

FLDCC 2023

Franchise Leadership & Development Conference

Produced By



What You Should Learn



How forecast will shape
your development plan



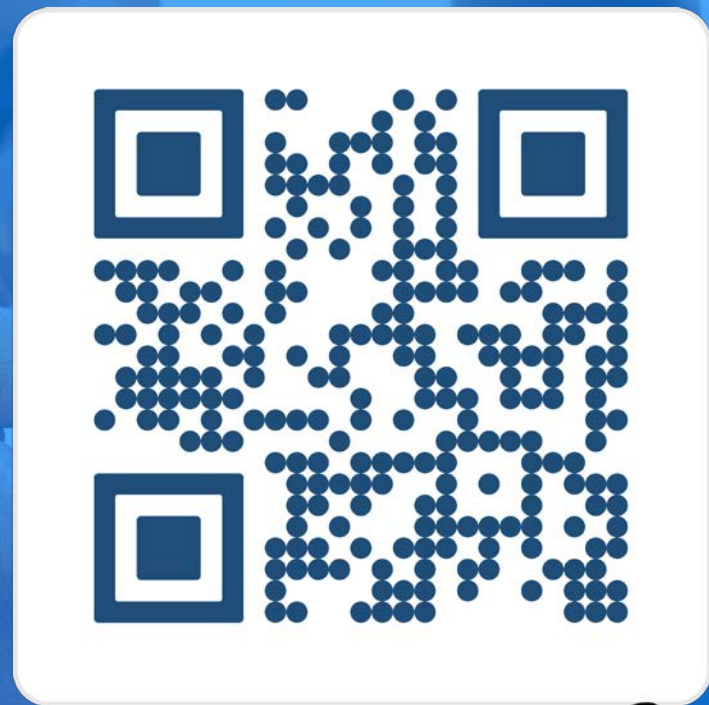
Why need to look at
consumers across
demographics
income
geography



Where uncertainty suggests
bolstering franchisee
operations



Why need to take steps
to enhance capital access

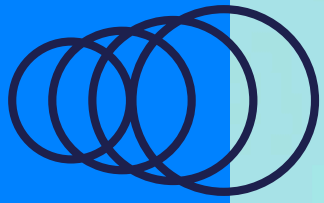


SCAN ME



SCAN QR CODE TO

DOWNLOAD THE
PRESENTATION



Navigating irrational economy with rational goals



Headline numbers are sending all sorts of mixed signals

Consumer stocks are falling like a recession

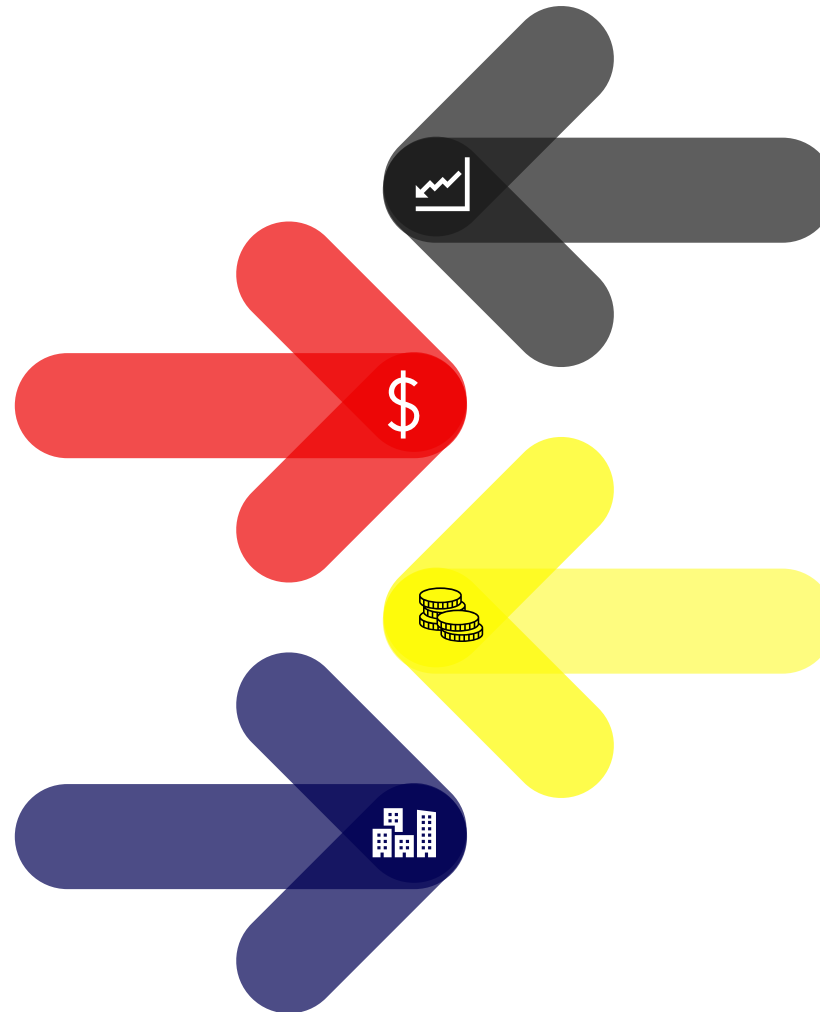
Strong labor market like there's no recession in sight

US consumers are spending like there's no inflation

Interest rates are rising like we have 10% inflation

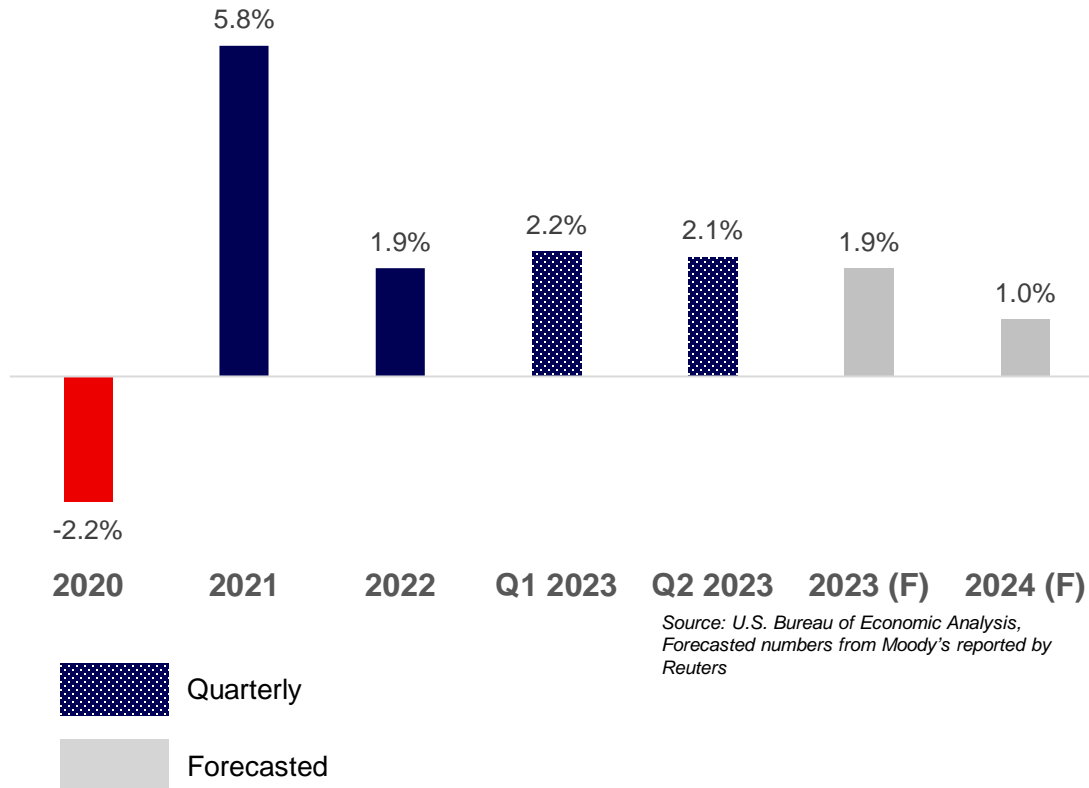
Commercial real estate is falling like its 2008, 1992

