

Franchise Systems Using SBA Financing

An Analysis of the Franchises Listed on the SBA Franchise Registry

This report is designed to give some basic profile information of franchise systems whose franchisees use US Small Business Administration (SBA)-guaranteed financing options. The SBA has two primary programs that are used in franchising related loans: the 504 program and the 7(a) program. FRANdata estimates that these programs amounted to in excess of \$1.8 billion of guarantees related to franchising in 2006. The SBA data may well be underestimating the amounts related to franchising.

The report analyzes those companies that are listed on the **SBA Franchise Registry** (www.franchiseregistry.com). The Registry site provides a service which facilitates and expedites loan processing for the franchisees of those systems listed. The systems on the Registry, therefore, actively make use of SBA financing options. As approximations, these systems represent one quarter of all franchise systems in the US and two-thirds of all systems that use SBA financing. Statements about this group, therefore, would be expected to represent the universe of franchise systems involved.

Conclusions based on this analysis:

- While franchises of all "ages" (years franchising) use SBA financing, the slight majority of systems are early in their development. Just over 50% of systems have been franchising for 7 years or less when they first apply for the Registry. (see chart 1)
- The number of young franchises that apply is trending upwards. In the past 5 years, that group has shown the most growth. The proportion of young franchises that use SBA financing is growing. Other age groups have remained steady. (see chart 2)
- The majority (59%) of systems that use SBA financing are small, with less than 100 franchised units at the time they first were listed on the Registry. (see chart 3)
- It is worth noting, however, that large franchises such as Subway, Dairy Queen, Burger King, and Dunkin' Brands are in the 40% of systems that use SBA financing.
- SBA financing is used by most industries. While the fast food industry is number one, this primarily reflects the greater number of food brands over franchising as a whole, rather than a financing preference. (see chart 4)

Age

The distribution of the Years Franchising When 1st Approved on the Registry is shown in chart 1. Note: 51% of franchises on the Registry have been franchising for seven (7) years or less when they first were listed.

Age (Yrs Franchising) When 1st Approved on the Franchise Registry

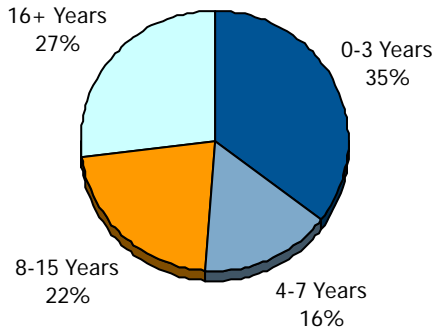


Chart 1

The approval trend shown in chart 2 indicates that more younger systems are being approved in recent years. This chart also implies a increase overall in systems that use SBA financing.

Age Distribution of Approvals by Year

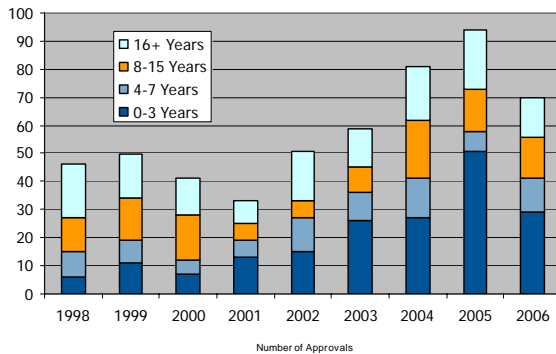


Chart 2

Number of Units

Most franchise systems become listed on the Franchise Registry when they are comparatively small. 59% had 100 or fewer franchised units when they were first listed. Note that the proportion of franchise systems overall that have greater than 500 units is not high.

Distribution of Programs on Registry by Number of Units at 1st Approval

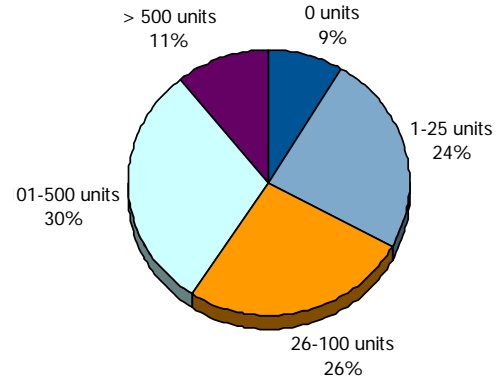


Chart 3

Industry

The top 10 industries with franchise brands on the Registry are shown in chart 4. 60% of the programs on the Registry are from the top 10 industries. These franchises are in very many specialized sectors.

Top 10 Industries Using the SBA Franchise Registry

- 1 Fast Food Restaurants
- 2 Automotive
- 3 Services-General
- 4 Lodging
- 5 Restaurants (Sit-Down)
- 6 Retail Stores
- 7 Maintenance Services
- 8 Retail Food
- 9 Beauty-Related
- 10 Health & Fitness