supra* note 52.

<sup>65</sup> *Ibid*.

various purposes, including growth capital, recapitalisations, management buyouts, and shareholder restructurings; structures can be customised to fit a brand's specific needs.<sup>66</sup>

FASTFARE's model is described as scalable and asset-light, adding revenue without overhead and allowing efficient, profitable growth primarily through streamlined royalty payment administration.<sup>67</sup>

*Case Study: Boston Pizza*

Boston Pizza, a Canadian company, engaged in royalty transactions with Diversified Royalty Corp. In 2002, Boston Pizza completed a significant royalty transaction resulting in a \$98 million liquidity event, generating a capital gain of nearly \$100 million.<sup>68</sup> Following this initial transaction, Boston Pizza substantially increased its store count, nearly tripling the number of locations. The continued expansion led to the creation of over \$400 million in incremental EBITDA through the opening of new stores. Over a 20-year span, Boston Pizza realized total proceeds exceeding \$500 million from these royalty transactions and, notably, maintained 100 percent equity ownership in the business throughout this period.<sup>69</sup>

*Case Study: Stratus Building Solutions*

Stratus Building Solutions, a U.S.-based commercial cleaning franchise, became the first American franchisor to complete a royalty transaction with Diversified Royalty Corp.<sup>70</sup> In this structure, Diversified Royalty purchased the trademarks and intellectual property from Stratus in exchange for an ongoing 2.5 percent royalty on all stores in the system.<sup>71</sup> The price paid for the

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<sup>66</sup> *Ibid.*

<sup>67</sup> *Ibid.*

<sup>68</sup> *Stratus Sells, supra* note 52 at 3.

<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid* at 1.

<sup>71</sup> *Ibid* at 2.

trademarks was typically set at nine to ten times EBITDA.<sup>72</sup> Immediately after the sale, the intellectual property was licensed back to Stratus, allowing the company to continue expanding and collecting full royalties from new franchises.<sup>73</sup>

This arrangement allowed Stratus's owners to access liquidity without selling any equity, meaning there was no change in ownership or control of the business.<sup>74</sup> Company leadership highlighted that there was no disruption for franchisees or employees following the transaction. Stratus operates in 65 markets and, following the deal completed in late November, aims to open 85 more markets.<sup>75</sup> The CEO of Stratus emphasised that the company did not need immediate capital for expansion nor had significant debt to retire, but the founders still wanted to "take some chips off the table" without relinquishing company ownership.<sup>76</sup>

Both DIV and FASTFARE are market leaders for the royalty transaction model. While the model has been slow on the uptake in the United States, DIV's CEO expects that there will eventually be other businesses pursuing royalty transactions and when that time comes, he will consider it the ultimate compliment.<sup>77</sup>

## **B. PE Investment at the Franchisee Level**

Another emerging transaction structure in the franchise ecosystem is PE's investment at the franchisee level, where the focus on operational scale and value creation continues to grow. As franchisees have professionalized and consolidated, they have emerged as investable platforms capable of generating returns comparable to, and sometimes exceeding, franchisor-level investments.

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<sup>72</sup> *Ibid.*

<sup>73</sup> *Ibid.*

<sup>74</sup> *Ibid.*

<sup>75</sup> *Ibid.*

<sup>76</sup> *Ibid.*

<sup>77</sup> *Ibid.*

### *History of PE Investment in Franchisees*

PE involvement in franchising has grown over the last decade, with firms investing both at the franchisor and franchisee levels. Initially, many PE transactions focused on acquiring or investing in franchise brands, both large and small.<sup>78</sup> The main attraction was the franchisors' high-margin, asset-light business model, which offered scalable operations, predictable cash flows, strong brand equity, and significant returns on investment. Franchisors presented an appealing investment due to their blend of brand strength and operational efficiency, which promised stable revenue generation and rapid expansion for investors.<sup>79</sup>

In more recent years, attention has shifted toward transactions at the franchisee level, particularly multi-unit franchisees. PE firms have identified that franchisees demonstrate strong unit cash flow and offer attractive scalability, and predictable revenue streams. Some of the largest multi-unit franchisees, such as Flynn Group with over 2,900 units and five billion dollars in sales, have had PE backing.<sup>80</sup> Other notable PE-backed deals include Argonne Capital's acquisition of National Fitness Partners, a major Planet Fitness franchisee, in 2016.<sup>81</sup> This trend has continued as new multi-unit franchisee investments surface and established PE firms become more active in the sector.<sup>82</sup>

### *Rise of Multi-Unit Franchisee Acquisitions*

There has been a noticeable increase in multi-unit franchisee acquisitions by PE firms. These investors are attracted to high-performing franchisees who already have substantial operations

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<sup>78</sup> Matthew Liedke, "Why Private Equity Investors Are Getting Active at the Franchise Unit Level" *Franchise Times* (29 January 2026), online: [Why Private Equity Investors Are Getting Active at the Franchise Unit Level | Franchise Finance | franchisetimes.com](#). [*Why Private Equity*].

<sup>79</sup> Greenwich Capital Group, "The Evolving Landscape of Private Equity Investments in Franchising" (August 2024), online (blog): [The Evolving Landscape of Private Equity Investments in Franchising](#). [*The Evolving Landscape*].

<sup>80</sup> *Why Private Equity*, *supra* note 78 at 1-4.

<sup>81</sup> *Ibid.*

<sup>82</sup> *Ibid.*

and cash flow, seeing opportunities to roll up existing units and develop new locations at a faster pace.<sup>83</sup> Transactions often involve buying out or investing in multi-unit franchisees to consolidate or expand their presence. For example, Taurus Capital Partners and Snapdragon Capital Partners have both focused on backing leading multi-unit operators in franchised systems.<sup>84</sup> Additionally, investment platforms like Bain Capital's Prosper Growth Partners are established to acquire and scale franchisee businesses.<sup>85</sup> PE is attracted to operators who can consistently open new units and deliver same-store sales growth, while sophisticated management is sought to drive further expansion.<sup>86</sup>

#### *Value Creation at the Franchisee Platform Level*

At the franchisee level, value creation is driven by several factors tied to professionalization and operational expertise.

1. Professionalized management:

After investment, PE firms often guide franchisees to build robust management teams, such as establishing a full C-suite, including chief financial and operations officers, and HR professionals. This professionalization helps manage growth and supports system integration.<sup>87</sup>

2. Operational leverage and data analytics:

Enhanced operational discipline is introduced, including systematic measuring of performance, recruiting necessary executives, and building robust reporting structures. Firms such as

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<sup>83</sup> *Ibid* at 1- 2, 4, 5, 7.

<sup>84</sup> *Ibid.*

<sup>85</sup> *Ibid.*

<sup>86</sup> *Ibid.*

<sup>87</sup> *Ibid* at 7.