Housing prices are rising like interest rates are falling

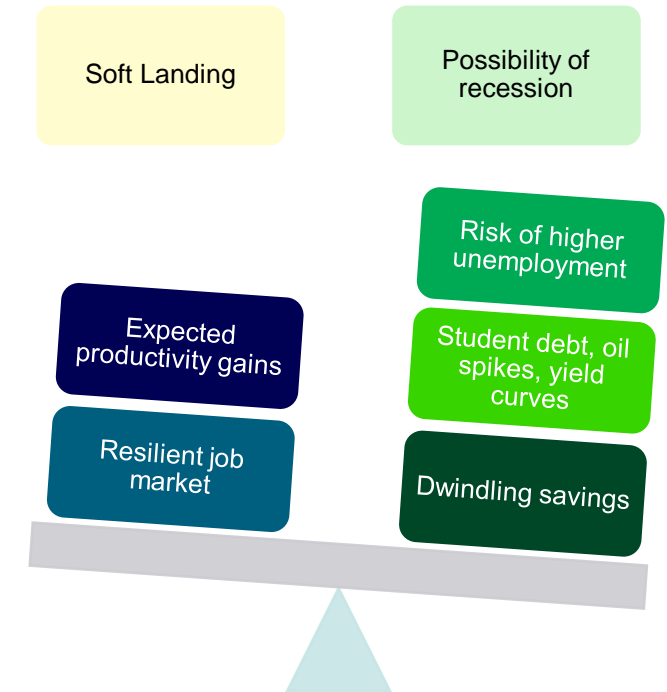


Recession or Soft Landing on the Horizon?

The U.S. economy continues to grow at a modest pace, defying predictions that a recession would emerge in 2023

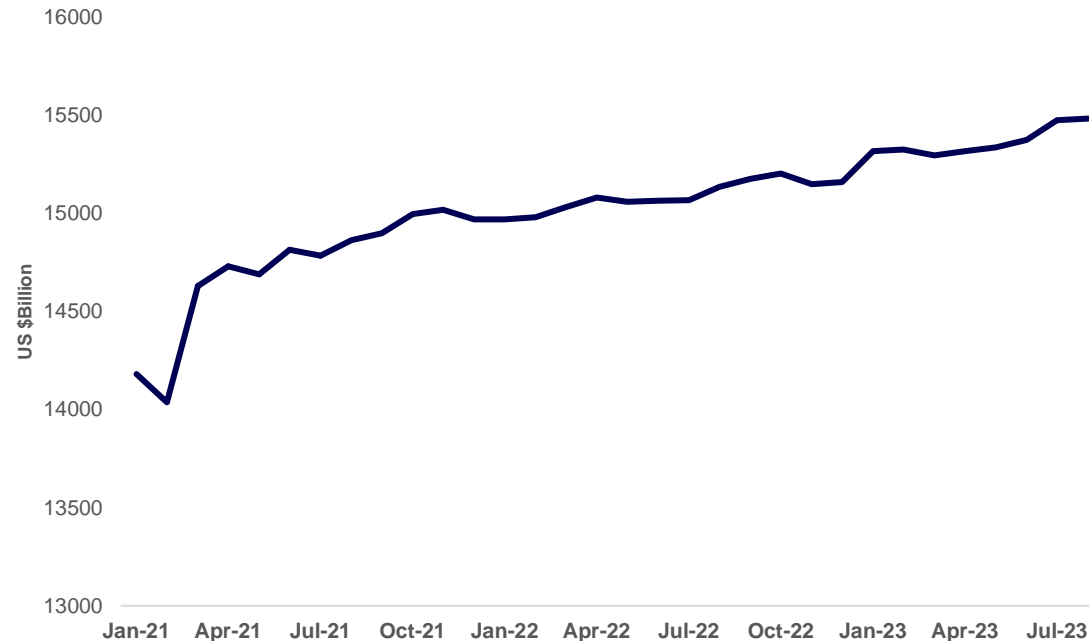


The probability is tilted more towards U.S. entering a recession in 2024 than soft landing



Consumer spending remains steady and supports economic growth in 2023, however tailwinds of excess savings are fading

Consumer spending, major driver of economic growth, started witnessing slower growth in 2023

