13th Annual

2011 FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE

READY.
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ATLANTA

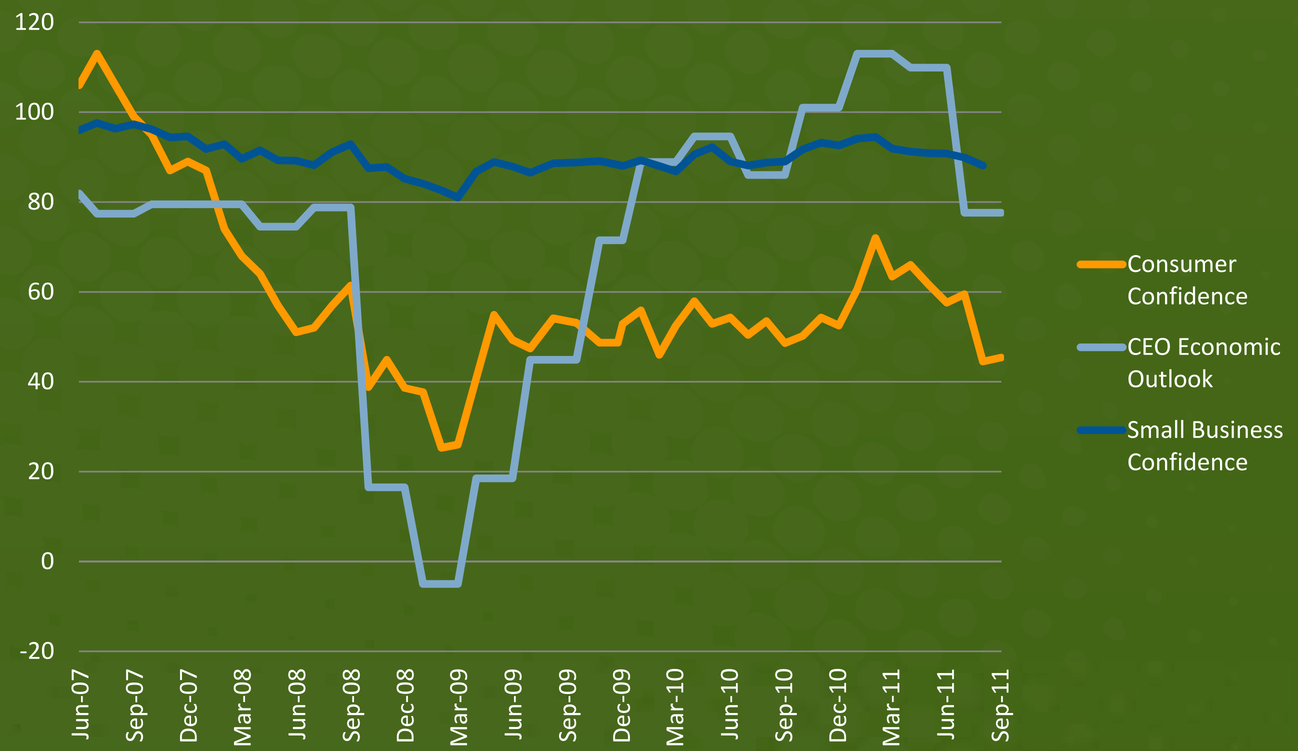
InterContinental Buckhead

State of the Industry: Franchise Economist

Darrell Johnson
FRANdata

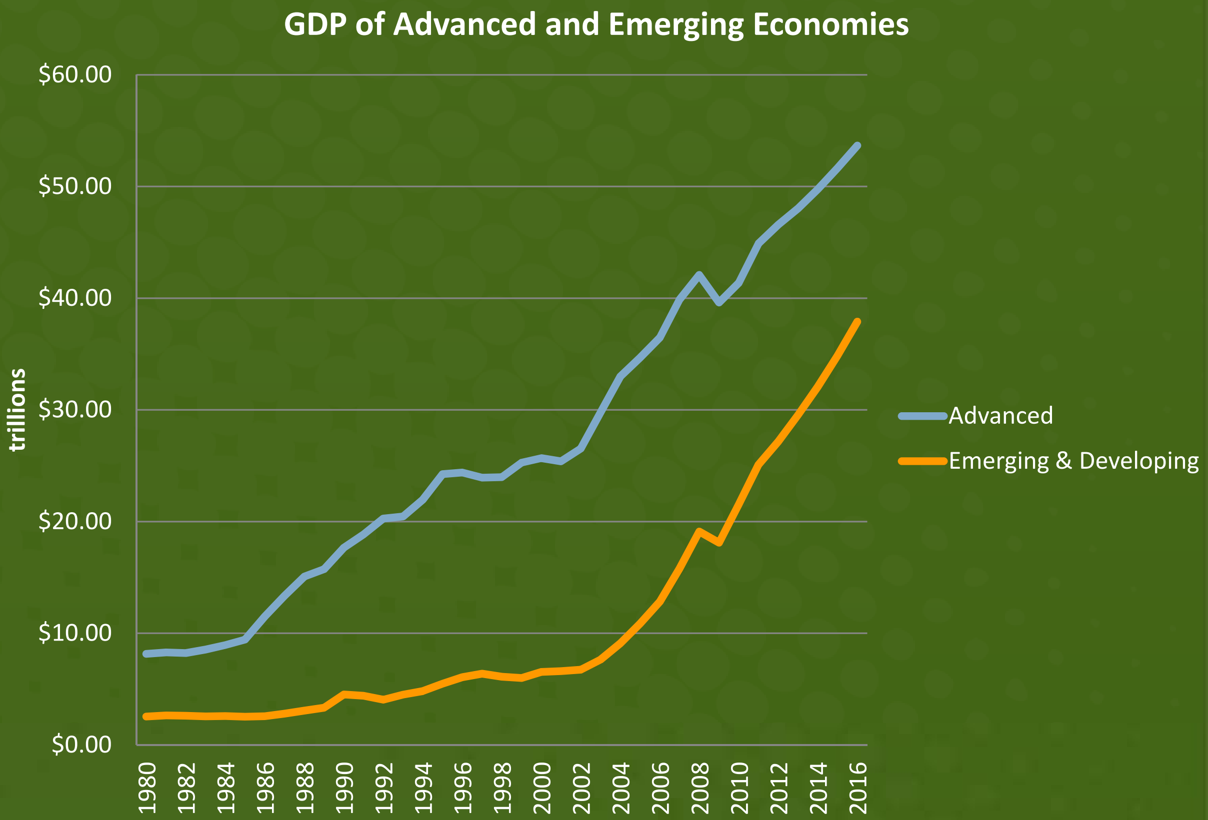
Confidence Down

- All confidence indices down in 2011



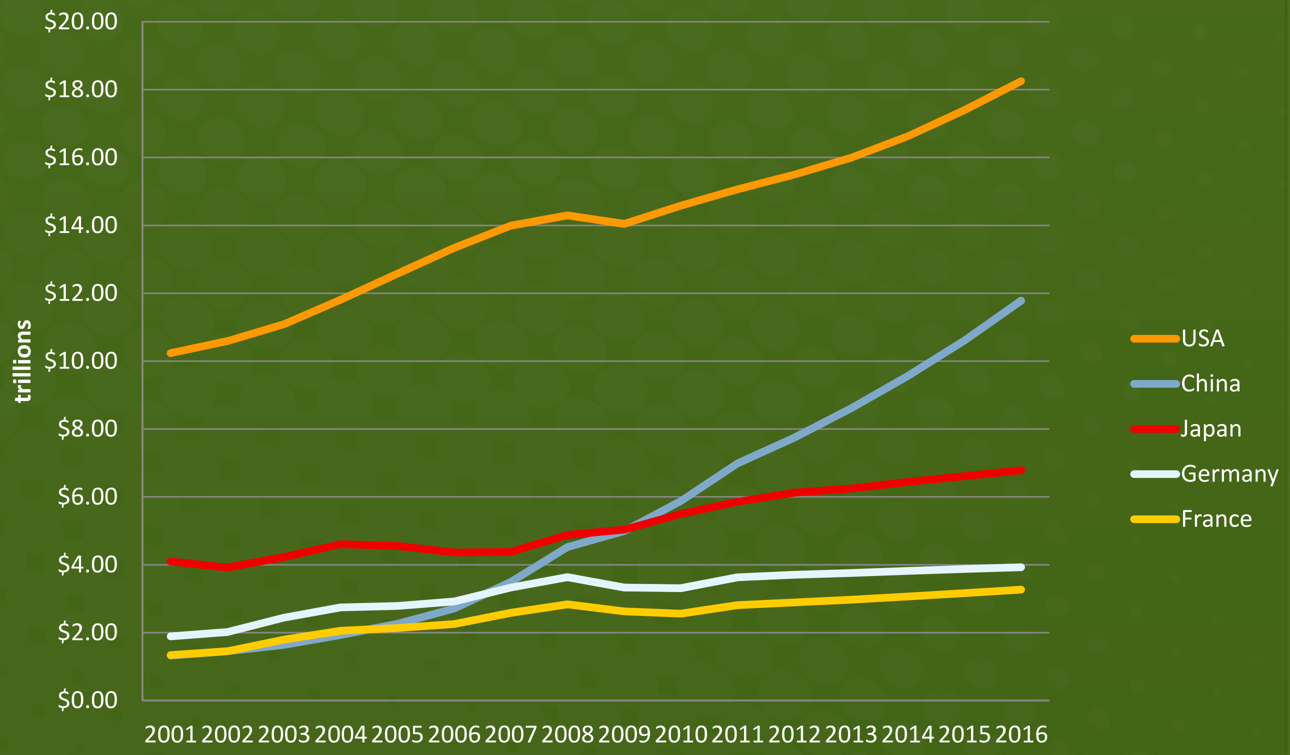
The World Economy

- The EU is long way away from saving the Euro
- Fiscal austerity will slow down growth
- Emerging economies have less capacity to act as cushions
- U.S. and EU politics make decisions difficult