Snapdragon Capital Partners emphasize the importance of financial analytics and executive recruitment to ensure tight management and operational consistency.<sup>88</sup>

3. Scale efficiencies (local/regional):

As franchisees scale from several units to dozens or more, they achieve efficiencies in real estate, lease management, site selection, and construction management. This expertise permits more rapid and efficient unit growth, leveraging economies of scale at a regional or local level.<sup>89</sup>

4. Growth support:

PE investors work closely with franchisee owners to support business scaling, which might include acquisitions, new unit development, building sales teams, refining marketing, and implementing labor strategies.<sup>90</sup>

These elements combine to enable some franchisee groups to outperform peers through better execution, data-driven decision-making, and accelerated and sustainable growth.<sup>91</sup>

*Value Implications at the Franchisee and Franchisor System Levels*

PE-backed franchisees become more sophisticated and professionally managed. This leads to improved operational execution, stronger management, and often greater financial performance. It also allows existing owners to accelerate expansion, adopt new technologies, and refine operational practices. In some cases, PE involvement may result in better sales growth, improved training processes, and more effective rollouts of new units.<sup>92</sup>

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<sup>88</sup> *Ibid.*

<sup>89</sup> *Ibid* at 8.

<sup>90</sup> *Ibid* at 4, 8.

<sup>91</sup> *Ibid* at 7.

<sup>92</sup> *Ibid.*

There are system-wide implications when PE-backed operators join a franchise. While such operators can drive stronger system growth and bring higher expectations regarding franchisor support, technology, and analytics, there is also the risk of strategic misalignment or conflicts if objectives diverge. Franchise systems must carefully evaluate and plan relationship and communication strategies to ensure harmony between sophisticated franchisees and the franchisor, as differing interests or expectations can result in conflict.<sup>93</sup>

Franchisors have historically controlled franchisee ownership transitions and must approve PE-backed groups, balancing the potential for brand expansion with the need to manage the impact of sophisticated new entrants on the franchise system.<sup>94</sup>

#### *Case Study: Club Pilates*

In 2025, Eagle Merchant Partners, an Atlanta-based PE firm, acquired a majority stake in Aligned Fitness, a multi-unit Club Pilates franchisee based in Raleigh, North Carolina.<sup>95</sup> At the time, Aligned Fitness operated 34 studios across Georgia, North Carolina, and South Carolina. The deal included the acquisition of other Club Pilates franchisees, Crescent Concepts and Next Twenty, expanding Aligned Fitness's portfolio. Eagle's investment was funded by its second fund, which closed with \$415 million in capital commitments.<sup>96</sup> The acquisition aimed to unlock further expansion potential for Aligned Fitness, allowing for strategic mergers and acquisitions beyond traditional banking support. Eagle's strategic focus on Club Pilates included fostering community, maintaining leadership continuity, and leveraging institutional knowledge in multi-unit business

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<sup>93</sup> *Ibid* at 8.

<sup>94</sup> *Ibid* at 8-9.

<sup>95</sup> Laura Michaels, "Private Equity Firm Acquires Majority Stake in Growing Club Pilates Franchisee" *Franchise Times* (11 July 2025), online: [Private Equity Firm Acquires Majority Stake in Growing Club Pilates Franchisee | Franchise Mergers and Acquisitions | franchisetimes.com](https://www.franchisetimes.com/private-equity-firm-acquires-majority-stake-in-growing-club-pilates-franchisee/). [*Private Equity Firm Acquires*].

<sup>96</sup> *Ibid*.

scaling. Aligned Fitness plans to expand through additional acquisitions and new studio developments, negotiating a new agreement with franchisor Xponential Fitness.<sup>97</sup>

Eagle Merchant Partners was attracted to Aligned Fitness, due to several compelling factors. The Club Pilates model, which uses expensive equipment and requires expert instruction, is difficult to replicate at home, ensuring a steady demand for studio memberships. This recurring revenue model was a significant draw for Eagle, as it provides financial stability and growth potential. Additionally, the Club Pilates brand, under Xponential Fitness, has shown robust expansion, with over 1,200 locations globally, indicating strong market penetration and brand recognition. Eagle was also impressed by continuity of leadership at Aligned Fitness, as it ensured that the business would retain its personal touch and focus on customer and employee satisfaction.<sup>98</sup>

Furthermore, Eagle's southeastern base and experience in both franchisor and franchisee roles made them a culturally and strategically aligned partner for Aligned Fitness. This partnership was not just about capital infusion but also about leveraging Eagle's institutional knowledge to accelerate growth through new studio developments and strategic acquisitions. Overall, the combination of a strong business model, market potential, and aligned leadership made Aligned Fitness an attractive investment for Eagle Merchant Partners.<sup>99</sup>

#### *Case Study: Neighborly*

Neighborly, a franchisor with over 30 home services brands, including Mr. Rooter and Mr. Electric, has experienced a strategic shift as PE investments flow to the franchisee level.<sup>100</sup> In 2023, five significant PE investments into multi-unit operators of Neighborly brands exceeded \$400 million in combined value.<sup>101</sup> This shift allows franchisees to access exit strategies and resources for

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<sup>97</sup> *Ibid.*

<sup>98</sup> *Ibid.*

<sup>99</sup> *Ibid.*

<sup>100</sup> *Strategic Shift for Neighbourly supra* note 14.

<sup>101</sup> *Ibid.*

accelerated growth.<sup>102</sup> Neighborly is selective about its PE partners, ensuring alignment with franchising understanding and company principles.<sup>103</sup> The home services franchise sector is increasingly attractive to PE, enabling franchisees to grow faster and professionalise operations.<sup>104</sup>

CPC, a PE firm based in Kansas City, made its inaugural investment in a franchised business by acquiring Trades Holding Company.<sup>105</sup> Trades Holding was the largest Mr. Rooter franchisee by revenue and also operated Mr. Electric franchises. The acquisition included three Mr. Rooter and three Mr. Electric franchise locations in Columbus, Cleveland, and Toledo, Ohio.<sup>106</sup> Although the financial terms were not disclosed, the transaction closed in July 2023, with Boxwood Partners serving as the exclusive sell-side advisor. CPC was drawn to the strong demand trends for home services, noting the sector's resilience through economic cycles and the increasing preference of younger generations to purchase services like plumbing and electrical.<sup>107</sup>

This acquisition represents a significant PE entry at the franchisee level for the Neighborly platform, highlighting a sector-wide shift towards investing directly in revenue-producing franchisee operations.<sup>108</sup> CPC plans to deploy \$600 million to \$700 million over the next five years into lower middle market businesses, although this is not specific to this single transaction.<sup>109</sup>

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<sup>102</sup> *Ibid.*

<sup>103</sup> *Ibid.*

<sup>104</sup> *Ibid.*

<sup>105</sup> Joe Halpern, "Private Equity Firm Buys Multi-Unit Neighbourly Franchisee Trades Holding", *Franchise Times* (8 September 2023), online: [PE Firm Buys Multi-Unit Neighborly Franchisee Trades Holding | Franchise Mergers and Acquisitions | franchisetimes.com](https://www.franchisetimes.com/franchise-mergers-and-acquisitions/private-equity-firm-buys-multi-unit/). [*Private Equity Firm Buys Multi-Unit*].