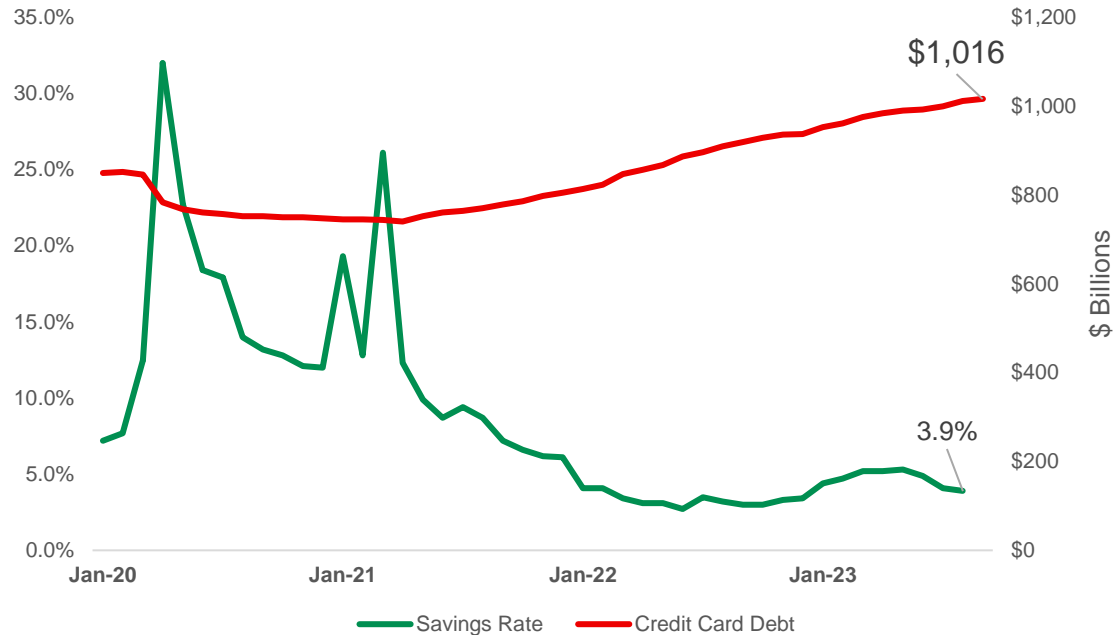


Source: Federal Reserve Bank of St. Louis

Real Personal Consumption Expenditures in US \$Billion

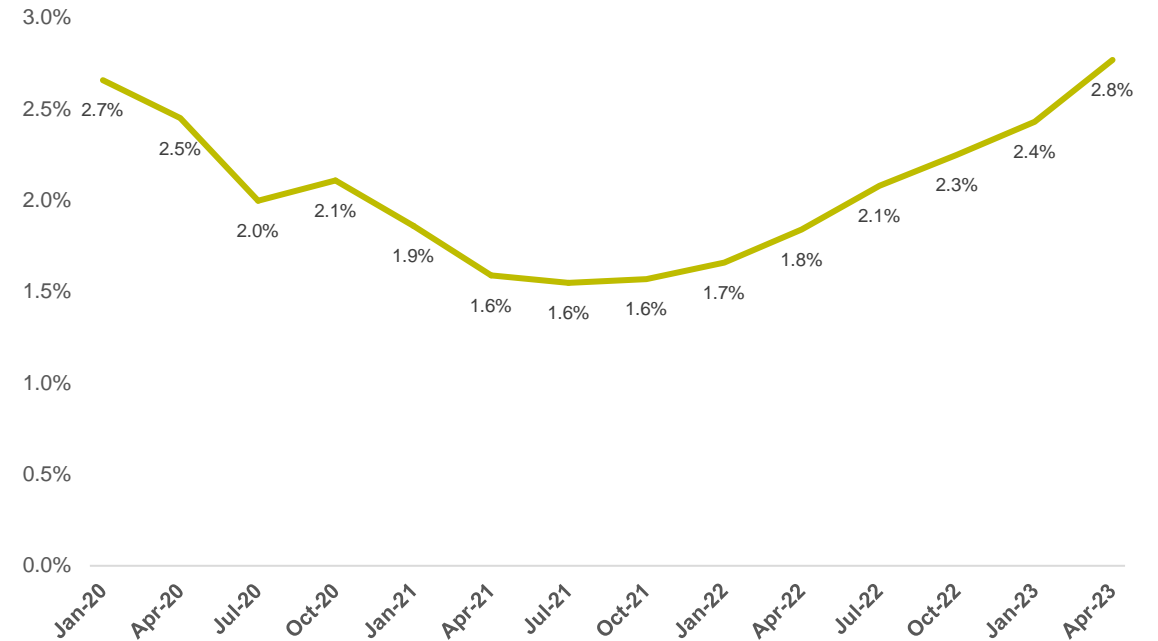
Rising debt and delinquencies reduce 2024 consumer spending?

The credit card debt reached \$1 trillion in Aug-23, while savings rate of 3.9% is below the 10-year average of 8.9%