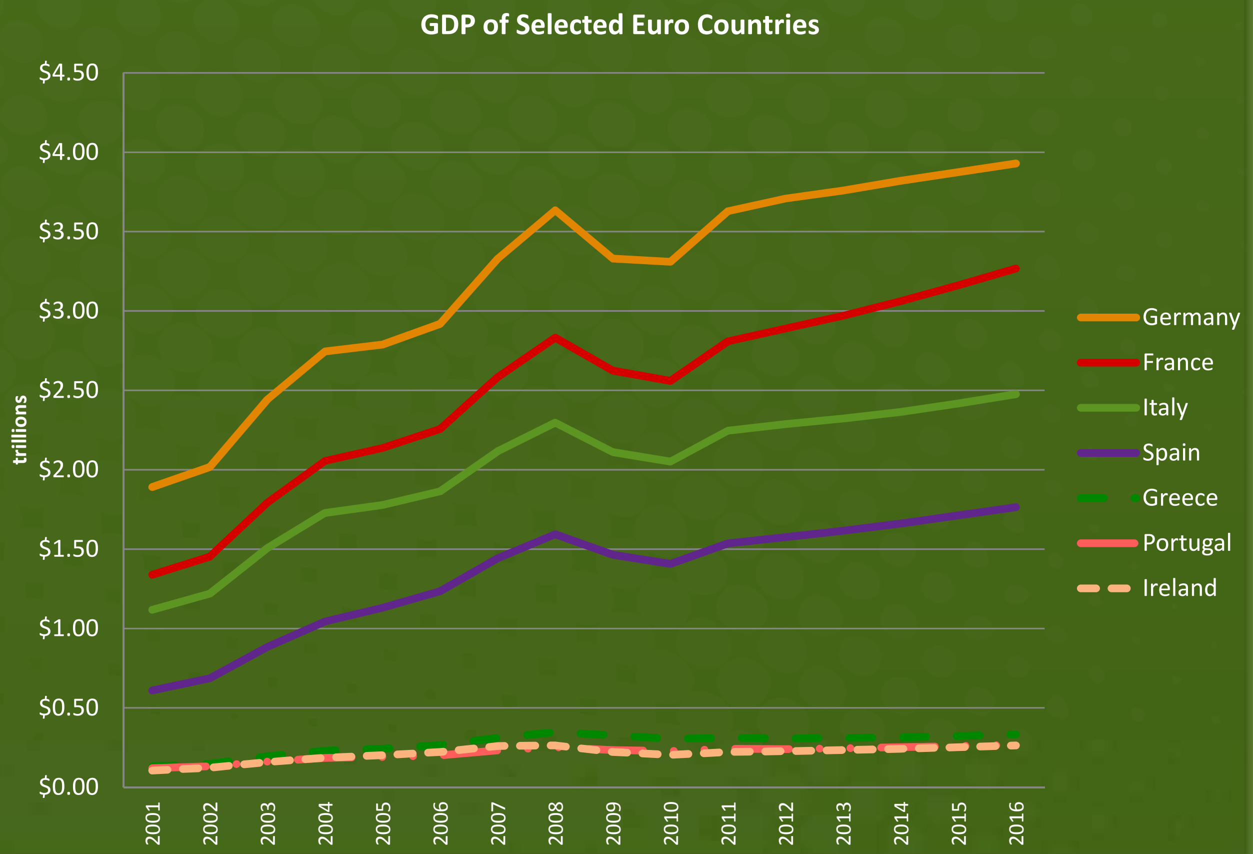
Global GDP: The Five Biggest

- China surpassed Japan in 2009
- The United States is projected to cede the # 1 slot to China some time after 2020



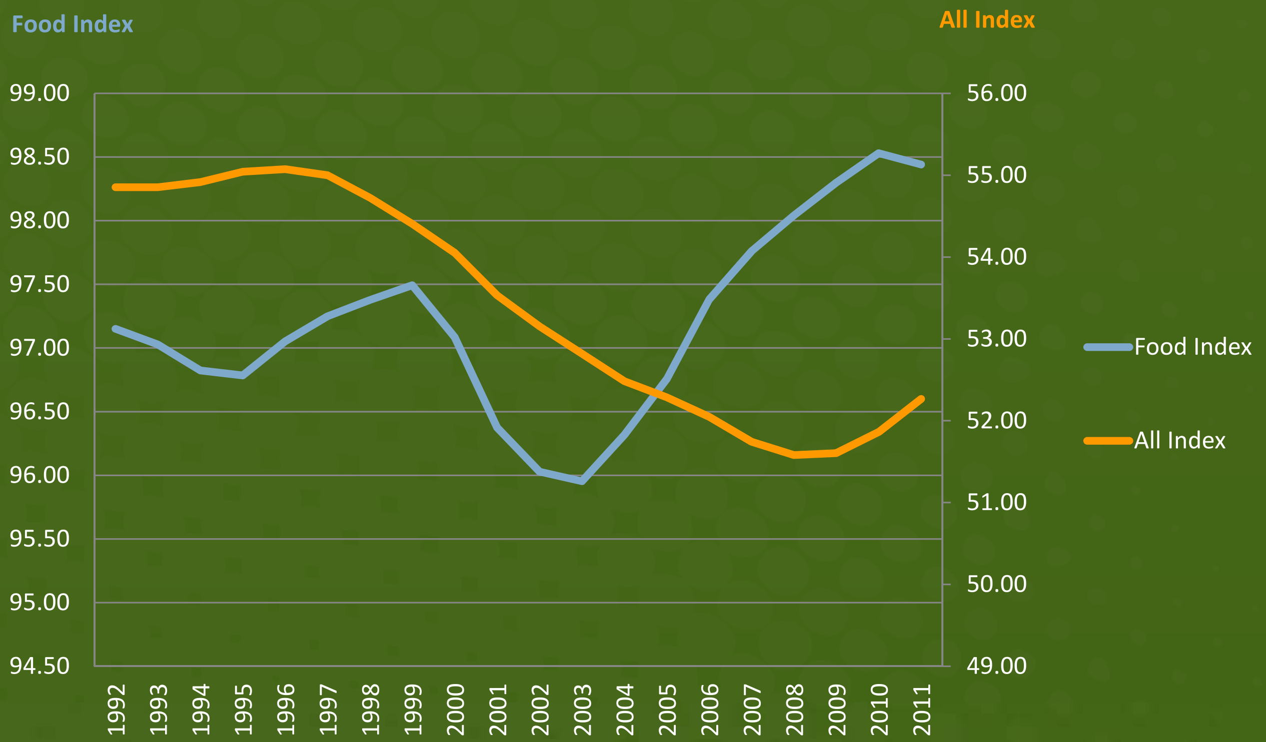
PIIGS

- **Dragging down the rest**
  - Portugal: on the brink
  - Ireland: end of the Celtic tiger
  - Italy: downgraded
  - Greece: insolvency
  - Spain: tipping point?



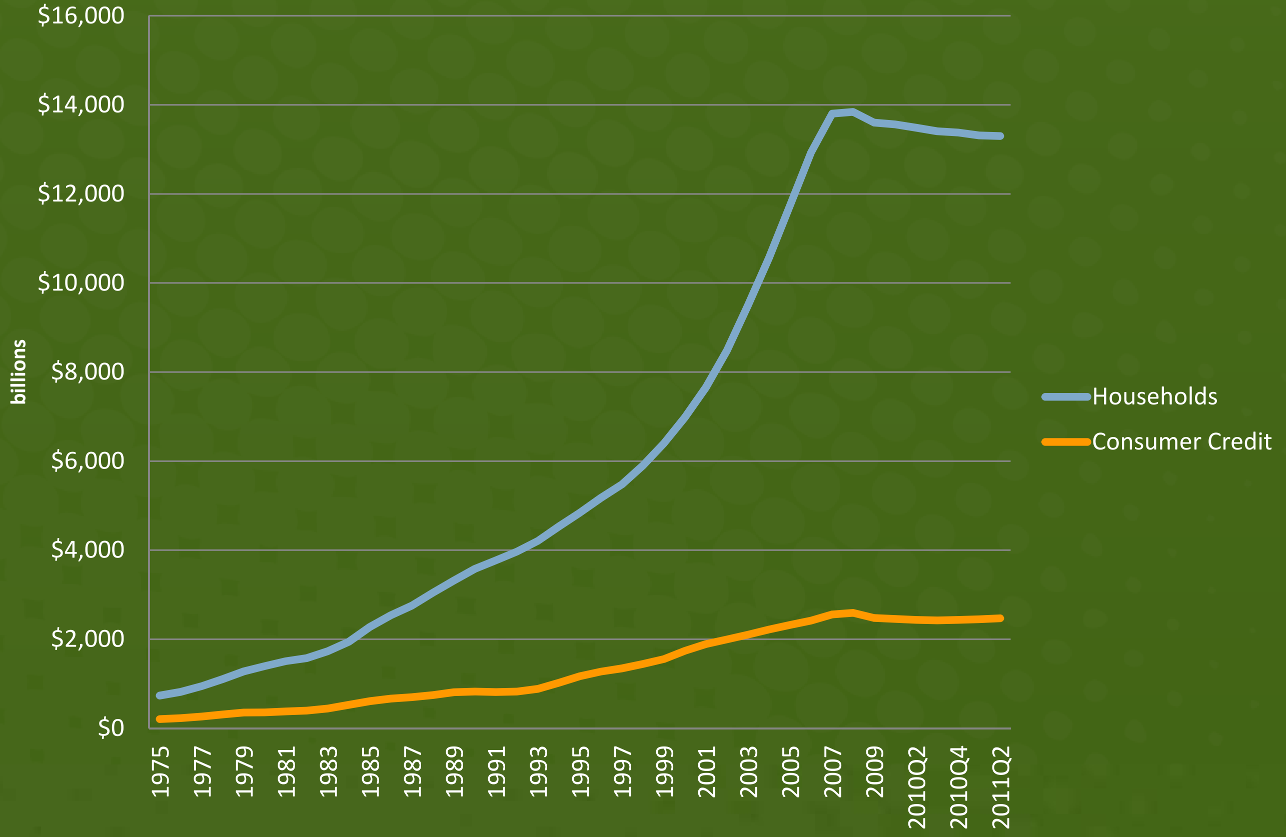
Commodity Prices Will Remain High

- Historically food price hikes corrected themselves quickly
- Now, they are projected to remain high



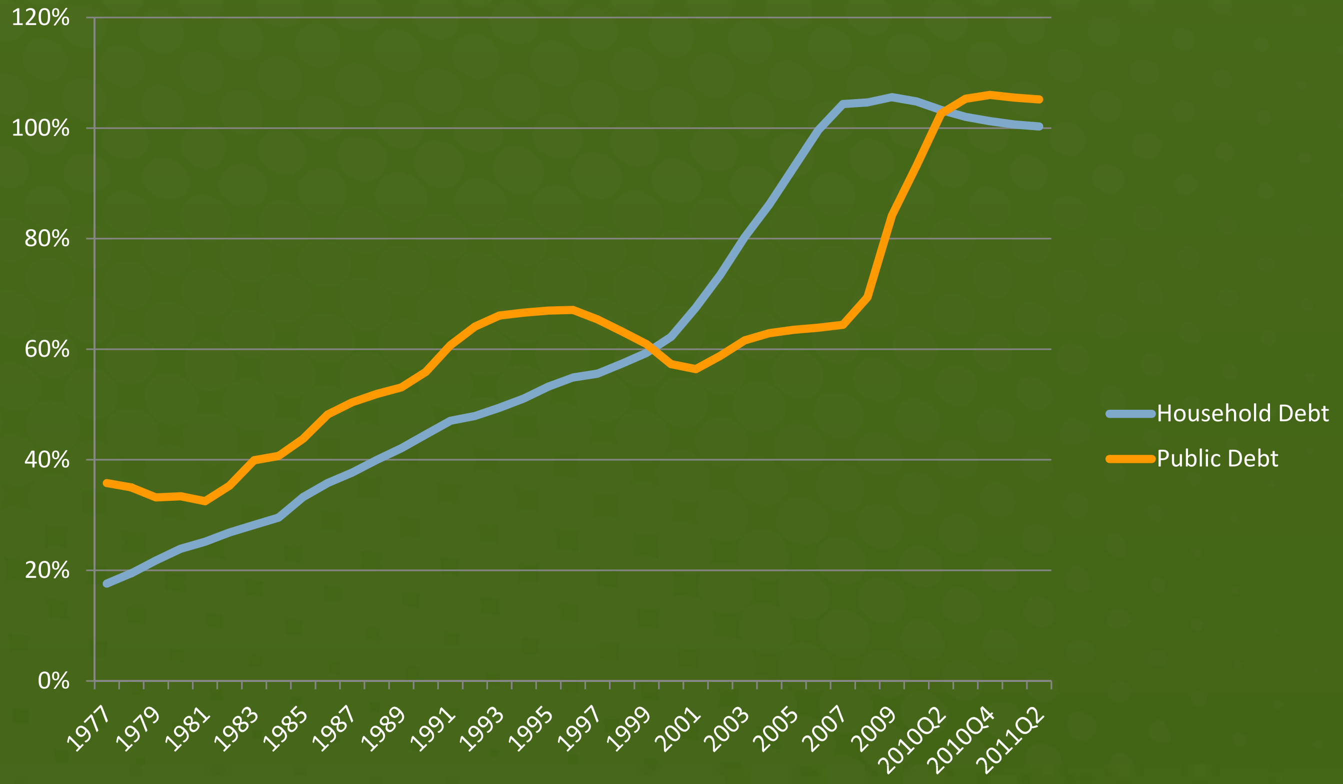
U.S. Household and Consumer Debt

- In April 2011, U.S. consumer borrowing rose by $4.82 billion for a 7th consecutive month, primarily driven by auto and student loans.