<sup>106</sup> *Ibid.*

<sup>107</sup> *Ibid.*

<sup>108</sup> *Ibid.*

<sup>109</sup> *Ibid.*

Early post-investment activities include hiring additional technicians, creating new leadership roles such as chief financial officer and marketing positions, and entering new geographic markets.<sup>110</sup>

PE investment in franchising has evolved from a focus on franchisors to a growing interest in multi-unit franchisees, driven by the recognition of scalable and efficient growth opportunities. Value is created at the franchisee platform level through professionalized management, operational leverage, and scale efficiencies, while both franchisees and franchisors benefit from capital infusion, strategic guidance, and adaptive, scalable systems. However, market saturation and regulatory risks remain important factors for both parties.<sup>111</sup>

#### **IV. Platform Franchising and the Rise of Multi-Brand Ecosystems**

##### **A. Evolution of the 'Family of Brands' Model**

Platform franchising has become the dominant expression of PE's ecosystem-based approach, replacing single-brand growth strategies with multi-brand operating environments designed for scale and resilience. The classic franchising model started with single-unit, single-brand owner-operators ("mom and pop" franchises), where expansion was slow and system growth relied on many small, independent franchisees.<sup>112</sup> However, a recent study demonstrates that approximately 76% of 13,000 top brand franchised outlets are owned by multi-unit franchisees, demonstrating the growing phenomenon of the multi-unit multi-brand operators (MUMBOs) within franchising over the past few decades.<sup>113</sup>

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<sup>110</sup> *Strategic Shift for Neighbourly*, *supra* note 14.

<sup>111</sup> *The Evolving Landscape*, *supra* note 79.

<sup>112</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at Section III.

<sup>113</sup> *Issues in Growth*, *supra* note 6 at section III.

### *Multi-Unit Franchising*

Generally, a multi-unit franchisee is any franchisee within a system that owns more than one franchised unit.<sup>114</sup> Multi-unit franchising arrangements can take many forms, the most common of which are (a) multi-unit development (commonly referred to as area development, in which the franchisee is referred to either as the multi-unit developer, area franchisee, or regional developer); (b) master franchising (also known as sub-franchising); and (c) area representative franchising (where the franchisor contracts with an “area representative,” also known as a development agent).<sup>115</sup>

The North American Securities Administrators Association elaborates on these types of multi-unit franchising:

- a) Multi-unit development (area development) “involves a person that is granted, for consideration paid to the franchisor, the right to open and operate multiple unit franchises, generally within a delineated geographic area.”
- b) Master franchising (subfranchising) “involves a person that is granted, for consideration paid to the franchisor, rights related to granting unit franchises to third parties or affiliates, generally within a delineated geographic area.”<sup>116</sup> Master franchises may be the most used strategy in international franchising.<sup>117</sup>
- c) Area representation “involves a person that is granted, for consideration paid to the franchisor, the right to solicit or recruit third parties to enter into unit franchise agreements

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<sup>114</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at Section I.

<sup>115</sup> *Issues in Growth*, *supra* note 6 at section II.

<sup>116</sup> North American Securities Administrators Association, “Multi-Unit Commentary” (16 September 2014) [*Multi-Unit Commentary*].

<sup>117</sup> Stuart Youngs, Melissa Murray & Peter Snell, “Emerging Approaches in International Franchising” (Paper delivered at International Franchise Association 54<sup>th</sup> Annual Legal Symposium, 15 May 2022) at 2 [*Emerging Approaches*].

with the franchisor, and/or to provide support services to third parties entering into unit franchise arrangements with the franchisor.”<sup>118</sup>

Multi-unit franchising gradually emerged as franchisors sought faster, more efficient expansion. Multi-unit operators can share portions of their overhead among units, creating synergies for advertising, manufacturing, distribution, information, and administrative expenses.<sup>119</sup> Franchisees also benefit from economies of scale and higher returns, as they can use the same successful operating principles for multiple units.<sup>120</sup>

### *Multi-Brand Operators*

A multi-brand operator can be structured in one of two ways. A multi-brand franchise can be the planned association of two or more distinct brands owned by the same franchisor or parent entity. Alternatively, a multi-brand operator may also have a single franchisee that separately owns and operates franchises of distinct franchised brands owned by different franchisors.<sup>121</sup> Multi-brand franchises allow franchisors to leverage resources across their different businesses, diversify their portfolios and mitigate risk during down times. The multi-brand offerings allow the franchisees to respond efficiently to changing customer demands, leading to higher sales and higher return on investment for PE firms.<sup>122</sup>

Although the MUMBO space was once dominated by restaurant operators, other industries have also adopted multi-brand operations, including automotive, hospitality and real estate industries.<sup>123</sup>

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<sup>118</sup> *Multi-Unit Commentary*, *supra* note 116.

<sup>119</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at Section I.

<sup>120</sup> *Ibid.*

<sup>121</sup> *Ibid.*

<sup>122</sup> *Ibid* at Section I and III.

<sup>123</sup> *Ibid* at 30.

## **B. Neighborly Case Study: Framing of Multi-Brand Platform Franchisors**

Neighborly Brands is the world's largest home services franchisor, offering over 30 brands and 5,500 franchises that serve over 12 million customers across the globe.<sup>124</sup> The Neighborly case study represents the strength of a PE-backed, multi-brand platform franchisor with offerings in related industries. In 2023, the Neighborly platform surpassed \$4 billion in systemwide sales and sold a company record of 468 franchises.<sup>125</sup> How did Neighborly reach this level of success?

Under former CEO, the late Mike Bidwell, the Dwyer Group rebranded to Neighborly in 2017 to reflect its multi-brand, integrated home services platform approach.<sup>126</sup> Following this rebrand, Harvest Partners purchased Neighborly in March 2018. Bidwell also recognized the growth of the gig economy and the potential threat it posed to the home-services model.<sup>127</sup> Neighborly's strategic response to the rise of the gig economy includes the Neighborly App experience, which aims to provide customers with a frictionless experience by facilitating convenient access to and scheduling for services specific to their needs.

Within three years of the purchase by Harvest Partners, Neighborly had grown to a platform with 28 brands and \$3 billion in system sales.<sup>128</sup> The PE giant KKR & Co. agreed to purchase Neighborly in 2021 from Harvest Partners, highlighting the way "Neighborly stands out for its differentiated strategy of bringing together adjacent services under a diversified and tech-enabled platform, and – most importantly – for its unrivaled dedication to customer service".<sup>129</sup> The next

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<sup>124</sup> *Brand Consolidation*, *supra* note 19; *Strategic Shift for Neighbourly*, *supra* note 14.

<sup>125</sup> *Strategic Shift for Neighbourly* *supra* note 14.

<sup>126</sup> *Ibid.*

<sup>127</sup> *Strategic Shift for Neighbourly*, *supra* note 14.

