



**FRANCHISE LEADERSHIP &
DEVELOPMENT CONFERENCE**

LEARN LEAD GROW

October 19 – 21, 2021
InterContinental Buckhead Hotel, Atlanta GA

PRESENTED BY

**FRANCHISE
UPDATE
MEDIA**

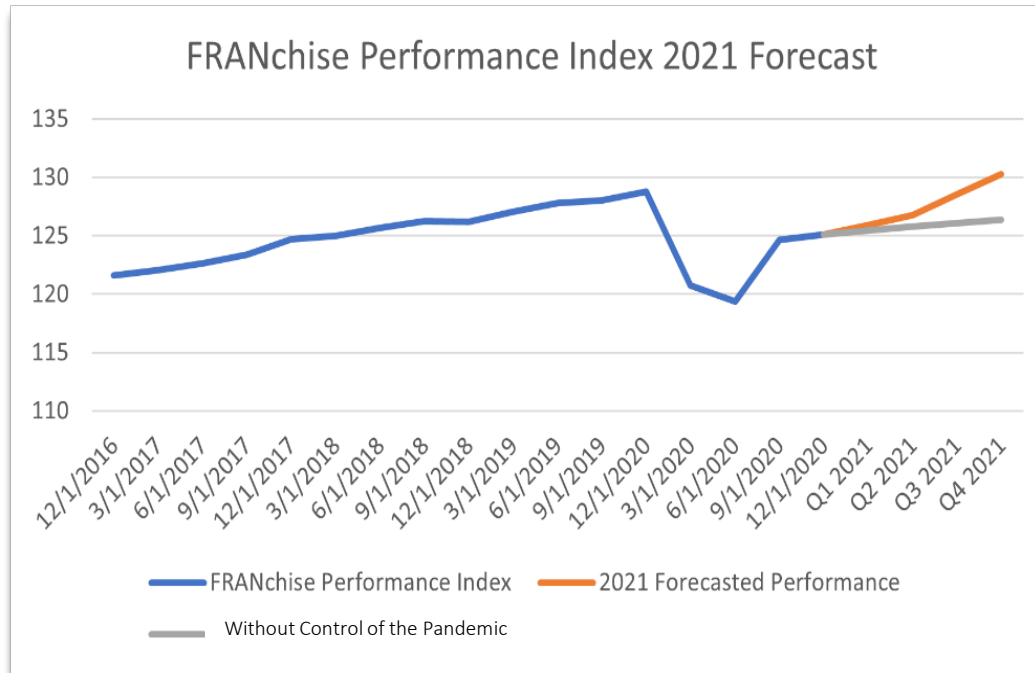


Franchise Business Model Changing Rapidly

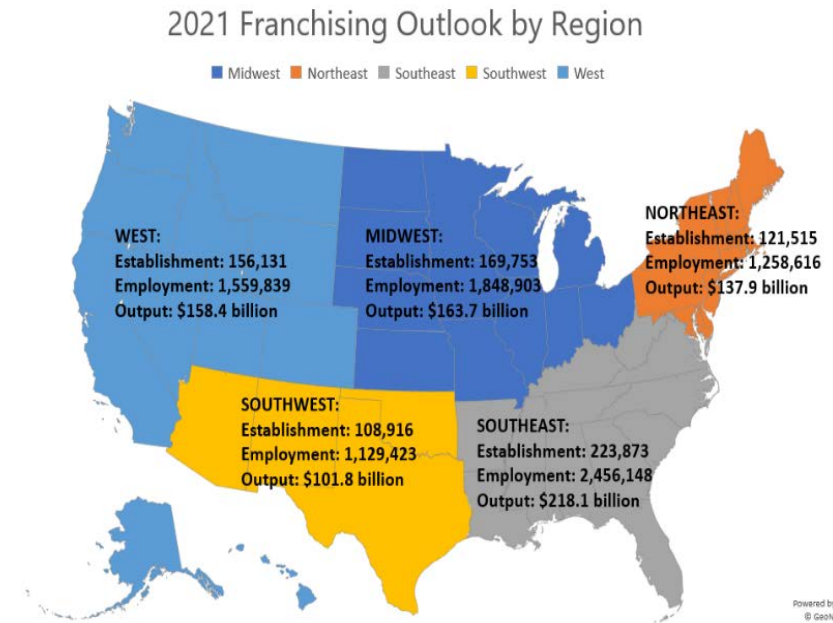
Coming Out of the Crisis Very Different
Than Went In