Source: Federal Reserve Bank of St. Louis

Credit-card delinquency rates have surged, notably among younger Americans

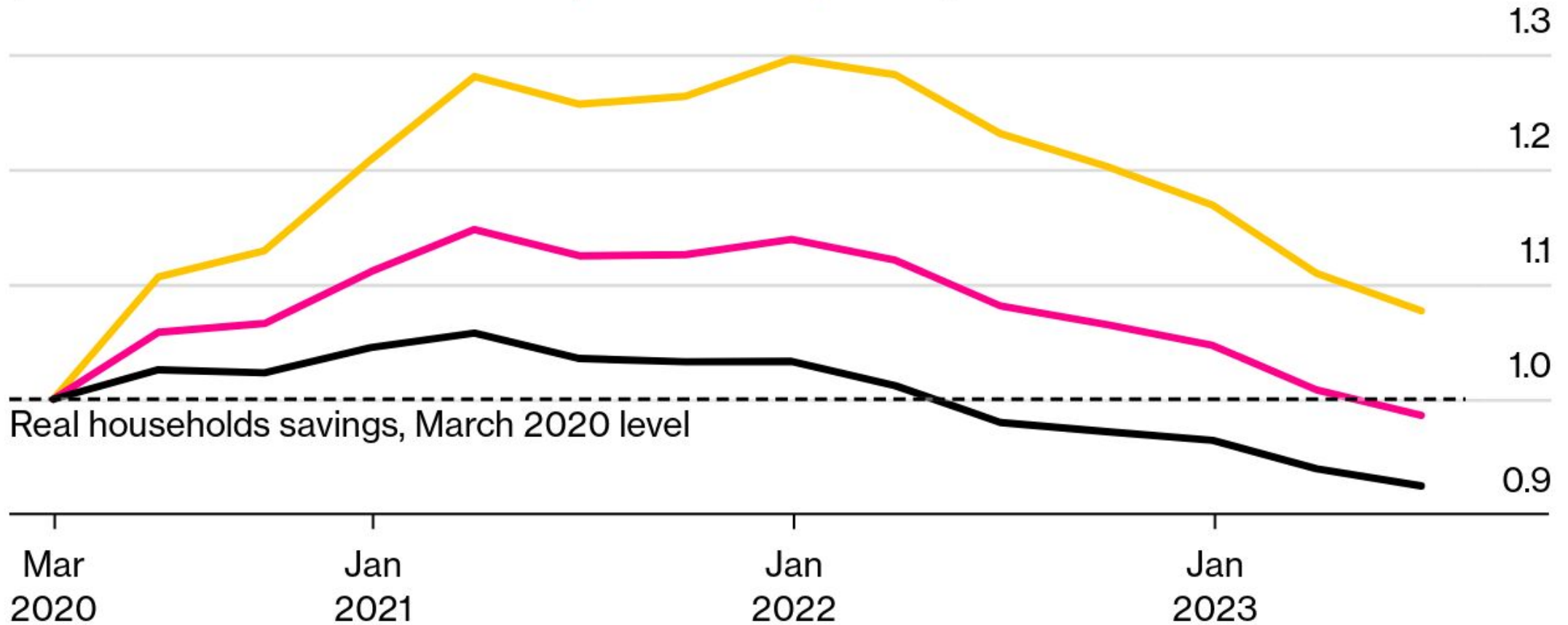


Source: Federal Reserve Bank of St. Louis

US Excess Savings Depleted for Bottom 80% of Households

Rapid accumulation and drawdown of household excess savings

/ Household Incomes: 0 to 40%
 / 40 to 80%
 / 80% plus

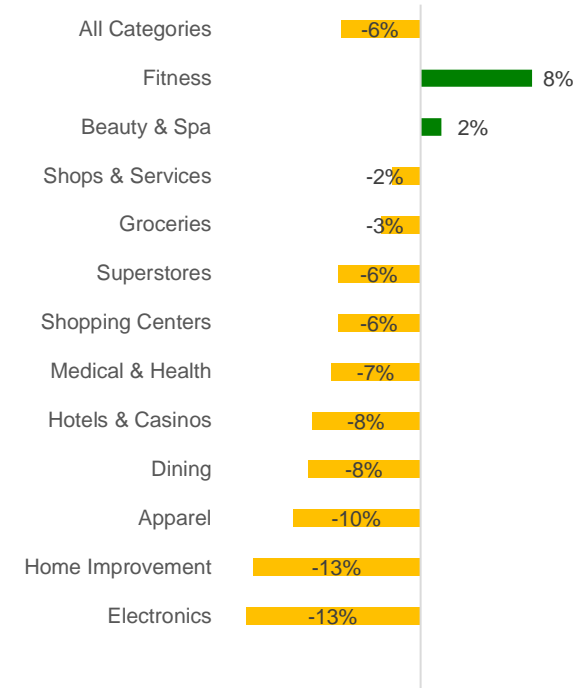
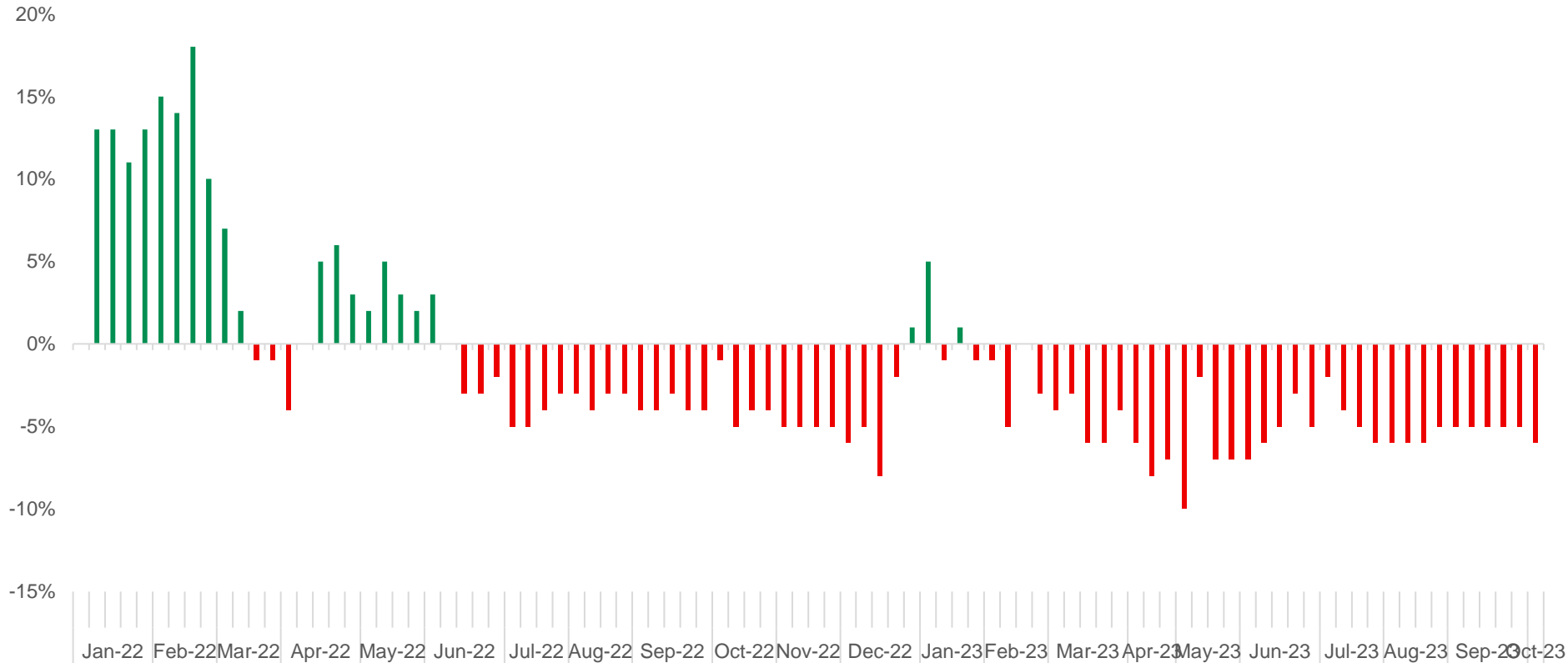


Source: Federal Reserve, Bloomberg calculations

Bloomberg

Y-o-Y foot traffic data indicates lower consumer demand & sentiment

Except, fitness and beauty & spa, all categories witnessed negative y-o-y change in foot traffic affecting consumer demand. In addition, study shows that consumers are trading down as cost-of-living increases.