<sup>128</sup> Beth Ewen, "KKR Makes Winning Bid for Home-Services Franchisor Neighborly" (8 July 2021), online: [KKR Makes Winning Bid for Home-Services Franchisor Neighborly | Franchise Mergers and Acquisitions | franchisetimes.com](https://www.franchisetimes.com/news/kkr-makes-winning-bid-for-home-services-franchisor-neighborly/).

<sup>129</sup> KKR, "KKR to Acquire Leading Home Services Platform Neighborly®" (8 July 2021), online: [KKR to Acquire Leading Home Services Platform Neighborly®](https://www.kkr.com/press-releases/kkr-to-acquire-leading-home-services-platform-neighborly/).

year, in 2022, continued to create leads for franchisees and cross-branding opportunities with the addition of new brands, including Junk King.

Following the sudden and tragic passing of long-time CEO Bidwell in September 2023, interim CEO Jon Shell supported Neighborly through five major deals with PE firms. Shell oversaw a shift in strategy to deliberately flow PE investments at the franchisee level, resulting in over \$400 million invested in major multi-unit operators. Eagle Merchant Partners, Franchise Equity Partners, CPC, SBJ Capital and Main Post Partners made targeted franchisee level investments in Mr. Rooter, Mr. Electric and Precision Garage Door Service.<sup>130</sup> More recently, Neighborly CMO Stacy Lynn Bourgeois is executing a customer-centric marketing strategy based on data, insights and direct feedback. The personalized franchise development marketing helps instill confidence in prospective franchisees and improve conversion rates.<sup>131</sup>

### **C. Shared Infrastructure Advantages**

Shared infrastructure in MUMBOs refers to the integration or centralization of support functions, such as marketing, legal, HR, IT, and other back-office systems, across multiple units and brands under a single umbrella operating platform, often with PE ownership or backing. By sharing these various overhead expenses, the umbrella company can drive down operational costs and increase profit.<sup>132</sup> Centralized marketing teams, data analytics, shared loyalty and promotional campaigns, and unified digital platforms enable platforms to outspend and outperform stand-alone brands, while franchisees access high-quality campaigns, best practices, and increased customer reach.<sup>133</sup>

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<sup>130</sup> *Strategic Shift for Neighborly*, *supra* note 14.

<sup>131</sup> Kerry Pipes, "Nurturing the Garden: Neighborly's CMO Balances the Unique Needs of 19 Brands" (2025), online: [Nurturing the Garden: Neighborly's CMO Balances the Unique Needs of 19 Brands](#).

<sup>132</sup> *Private Equity Acquisitions*, *supra* note 3 at section II.A.

<sup>133</sup> *Brand Consolidation*, *supra* note 19; *Strategic Shift for Neighborly*, *supra* note 14; *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at section I.

For PE investors, shared infrastructure is enticing as it enhances EBITDA and overall investment returns through cost savings and elimination of duplicative functions.<sup>134</sup> On the other hand, franchisees and franchisors gain access to cost-effective, highly sophisticated operational support.<sup>135</sup> These integrated systems drive scalability, operational excellence, cost savings, market advantage, and increased professionalism across brands. Overall, the advantages garnered from the platform model are reciprocal. PE investors can leverage integration for higher returns and lower risk; franchisees and franchisors achieve growth, sophistication, and operational resilience previously out of reach for smaller, stand-alone systems.

#### **D. PE Sponsor Benefits**

##### *Repeatable Add-on Acquisitions*

The MUMBO franchising structure enables PE sponsors to pursue systematic, repeatable add-on acquisitions: “the creation of these platforms, driven largely by PE money, is sometimes just aggregating brands, while others are looking to create highly synergistic platforms.”<sup>136</sup> The companies cited demonstrate growth “through the acquisition of complementary, usually consumer-focused brands,” emphasizing how lessons from previous acquisitions are applied in PE’s repeatable playbook. These playbooks must account for operational separation where appropriate, but also for sharing best practices, staff, and back-office resources.<sup>137</sup>

##### *Cross-Brand Franchisee Expansion*

Platforms that facilitate and incentivize franchisees’ movement and investment across brands, building “multi-brand ownership pathways” for operator entrepreneurs.<sup>138</sup> Cross-brand expansion

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<sup>134</sup> *Private Equity Acquisitions*, *supra* note 3 at section II.A.

<sup>135</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 25.

<sup>136</sup> *Brand Consolidation*, *supra* note 19.

<sup>137</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 25.

<sup>138</sup> *Brand Consolidation*, *supra* note 19.

is advanced through dual or concurrent license structures, integrated contracts, and rights of first refusal, which enables experienced operators to move across the brand family.<sup>139</sup> Portfolio cross-selling and expansion, facilitated by PE's focus on synergies, drive not only brand-level, but also cross-brand growth. The cross-brand synergies manifest as internal referrals within the umbrella company, increased lead flow, and higher revenues through responsiveness to customer preferences.<sup>140</sup>

## **E. Franchisor benefits**

### *Increased Investor Attractiveness*

Multi-unit franchising enables franchisors to achieve aggressive, accelerated unit growth with fewer franchisees and limited investment from the franchisor. With multi-unit franchises, market penetration occurs faster, reducing the number of relationships the franchisor needs to manage. Multi-unit franchising can be used to penetrate new regions, countries, or markets where a franchisor has little or no existing presence or expertise.<sup>141</sup>

Further, franchisors can collect larger initial fees in multi-unit franchising arrangements compared to single-unit franchising. Fee structures vary depending on the arrangement:

- Master franchisees typically pay substantial upfront fees for the right to develop and recruit third-party franchisees in large regions, with amounts often in the mid to high six-figure or even seven-figure range.
- Multi-unit development involves a two-tiered fee structure: an initial franchise fee for the first outlet, and a deposit (usually fifty percent of the initial fee) for each additional unit the developer must open.

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<sup>139</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at Section II.

<sup>140</sup> *Strategic Shift for Neighbourly*, *supra* note 14.

<sup>141</sup> *Issues in Growth*, *supra* note 6 at section II.A.

- Area representatives pay an upfront fee based on a percentage of the single-unit franchise fee multiplied by the number of outlets they are required to sell. These upfront fees are generally non-refundable.<sup>142</sup>

Finally, franchisors typically provide operational support to each unit, which can be resource-intensive with numerous single-unit franchisees. Multi-unit franchisees, being typically more experienced and self-sufficient, require less franchisor support per unit and often provide internal training and operational support themselves. This allows franchisors to allocate more resources toward growing and improving the system overall.<sup>143</sup>

#### *Improved Franchisee Recruitment and Retention*

Multi-unit franchisees are often larger, financially stronger, with a higher level of business acumen and more robust infrastructure. These franchisees bring valuable experience and resources in investment, business planning, and operations. Their sophistication provides franchisors with greater confidence in the franchisee's ability to develop and operate multiple successful outlets.<sup>144</sup>

Franchisors can attract these kinds of franchisees by offering the benefits of enhanced operational efficiencies and increased economies of scale.<sup>145</sup>

#### **F. Franchisee benefits**

PE investment results in capital infusion, providing franchisees the financial means to expand, including into multi-brand operations.<sup>146</sup> This capital infusion is attractive to franchisees, particularly smaller brands, as it facilitates access to resources and staff that it would not be able

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<sup>142</sup> *Ibid.*

<sup>143</sup> *Issues in Growth, supra* note 6 at section II.A.

