



# MULTI-UNIT FRANCHISING CONFERENCE

Presented By

**FRANCHISE  
UPDATE  
MEDIA**







# State of the Economy

Coming Out of the Crisis Very  
Different Than Went In

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CEO, FRANdata





# 2022 ECONOMY

- COVID is going to be with us for at least another year, **perhaps much longer**
  - Supply chain disruptions into **at least 2023**
- GDP will **rise** although very unevenly across continents, countries
- Consumer spending will continue to rise, albeit in ways we're **still trying to understand**
- Further reinforcement of **permanent consumer behavior changes**
- Domestic labor wage **pressure will continue** across most categories
- Capital : Labor shift will **accelerate**
- Inflation will be a greater concern driven by **supply-side pressures**

# COVID ISN'T GOING AWAY SOON

864,032

New cases reported worldwide, Aug. 20



4,417,123

Total deaths reported worldwide



319,456 in U.S.

Most new cases today



4,897,747,719

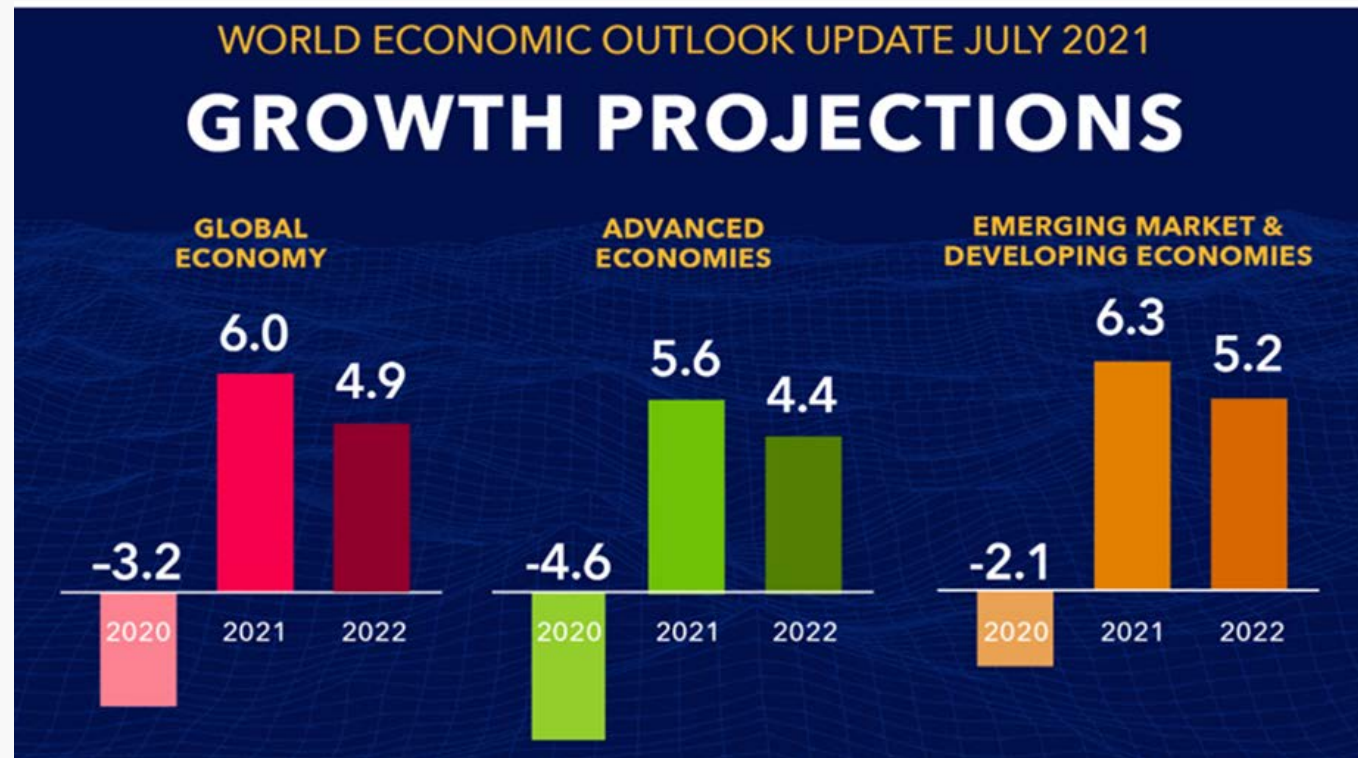
Vaccine doses administered in 183 countries





