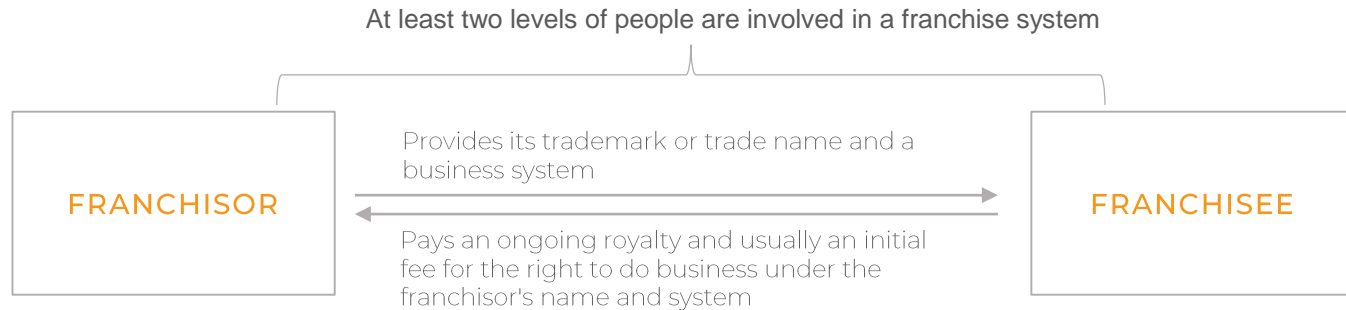


Franchise Industry

Industry Overview

OVERVIEW

- Franchising is a method of distributing products or services by licensing business processes, products, services and intellectual property to investors who will operate within an established business model



FRANCHISE FEES AND ROYALTY

- For the franchise fee and royalties that are paid to the franchisor, the franchisee receives the right to operate under the franchisor's marks and use its business system, training, support and often additional services such as site evaluations
- The agreement between the franchisor and franchisee creates a partnership. Franchisors rely on royalties (a % of the franchisees' revenue), so they are invested in the ongoing success of their franchisees

United States

OVERVIEW

- The GDP of the franchise sector will increase by 6.1% from \$425 billion in 2017 to \$451 billion in 2018. This will exceed the growth of US GDP in nominal dollars, which is projected at 4.7%. The franchise sector will contribute approximately 3.0% of US GDP in nominal dollars
- It is estimated that the number of franchise establishments increased 1.6% in 2017 and expected to increase another 1.9% in 2018 to 759,236
- Franchise employment is forecasted to grow 3.7% in 2018 after growing 3.1% in 2017, and franchise employment will continue to outpace economy-wide employment growth. Total private nonfarm employment is forecast to increase 1.8% this year after growing 1.7% in 2017
- The output of franchise businesses grew 5.6% in 2017 and is projected to increase 6.2% in 2018 to \$757 billion
- **Top 5 states for expected Franchise growth in 2018:**

