MUFC

2023 Multi-Unit Franchising Conference

GROWING IN UNCERTAINITY

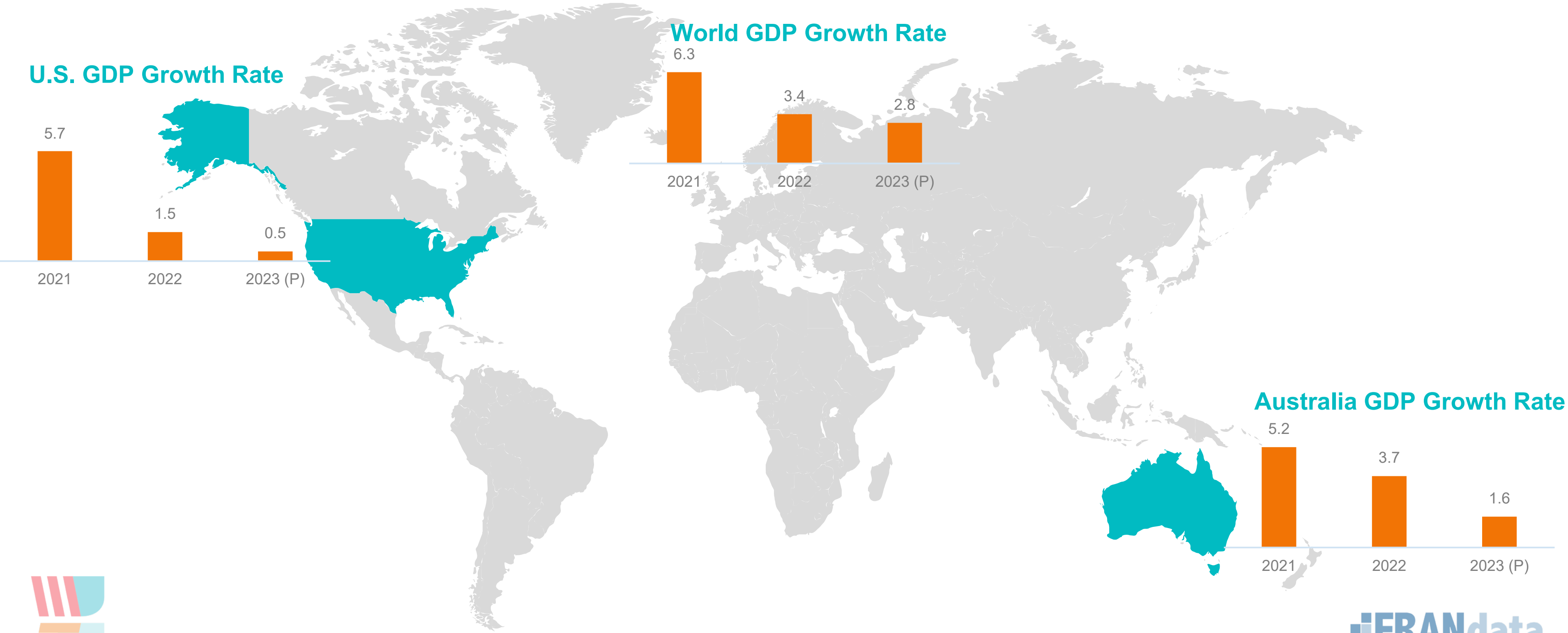
FRANdata

Franchise Business Intelligence

STATE OF ECONOMY

01

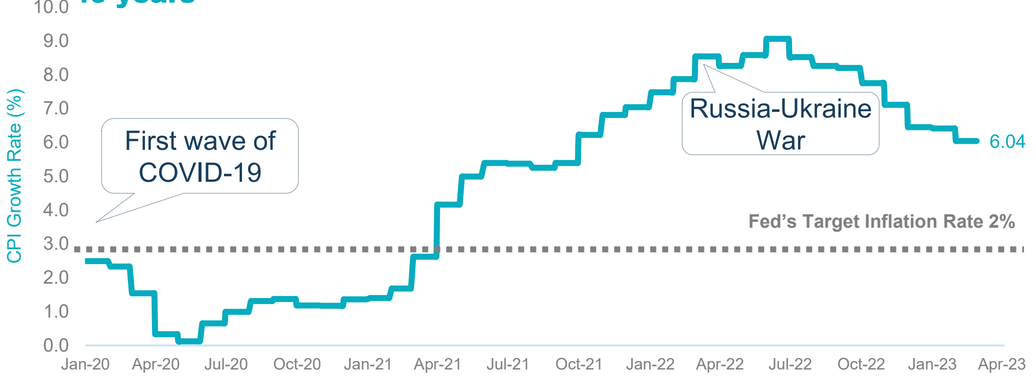
World economic outlook indicates slowdown and key economic indicators are exhibiting sluggish movement



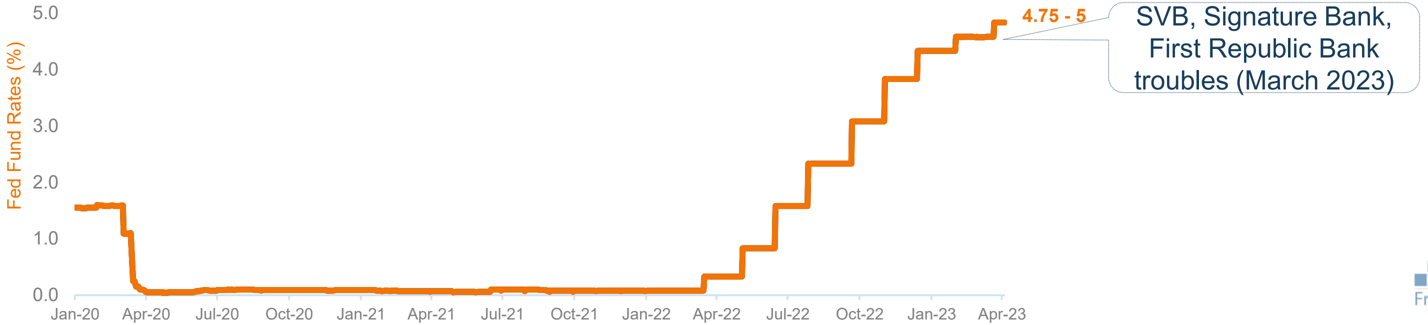
Franchise Business Intelligence

Inflation is at historic high and Fed is commited to bring it down

Inflation hasn't been this high or persistent in 40 years



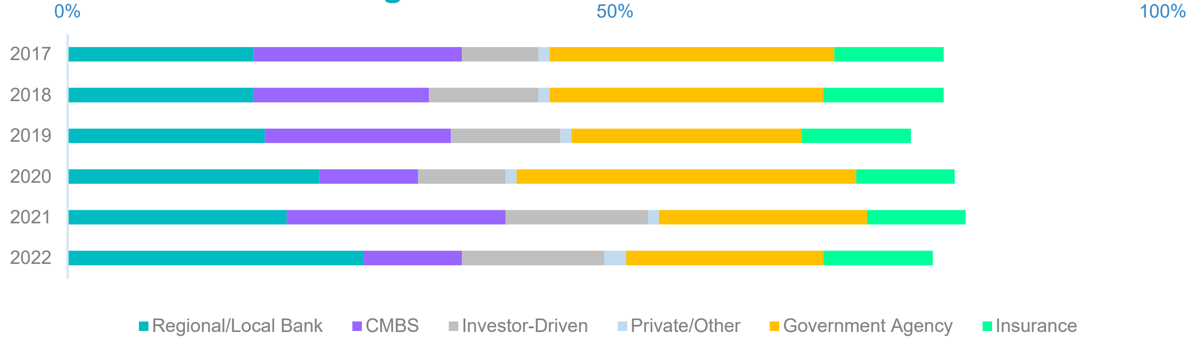
Despite banking upheaval, Fed continued to raise interest rate