# GDP Forecast

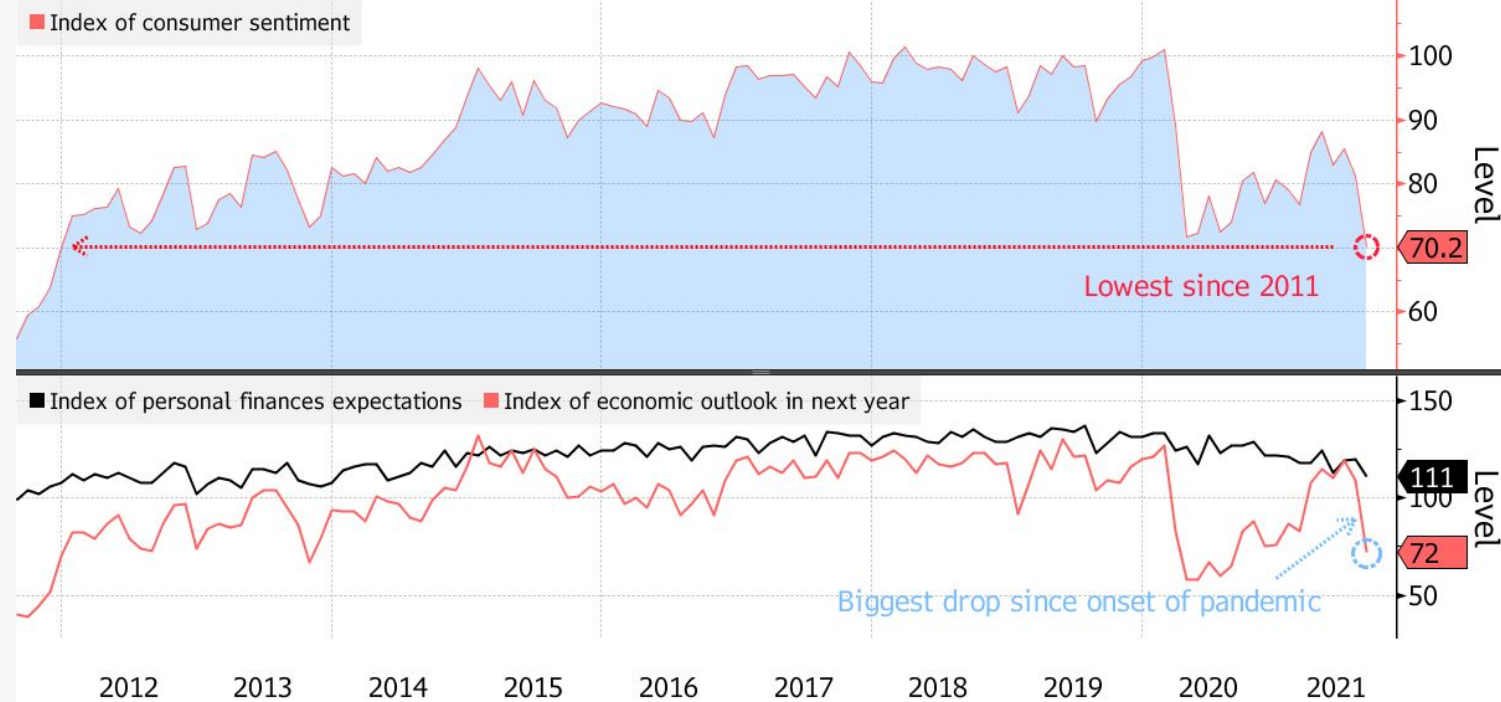
- Economic period of recovery extended to 2022
- Advanced Economy per capita income will grow in 2022