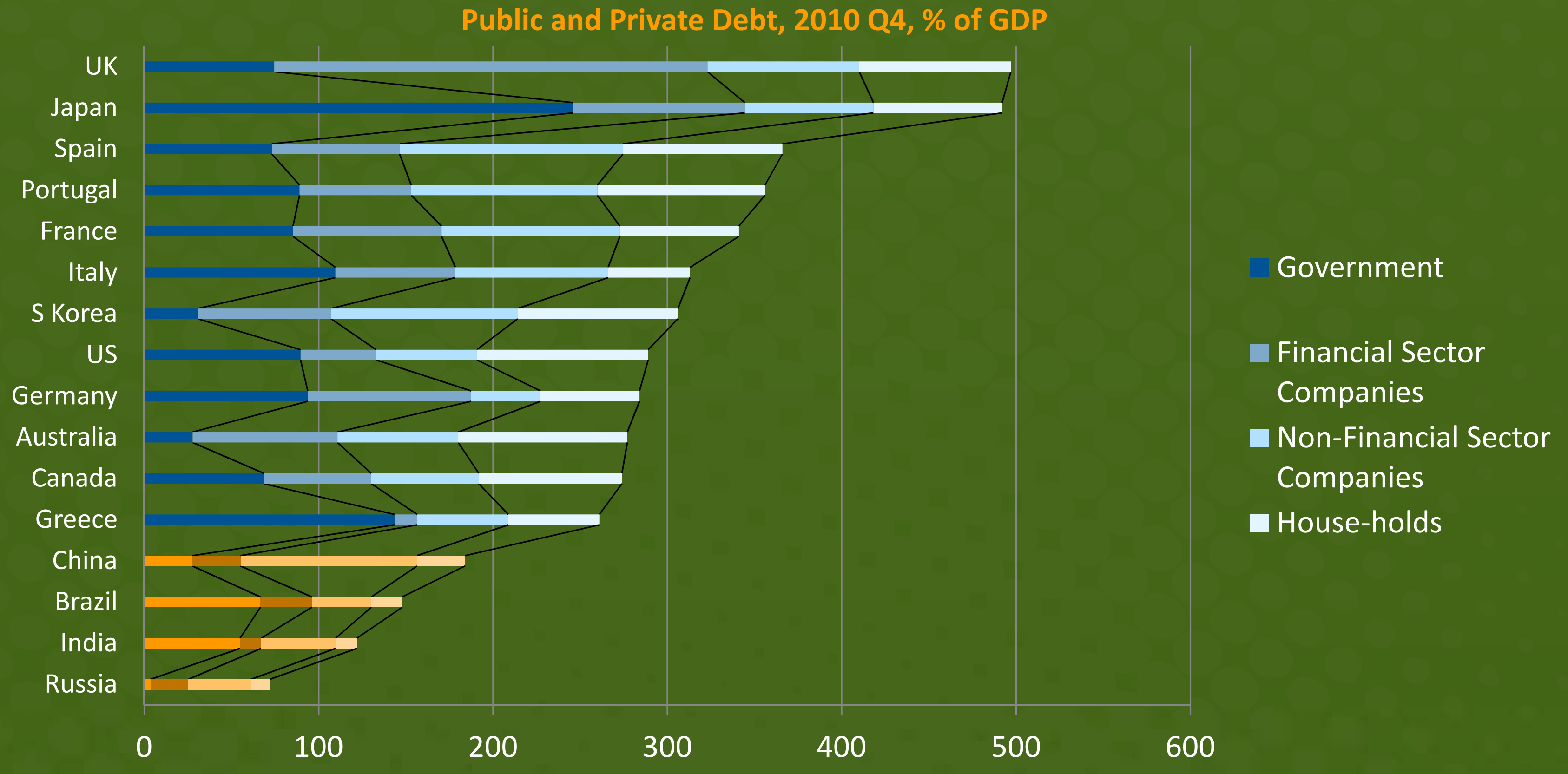
U.S. Household and Public Debt

- Getting the house in order will be a long-term process



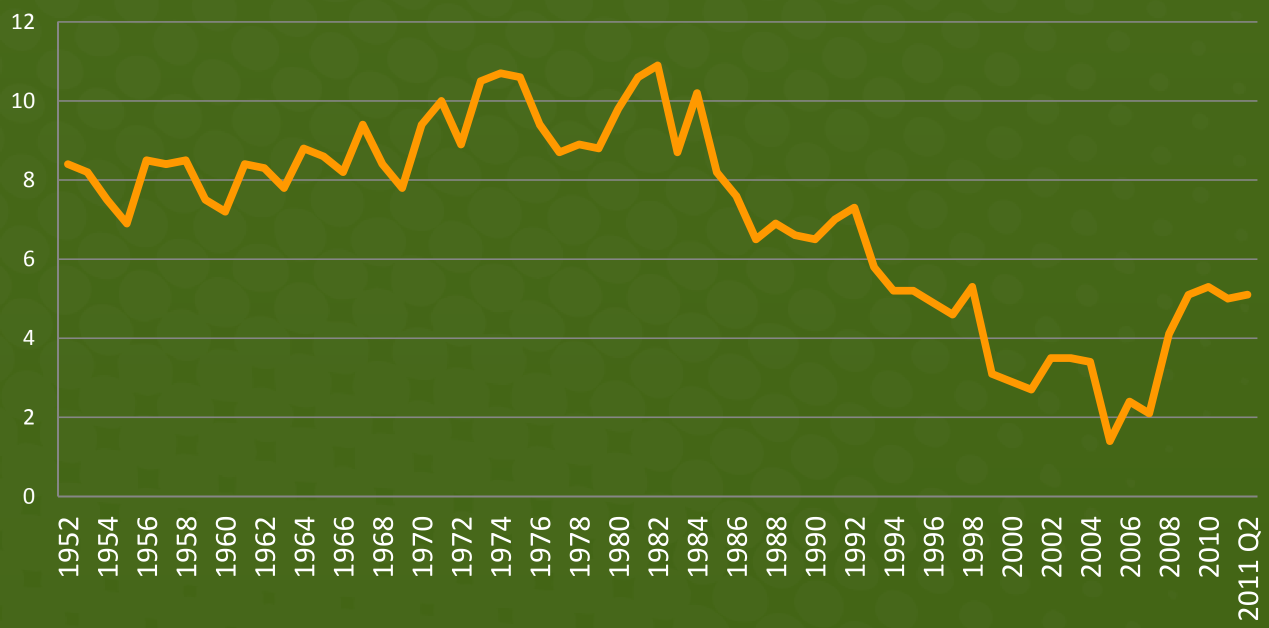
As percent of GDP

Public and Private Debt in the Global Context



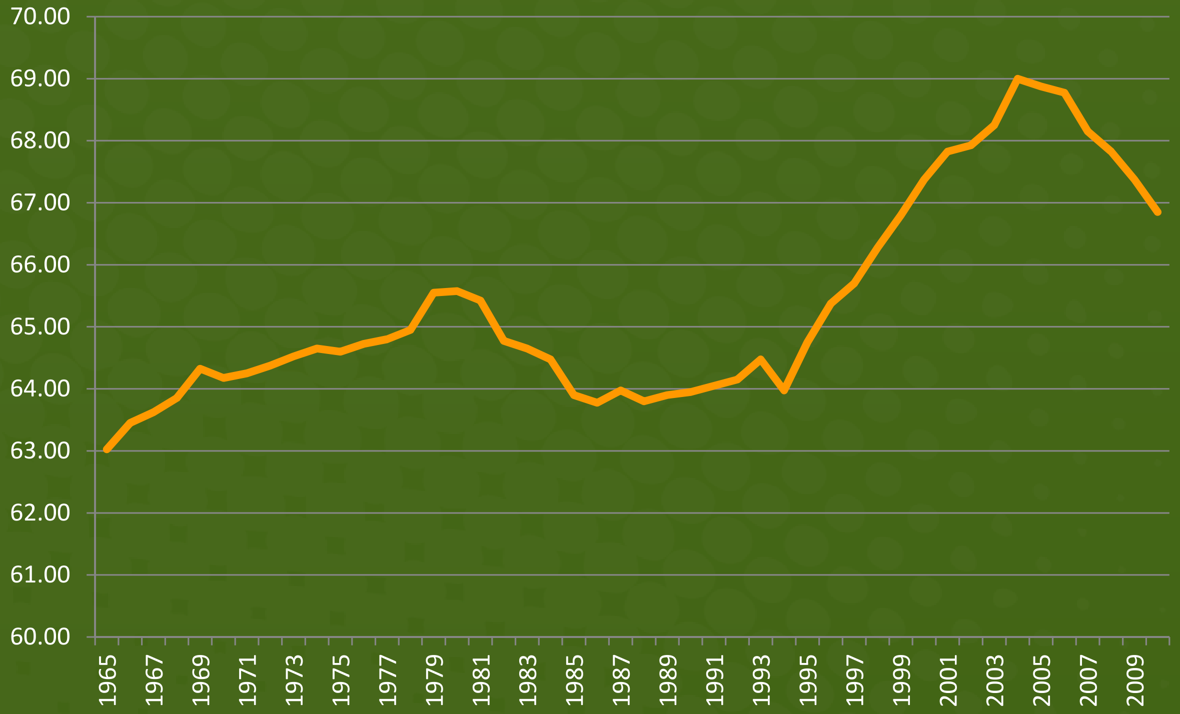
U.S. Personal Savings Rates

- Started increasing again in 2008 to 5.1% 2011 Q1
- Still no way near their 80's peak of 11%