FRANdata
Franchise Business Intelligence

Refinancing $1.5 trillion CRE debt along with deposit outflows after SVB pose a big threat to smaller banks

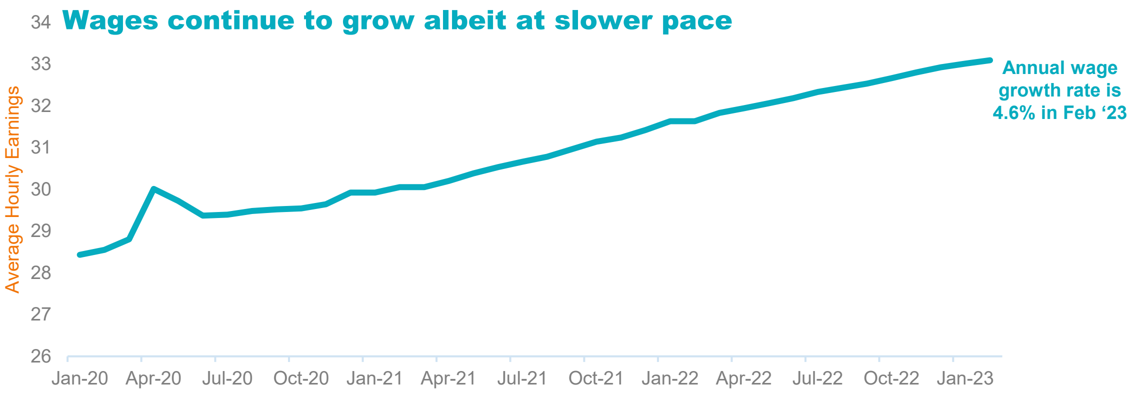
Smaller and regional banks are biggest source of credit to commercial real estate lending



Regional and local banks are big lenders to retail and offices whose valuations could fall as much as 40% from peak to trough

FRANdata
Franchise Business Intelligence

Labor market is becoming more complex, attributable to factors beyond wage growth



Great Resignation

59% of US workforce quit their jobs in 2021 and 2022

Quiet Quitting

Tech Layoffs

More tech workers were laid off in first quarter of 2023 than in entire 2022

Thriving gig economy

36% of US workforce work as independent workers

FRANdata
Franchise Business Intelligence

Firms are using AI to solve its labor challenges and create competitive advantage

Franchise businesses witnessed an increased use cases of AI led automation to deal with labor shortages

- Self ordering kiosks and digital payment
- Buy online, pick-up in store or curbside pick-up
- 24-hour access to fitness center without being supervised by employee
- Online training of employees instead of offline, saving costs

Higher demand for skilled labor. Franchising will continue to employ unskilled labor supporting workforce across economic spectrum

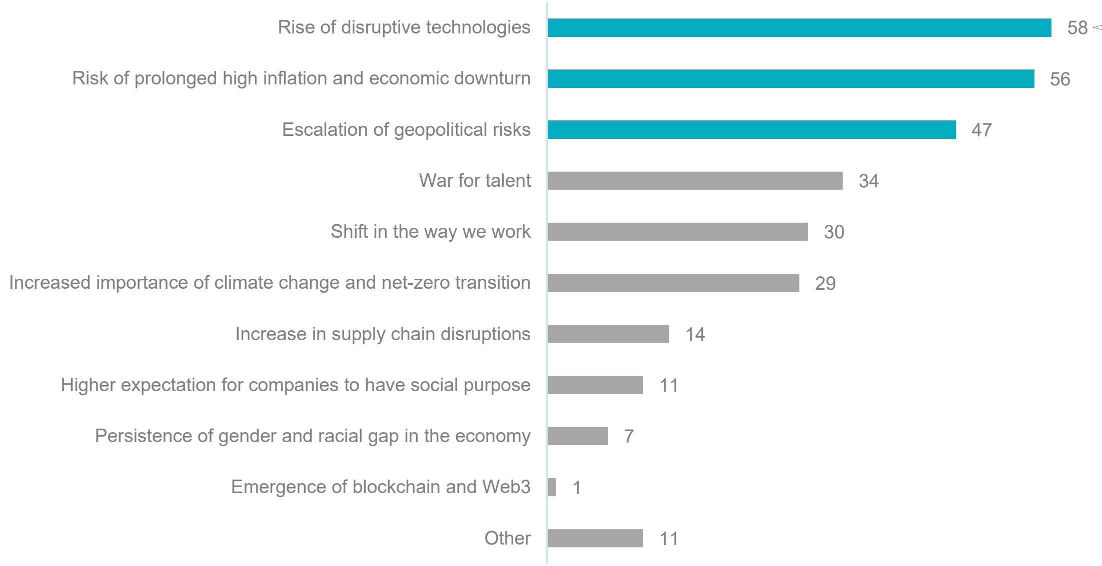
- Automating administrative and repetitive tasks to support employees
- Use of analytics to forecast hiring needs and targeted recruitment
- Online work schedules that allows certain flexibility to employees
- Using technology such as drones to eliminate physically demanding tasks

2023

FRANdata
Franchise Business Intelligence

Businesses are expected to spend more on disruptive technology as opportunity cost is lower

CEOs identify disruptive technology as most important trend in 2023 above inflation and economic slowdown



1. Developing advanced analytics (62%)
2. Enhancing cybersecurity (48%)
3. Automating work (45%)

AI based adoption was **2.5x** higher in 2022 than in 2017 and is expected to increase in 2023 and beyond

Source: FRANdata Research, McKinsey CEO Excellence Survey, McKinsey & Company

FRANdata
Franchise Business Intelligence

ChatGPT may be narcissist but it's correct about how it can revolutionize franchising through its AI capabilities

01 Improved efficiency

AI can help to streamline operational processes, automate routine tasks, and optimize staffing levels

02 Personalized customer service

AI-powered chatbots and virtual assistants can provide customized and 24/7 service

03 Predictive Analysis

AI can provide insights into trends and patterns by analyzing data related to sales, customer behavior, and other key performance indicators