# COVID Reality Affecting Sentiment

## Stunning Deterioration

Consumer sentiment in U.S. plunges on concerns about virus, economic prospects

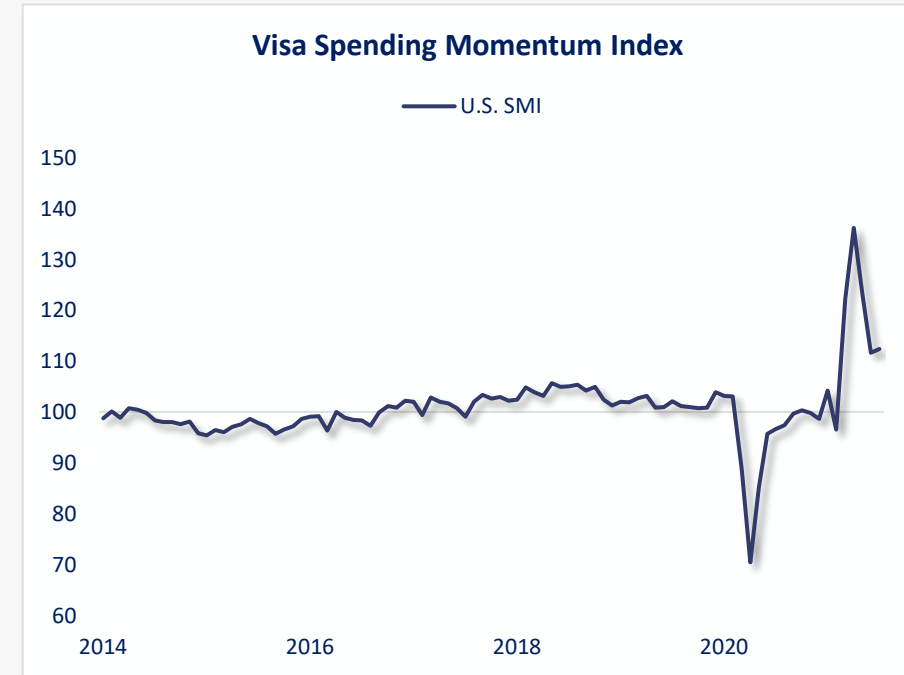


Source: University of Michigan



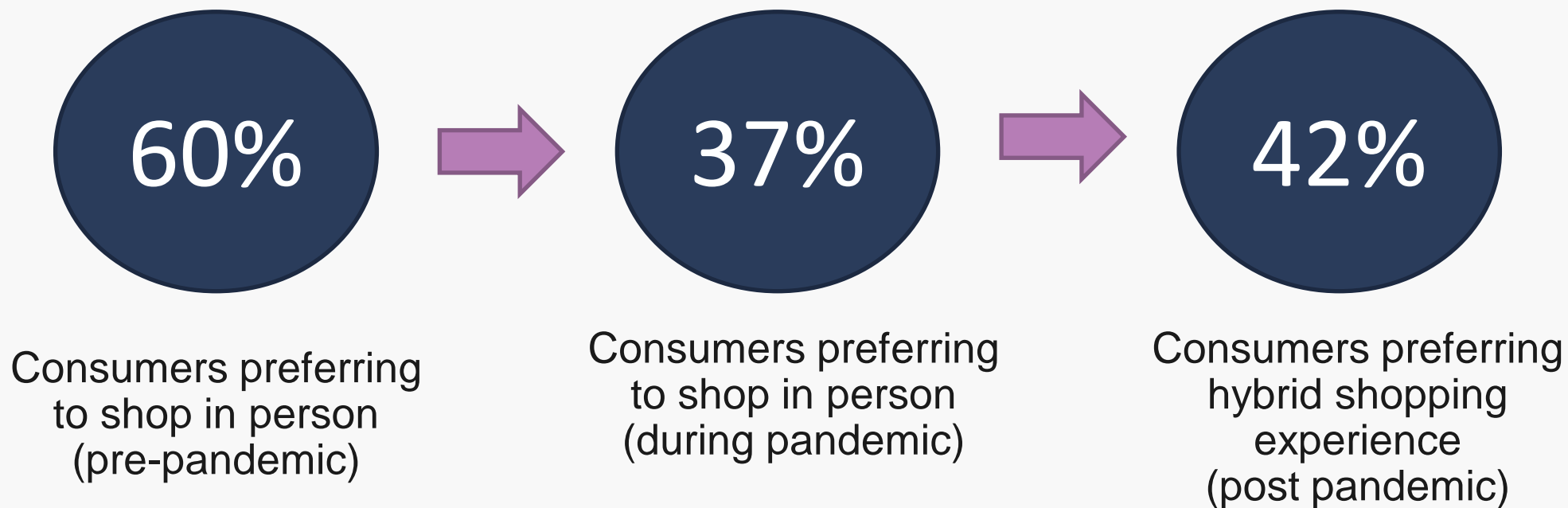
# US Consumer Spending Positioned Well for 2022