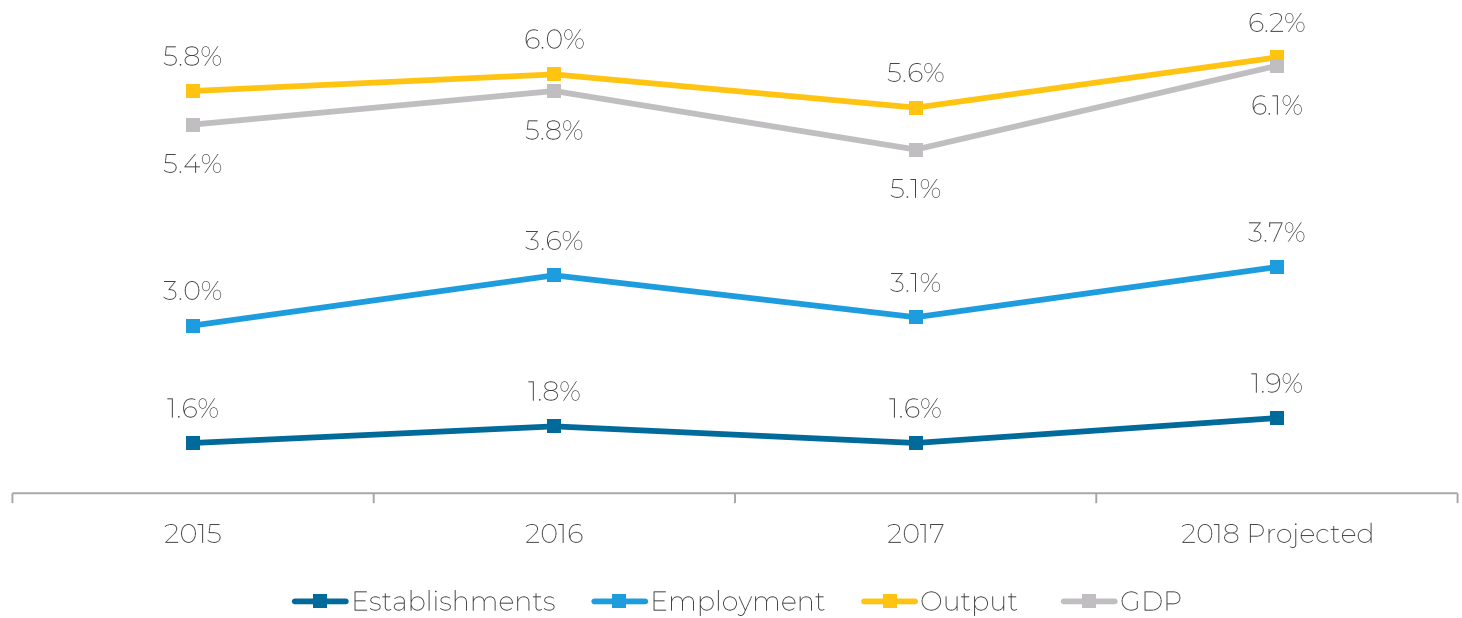
STATE	EMPLOYMENT GROWTH
Nevada	5.1%
Utah	5.0%
Arizona	4.9%
Florida	4.7%
Colorado	4.7%

STATE	OUTPUT GROWTH
Nevada	7.8%
Utah	7.7%
Florida	7.5%
Oregon	7.5%
Arizona	7.4%

Source: IHS Markit Economics January 2018 Outlook

Business Growth

FRANCHISE BUSINESS GROWTH BY YEAR



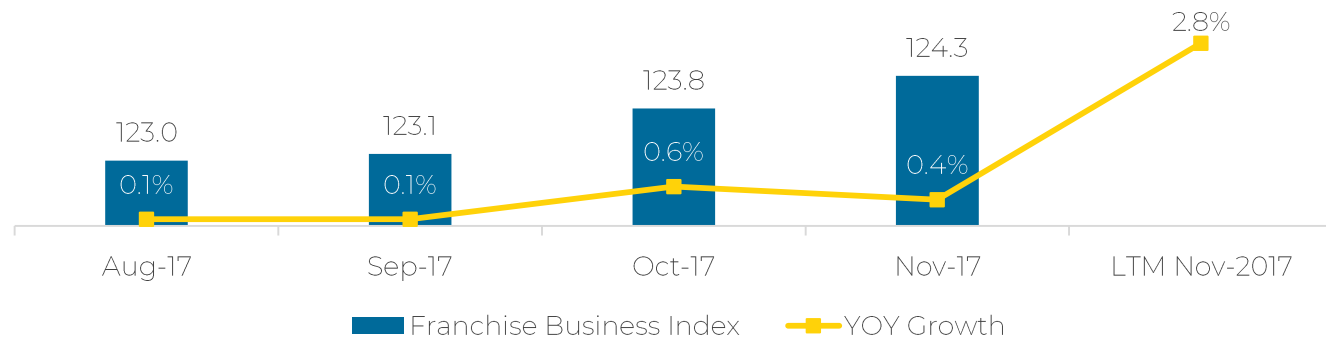
The above graph depicts the franchise growth for the period of 2015-2017 and estimated growth for 2018