Source: Placer.ai Weekly Foot Traffic

Source: Placer.ai Weekly Foot Traffic

Remote Work Hits Post-Pandemic Low

Average work-from-home rate falls under 26% from early-2021 high of 37%

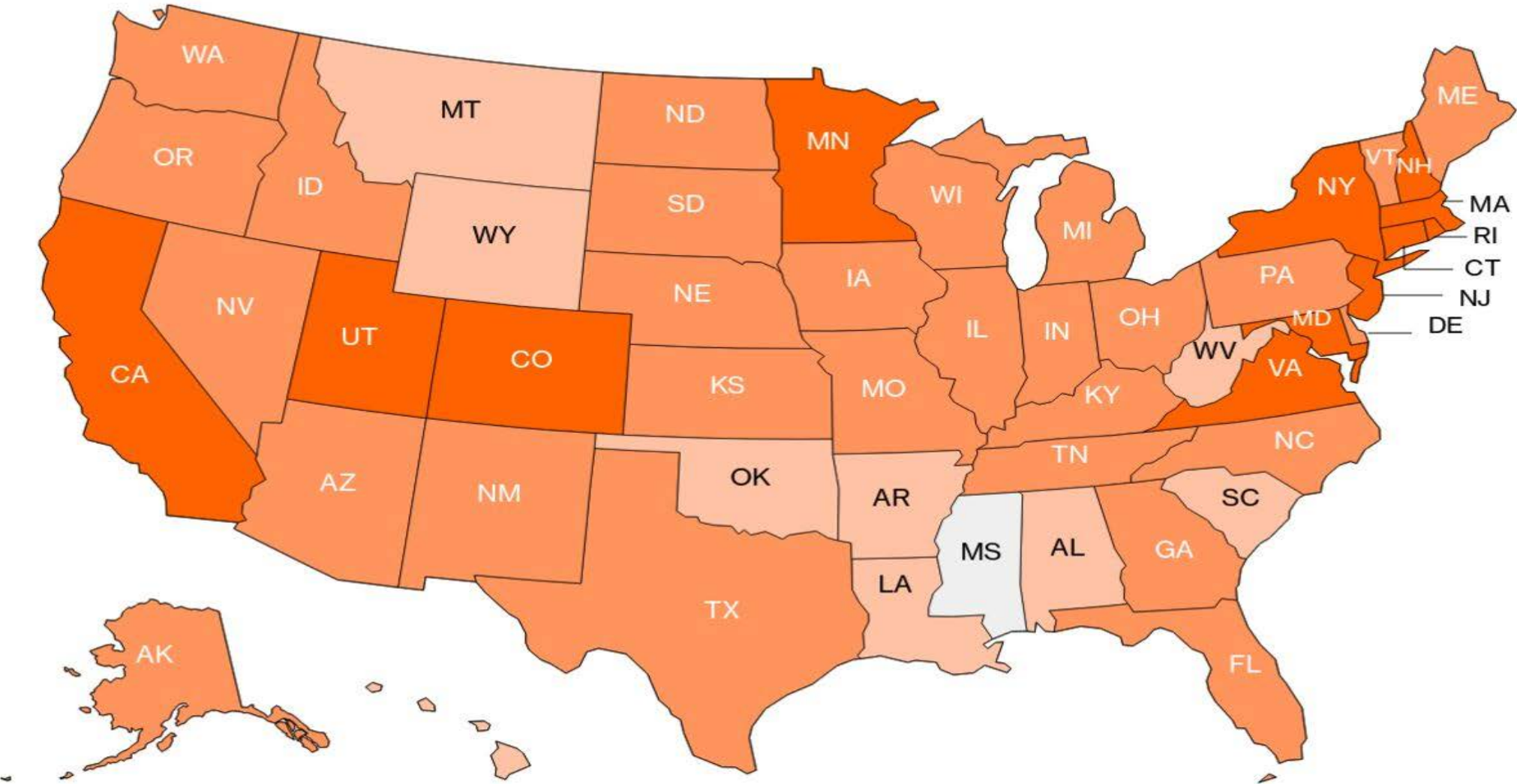


Exhibit 5: After-tax wages and salaries growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)

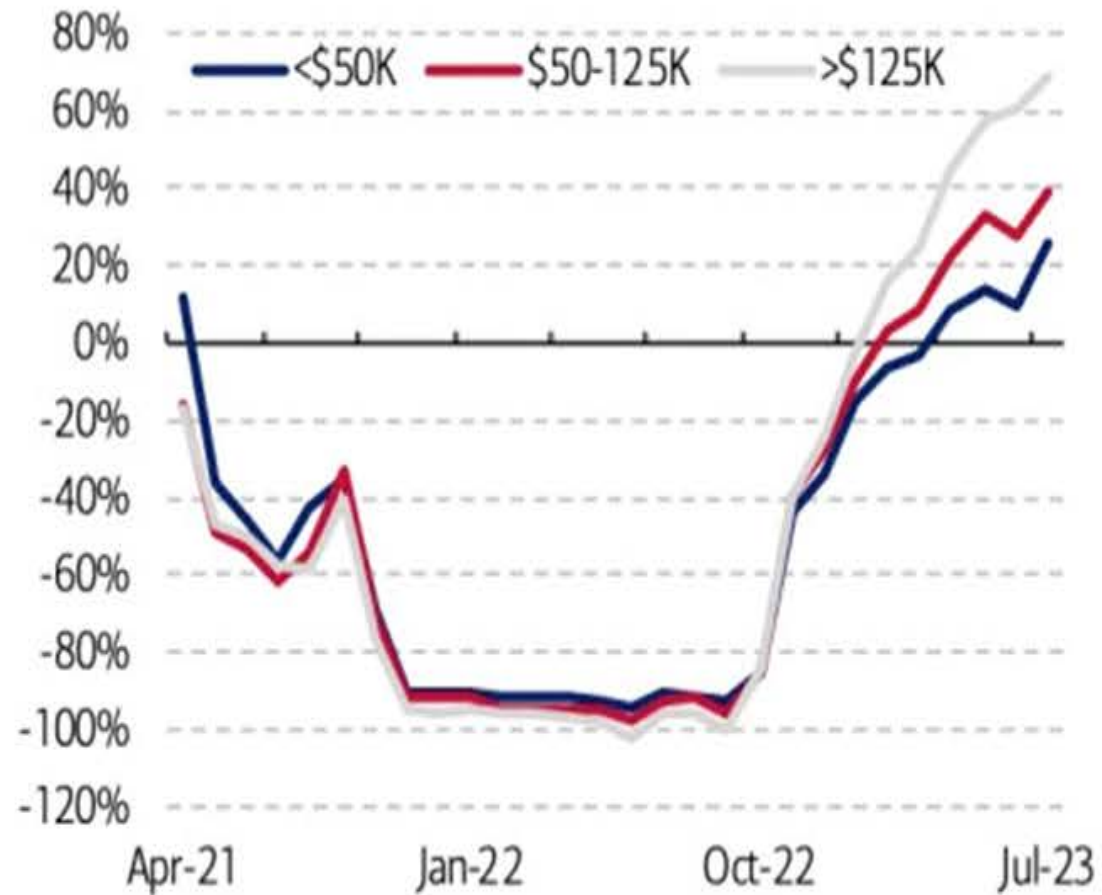
Higher-income households continue to see slower wage growth



Source: Bank of America internal data

Exhibit 6: Number of households receiving unemployment benefits through direct deposit (monthly, %YoY through July 2023)