- 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 3.5% (YOY) in June
  - 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 is Changing Consumer Behavior

Changed consumer behavior is likely to stay permanent





# End of Govt. Assistance: Impact on Labor Supply

Ending Pandemic Benefits is Not Releasing Labor into the Market

2%

Job growth in States  
with Extended  
Pandemic Benefits

50%

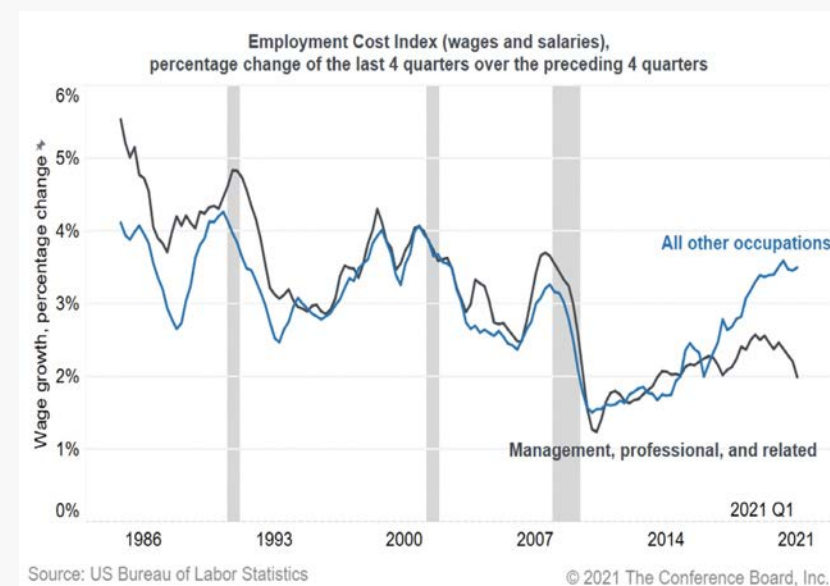
% Small Business  
Owners Reporting  
Unfilled Jobs

80%

% Candidates  
Switching to New Jobs  
Due to Career  
Advancement  
Concerns

# 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

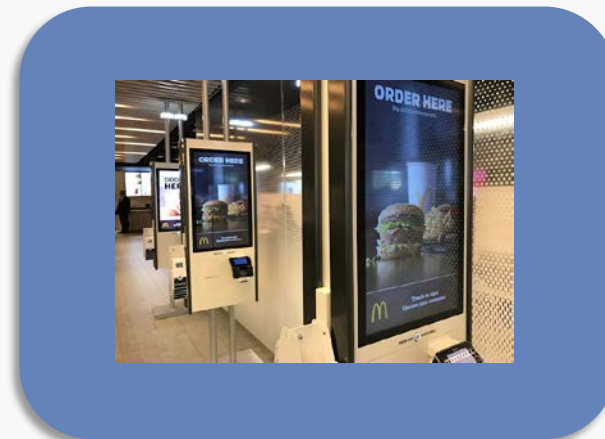
## Online Ordering & Delivery



## Contactless Payment



## Kiosks



## QR Codes



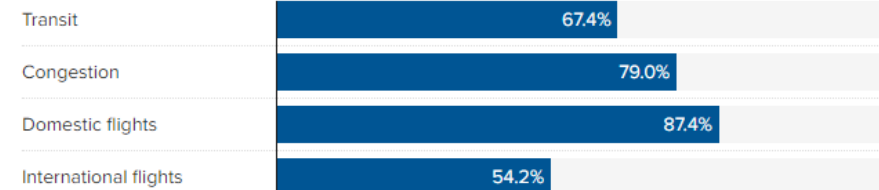
# When Economic Demand Exceeds Supply = Inflation