Home Ownership Rate*

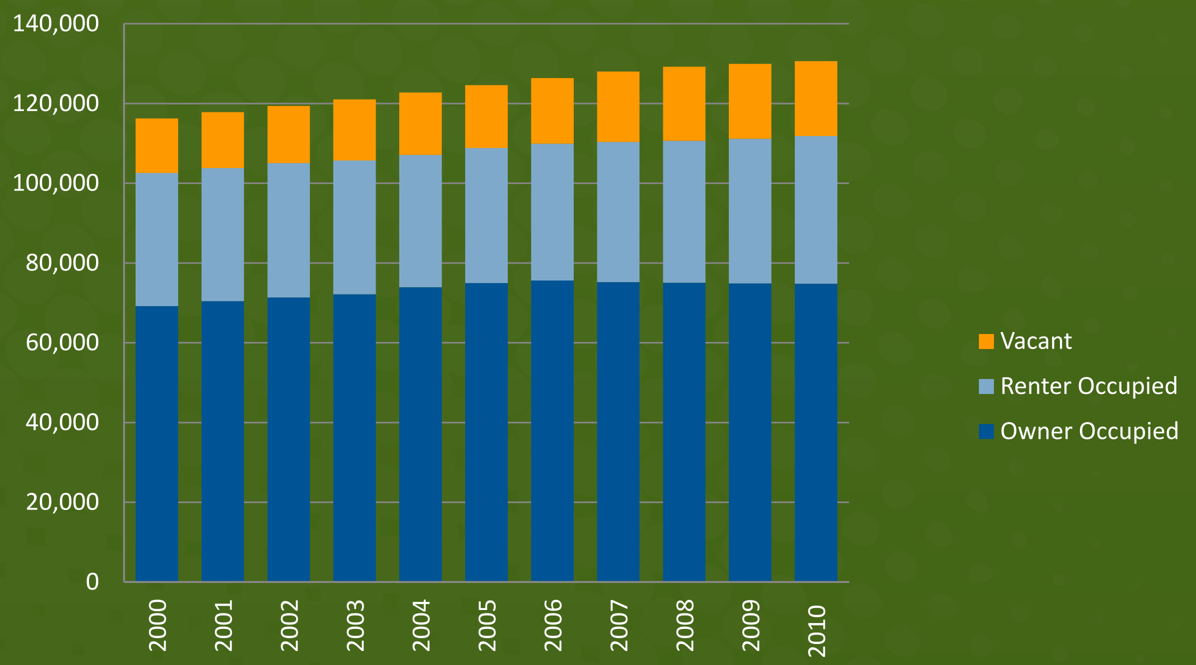
- 5% drop in rate since 2004 peak
- Rate increased mostly due to easier credit between 2000 and 2005
- Moving back to historic rates



*as of 2011 2nd Qtr

Housing Inventory

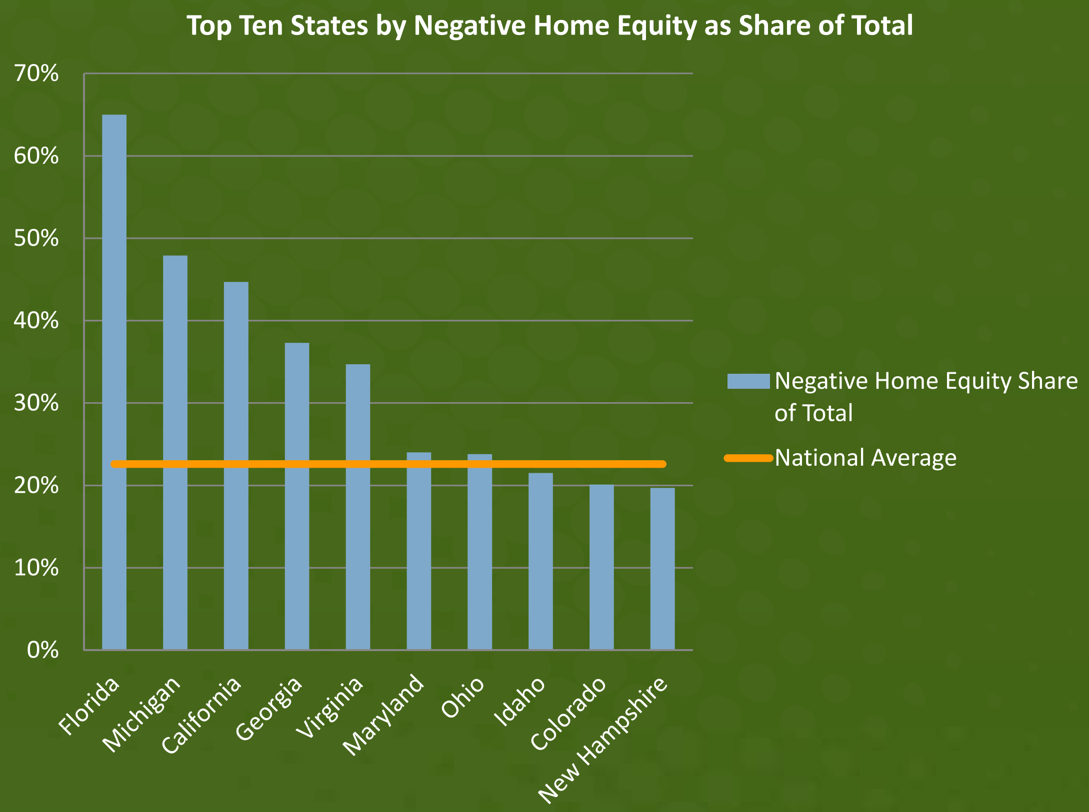
- 2010 vacancy rates decreased for the first time in a decade
- Still the highest for a decade
- Highest in the South



*thousands

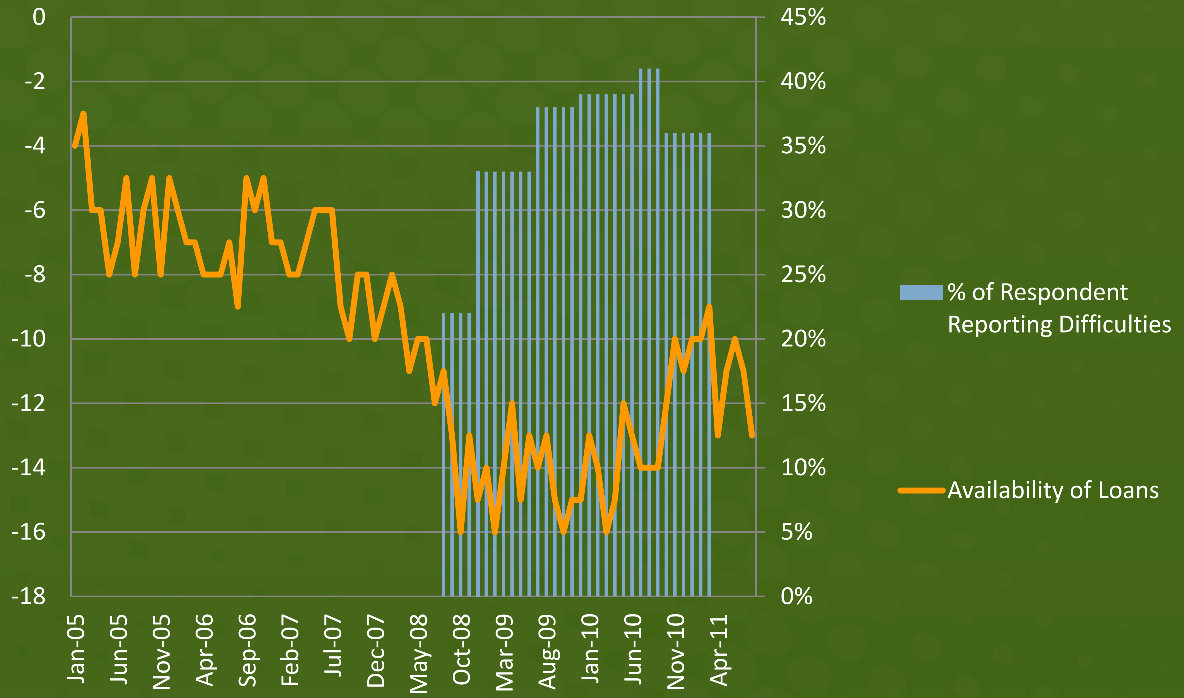
Foreclosure Backlog

- As of 2011 Q1, 27.7% of mortgages are under water, down from 27.5% 2010 Q4
- At the current pace, NY will require 62 years to repossess 213,000 in severe default
- FL will require 49 years, despite a 43% reduction to 260,000 cases
- MA and IL require a decade each



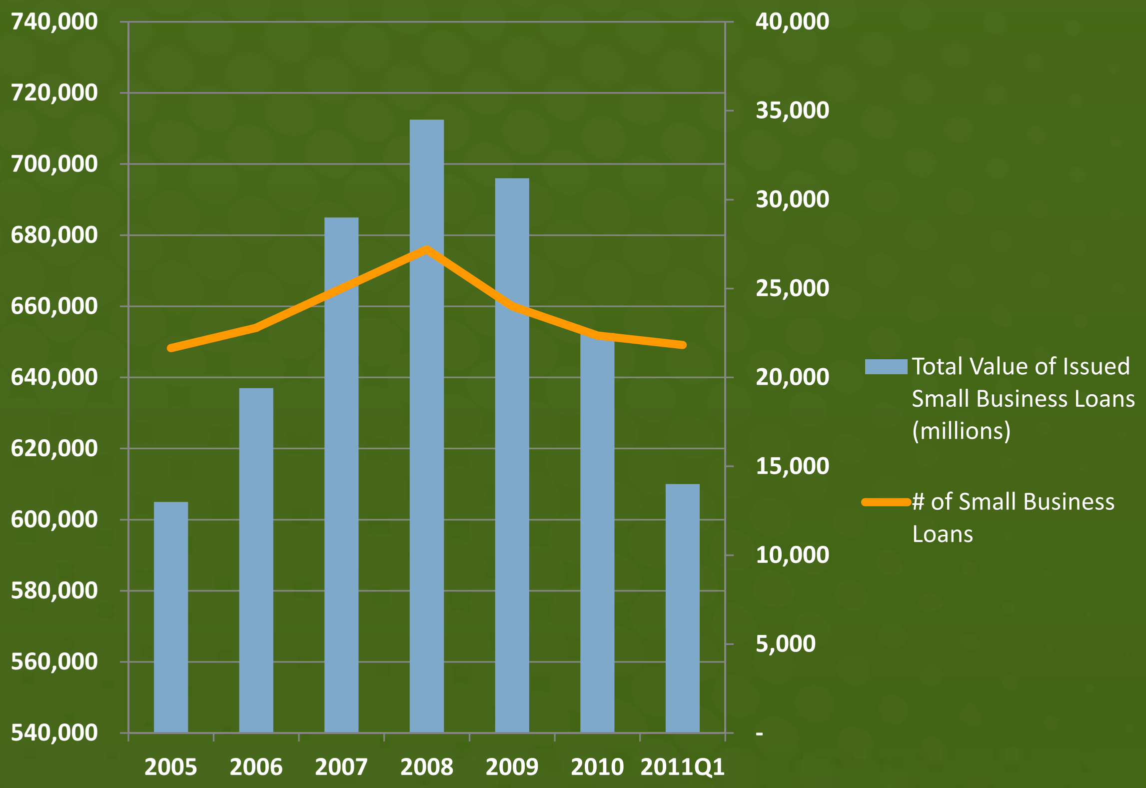
Small Business Owners Without Adequate Financing

- Financing remains an issue despite SBA cap increase, stimulus, etc.