Unemployment payments appear to be rising fastest for higher-income households



Source: Bank of America internal data

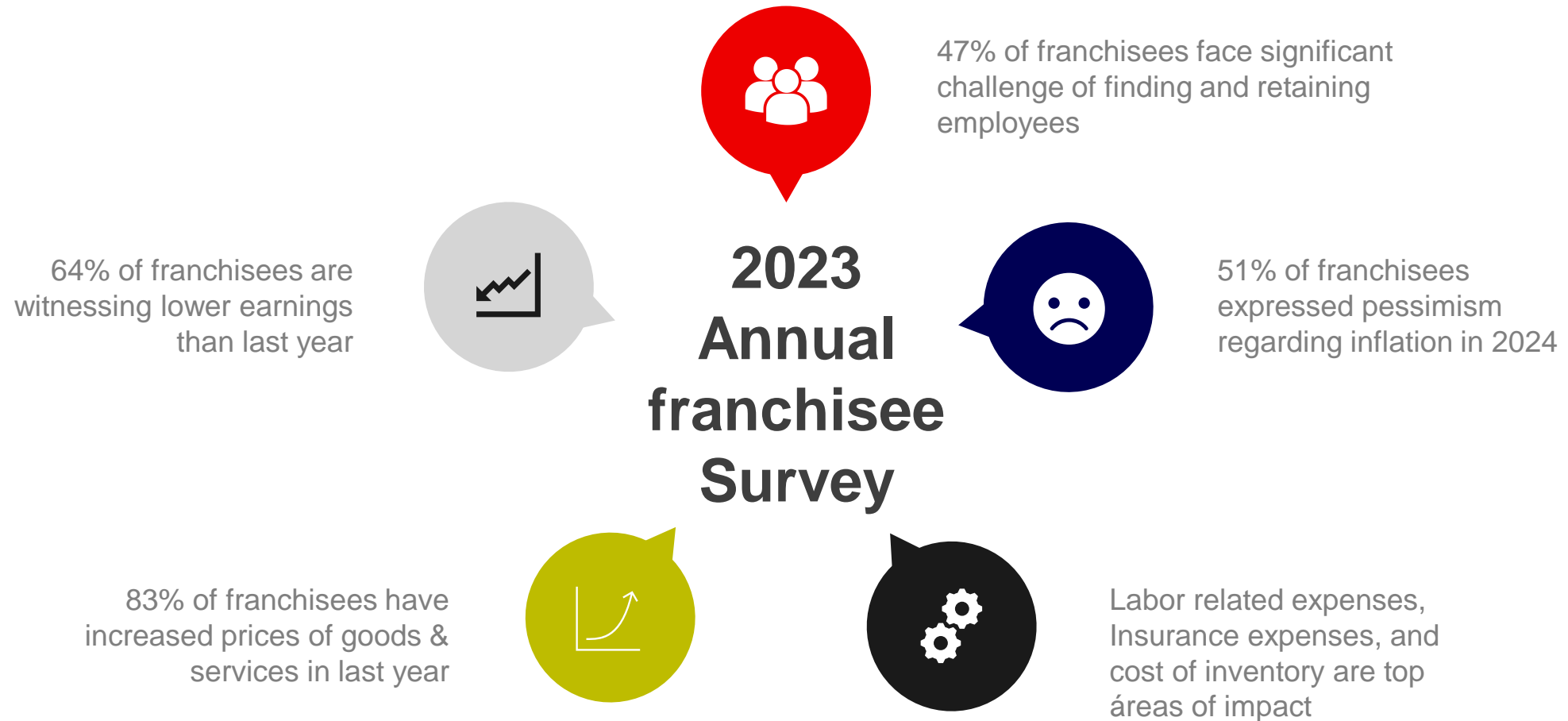
Did the Pandemic Make the Economy More Dynamic

- More new businesses in 2020 than any year on record
- Last 4 years EIN applications higher than any time in history
- Most started in suburbs and the South
- Revised data indicate that Americans have \$100s of Billions in extra cash; also benefiting from rise in stock market

Pay Attention to Unevenness

- Savings: Much of excess cash held by upper-income
- Household debt:
 - Households used one-third of their stimulus checks to reduce debt
- Tight labor market:
 - Benefiting lower income with rising wages
 - Harder on higher income – childcare, home service costs
- Sentiment: Lower for higher income families
- Inflation: Harder on lower income families

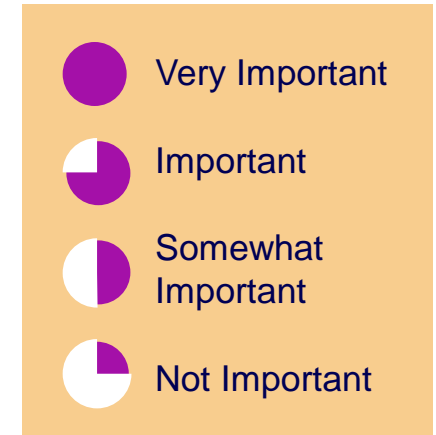
What your franchisees are feeling – 2023 IFA Survey



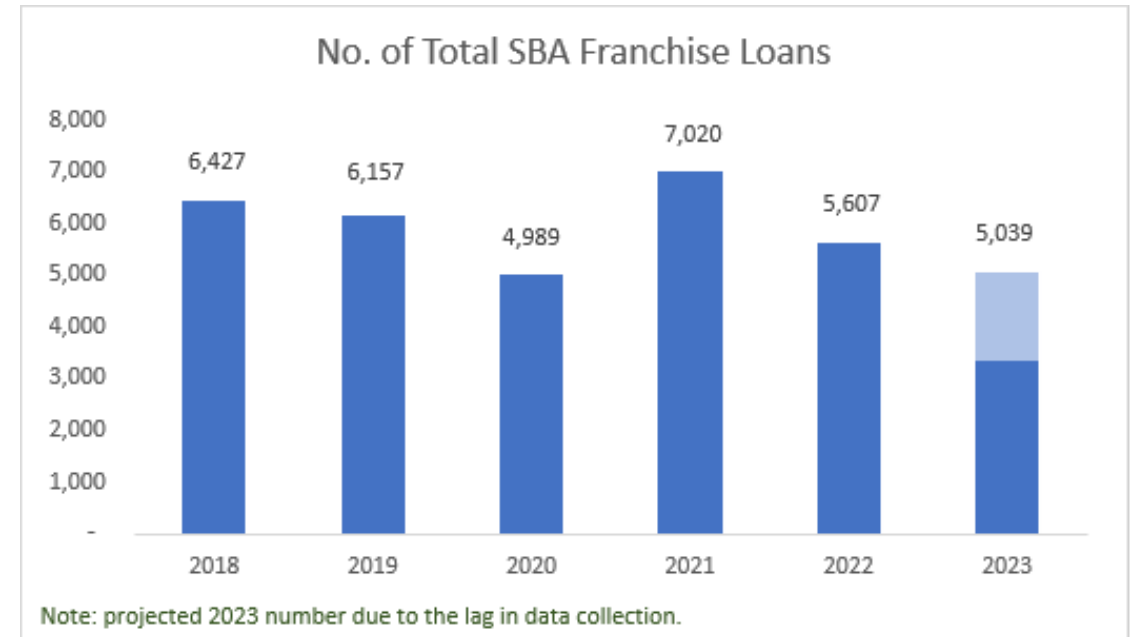
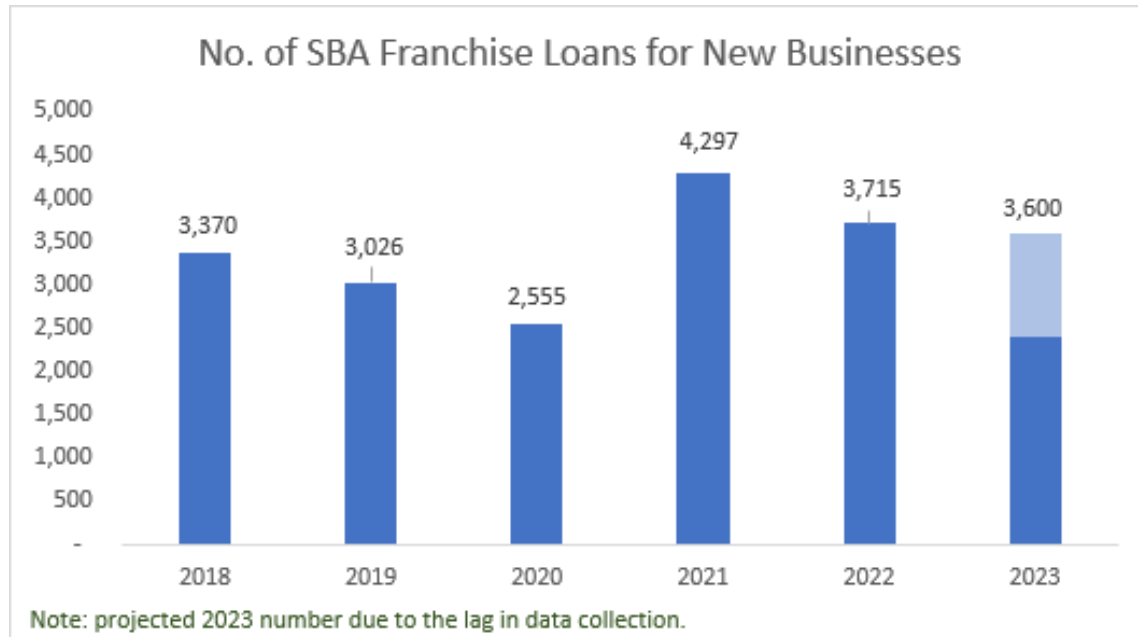
How lenders are adjusting