04 Standardized training

Standardized and consistent training for franchisees and employees

05 Marketing

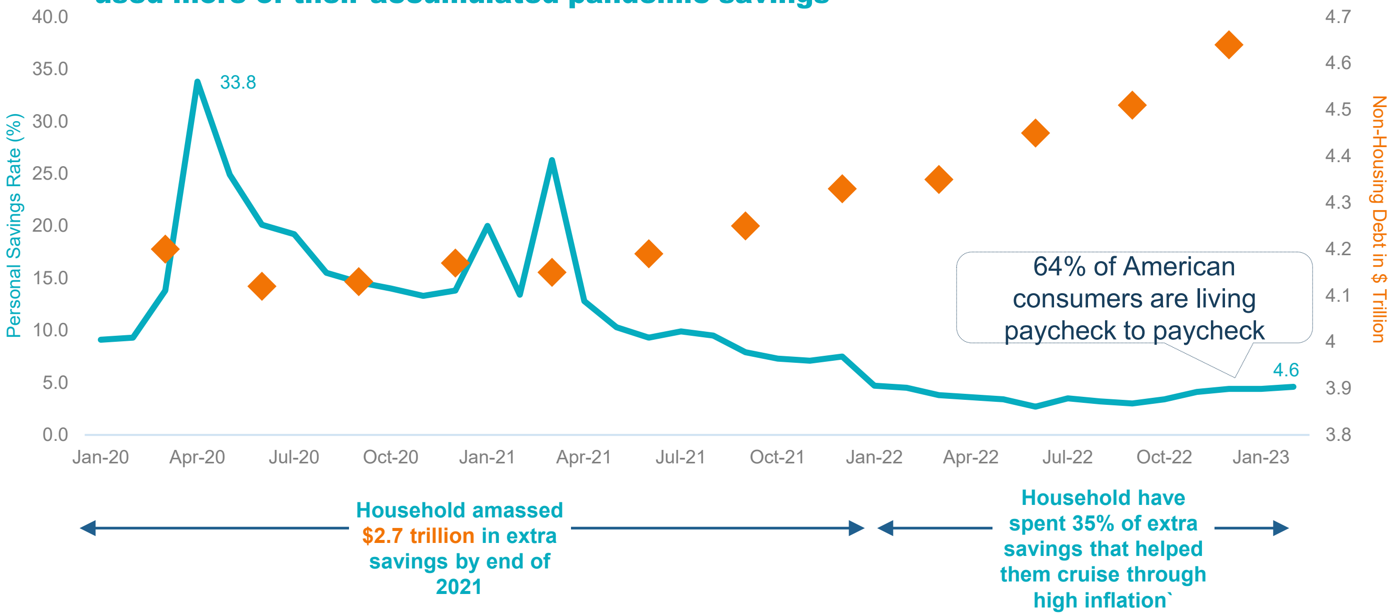
Targeted marketing campaigns and promotions by analysing customer buying pattern and behaviour

06 Competitive edge

As AI becomes widespread, businesses that fail to adopt AI may fall behind their competitors

The tailwind of strong consumer spending is likely to fade as savings rate declines and cost of debt increases

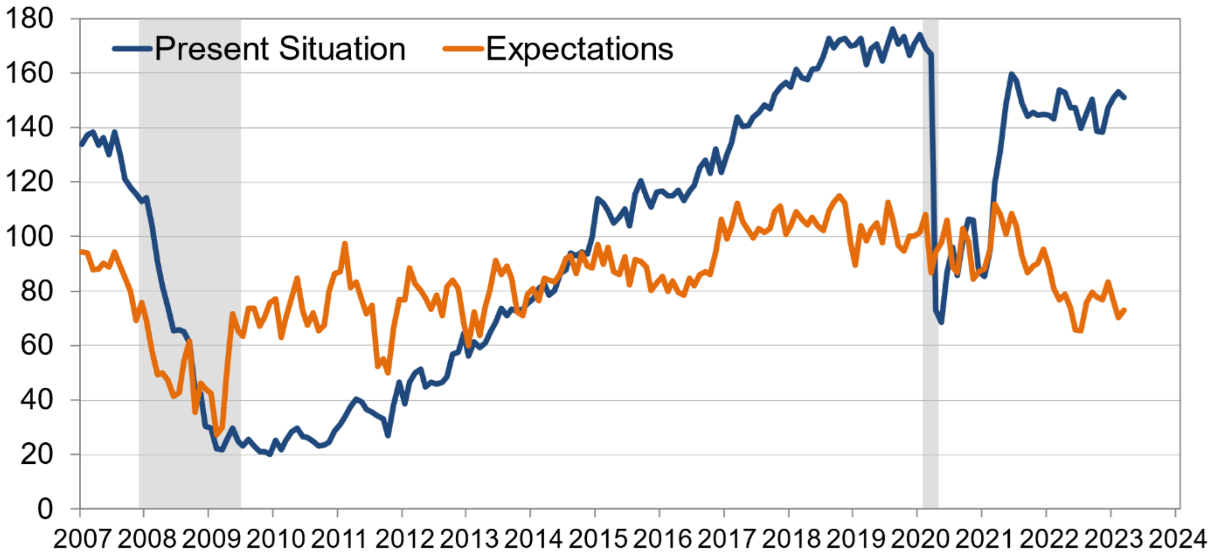
Historic low personal savings rate indicate that consumers used more of their accumulated pandemic savings



Softening of labor market poses a risk of declining ability to pay

Consumers are less optimistic about current economic landscape

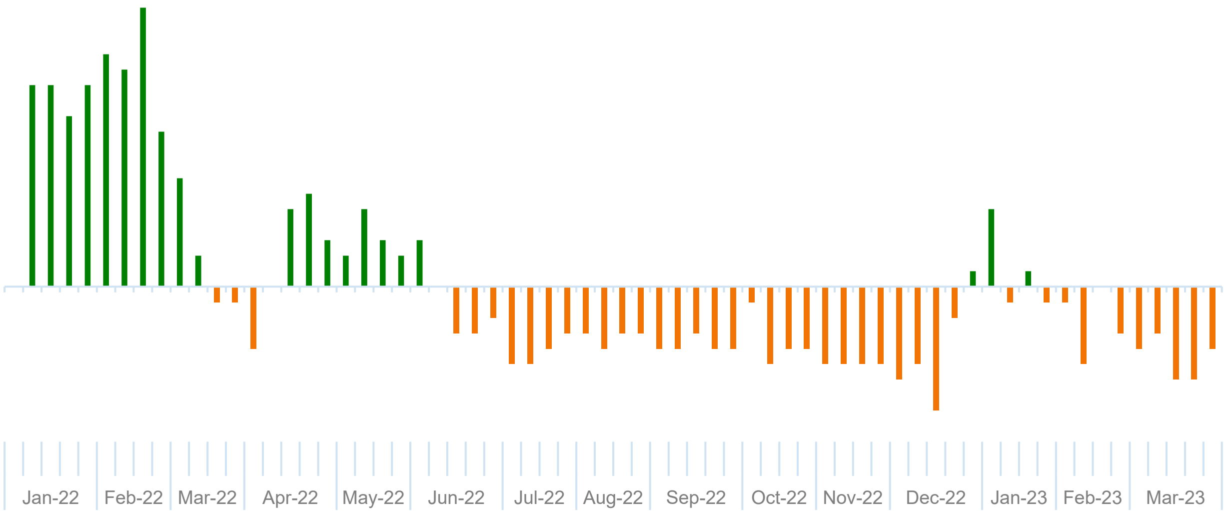
There is a wide gap between current situation and consumer's expectation

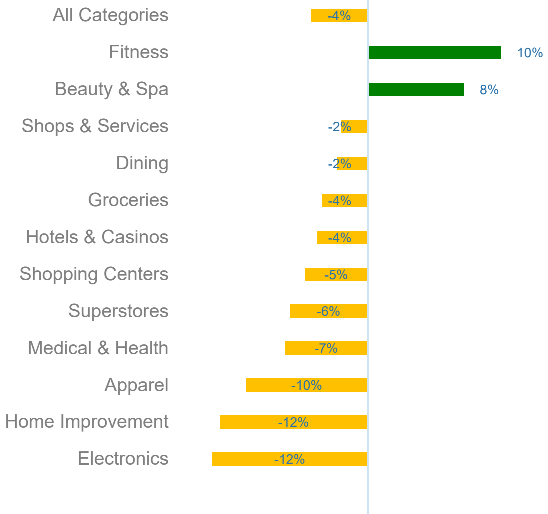


*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER

Consumer foot traffic across categories is beginning to show the effects of various economic headwinds

Post pandemic reopening resulted in increased footfall (as expected), recent months have seen negative foot traffic across U.S. Nonetheless, personal services that require face-to-face interaction have observed a growth in foot traffic