Darrell Johnson CFE
CEO, FRANdata

2021/22 Franchise Expectations



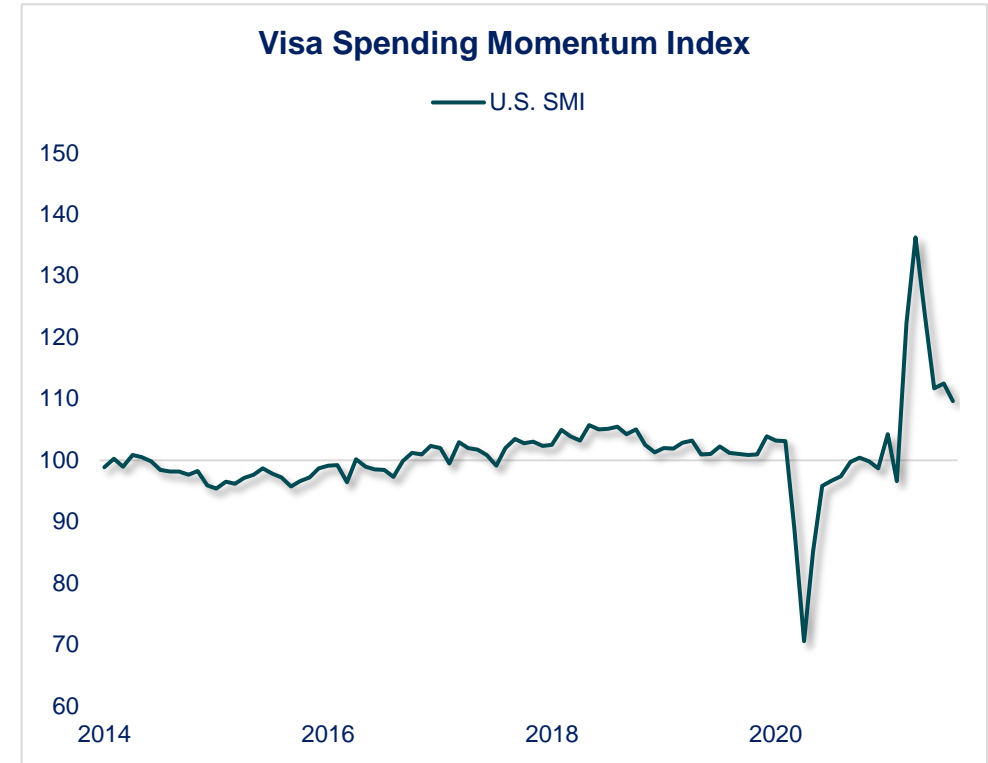
Source: IFA Economic Outlook by FRANData



Source: IFA Economic Outlook by FRANData

US Consumer Spending Positioned Well for 2022

- Visa SMI hit 136; implies 65% of consumers spending more than they did a year ago
- US consumers boosted spending 1% as inflation remained high through mid 2021
 - CPI rose 5.3% (YOY) in August
 - Majority of consumers have stronger balance sheets coming out of the pandemic
- The big unknown is what they are going to be spending that cash on
LT changes lurk: Consumer Behavior, Labor and Gov't Action



Pandemic Unleashed Slowly Developing Trends

Key Trends:

- Consumer of tomorrow will not behave like the consumer of 2 years ago
- Hourly wage and early career employee mindsets fundamentally changing
- Transfer of capital for labor accelerating

Implications:

- Consumer interaction – product/service mix and delivery mechanisms
- Franchisee interaction – operational functions
- Franchisee prospect interaction – what they want to know vs need to know
- Inflation
- Credit underwriting has changed
- The franchise business model is adjusting rapidly

COVID ISN'T GOING AWAY SOON

Coronavirus around the world

Total deaths

4.8 million

Latest daily figure

4,496

new deaths

56-day trend



Total confirmed cases

237.8 million

Latest daily figure

301,610

new cases

56-day trend

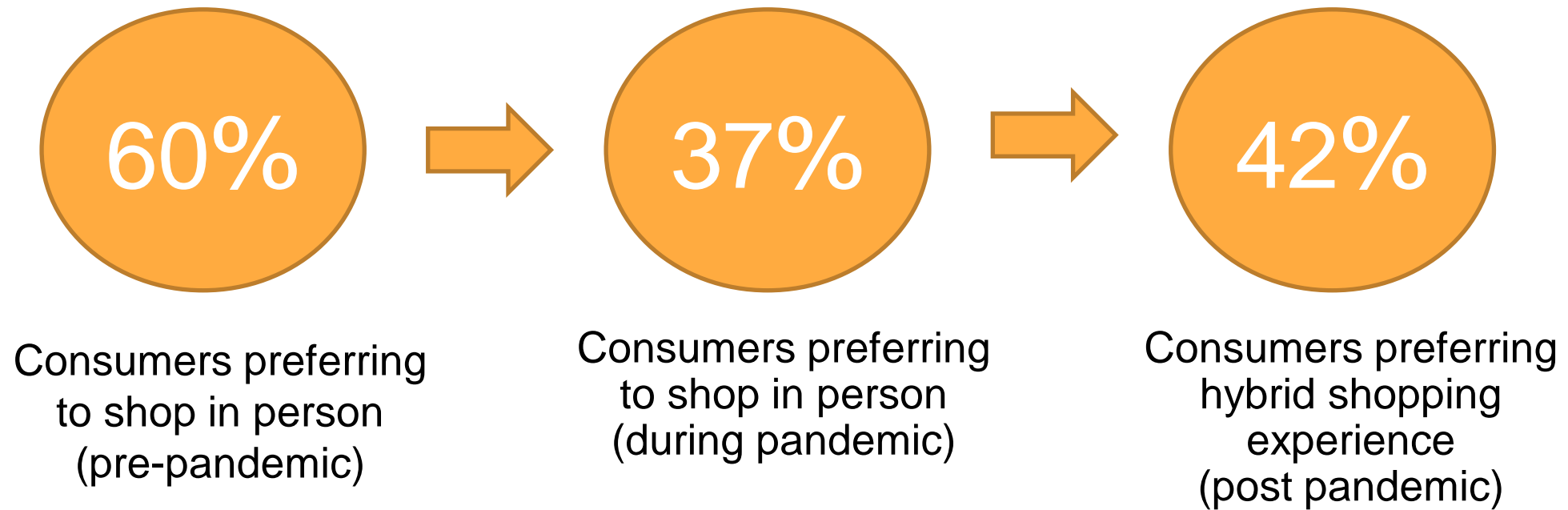


Source: Johns Hopkins University, national public health agencies, 11 Oct