- 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







# What This Means For Capital Access

Disentangling Risk and Uncertainty





# 2022 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

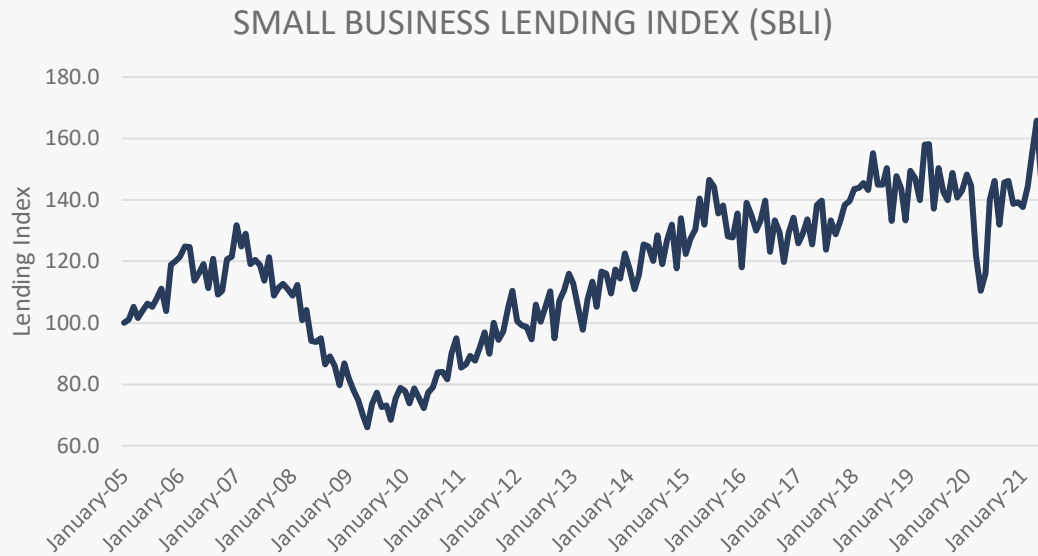


# Today's Willingness to Lend

- 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**

# Small Business Lending Activity



National Credit Conditions		
Small Business Lending Index	155.7	▲ 11.1% (YoY)
Small Business Delinquency Index	1.29%	▼ 102 bps (YoY)
Small Business Default Index	2.64%	▼ 31 bps (YoY)

- Small business lending activity is cautiously growing
- **For all lenders, geography matters a lot**





# State of Franchising

The Franchise Business Model  
is Evolving Quickly



# Pandemic Changing Franchisor Functional Execution

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



# Pandemic is Changing Prospect Behavior

MUs are getting more diligent on prospecting new brands

- Close to three-quarters of MUs now contact about 1 to 3 brands during the prospecting phase
- Performance metrics are becoming as critical during the development/sales process as it is during the financing/funding phases



# Addressing Supply Chain Interruptions

- Suppliers struggling to provide products
- Franchises are implementing creative solutions to counter supply chain delays
  - Creating flexible brand standards and procurement requirements
  - Negotiating alternative arrangements
  - Rolling out new offerings to counter supply chain delays on existing products
  - Partnering with third parties like ghost kitchens
  - Deferring remodeling/store refreshes to prolong life of equipment

88%	# of small business that cited difficulty sourcing goods in the past 12 months
76%	# of small businesses experiencing an increase in COGS
59%	# of small businesses facing longer delays to receive goods