Small Business Lending

- Between June 2009 and June 2010, the value of outstanding small business loans dropped by $43 billion — 6.2%.
- This compared to a drop of $156.2 billion — 8.9% — for large businesses

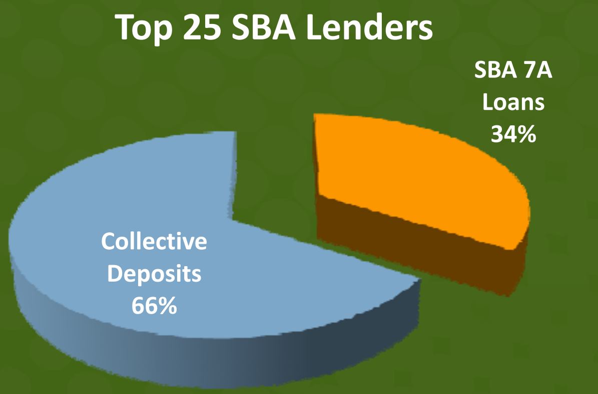


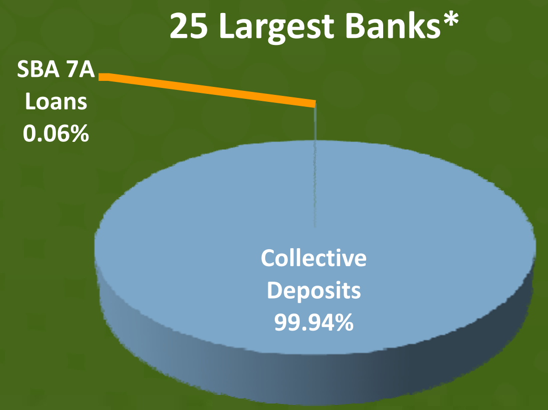
SBA Loan Trends

- 7a Loan demand increasing fast

Lender Commitment

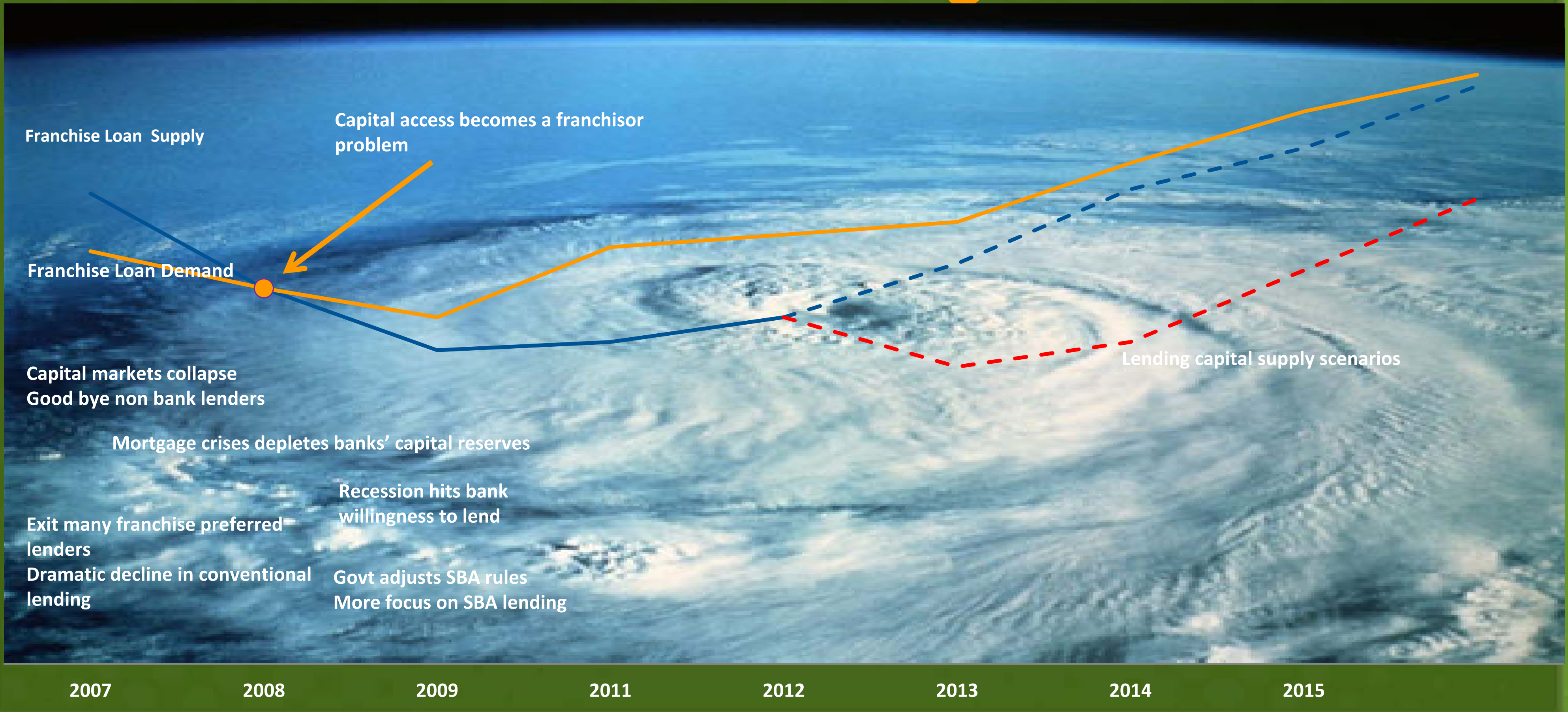
Lenders	SBA 7A Loans	Collective Deposits	SBA Loans to Deposit Ratio
Top 25 SBA Lenders	$2,900	$5,600	51.79%
25 Largest Banks*	$3,600	$5,700,000	0.06%