BBC NEWS

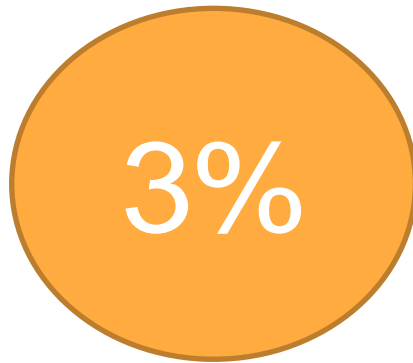
Pandemic is Changing Consumer Behavior

Changed consumer behavior is likely to stay permanent



End of Govt. Assistance: Impact on Labor Supply

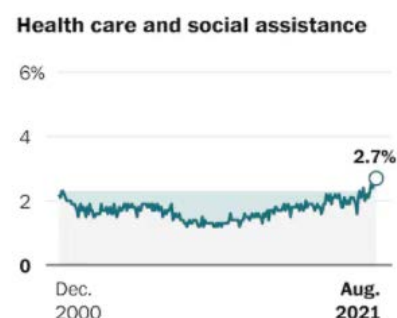
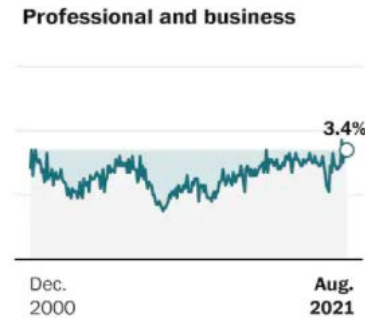
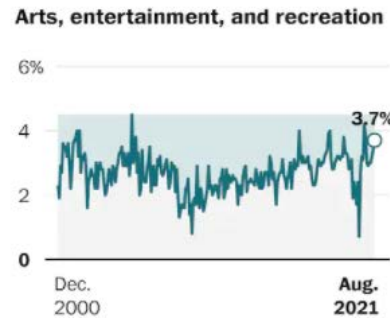
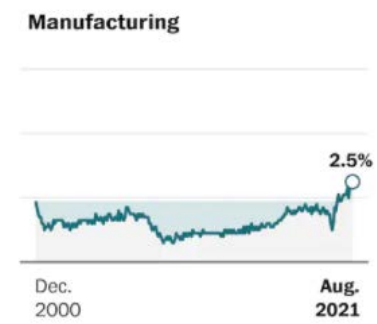
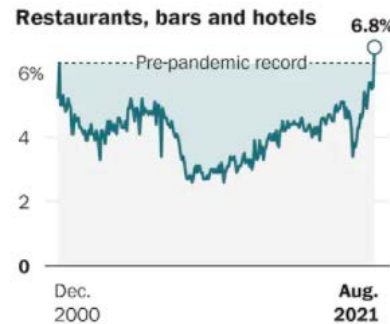
Ending Pandemic Benefits and School Returning Not Releasing Labor into the Market



% of the Workforce that quit in August

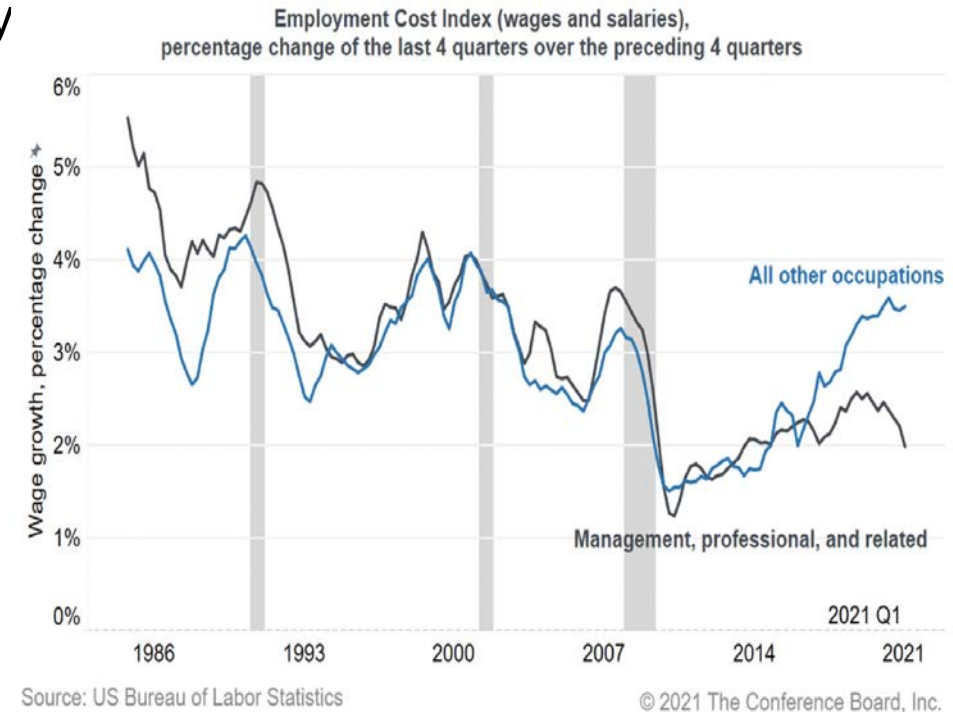
Many industries see employees quit at record rates