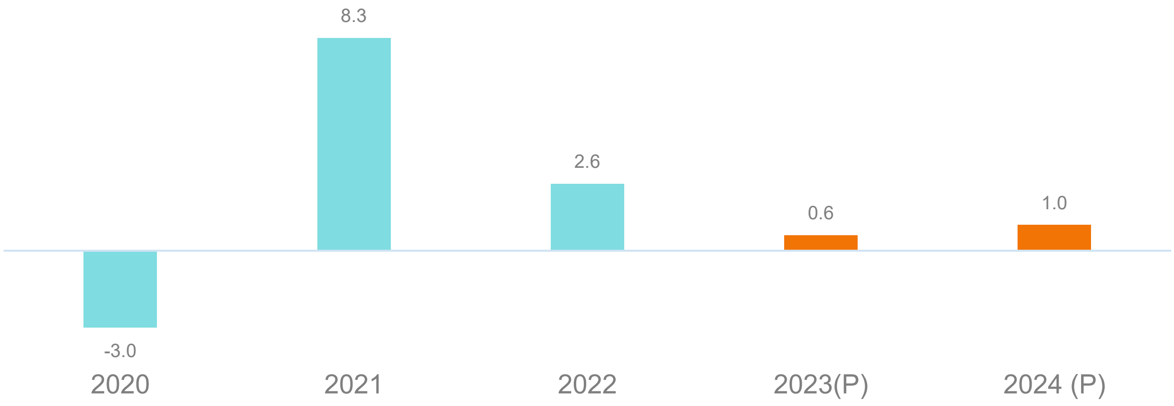




FRANdata
Franchise Business Intelligence

Like foot traffic, personal consumption has also demonstrated signs of weakening

Households have depleted their savings and are anticipated to decrease their spending significantly in 2023 and 2024



Covid-19 stimulus payment

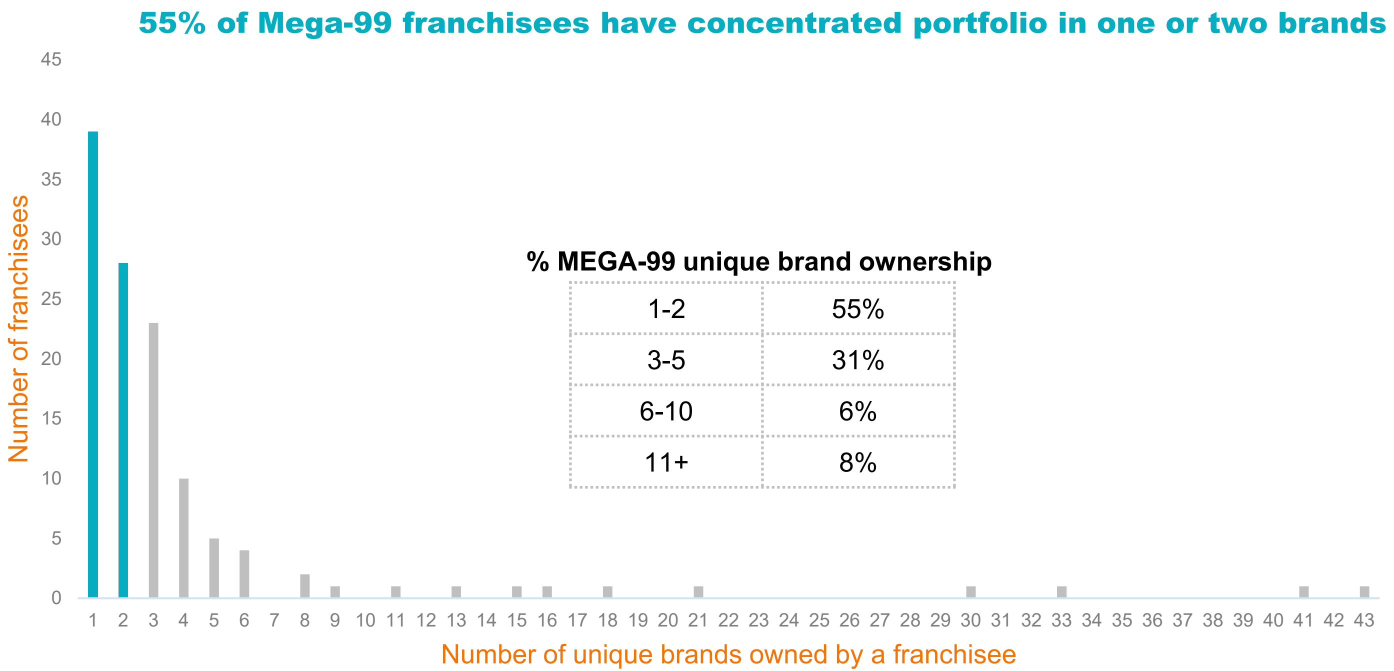
$931 billion of pandemic related stimulus was paid from April 2020 to December 2021