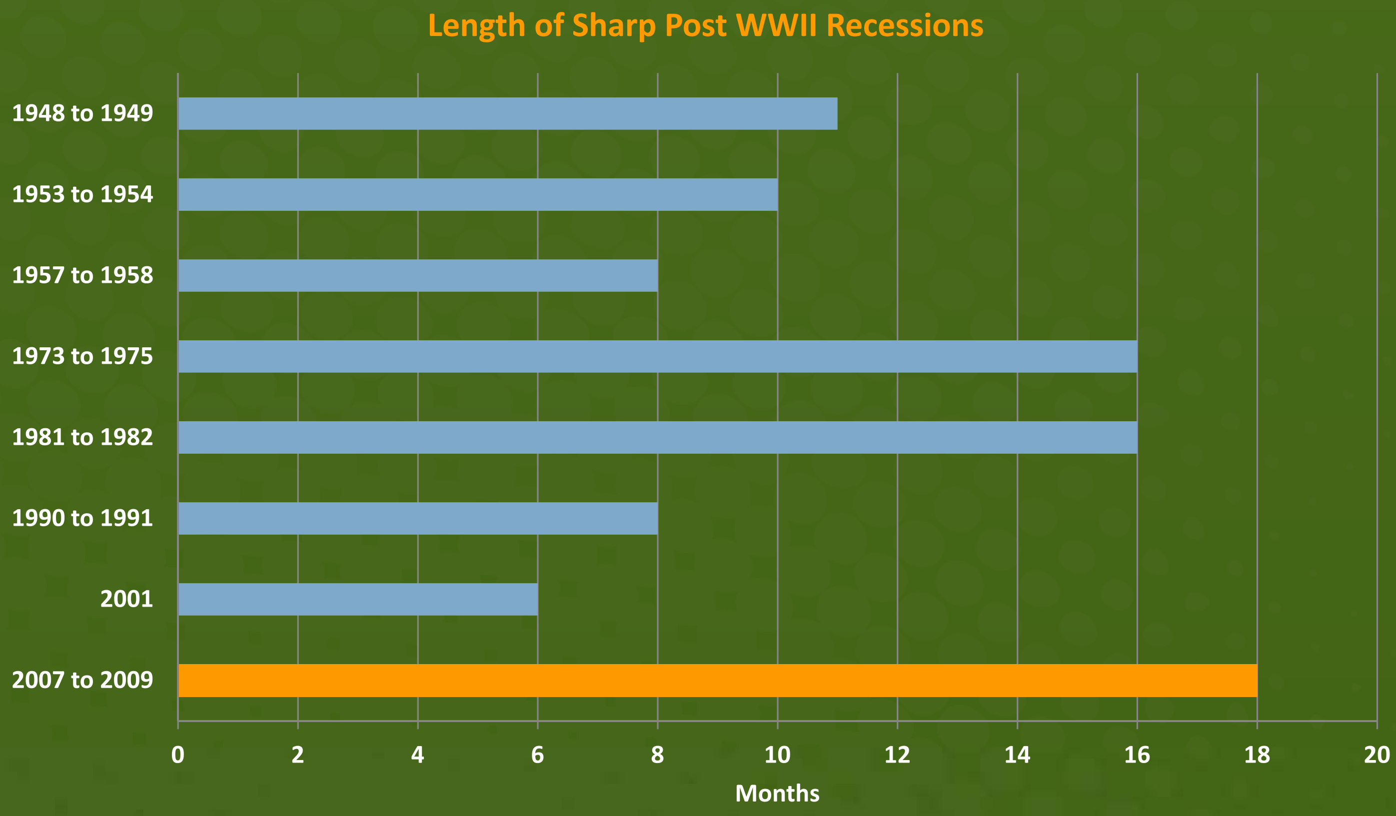
*By total deposits, in '000,000

The Perfect Lending Storm



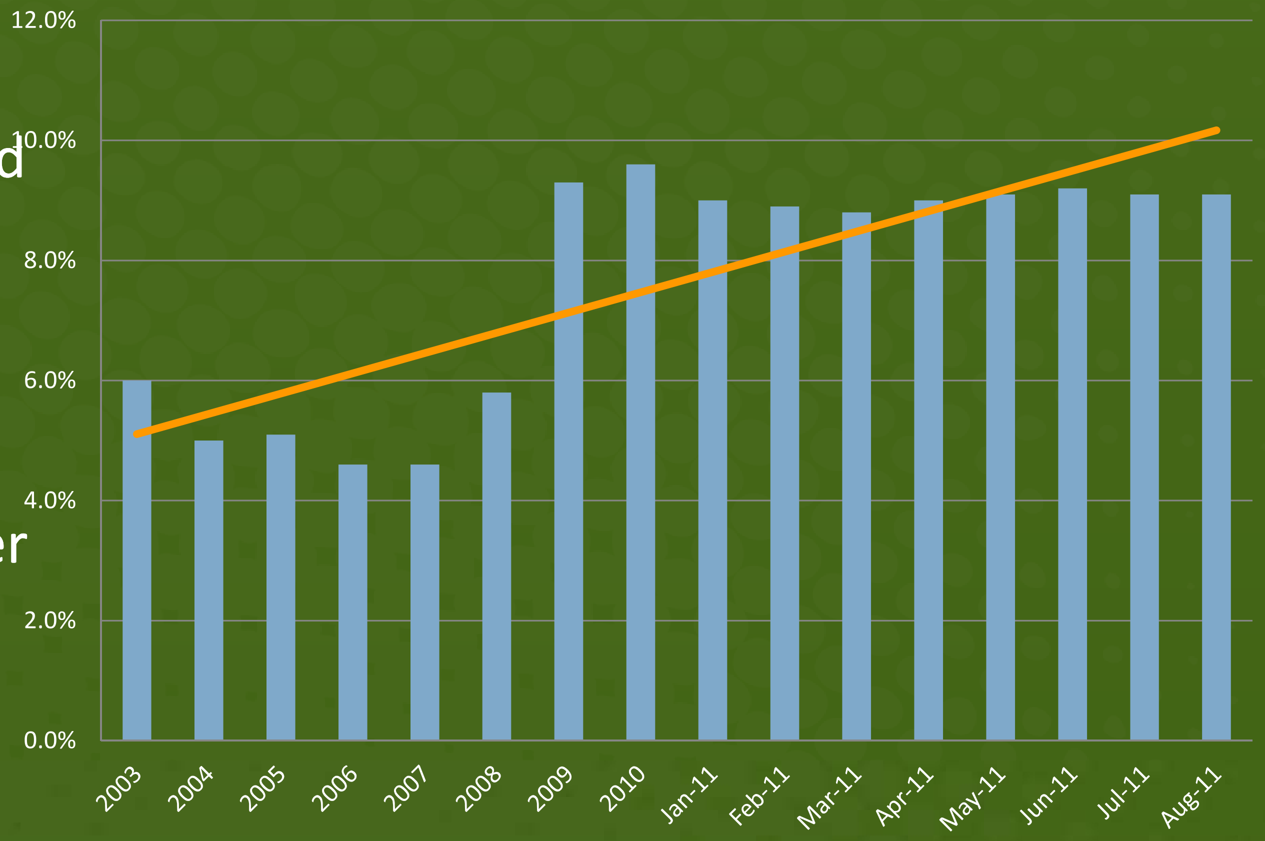
Recovery?

- The average post WWII recession lasted 11 months
- The last recession ended in June 2009 after 18 months
- This was 28 months ago



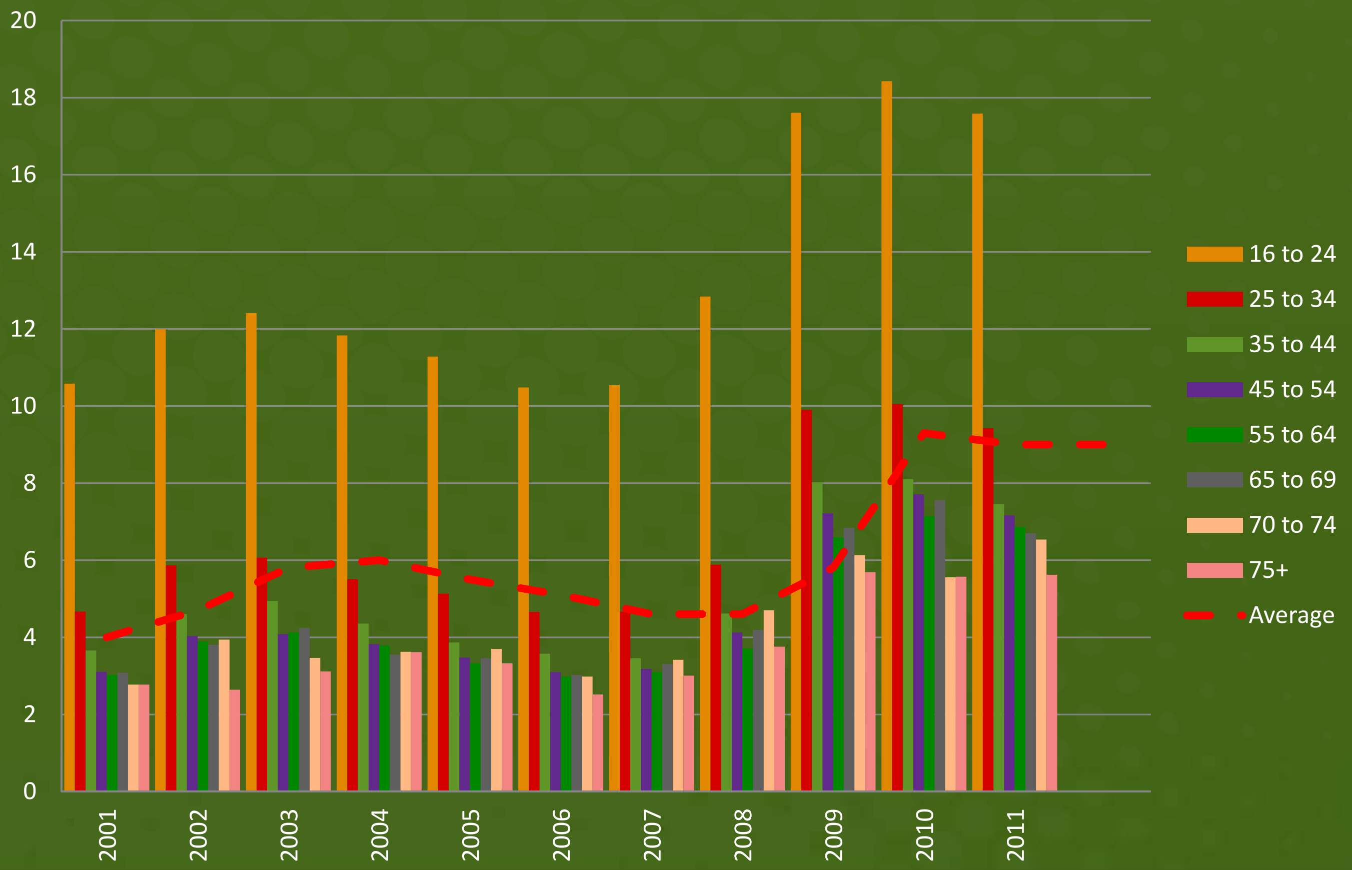
Unprecedented Post-War Unemployment

- Over 40% of unemployed out of work for more than 6 months
- 75% of those for more than 12 months
- Highest in the West (over 12% in CA)



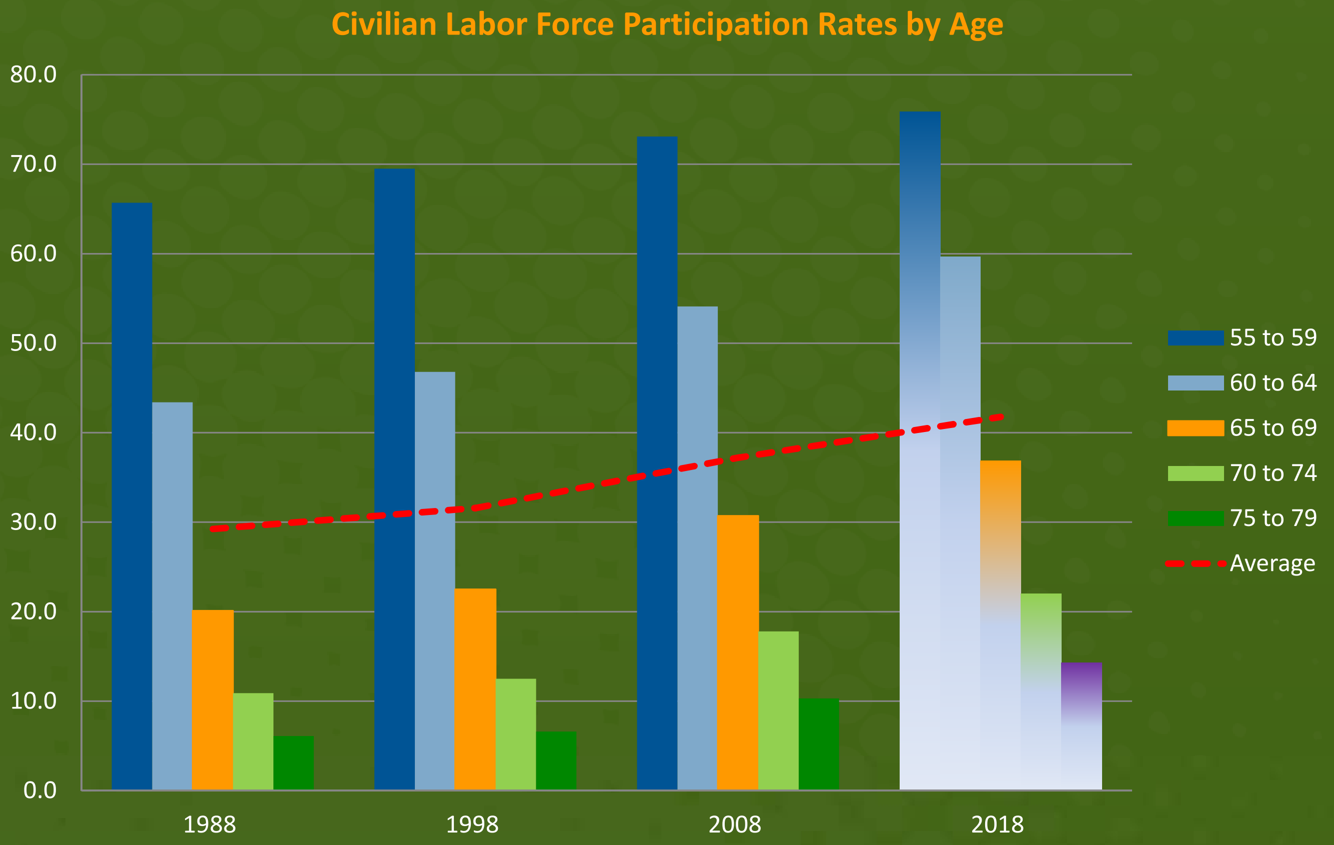
Unemployment by Age Group

- Unemployment rate is highest for the young
- Since 2001, the rate has grown the fastest for 70 to 74 year-olds
- In absolute terms, the number of unemployed grew the fastest for 65 to 69 year-olds