Rate at which employees are voluntarily quitting



Labor: Blue vs White Collar

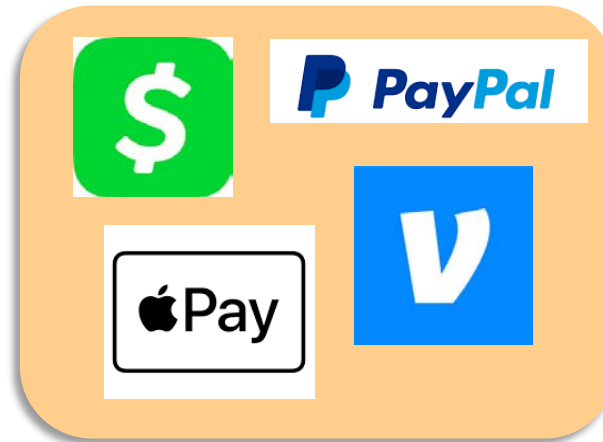
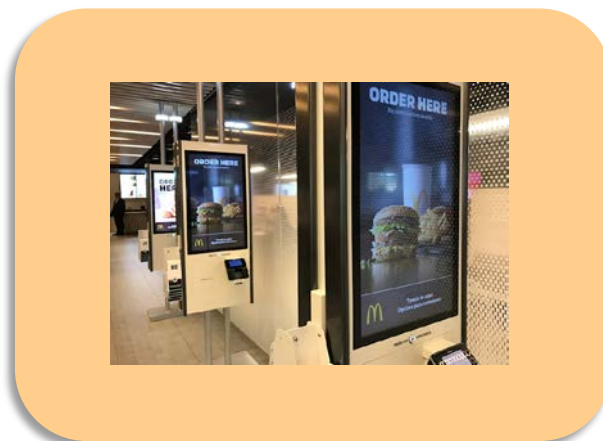
- Blue-collar and hourly wages were already growing at faster rate than white-collar jobs
 - Reversing a trend that had been in place throughout the past 30 years
- Taking longer to find workers for hourly wage jobs, despite the rise in wages
 - These positions are usually filled with workers who are disproportionately impacted by pandemic
 - The total hourly labor pool has shrunk, some of which will be permanent
- Labor shortages are prompting businesses to move aggressive capital for labor shift



Accelerating Substitution of Capital for Labor



Kiosks



QR Codes



Today's Willingness to Lead: Disentangle Risk and Uncertainty

- Conventional lenders
 - Taking an industry portfolio concentration approach
 - Focusing on existing portfolio first
 - Moving slowly into new deals
- SBA lenders
 - Pivoting from PPP lending to regular lending programs
 - High demand by borrowers to refresh, expand, grow
 - Projection-based underwriting means more analysis
- Alternative lenders
 - Just beginning to see risk/reward opportunities
 - Opportunistically targeting good borrowers and pricing for risk

For all lenders, more due diligence, more information, more questions

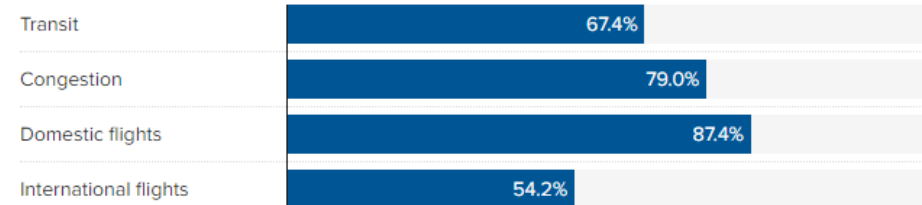
When Economic Demand Exceeds Supply = Inflation