Lenders will have lower risk tolerance

	Pre 2020	2020-2021	2022-2023	2023-2024
Past Performance History	Very Important	Very Important	Not Important	Somewhat Important
Cash on Balance Sheet	Very Important	Very Important	Not Important	Somewhat Important
Loan repayment history	Very Important	Very Important	Not Important	Somewhat Important
Viability of business model	Somewhat Important	Not Important	Very Important	Very Important
Revenues & Margin	Somewhat Important	Not Important	Very Important	Very Important
Impact on cost when delay in opening new units	Not Important	Not Important	Very Important	Very Important
Change in Buildout and Opening Cost	Not Important	Not Important	Very Important	Very Important
Consolidation through M&A	Not Important	Not Important	Very Important	Very Important



SBA franchise data imply tightening in lending standards



FUND™ SCORE* By Industry

INDUSTRIES	MEDIAN FUND SCORE			
	2021	2022	2023	
Automotive	585	650	675	
Beauty-Related	665	583	590	
Child-Related	618	548	560	
Health & Fitness	620	583	555	
Maintenance Services	478	505	500	
Personnel Services	515	415	538	
Pet-Related Products/Services	710	735	738	
QSR	625	625	615	
Restaurants (Sit-Down)	605	585	650	
Retail Food	595	600	730	
Retail Stores	660	425	673	
Sports & Recreation	580	630	675	
Lodging	665	680	700	



9 out of 13 industries witnessed growth from 2021 to 2023 (YTD) in median FUND™ Scores.

Following the experience of the pandemic and challenging macroeconomic conditions, brands have embraced effective practices that may have resulted in enhanced FUND™ Scores.

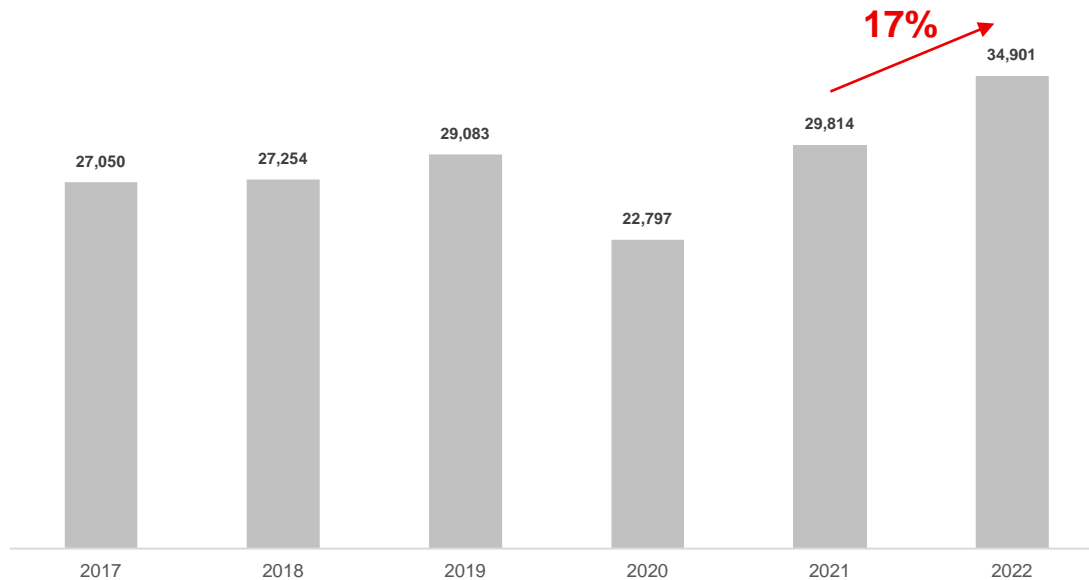
*YTD 2023 Data, FRANdata Research

Transfer rates steady but significant increase in signed but not opened units

Signed but not opened units surged by 17%, significantly exceeding pre-pandemic trends

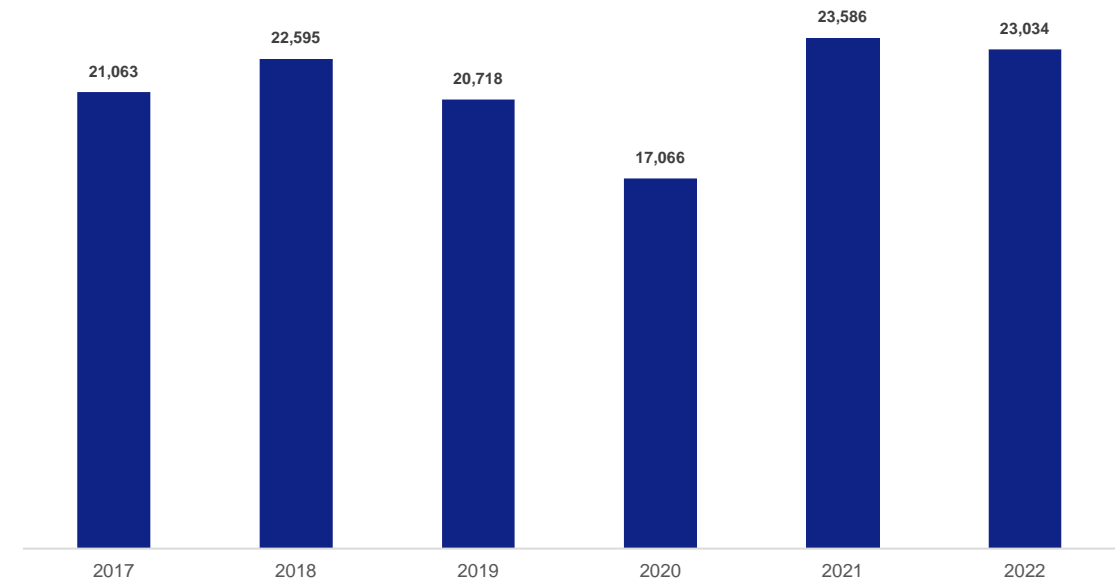
Low transfer rates can be attributed to many of the economic forces discussed above