# Pandemic Changing Zor/Zee 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

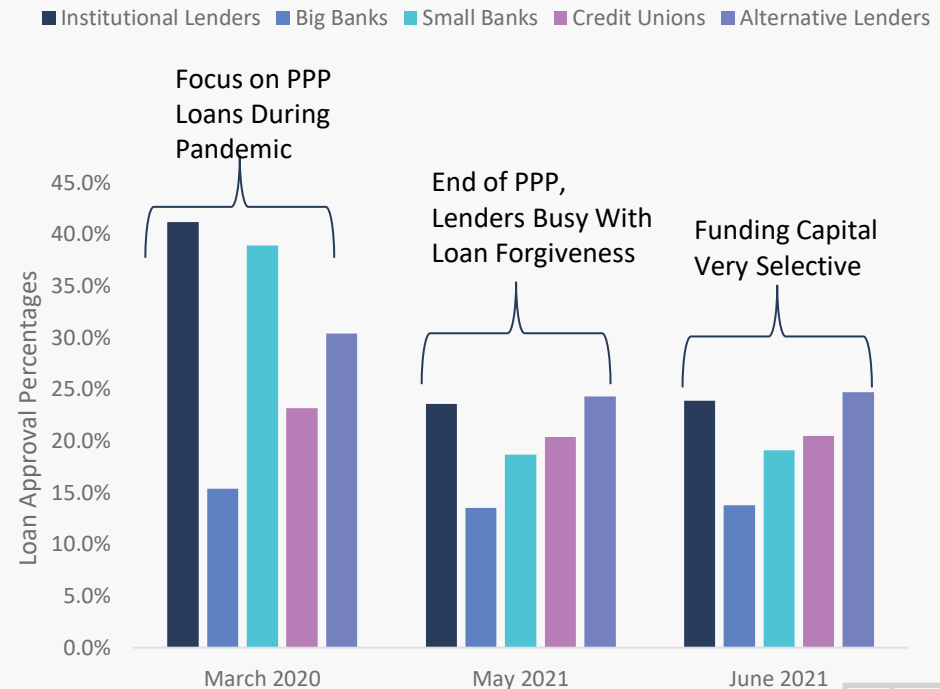
**Are these ST or LT consequences?**

# 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





# 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



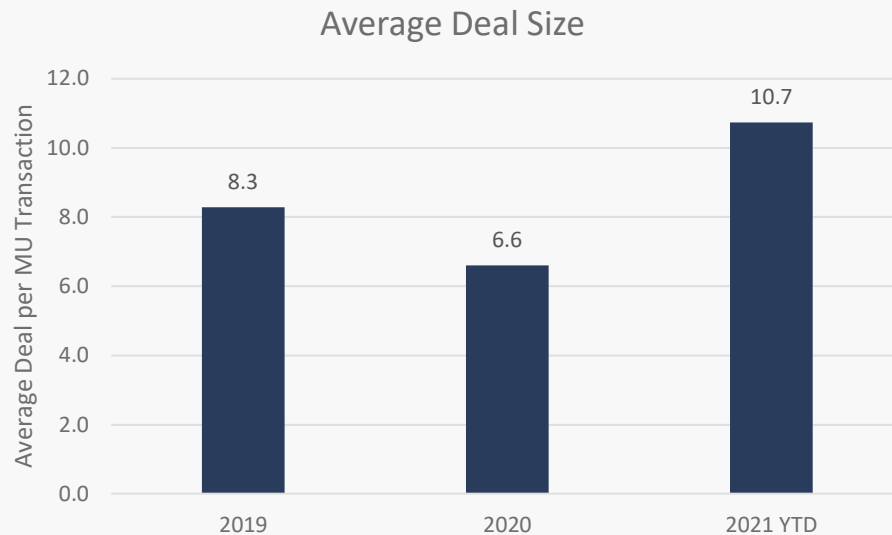
How Did Your Brand Do in the Pandemic?