- Price increases as a result of supply chain bottlenecks
- Rising wage levels across most categories
- Household net worth increased and household debt payments compared with disposable personal income hit a low going back to 1980
- Congress is debating further demand-side stimulus packages
- The FED is warning us that tapering is coming

The U.S. economic recovery

Change in economic activity compared to pre-pandemic 2019 levels, according to Jefferies' U.S. Economic Activity Index

Movement



Employment Activity



Consumer behavior



Housing



Industrial production



Impact on Franchising

The Franchise Business Model is
Evolving Quickly

Pandemic Changing How Franchisors Function

The crisis is redefining how functional responsibilities done:

- **Development:** Prospects expecting different interaction
- **Franchisee Training:** Substituted online for in-person; a question of both effectiveness and franchisee preferences
- **Operations:** Technology replaced in-person visits during crisis; how will it look in 2 years
- **Marketing:** Changed relationship between zee and customer forcing Mkg to rethink how technology used
- **Site Selection/unit models:** Footprint/service modifications, third party delivery arrangements, ghost kitchens

Prospective Zees evaluating opportunities

First Time Franchisee

- Often making emotional decisions
- Focused on top line revenues ,sales:investment, income replacement.
- Less likely to ask about more complex metrics

Experienced Franchisee or Retailer/Restaurateur

- Know both the top line and bottom line are under attack
- Want to understand how zor adjusted model to new environment
- Concerned about EBITDA Margins, Time to Breakeven, Payback Period

Unit Economics

For most brands, unit economics are experiencing LT impacts:

- **Top line:** Increased pricing, increased per transaction amount, add products/services, find more customers
- **Operational:** COGS, labor and, for retail, rent. COG have been and will continue to move a lot; labor is rising; rents are very location specific in their movement

What does this mean for franchisors:

- **New product, new footprint, new messaging, new, new:**
- Greater operational support in everything from supply chain to labor

Franchisor/Franchisee Relationship

The crisis also forcing rethinking of franchisor/franchisee relationship:

- What type of information should be provided to prospects, lenders, others
- How much flexibility should be built into operational models
- Are new and legacy models coexisting risking managing a bifurcated system

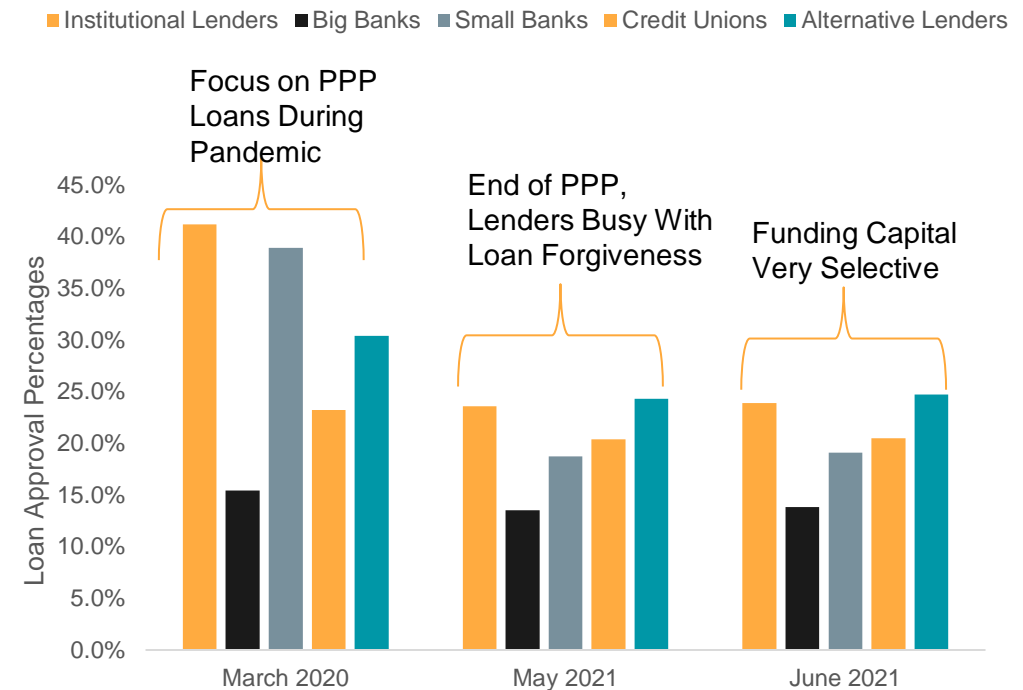
Are these ST or LT consequences?