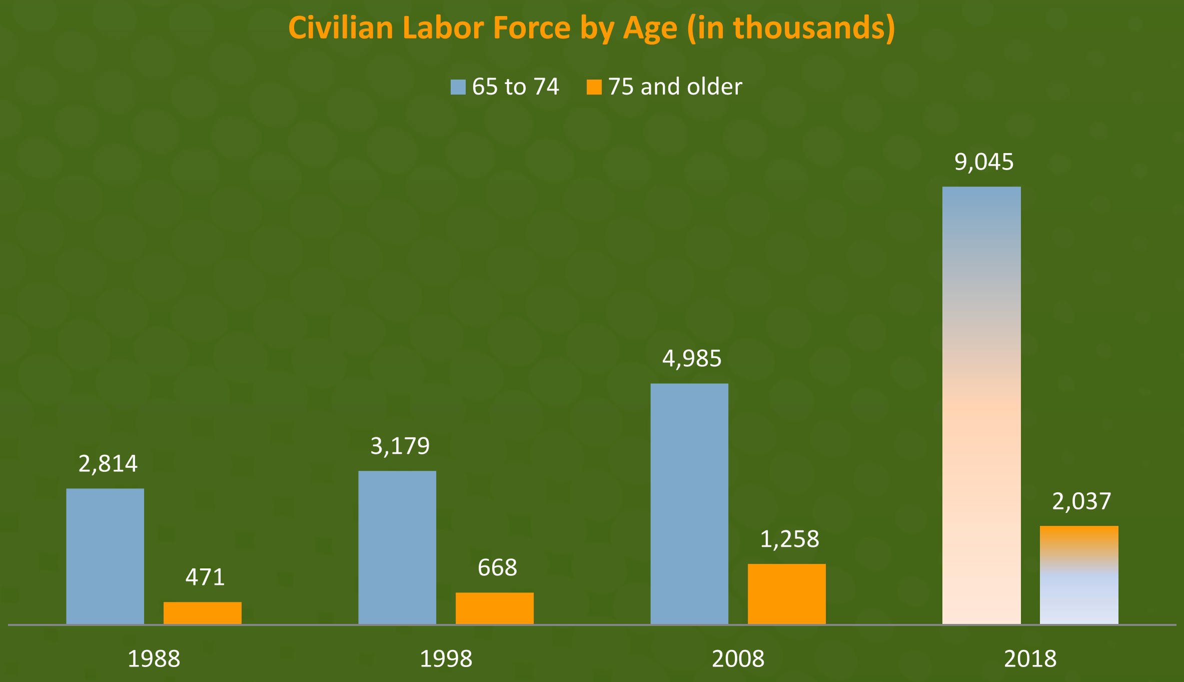
Changing Labor Force

- Between 2010 and 2015, 13.6 million people will retire
- By 2018, the share of 55 year-olds and older in the labor force will grow 8% faster than that of 25 to 34 year-olds.



Aging Labor Force

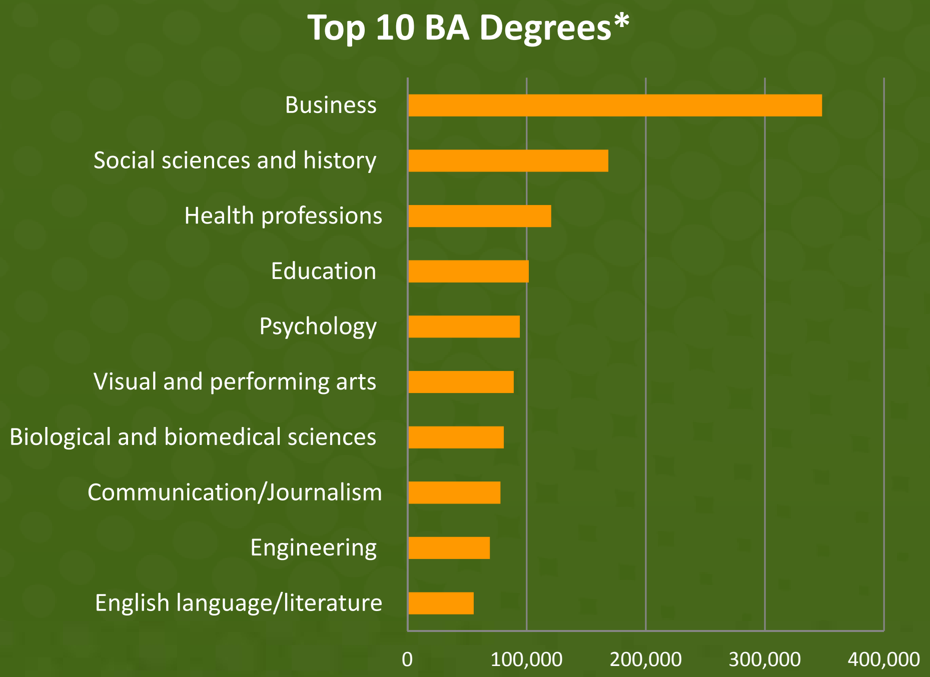
- The fastest growing segment of the civilian labor force between 2008 and 2018 are the 65 to 74 year-olds

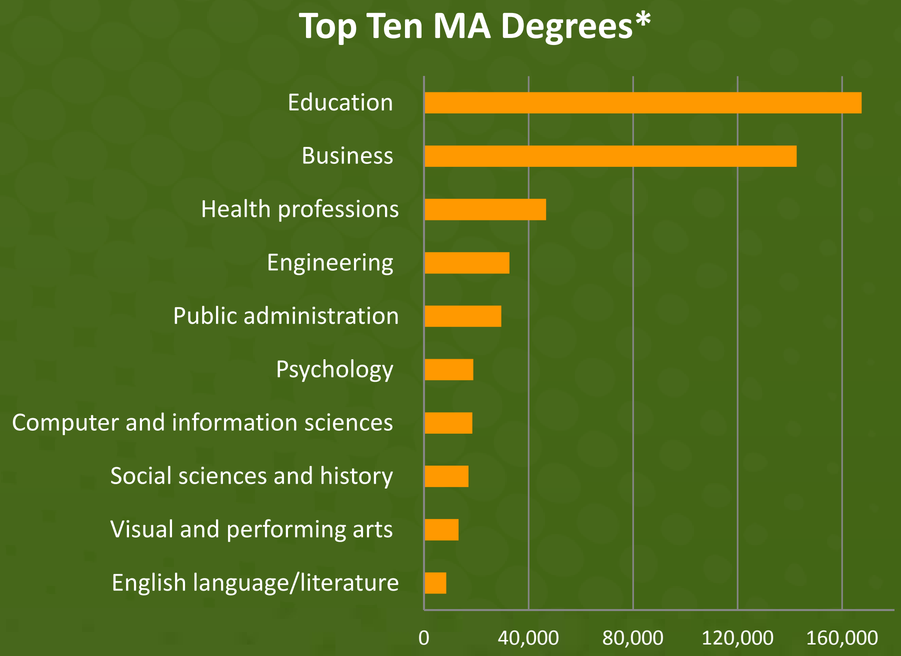


Full benefits take place when the retiree reaches the age of 66.

Quality of Labor Force

- Are these the graduates we need in the coming years?

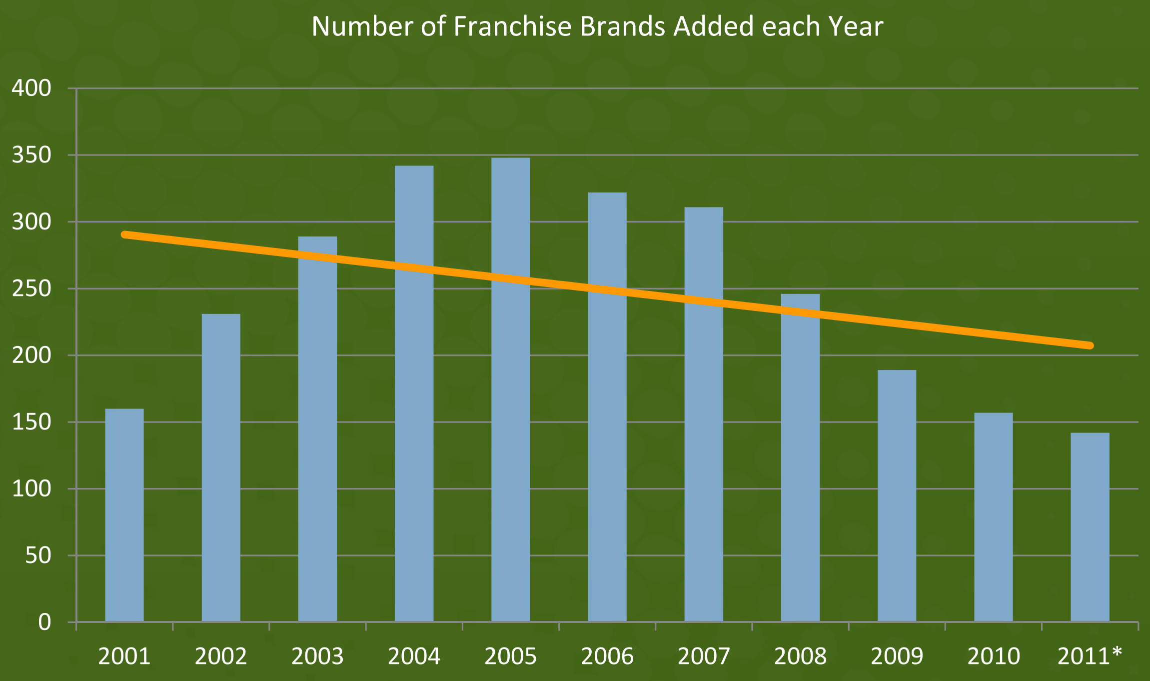




*most current estimates available

Growth of New Franchise Brands

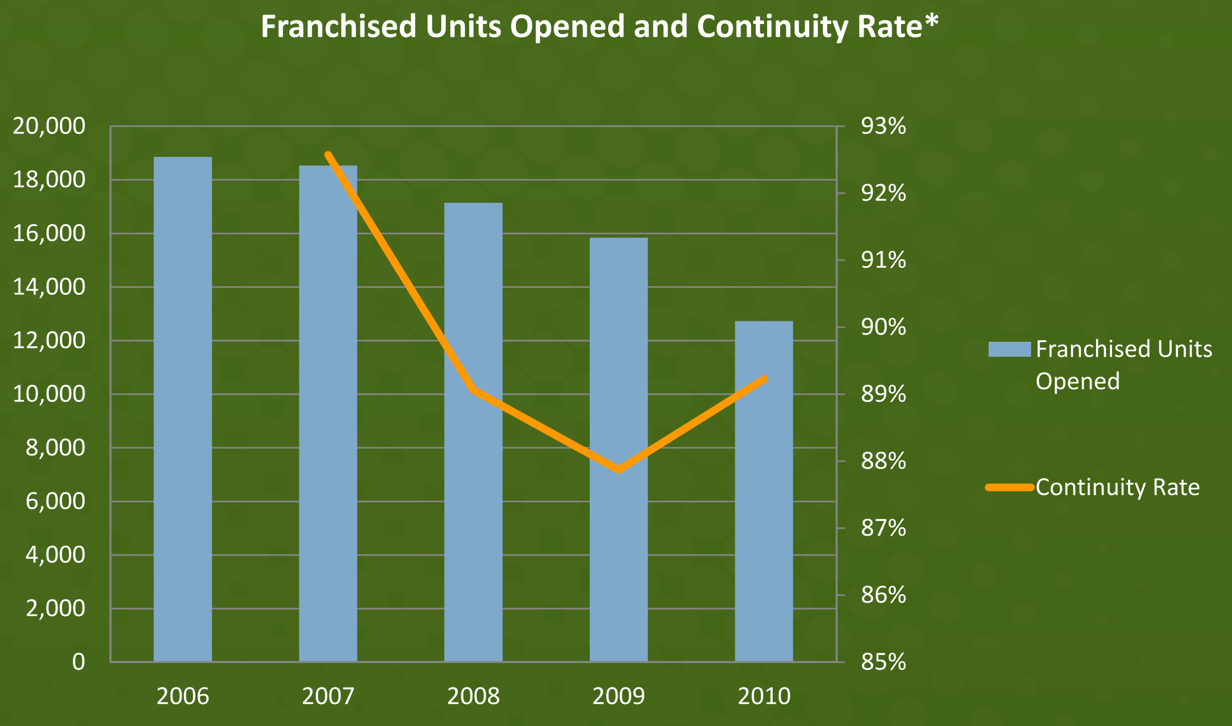
- 2001 to 2010 compound annual increase of 36% to over 3,000 brands
  - 2001 to 2005 peak: compound annual increase in brands of 71%
  - 2005 to 2010: compound annual increase of 14%