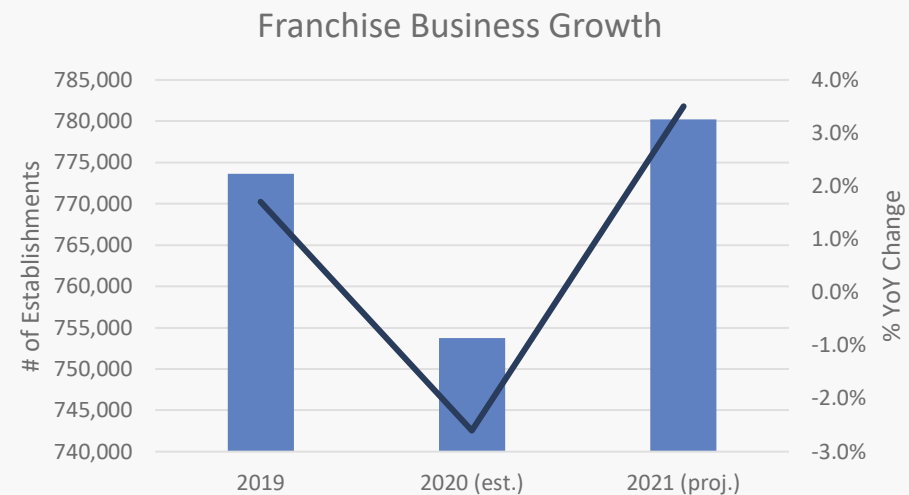
KNOW YOUR FUND<sup>TM</sup> SCORE

# A New Era of Unit Consolidation

## Multi-Unit Development Deals to Drive Business Growth



Source: FRANData Database



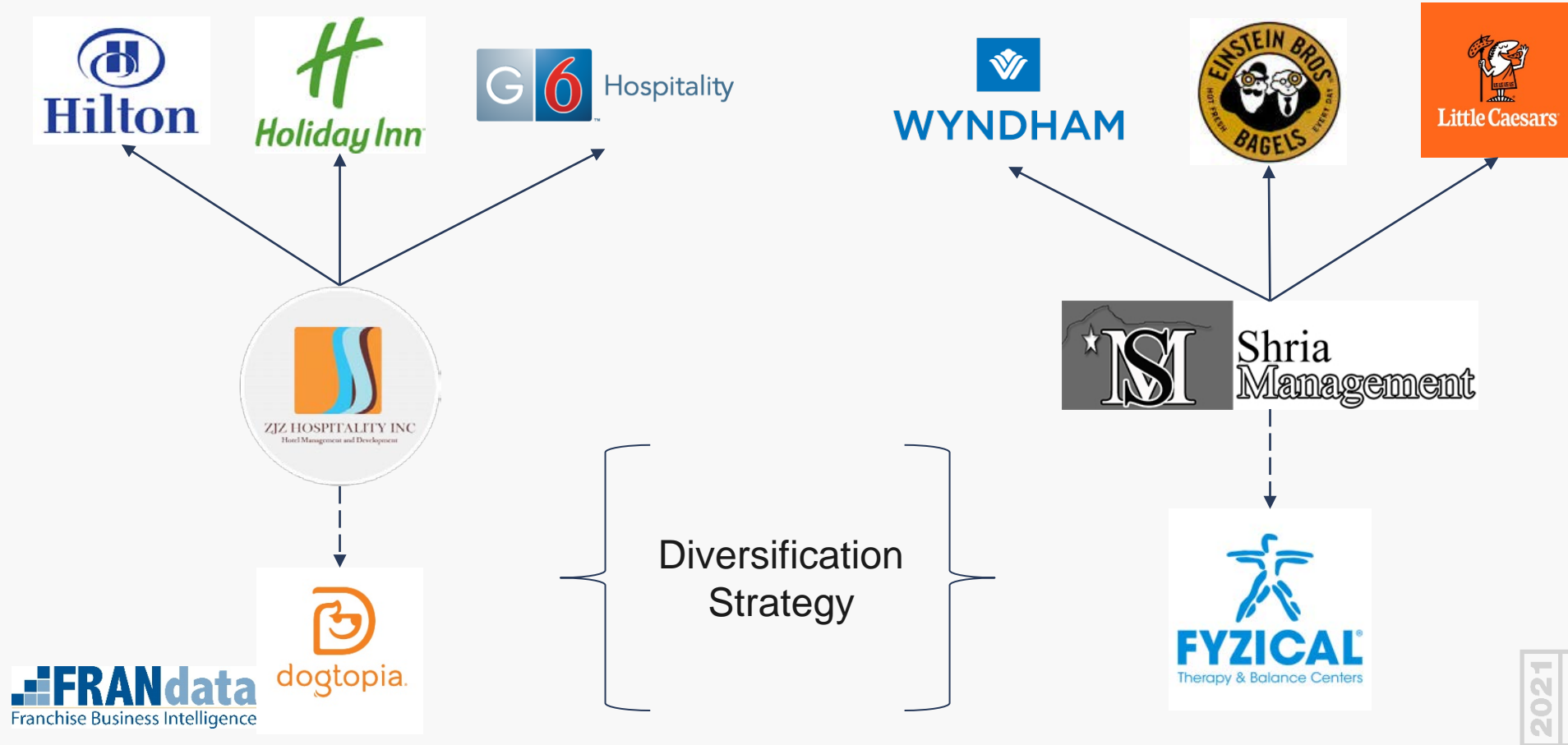
Source: IFA Economic Outlook by FRANData