End of Govt. Assistance - Impact on Franchise Lending Activity

What is a franchisor's role with franchisee financing in a changed bank environment?

- Conventional lenders in wait & see mode with loan-making – a risk mgt decision
- SBA lenders are very active but careful to underwrite brand as well as borrower
- Diligence includes brand position prior to pandemic; how adapted to circumstances; and geography

Small Business Loan Approvals



Changes in Capital Access



Debt Financing

- Most conventional lenders will **hesitate in key franchising industries** for at least 6-8 more quarters
- SBA lending will be very **active**, albeit with greater focus on how franchisor as well as system and borrower performed through crisis
- Alternative lenders will be **opportunistic** with higher pricing
- All 3 groups demand **more sector, brand and borrower understanding**

Equity Financing

- M&A will continue to **set records**
- PE will focus **more upstream** via platform models

Know Your Credit Profile

- 75% → Franchisees saying funding/access to capital is the most important factor in determining franchise investment decisions
- 85% → Lenders that fear loan default risk
- 79% → Lenders that had concerns over business resilience and adaptability post pandemic



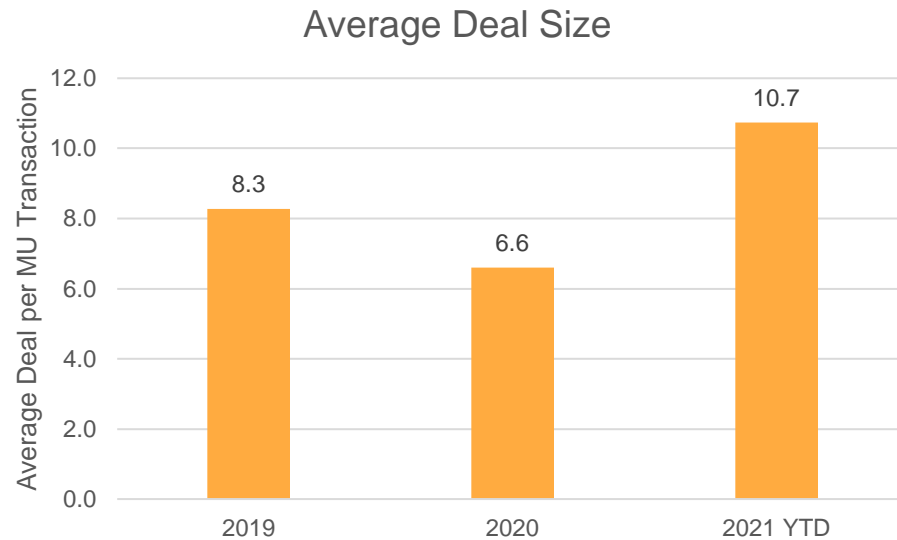
How Did Your Brand Do in the Pandemic?