Consumer spend on services is likely to increase as opposed to goods

STATE OF FRANCHISING

02

Multi-unit operators have concentrated portfolio but that may be changing

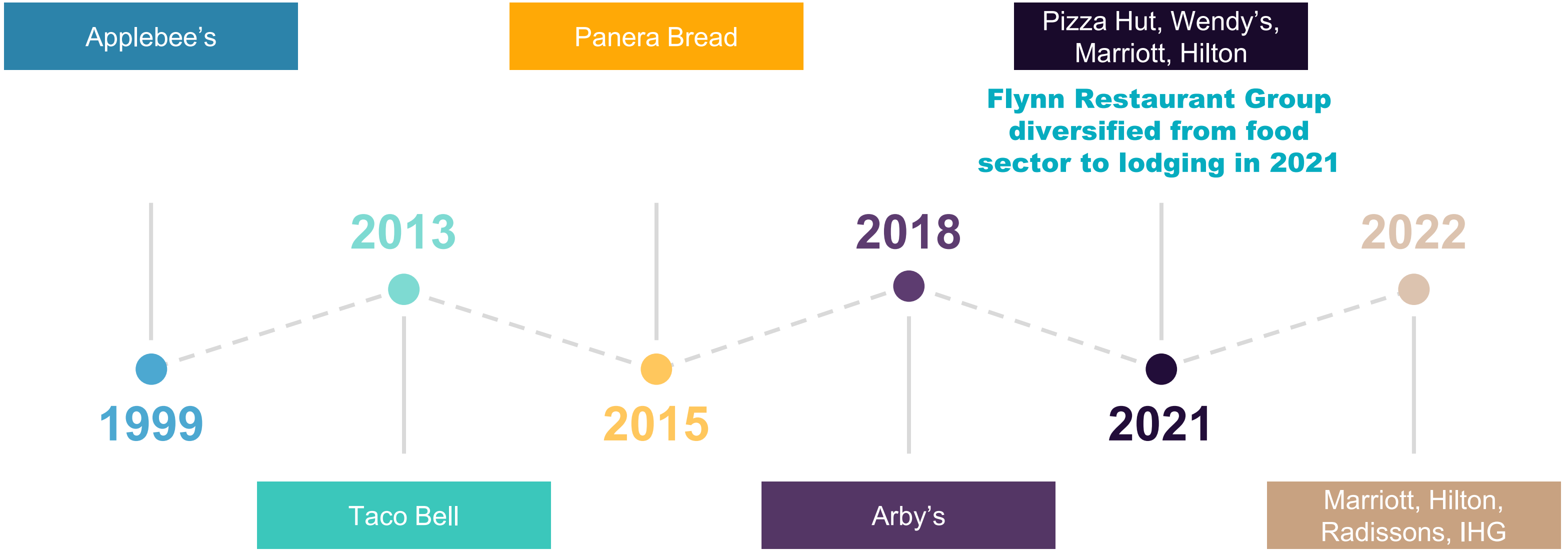


% MEGA-99 unique brand ownership

1-2	55%
3-5	31%
6-10	6%
11+	8%

FRANdata
Franchise Business Intelligence

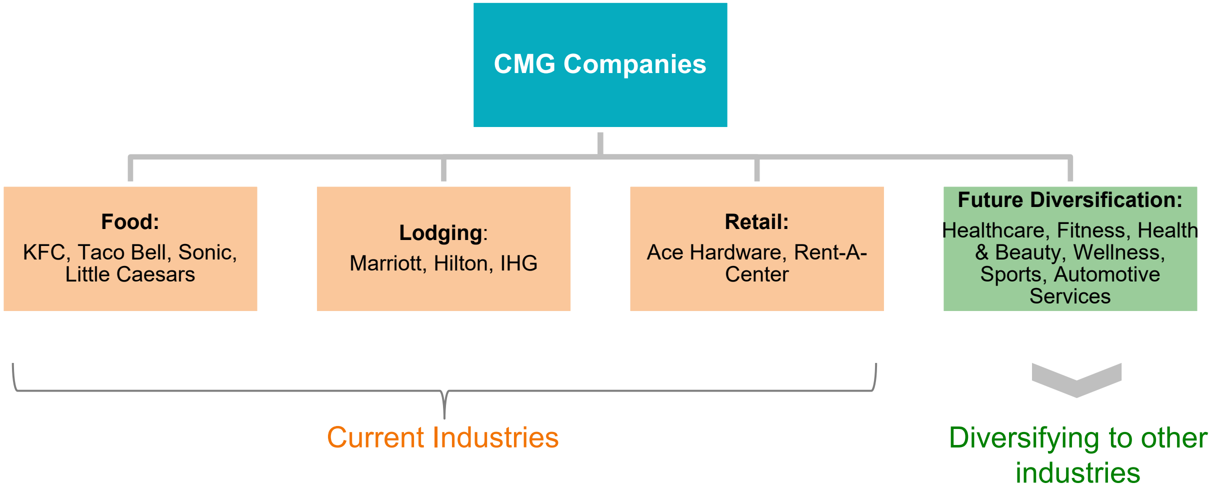
Multi-unit operators diversify in different brands as well as industries to mitigate secular risks



FRANdata
Franchise Business Intelligence

Multi-unit operators have concentrated portfolio but that may be changing

Franchisees are choosing to broaden their portfolio by venturing into multiple industries, all while leveraging the advantages that the franchise system offers for their growth



FRANdata
Franchise Business Intelligence

Temporary business problems are bringing permanent solutions and change

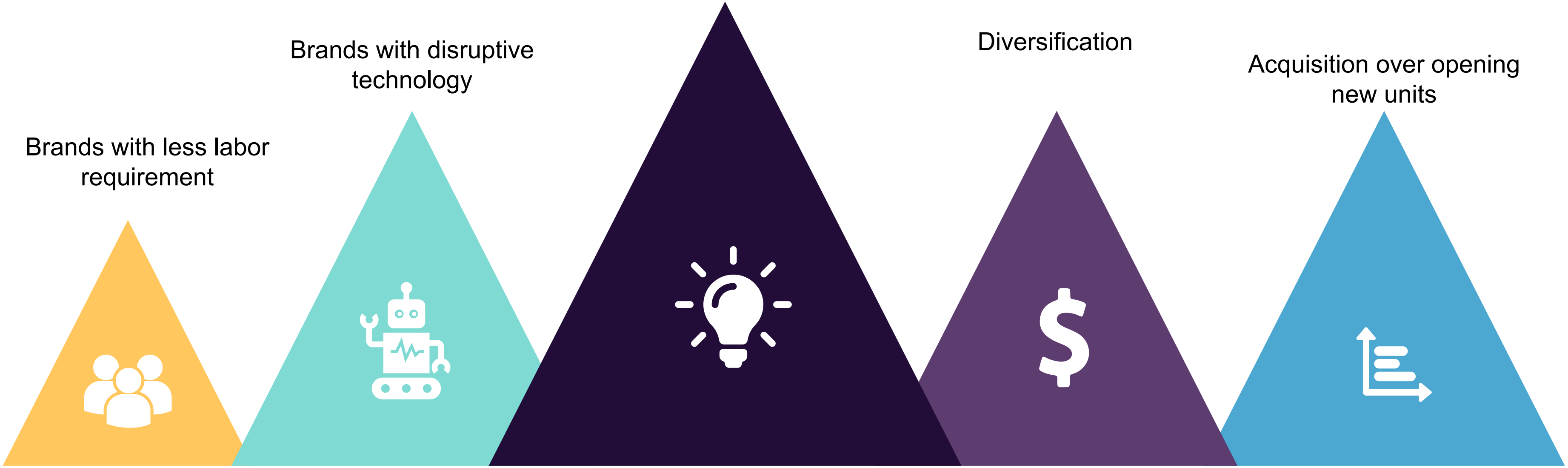
Brands with visibility among consumers and lenders