<sup>144</sup> *Ibid.*

<sup>145</sup> Chris Beckham, "The Advantages of Owning Multiple Brands Under a Parent Company" (14 November 2024), online: [The Advantages of Owning Multiple Brands Under a Parent Company](#).

<sup>146</sup> *Ibid.*

to afford otherwise.<sup>147</sup> A MUMBO can scale much quicker than through traditional single-unit or single-brand franchise growth.<sup>148</sup>

PE firms bring strategic guidance and industry insights that can inform efficient and effective business strategies.<sup>149</sup> Further, these firms can contribute resources, such as more sophisticated metric tracking. The network and reputation of PE investors can result in the involvement of experienced operators with deep industry knowledge, experienced brand professionals and increased media coverage. PE firms tend to have long-standing relationships with lenders, resulting in more favorable borrowing terms that benefit the entire franchise ecosystem.<sup>150</sup> In addition, PE investment can offer franchisees an exit ramp or succession plan, which can pose a challenge with business valuations in a state of flux.<sup>151</sup>

#### *Risk Mitigation and Revenue Diversification*

Franchisees with several units enjoy multiple streams of revenue earned by their different franchised units. More franchised outlets generate greater bargaining power for bulk purchasing, and economies of scale for marketing, HR, and training.<sup>152</sup> Further, franchisees mitigate risk by owning multiple brands, smoothing revenue streams if one brand or segment underperforms.<sup>153</sup> The platform franchise system enables franchisees to service more than one customer need and “balance cyclical market rotations” (i.e., offsetting downturns in one sector/brand with strength in another), stabilizing and enhancing income streams.<sup>154</sup>

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<sup>147</sup> *Brand Consolidation*, *supra* note 19.

<sup>148</sup> *Ibid.*

<sup>149</sup> *The Evolving Landscape*, *supra* note 79.

<sup>150</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 24.

<sup>151</sup> Carty Davis, “Exit Strategies & Succession Planning in a Post-Covid World” (2 September 2021), online: [Exit Strategies & Succession Planning in a Post-Covid World](#).

<sup>152</sup> *Issues in Growth*, *supra* note 6 at section II.B.

<sup>153</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at Section II.

<sup>154</sup> *Private Equity Acquisitions*, *supra* note 3 at section II.A.

MUMBO franchise platforms illustrate how PE, franchisors, and franchisees increasingly value repeatable playbooks, integration capability, and cross-brand synergies over standalone brand performance.

## **G. Issues and challenges**

### *Brand Governance, Confidential Information and Permitted Competition*

Where the offerings of a MUMBO span multiple markets or brands, defining the scope of permitted competition for each party is crucial to avoid conflicts of interest or misuse of confidential information.<sup>155</sup> MUMBOs often operate across competing or synergistic brands, presenting significant risk of unintended sharing of confidential information, and pressure on the franchisor to relax non-competition clauses.<sup>156</sup> The risk of unintentional sharing of proprietary information is particularly heightened if staff cross between brands.<sup>157</sup>

### *Recruitment and Capability Risks*

Franchisors face difficulty ascertaining whether large, multi-unit franchisees, especially those consolidated with PE deals, are truly capable of meeting their scaling obligations, compounding risk over many outlets and requiring robust due diligence and ongoing oversight.<sup>158</sup>

### *PE Partner Risks*

MUMBOs with PE partners may face pressure for short-term results and “exit timing” that may not align with brand strategy, creating friction with franchisors and financial instability during exit.<sup>159</sup> There can be tension or turnover when PE buyers and legacy management teams misalign on

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<sup>155</sup> *Emerging Approaches*, *supra* note 117 at 3.

<sup>156</sup> *Issues in Growth*, *supra* note 6 at section III.E.

<sup>157</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 8.

<sup>158</sup> *Issues in Growth*, *supra* note 6 at section III.A.

<sup>159</sup> *Issues in Growth*, *supra* note 6 at section III.H.

growth objectives, cost, or cultural vision, leading to loss of know-how or inconsistent execution post-acquisition.<sup>160</sup> Additionally, there may be costs associated with the franchisee learning to operate the combined multi-brand platform smoothly.<sup>161</sup>

#### *Threats to Brand Equity and Profitability*

Brand equity is threatened by if one brand within the MUMBO contaminates perceptions of others owned by the MUMBO.<sup>162</sup> Franchisees may be concerned about direct competition from those within the MUMBO or potential for customer confusion from the presentation of two brands.<sup>163</sup> Different brands may require different management or employees, and different infrastructure requirements may pose integration challenges.<sup>164</sup> Smaller brands may “get lost as part of a large platform”.<sup>165</sup> Franchisees may be concerned that much of the franchisor’s management time, attention, and financial resources will be redirected to the development of the multi-brand operations.<sup>166</sup>

#### **H. Platform Thinking as a Capital Markets Differentiator**

#### **V. Redefining Performance Metrics Through Data, AI, and Technology**

The rise of platform franchising and alternative transaction structures has forced private equity investors to reassess how franchise systems are evaluated, priced, and governed.

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<sup>160</sup> *Deep Dive into Due Diligence*, *supra* note 5 at section VI.A.

<sup>161</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at Section II.

<sup>162</sup> *Ibid.*

<sup>163</sup> *Ibid.*

<sup>164</sup> *Ibid* at 9.

<sup>165</sup> *Brand Consolidation*, *supra* note 19.

<sup>166</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1.

## **A. Moving Beyond Traditional Franchise Metrics**

Traditional franchise performance indicators—such as unit count and same-store sales—no longer provide a sufficient or complete basis for underwriting or valuing modern franchise platforms.

### *Why Traditional Franchise Metrics Are Insufficient*

Unit count alone is insufficient because disclosed network size can mask weak unit health or imminent closures, which only diligence can uncover.<sup>167</sup> Unit count can also ignore intra-brand competition that erodes unit economics.<sup>168</sup> Unit growth also ignores territory mis-sizing, which can depress performance and constrain future development.<sup>169</sup>

### *New Metrics Deployed by PE*

#### a. Territory Density Analysis

Territories that are too large risks stagnation. If development lags, large territories can tie up exclusivity and depress performance due to slow market penetration.<sup>170</sup> Overly dense placement can undercut profits where markets overlap.<sup>171</sup> Realistic unit counts require demographic and economic metrics to gauge how many outlets a territory can sustain.<sup>172</sup>

#### b. Unit Churn

Multiple transfers of the same location, or “churn”, of the same unit in a single year is flagged as a potential indicator of systemic weakness, market risk, or operational instability. Churn is seen

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<sup>167</sup> *Private Equity Acquisitions*, *supra* note 3 at 12.