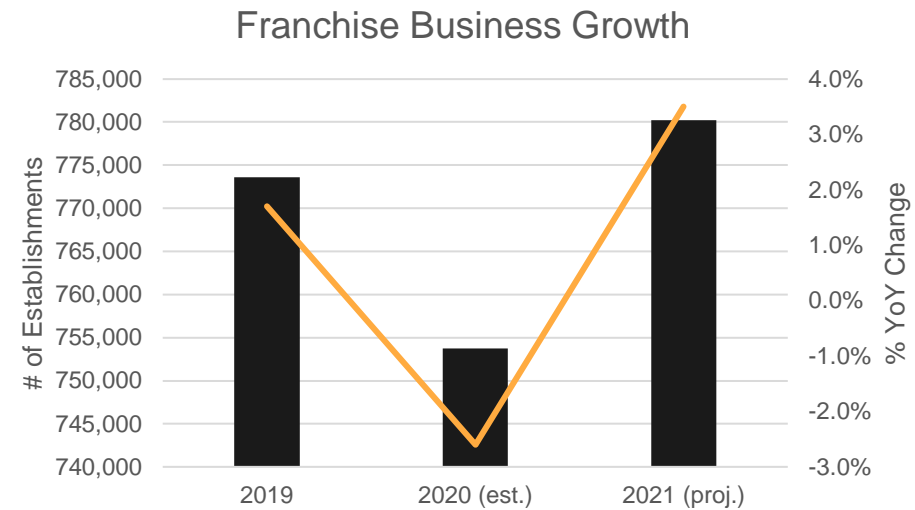
KNOW YOUR FUNDTM SCORE

A New Era of Unit Consolidation

Multi-Unit Development Deals to Drive Business Growth



Source: FRANdata Database



Source: IFA Economic Outlook by FRANdata

- Pent up demand, portfolio diversification and PE infusion are driving larger deal sizes in 2021
- Franchisors also leaning more on multi-unit operators for new unit development

PE Trends with Franchisors

Creation of Franchise Platform Companies is on the Rise

- Nearly two-thirds of brand acquisitions in 2021 associated with creation of new or buying existing platform companies; compared to ~50% in 2020 and 44% in 2019
- 40% of all PE seeking platform acquisition strategies. Examples:

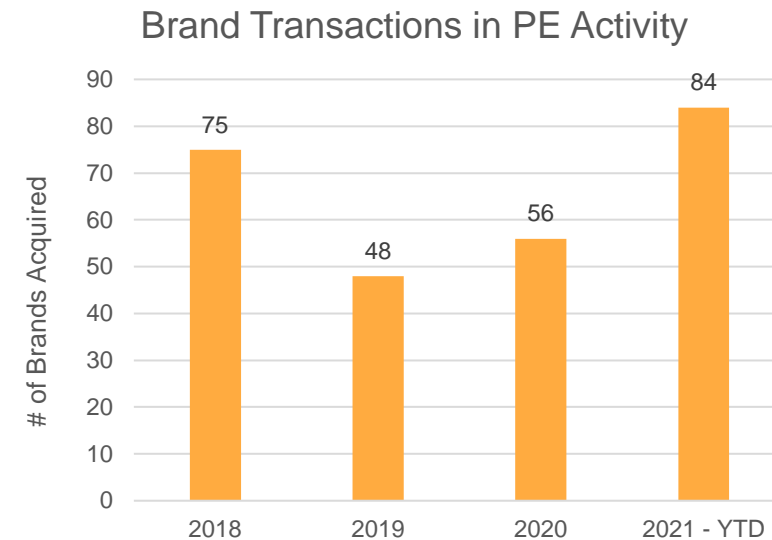
Threshold Brands - The Riverside Company (residential and commercial services)

Stellar Brands - MPK Equity Partners (residential and commercial services)

Propelled Brands - LightBay Capital and Freeman Spogli & Co. (B2B services)

Unleashed Brands - MPK Equity Partners (family entertainment centers)

ServiceMaster Brands - Roark Capital Group (residential and commercial services)



To Summarize

FRANCHISE LEADERSHIP IMPLICATIONS TO POST CRISIS

CRISIS HAS ACCELERATED EVOLUTION

- Consumer and prospect behavior is permanently changing
- Labor markets are permanently changing
- Rapid transition of capital for labor
- Franchisor support being forced to change
- Institutional capital accelerating platform models
- Accelerated franchisee consolidation activity
- Many brands will need to manage new vs legacy unit programs

New era of significant impacts to model demand better performance metrics and accelerate best practices