Brands with disruptive technology

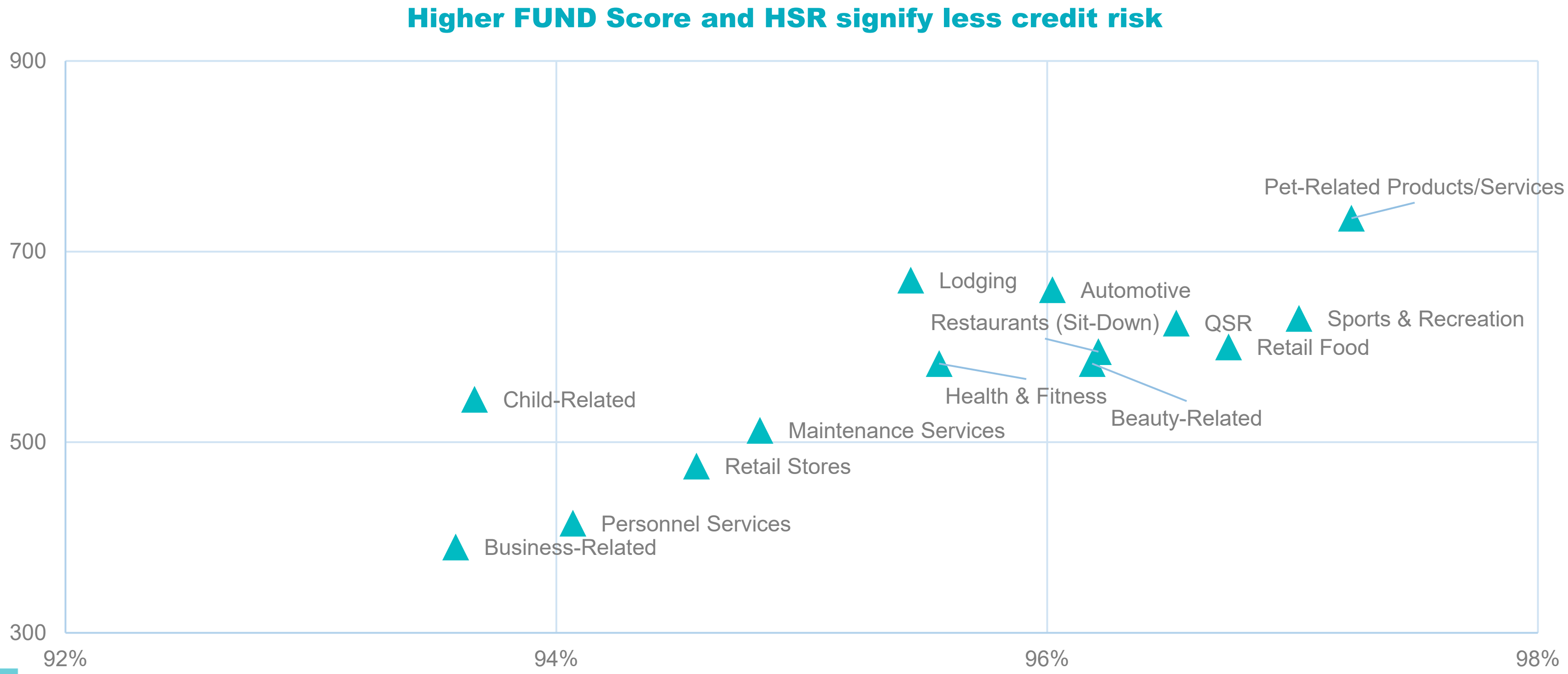
Diversification

Acquisition over opening new units

Brands with less labor requirement



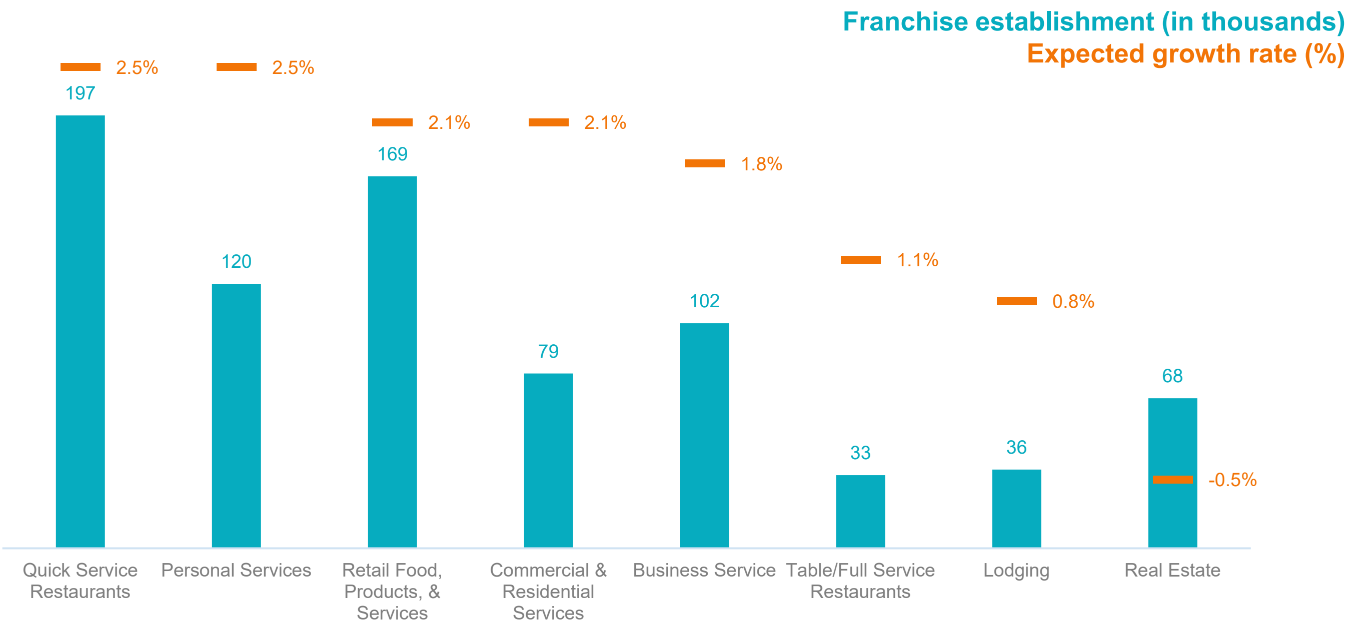
Industry wise FUND™ Score and their HSR



FRANdata
Franchise Business Intelligence

Franchise establishment by business line and their expected growth in 2023

Supported by consumer demand and innovative business model, QSRs & Personal services are expected witness highest growth



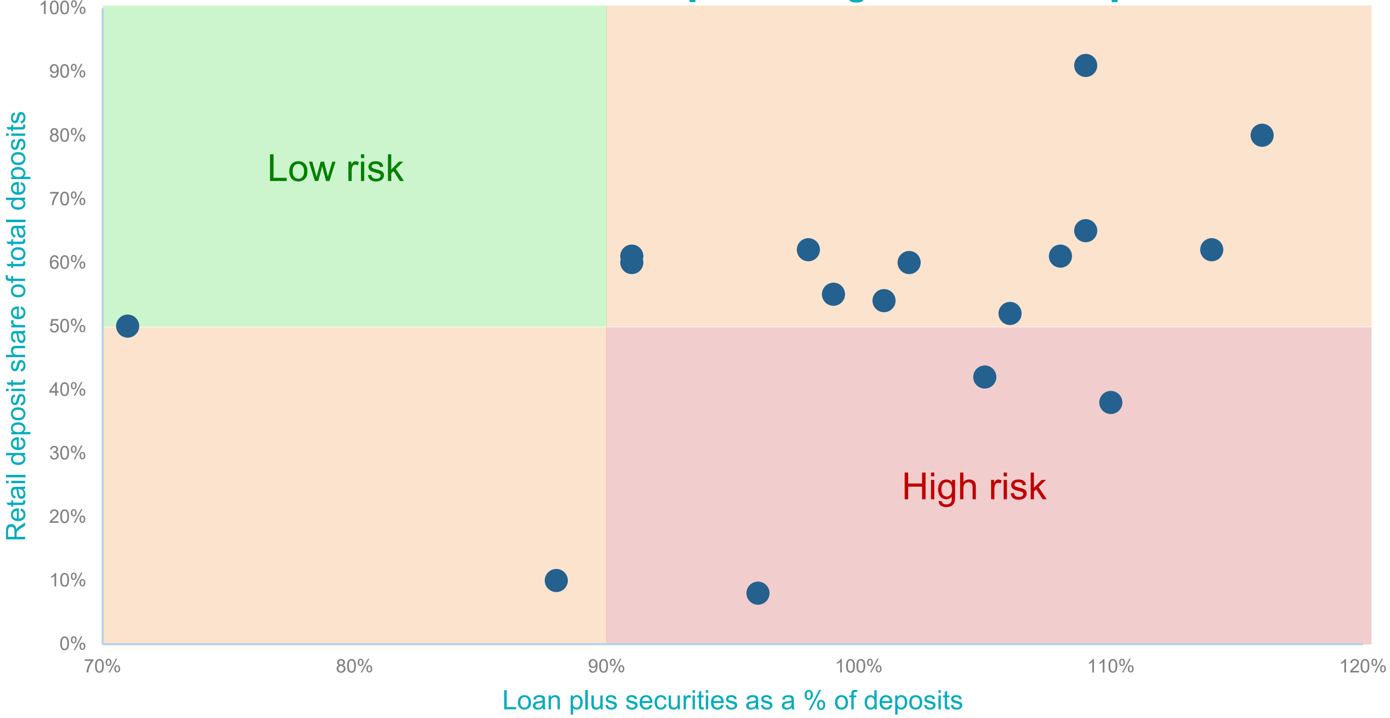
FRANdata
Franchise Business Intelligence

STATE OF CAPITAL

03

Lenders have tighten their credit boxes, making it harder and costlier to obtain business loan