<sup>168</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 13.

<sup>169</sup> *Multi-Unit and Multi-Brand Franchisees*, *supra* note 1 at 16.

<sup>170</sup> *Issues in Growth*, *supra* note 6 at 13.

<sup>171</sup> *Ibid.*

<sup>172</sup> *Issues in Growth*, *supra* note 6 at 13 and 17.

as an indicator of “system-wide weakness” and thus a red flag for potential buyers, threatening the predictability of royalty streams and long-term value.<sup>173</sup>

c. Franchisee Quality and Scalability

Franchise systems that support scalable growth through strong infrastructure, effective development schedules, and proven expansion models are most attractive for investment and command higher valuations.

Franchisee quality is foundational to franchise system performance, enabling steady royalty flows, strong sales/marketing personnel, reputational strength, and system stability.<sup>174</sup> Private equity, M&A, and valuation processes heavily scrutinize franchisee financial and operational strength, track record, management sophistication, and legal compliance via exhaustive due diligence.<sup>175</sup>

Private equity investors now prioritize metrics that measure system quality, scalability, and durability rather than raw expansion.

**B. Role of AI, Analytics, and Operational Technologies**

PE firms are undergoing a fundamental transformation in how performance is measured and how operational decisions are made. This shift is driven by the integration of advanced data analytics, artificial intelligence (AI), and modern operational technologies, moving the industry away from static, historically oriented metrics toward dynamic, real time, and predictive performance frameworks. This evolution enables investors and franchisors to unlock new sources of value, mitigate risk more robustly, and sustain competitive advantages in increasingly complex market environments.<sup>176</sup>

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<sup>173</sup> *Deep Dive into Due Diligence*, *supra* note 5 at 20.

<sup>174</sup> *Issues in Growth*, *supra* note 6 at 12.

<sup>175</sup> *Deep Dive into Due Diligence*, *supra* note 5 at 6.

<sup>176</sup> Anand Ramachandran, “Advanced Artificial Intelligence in Private Equity and Venture Capital A Functional Framework for Lifecycle Transformation” (2025), at section 16.1. [*Advanced Artificial Intelligence*].

### *Traditional Performance Metrics*

In the context of PE and franchise investments, performance metrics have traditionally measured financial health, growth, and operational efficiency using standard tools and retrospective data analysis. These conventional measures typically include revenue growth, profitability, return on investment, and various operational benchmarks, focusing largely on historic and static data points.<sup>177</sup> While foundational, these methods imposed clear limitations. Performance measurement was inherently retrospective, often failing to capture early warning signals of underperformance or shifts in market conditions.<sup>178</sup> Decision-making was also subject to bias and subjectivity as human intuition, and networks played an outsized role, constraining scalability and consistency. Additionally, the manual nature of data collection and analysis created inefficiencies and limited the breadth and depth of actionable insights.<sup>179</sup>

### *The Transformation: AI, Data, and Advanced Technologies*

The emergence of AI and advanced analytics has fundamentally reshaped how PE firms operate. A range of technologies, including large language models, automated workflow systems, and advanced data analysis tools, are now embedded across investment and operational processes.<sup>180</sup> These tools help automate tasks such as report writing, due diligence, contract review, and stakeholder communication, while also enabling more efficient monitoring and coordination of complex activities.<sup>181</sup> They can map relationships across companies and markets, support risk detection, and simulate different strategic scenarios such as exit timing or capital

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<sup>177</sup> *Ibid* at section 1.2.

<sup>178</sup> *Ibid*.

<sup>179</sup> *Ibid* at sections 5.2, 24.2.

<sup>180</sup> *Ibid* at section 1.7.

<sup>181</sup> Richard Allinson, Karen Khalaf, Richard Lichtenstein, and Gene Rapoport, "Harnessing Generative AI in Private Equity", (2024), online (report): [Harnessing Generative AI in Private Equity | Bain & Company](#). [*Harnessing Generative AI*].

allocation. At the same time, AI systems are increasingly used to support compliance and Environmental, Social, Governance (ESG) monitoring in a transparent and structured way.<sup>182</sup>

Together, these technologies are driving a shift toward more dynamic and forward-looking performance metrics. Instead of relying on static, backward looking indicators, firms can now monitor key performance metrics in real time, allowing for earlier identification of risks and performance issues.<sup>183</sup> Predictive analytics combines financial data with other sources – such as customer feedback, news, and market trends – to generate forecasts and support more informed decision-making.<sup>184</sup> Scenario modeling tools further enhance this by enabling firms to test different strategies before acting, while network-based analysis provides deeper insight into relationships and risks across industries.<sup>185</sup>

#### *Applications in Franchise Investment*

Such systems allow stakeholders to monitor key performance indicators across entire franchise networks as they occur, rather than relying on delayed or static reporting. Real time access to data on sales, customer behavior, market trends, operational issues, and franchisee performance supports more agile and informed responses to emerging risks and opportunities.<sup>186</sup> Beyond data aggregation, AI enables predictive analytics that help forecast trends, identify patterns and proactively manage both franchise operations and investment strategies. Finally, AI can provide continuous monitoring tools to create automated summaries and alerts ensuring that both

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<sup>182</sup> *Advanced Artificial Intelligence*, *supra* note 181 at chapter 12.

<sup>183</sup> *Ibid* at section 5.3.

<sup>184</sup> *Harnessing Generative AI*, *supra* note 181

<sup>185</sup> *Advanced Artificial Intelligence*, *supra* note 176 section 1.3.

<sup>186</sup> Jeff Salter, John Teza, Lucas Versteegh and Vincent Frantz, “Practical Application of Artificial Intelligence in a Franchise System” (Paper delivered at the International Franchise Association 57<sup>th</sup> Annual Legal Symposium, Washington, DC, 4-6 May 2025) [unpublished] at 1-2.

franchise owners and investors maintain up-to-date situational awareness across distributed networks.<sup>187</sup>

## **VI. External Pressures Influencing PE Strategy in Franchising**

PE investment in the franchise sector has surged in recent years, entering an operating environment under considerable external stress. This environment is marked by shifting consumer behavior, demand volatility, brand differentiation challenges in crowded markets, and labor market constraints. This section explores two current pressures: tariffs and supply chain disruptions, and technology-driven transformations. It evaluates how each factor influences the risk-return calculus for PE-backed franchise investments.