*estimate

Franchised Units Opened

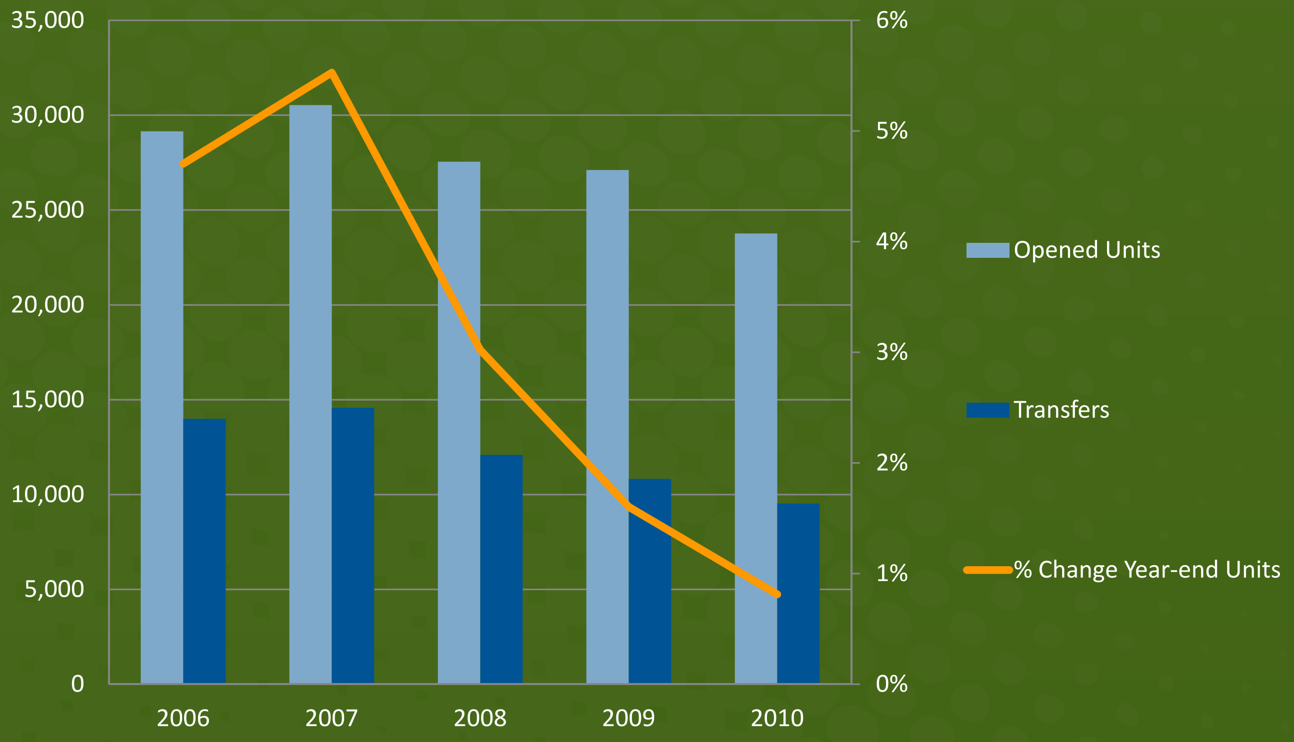
- Slowing pace of new openings
- 2010 first year since 2007 with improved continuity rate



*Based on 400 brands

Franchised Units Opened and Transfers

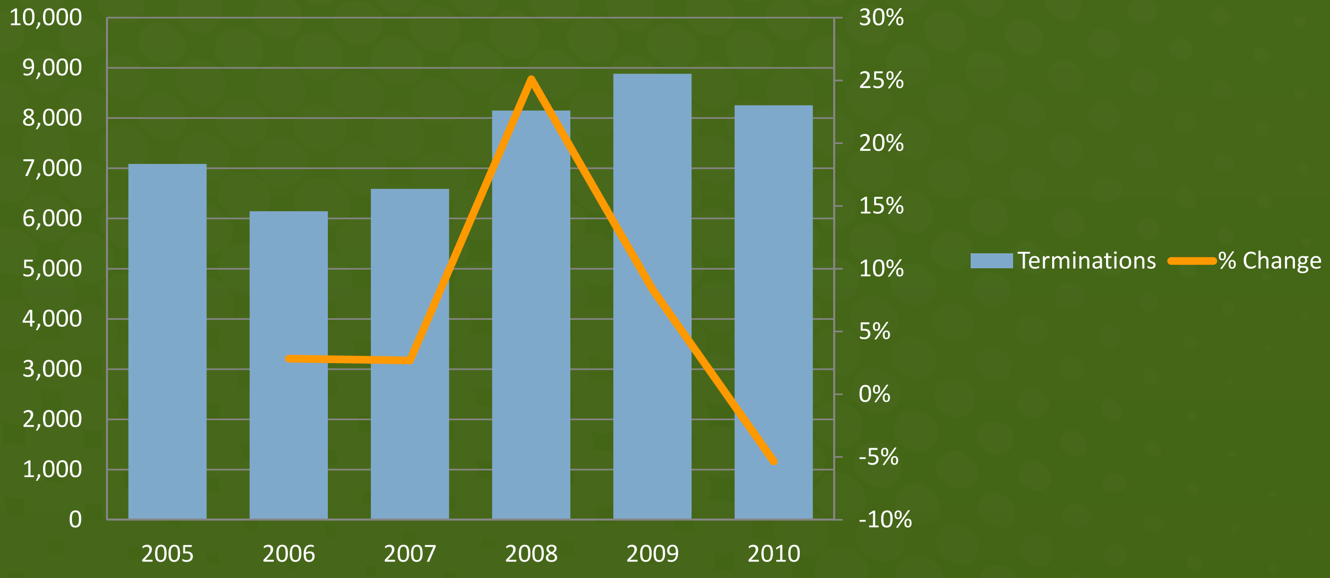
- 2010 new franchised units opened and transfers down 12% from 2009



*Based on 600+ brands

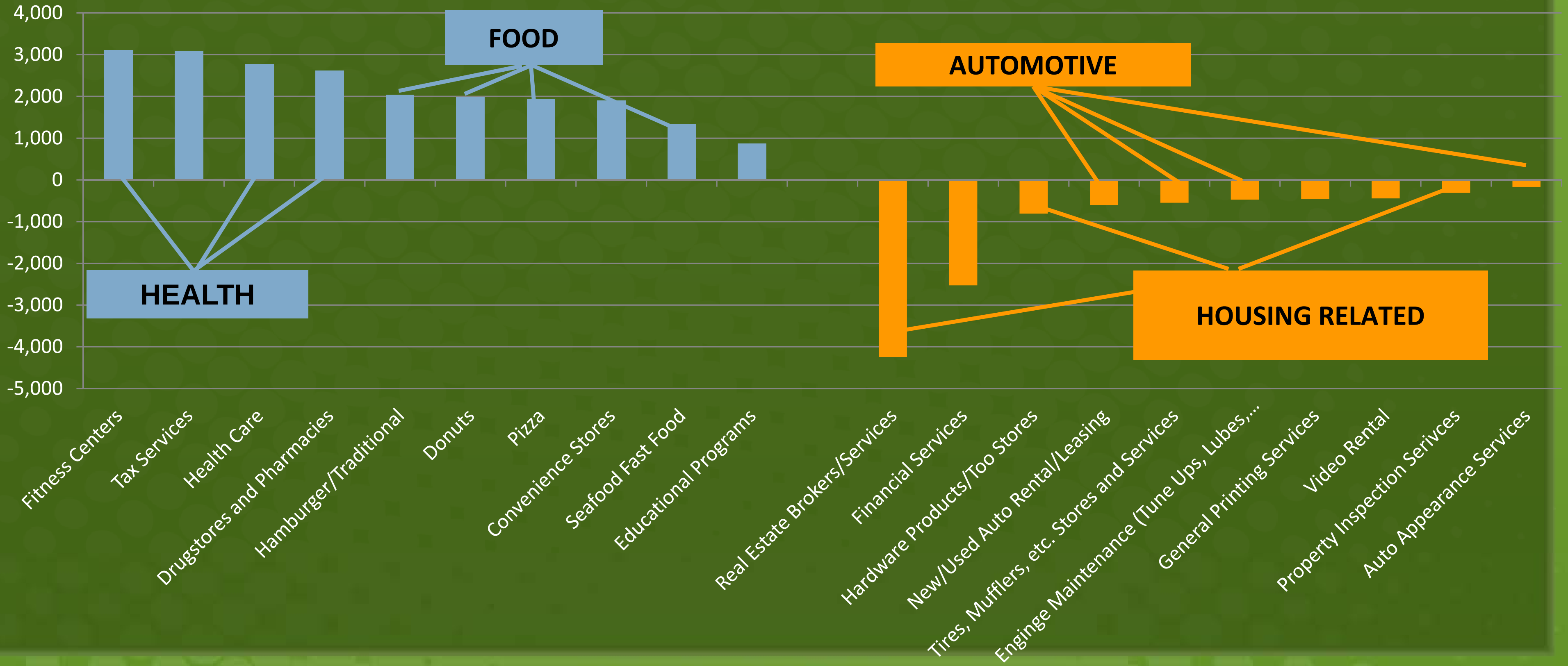
Franchised Unit Closures

- 2010 first year since 2006 with declining terminations



*Based on 600+ brands

Franchised Unit Growth/Decline over Most Current Five Years



2011 Franchised Growth Highlights

- Highest Estimated Growth
  - Health & Fitness (9.2%)
  - Child-Related (4.9%)
  - Education (4%)
    - Expected to continue in 2012

- Going Fast
  - Video (-4%)
  - Automotive (-3.6%)
  - Retail Stores (-2.7)
    - Expected to continue in 2012

Total projected 1% growth in franchised units in 2012 , down from an estimated 1.2% in 2011.