- 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



# The Big Getting Bigger

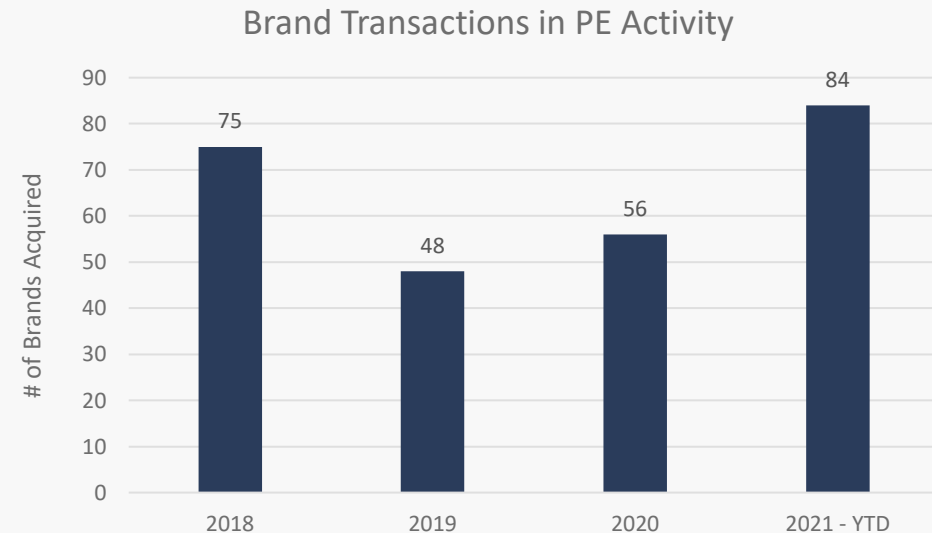
Need for risk diversification created bigger MUMBOs



# 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)







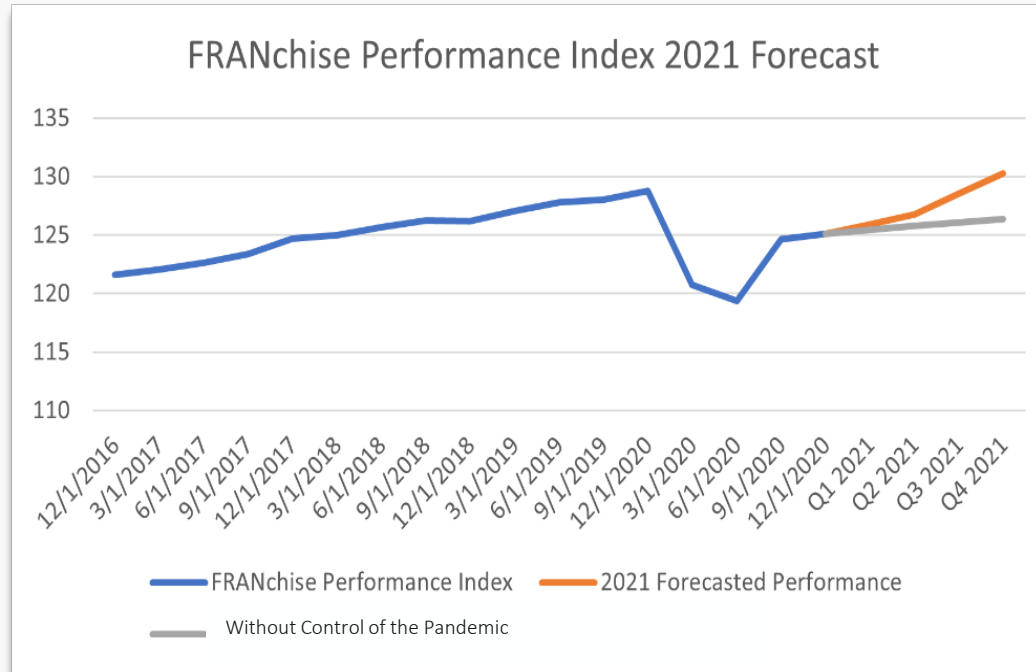
# 2022 IMPLICATIONS TO FRANCHISE BUSINESS MODEL

## CRISIS HAS ACCELERATED EVOLUTION

- Consumer and prospect behavior driving functional responsibility modifications and changes to the model itself
- Franchisor (and MU) leadership must understand/adapt to LT consumer changes
- Rapid transition of capital for labor will put premium on zor/zee cooperation in design, implementation and capital sourcing
- Many brands will need to manage new vs legacy unit programs
- Institutional capital accelerating platform models
- Accelerated franchisee consolidation activity
- MUMBOs search for risk diversification will change

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

# 2021 Franchise Expectations







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