### *Tariffs and Supply Chain Disruption*

Trade policy has emerged as a significant and largely unpredictable variable in franchise operating economics. Tariffs introduced in early 2025 include a 10 percent baseline on all imports to the U.S. As a result, the U.S. foodservice industry faces an estimated \$12.1 billion cost impact from these escalating tariffs.<sup>188</sup> Since quick-service restaurants are considered the largest contributors (worth 382 billion USD in 2025) in the franchise industry (followed by the retail food, products, and services),<sup>189</sup> the effects of these tariffs are already visible in operator-level data. Expert Market's 2025 Report found that in the U.S. 76 percent of restaurant operators say rising ingredient costs are affecting their profitability, and 47 percent report that tariffs have directly led to increased menu prices.<sup>190</sup> Industry experts expect tariff-related uncertainty to persist through

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<sup>187</sup> GoSpark, "Franchise Analytics & Performance Dashboards" (as of 25 April 2026), online (webpage): [Franchise Analytics & Reporting | Data-Driven Growth Tools | Go Spark](#).

<sup>188</sup> Luca Piacentini, "Tariff Tensions Threatened U.S. Restaurants with Rising Costs and Supply Chain Disruptions" (18 March 2025), online (article): [Top Franchise Marketing Leaders to Know in 2026](#).

<sup>189</sup> Adam Heltzman, "64 Franchise Statistics to Know in 2025" (18 February 2025), online (article): [64 Franchise Statistics to Know in 2025 - HigherVisibility](#). [64 Franchise Statistics].

<sup>190</sup> Tess Owings, "Restaurants' 3 Key Challenges for 2026" *The Food Institute* (14 November 2025), online: [Restaurants' 3 Key Challenges for 2026 - The Food Institute](#).

2026.<sup>191</sup> For PE investors, this increases a forecasting challenge that is fundamentally different from typical operating cost volatility and disproportionately affects the franchise categories (food, hospitality, and retail), where PE capital is most concentrated.<sup>192</sup>

### *Technology and Artificial Intelligence*

Technology adoption, particularly AI, represents the most significant opportunity for PE-backed franchises to offset increasing margin pressures, such as those described in the preceding section.

AI adoption is accelerating across the franchise sector, with 45 percent of franchise companies reporting increased operational efficiency from AI adoption and 52 percent measurable cost reductions.<sup>193</sup> AI is likely to improve costs, efficiencies, and the customer experience at the unit level, positioning franchisees as the likely winners as these tools mature.<sup>194</sup> PE firms must therefore evaluate not only a target's current technological stack, but also its organizational capacity to adopt AI-driven operations capabilities.

The dynamics explored above suggest that PE strategy in franchising is entering a period of greater selectivity. PE-backed groups are often better capitalized, faster moving and more sophisticated than traditional owner-operators, which raises the competitive bar for other brands in marketing, technology and franchisee support.<sup>195</sup>

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<sup>191</sup> Kelly Beaton, "Tariff Tactics: How Food Brands Are Battling Rising Costs" *The Food Institute* (25 June 2025), online: [Tariff Tactics: How Food Brands Are Battling Rising Costs - The Food Institute](#).

<sup>192</sup> 64 *Franchise Statistics*, supra note 189.

<sup>193</sup> Antoine, "How AI will transform franchise operations in 2026: what business owners need to know" (3 December 2025), online (blog): [How AI Will Transform Franchise Operations in 2026: What Business Owners Need to Know Now - Franchise Creator](#).

<sup>194</sup> Alicia Miller, "AI's Potential to Transform Franchising Includes a Major Power Balance Shift" *Franchise Times* (31 March 2026), online: [AI's Potential to Transform Franchising Includes a Major Power Balance Shift | April | franchisetimes.com](#).

<sup>195</sup> *Private Equity In Early-Stage Franchises*, supra note 2.

## **VII. Positioning for Strategic Growth Partnerships (Not Just Exits)**

As PE becomes a recurring partner rather than a one-time exit, franchisors must rethink how they prepare for investment, growth, and long-term collaboration.

### *Redefining “Deal Readiness”*

#### 1. Operational maturity

PE firms seek brands with established operational sophistication demonstrated by size (number of units), revenue, profitability, and underlying success and profitability at the franchisee level.<sup>196</sup>

Building a foundation of operational maturity involves developing solid systems and processes, including creating a franchise operations manual and standardising procedures for sales, recruiting, onboarding, and customer service.<sup>197</sup> Strategic partnerships require franchisees and franchisors to have operational structures and processes that allow for efficient scaling. Franchises need consistent systems to manage growing alliances, centralize vendor and supplier networks, ensure brand standards, and maintain seamless operations across multiple markets and owners.<sup>198</sup> Franchisors should demonstrate that improvements at the corporate level, such as in marketing, training, or technology, can be implemented systemwide, achieving uniformity and efficiency.<sup>199</sup> Operational maturity is demonstrated not only by the ability to execute projects but also by having the infrastructure to support collaborative growth.<sup>200</sup>

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<sup>196</sup> Thryv, “How to Secure Private Equity Funds for your Franchise”, (WednesdayWise Webinars), (15 February 2023):[IFA Presentation: How to Secure PE Funds for your Franchise](#). [*How to Secure Private Equity Funds*].

<sup>197</sup> Internicola Law Firm, “How to Build and Grow a Franchise System That You Can Sell to Private Equity” (as of 25 April 2026) online (webpage): [How to Build and Grow a Franchise System That You Can Sell to PE | The Internicola Law Firm](#). [*How to Build and Grow*].

<sup>198</sup> Ken Corsini, “The Role of Strategic Partnerships in Franchise Growth” (7 January 2026), online (blog): [The Role of Strategic Partnerships in Franchise Growth](#). [*The Role of Strategic Partnerships*].

<sup>199</sup> Krieger Analytics, “Why Private Equity Loves Franchising – What Every Franchisor Needs to Know” (21 August 2025), online (blog): [Why PE Loves Franchising – What Every Franchisor Needs to Know](#). [*Why Private Equity Loves Franchising*].

<sup>200</sup> *The Role of Strategic Partnerships*, *supra* note 198.

PE investors seek evidence of operational maturity. They focus on the level of sophistication in accountability, structure, controls, and fiscal responsibility within the franchisor's business.<sup>201</sup> Investors assist with improving profitability, creating budgets, reviewing proformas and cost of goods, and may provide resources such as industry knowledge and vendor relationships.<sup>202</sup>

## 2. Data readiness

PE buyers place significant value on Key Performance Indicators (KPIs) being tracked and maintained, including revenue growth, speed of opening new locations, franchisee profitability, thriving multi-unit franchisees, franchisee validation, and recurring income from royalties and rebates.<sup>203</sup> Getting 'your house in order' is described as the first crucial step. This includes maintaining clean financial and clear unit-level performance data to prove profitability and growth potential. Franchisors must be able to translate their day-to-day operations into the financial narrative that PE expects, showing reliable and insightful metrics to potential investors.<sup>204</sup> Being transparent with numbers and opportunity profiles, and understanding the unit economics of the franchise offering, supports data readiness and strengthens the franchise system's positioning.<sup>205</sup>

Being ready for high-growth partnerships or potential investor/PE interest also means having robust data systems in place. This includes the use of technology such as lead tracking, deal analysis, and integrated systems that enable fast, data-driven decision-making.<sup>206</sup>

## 3. Governance and systems discipline

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<sup>201</sup> *How to Secure Private Equity Funds*, *supra* note 196.