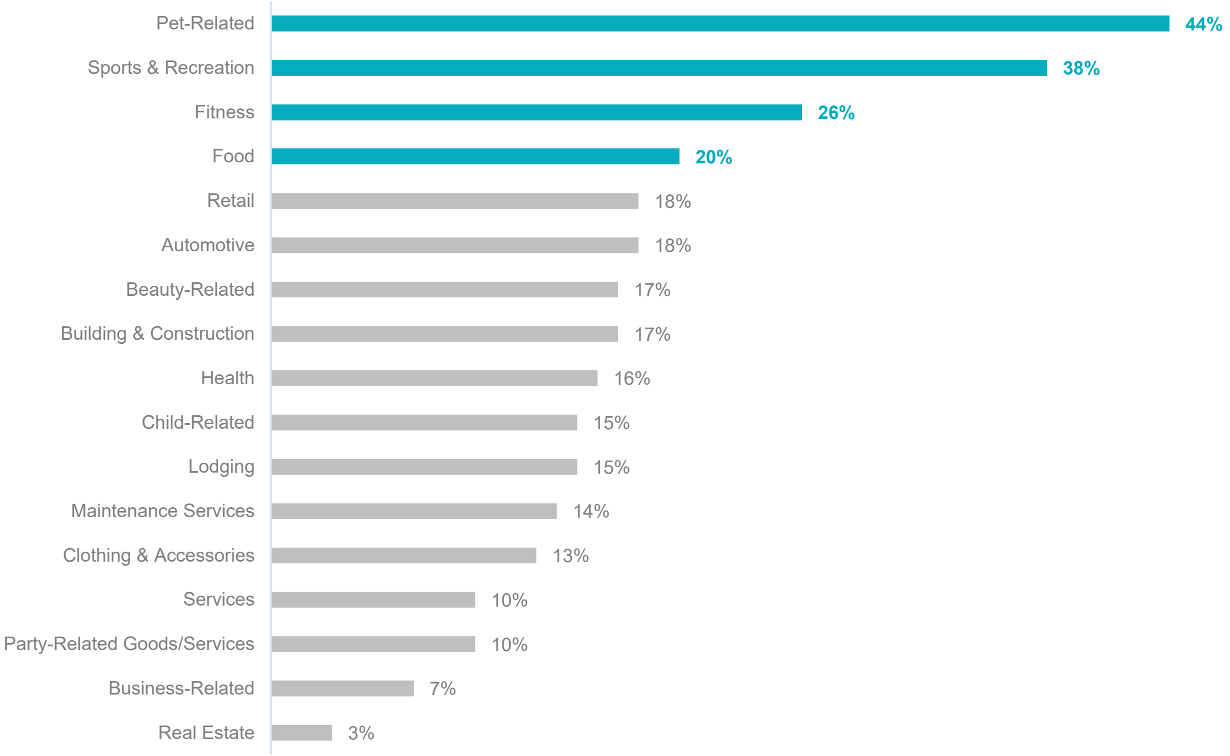
Due to a moderate level of risk in their loans-to-deposit ratio, banks that provided over 40% of SBA loans in 2022 will be implementing stricter credit policies



FRANdata Franchise Business Intelligence

ROI will likely be challenged owing to high borrowing cost, inflation, and reduced consumer spending

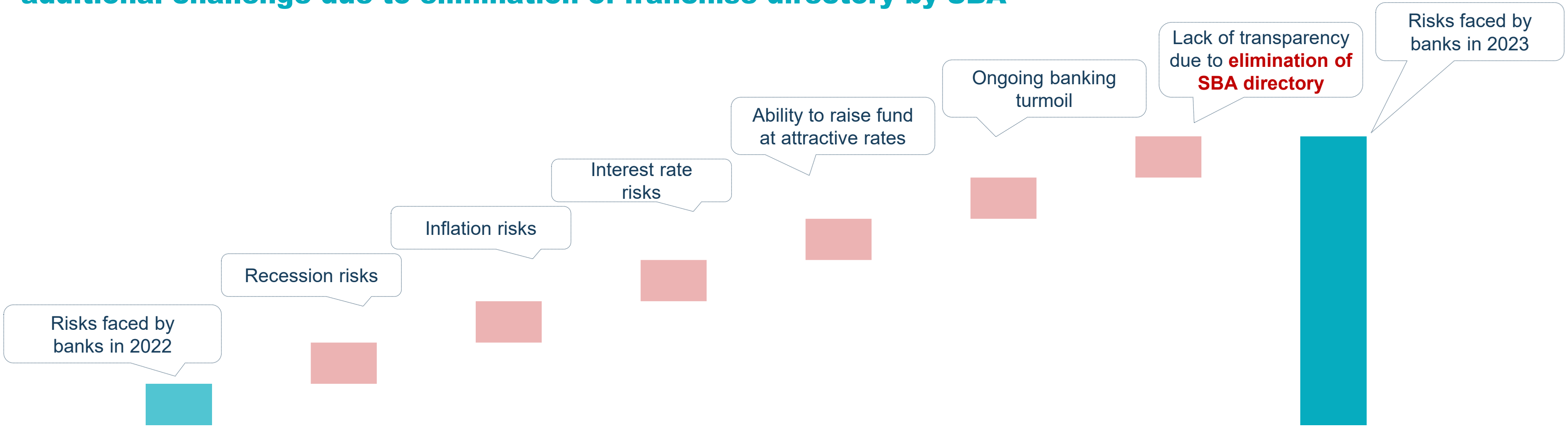
While the credit is tight, average cost of start-up have increased for all industries



FRANdata
Franchise Business Intelligence

Not just the cost but the time to underwrite a loan will increase as banks faces additional headwinds

If the current economic headwinds were not enough, banks and small businesses face additional challenge due to elimination of franchise directory by SBA



FRANdata
Franchise Business Intelligence

With the tightening of credit availability, brands must understand how lenders evaluate them

Lenders are changing the way they are looking at brands, ready to lose clients and volumes over risk

Brand checklist

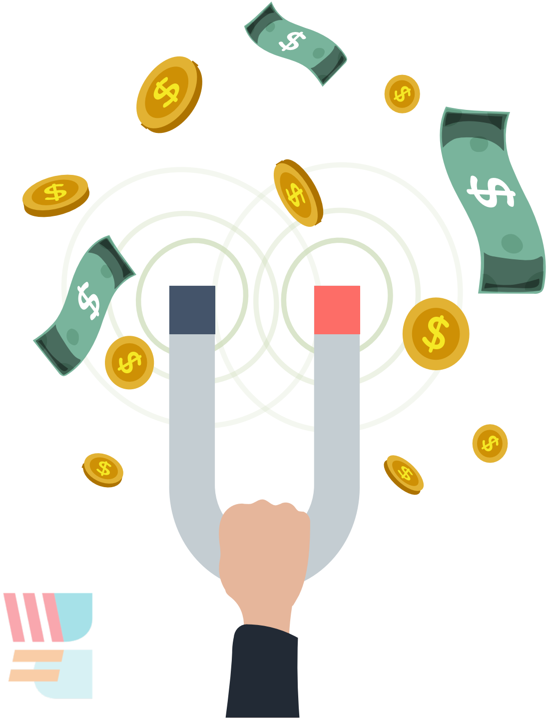
- Strong financials
- Robust franchise system
- Strong leadership
- Growth strategy
- Diversified revenue stream

What you know

Can lenders see?

Now is the time for brands to take control of its narrative when communicating with lenders

To attract capital, brand will need to answer key questions and communicate with banks



How does the brand appear to lenders?

How does the brand's financial standing compare to that of its competitors?