Signed but not opened



Source: FRANdata Research

Transfers



Source: FRANdata Research

2024 FORECAST SUMMARY



Development

- Upper income prospect supply is encouraging
- Focus on demographic/income micro, not macro
- Adjust prospect cash reserves criteria to reflect uncertainty



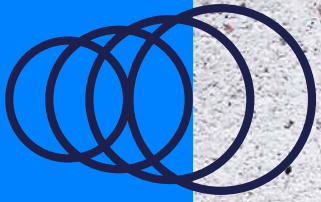
Operations

- Joint Employer may keep you at arms-length but labor's a shared problem
- Help system with all expenses ex: borrowing and insurance
- Help franchisees find motivated employees and create an ownership pathway



Capital Access

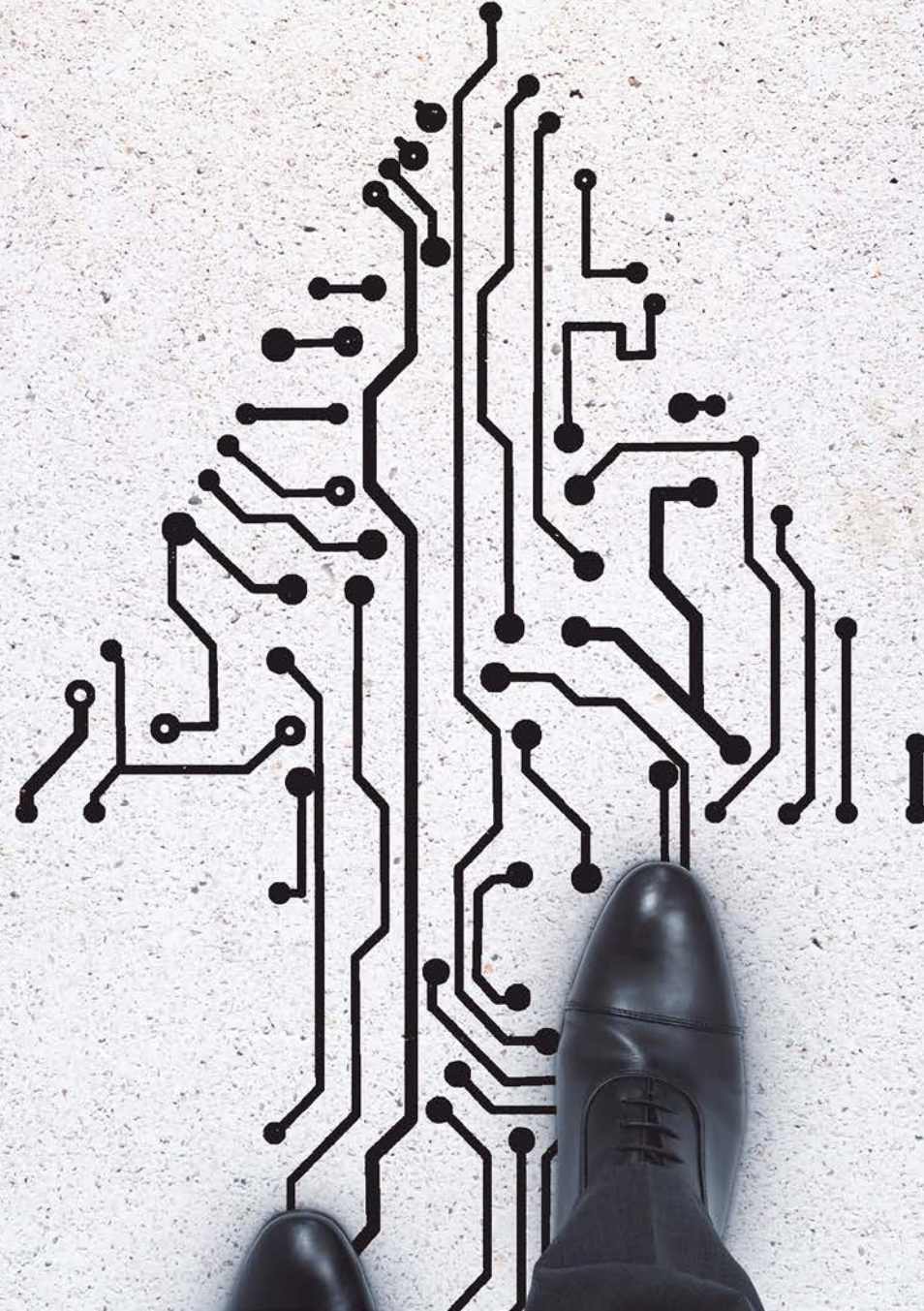
- Expand your lending relationships
- Look at all financial options ex: ERC and EIDL
- Pay attention to what lenders are paying attention to

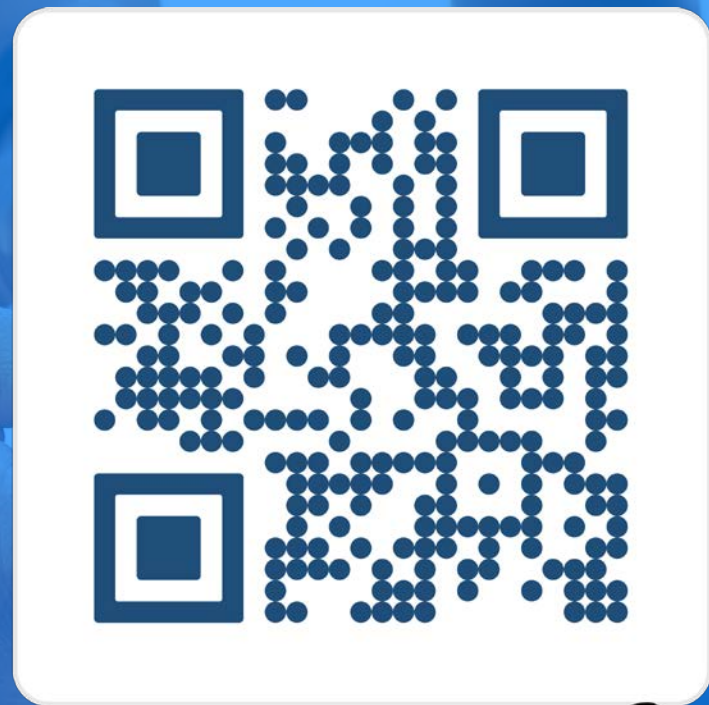


Did this change the way you think about franchising for 2024?



Darrell Johnson
Email: darrell@frandata.com





SCAN ME



SCAN QR CODE TO

DOWNLOAD THE
PRESENTATION