<sup>202</sup> *More Art Than Science*, *supra* note 13.

<sup>203</sup> *How to Build and Grow*, *supra* note 197.

<sup>204</sup> *Why Private Equity Loves Franchising*, *supra* note 199.

<sup>205</sup> *How to Build and Grow*, *supra* note 197.

<sup>206</sup> *The Role of Strategic Partnerships*, *supra* note 198.

Franchise businesses positioning themselves for strategic alliances with PE players must enforce clear governance structures and systems discipline. A strong legal foundation, proper structure, and compliance with regulatory recommendations (such as maintaining adequate reserve capital) are necessary to meet governance expectations.<sup>207</sup> Clear agreements and ongoing evaluation of partnerships are also hallmarks of disciplined governance.<sup>208</sup> Governance also includes working with experienced advisors and attorneys to ensure the franchise structure is robust and scalable.<sup>209</sup>

Additionally, process-based business models and consistent use of systems discipline, such as systematic recruiting, onboarding, and performance tracking, are highlighted as essential for long-term stability and attractiveness to investors.<sup>210</sup> Ensuring all partners uphold brand guidelines, documenting expectations, and committing to regular communication are vital for protecting the franchise's integrity and delivering a consistent customer experience.

### *Thinking Beyond Single-Brand Growth*

Brands should prepare infrastructure and process approaches early to support expanding beyond initial markets or single-brand focus.<sup>211</sup> However, it is crucial that sustainable, strategic growth is prioritised over rapid or multi-territory expansion<sup>212</sup>

Effective strategic positioning involves looking past immediate, brand-centric expansion and considering growth through cross-franchise, intra-brand alliances, and external strategic partners. Franchises benefit from sharing knowledge, leads, systems, and joint operational initiatives, which

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<sup>207</sup> *How to Build and Grow*, *supra* note 197.

<sup>208</sup> *The Role of Strategic Partnerships*, *supra* note 198.

<sup>209</sup> *How to Build and Grow*, *supra* note 197; *Why Private Equity Loves Franchising*, *supra* note 199.

<sup>210</sup> *How to Build and Grow*, *supra* note 197.

<sup>211</sup> *How to Build and Grow*, *supra* note 197.

<sup>212</sup> *Ibid.*

strengthens the brand and accelerates collective scale across multiple owners, territories, and even brands.<sup>213</sup>

PE interest is often linked to scalability, not just in terms of expanding a single brand, but also the potential to grow into new markets and possibly leverage operational excellence across multiple concepts. PE deals are often driven by a brand's ability to replicate success in different geographical areas; this indicates that a growth vision should stretch beyond the current brand's footprint.<sup>214</sup>

### *Preparing for PE Scrutiny*

Franchisors are advised to take steps early, by focusing on franchisee profitability, infrastructure, and growth initiatives, to ensure their brand is well-prepared and attractive to potential PE investors.<sup>215</sup> Ongoing attention to KPIs and operational transparency aligns franchisors with investor expectations and demonstrates future value.<sup>216</sup> Transparent data and reliable performance tracking, including ROI from alliances, are required for investor confidence.<sup>217</sup>

Preparation is a deliberate, professional process, most successful franchisors have proactively positioned themselves through disciplined financial management and compelling operational stories, engaging with the right investors well before a transaction is contemplated. This involves targeted outreach, tailored presentations, and readiness for rigorous due diligence, underscoring the need to anticipate PE demands years in advance.<sup>218</sup>

It is recommended to hire a third-party advisor with experience in PE transactions to objectively manage the process, including vetting investors and prioritizing the franchisor's best interests.

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<sup>213</sup> *The Role of Strategic Partnerships, supra* note 198.

<sup>214</sup> *Why Private Equity Loves Franchising, supra* note 199.

<sup>215</sup> *How to Build and Grow, supra* note 197.

<sup>216</sup> *How to Build and Grow, supra* note 197.

<sup>217</sup> *The Role of Strategic Partnerships, supra* note 198.

<sup>218</sup> *Why Private Equity Loves Franchising, supra* note 199.

This early preparation helps franchisors understand the process, protect their business, and approach PE strategically and thoughtfully.<sup>219</sup>

### *Strategic Partnerships*

Rather than focusing solely on exit opportunities, franchises can also leverage strategic partnerships for ongoing value creation and long-term scalability. Alliances across marketing, lead generation, technology, and supply chains catalyze brand reach, reduce costs, boost operational efficiency, and create sustainable competitive advantage. Long-term partnership strategies set the foundation for extensive market penetration and resilient, network-driven business models.<sup>220</sup>

The development and maintenance of solid operational and legal foundations, paired with a growth-oriented mindset, position the brand for both successful exits and longstanding partnerships with investors.<sup>221</sup>

Strategic partnerships with PE are cast not merely as exit events but as opportunities for long-term growth and system-wide improvement. PE investment is often transformational, enabling rapid scaling, enhancing systems, and professionalising leadership. Brands that invest in rigorous preparation and seek alignment with strategic capital are positioned for sustained success, not just a transaction but ongoing value creation.<sup>222</sup> However, ensuring a good fit and alignment of interests between the investor and brand is essential for long-term success.<sup>223</sup>

## **VII. Conclusion**

PE has transitioned from a traditional buy-and-build approach to becoming a core component of franchising, focusing on integrated operating ecosystems. This shift emphasizes scalable

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<sup>219</sup> *More Art Than Science*, *supra* note 13.

<sup>220</sup> *The Role of Strategic Partnerships*, *supra* note 198; *How to Build and Grow*, *supra* note 197.

<sup>221</sup> *How to Build and Grow*, *supra* note 197.

<sup>222</sup> *Why Private Equity Loves Franchising*, *supra* note 199.

<sup>223</sup> *More Art Than Science*, *supra* note 13.

platforms, multi-unit models, and data-driven strategies. Franchisors should align with PE by building platform-ready systems, engineering value, and prioritizing multi-unit operators.

Going forward, the 2026 IFA Franchising Economic Outlook anticipates that platform-led consolidation is expected to continue, driven by revenue diversification and operating efficiencies. Larger, well-capitalized franchisees are acquiring more locations to build scale and improve system performance. Strong operators are selectively acquiring underperforming units, while weaker ones exit. At the brand level, franchisors are likely to accelerate brand repositioning, product innovation, and optimization of formats in response to consumer preferences and competition.<sup>224</sup>

Embracing AI and managing external pressures like tariffs will be crucial for sustainable growth and competitive advantage. In a volatile global economy, it is likely that PE investment in the resilient, predictable, and scalable franchising model will continue grow.<sup>225</sup>

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<sup>224</sup> International Franchise Association, "2026 Franchising Economic Outlook" at 10.

<sup>225</sup> *Strategic Sweet Spot*, *supra* note 10.