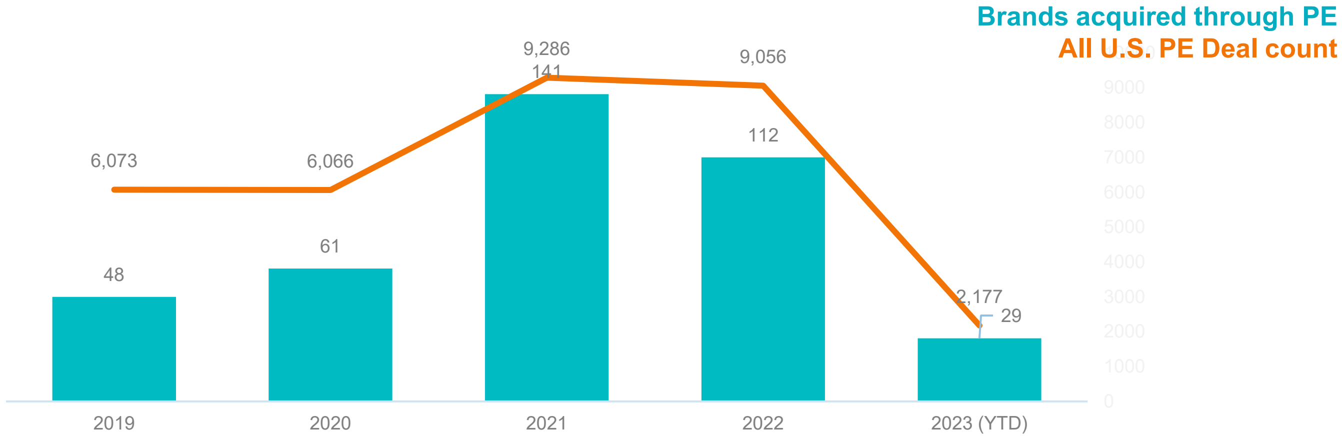
What is the impact of brand's strategy on its franchise performance and how do lenders perceive it?

Based on the lenders' portfolio performance, which lenders have the capacity to lend to the brand?

What is the impact of lenders examining the concentration issue in their portfolio on the brand

PE deals, M&A may witness slowdown as buyers & sellers adjust to new valuations in high interest rate environment

Inflation and rising interest rates put an end to the extraordinary post-pandemic surge in dealmaking, setting up a challenging year ahead

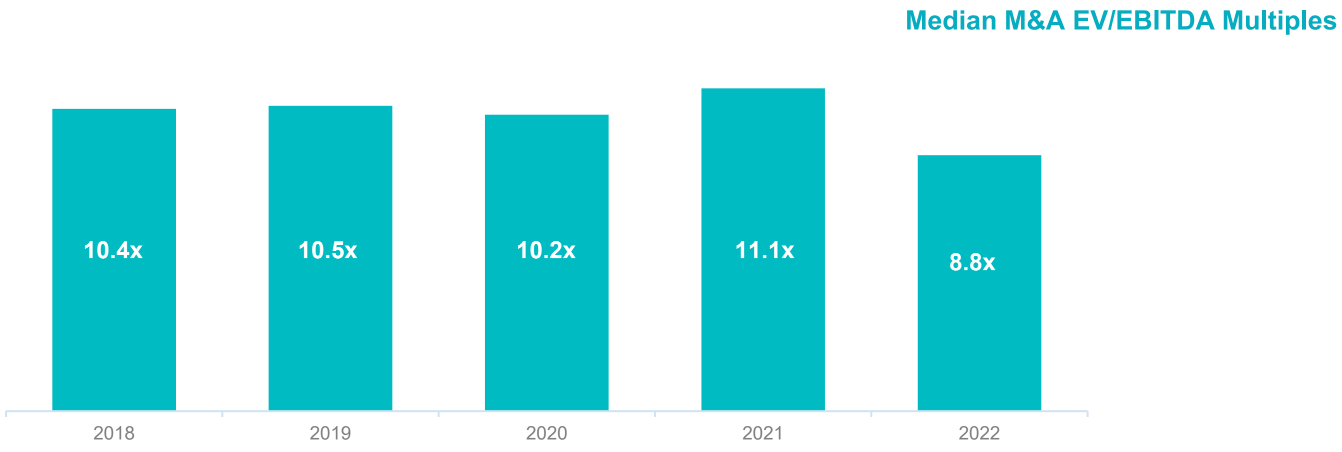


Brand Name	PE Group	Platform Group	Year
Koala Insulation, Wallaby Windows	MidOcean Partners	Empower Brands	2023
Urban Air, Snapology, The Little Gym, Premier Martial Arts, Class 101, XP League	Seidler Equity Partners	Unleashed Brands	2023

FRANdata
Franchise Business Intelligence

Franchise owners are re-evaluating their options for selling & moving on to their next venture

Rising rates adversely impacted valuations, evidenced by lowest median deal multiple in last 5 years



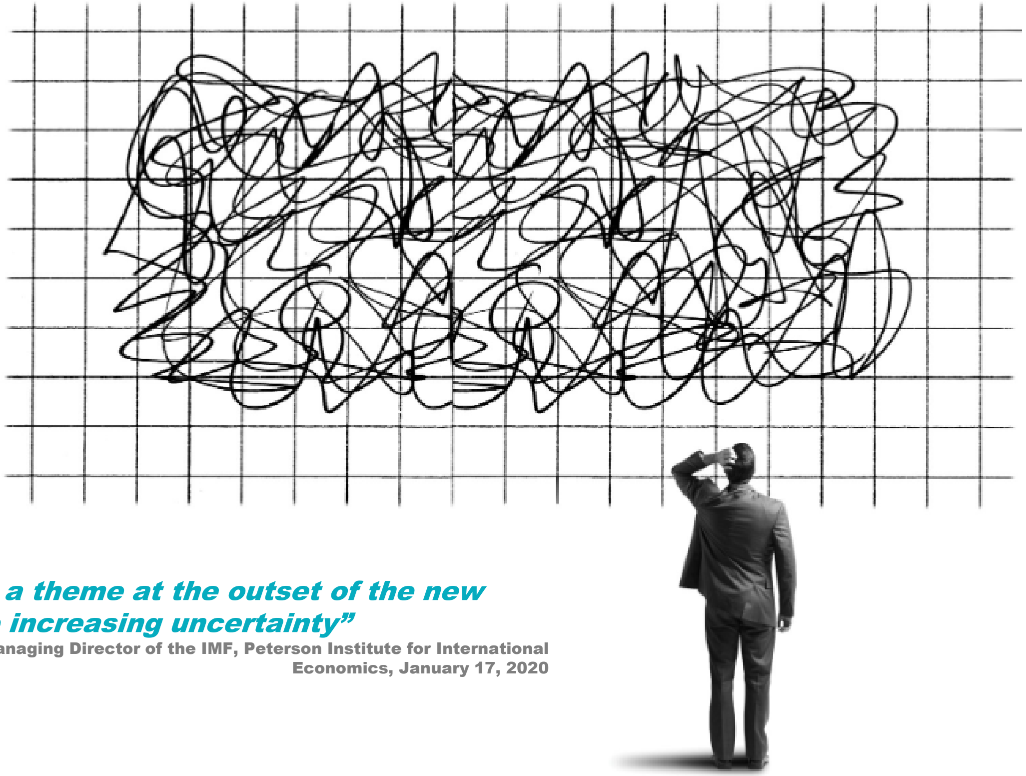
Source: Citizens Bank White Paper

FRANdata Franchise Business Intelligence

PREPARING FOR FUTURE

04

What does this mean for you?



"If I had to identify a theme at the outset of the new decade it would be increasing uncertainty"

-Kristalina Georgieva, Managing Director of the IMF, Peterson Institute for International Economics, January 17, 2020

FRANdata
Franchise Business Intelligence

What does this mean for you?

Expect and prepare for economic slowdown, sticky inflation, and high interest rate

Consolidation will be slow as buyers and sellers adjust to new valuation

Access to capital will remain tight

MUOs will look to grow through acquisition over opening new units

Disruptive technology is here to stay

MUOs will rely on diversification, flexibility, & agility to tackle uncertainty

FRANdata
Franchise Business Intelligence

THANKS

How does this change the way you think about growing in uncertainty?

frandata@frandata.com
703 740 4700
frandata.com

FRANdata