Source: IHS Markit Economics January 2018 Outlook

Franchise Business Index

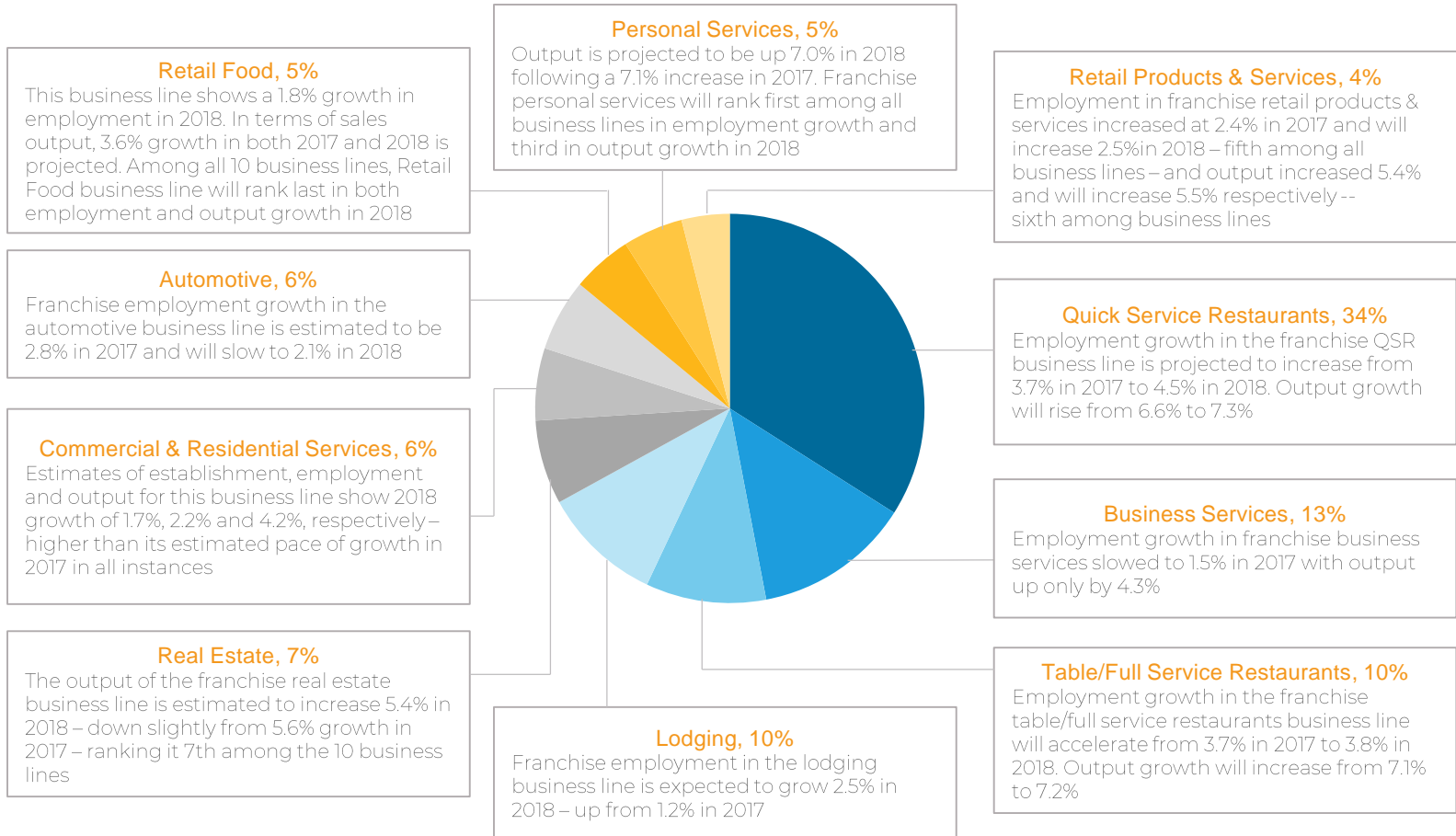
OVERVIEW

- The Franchise Business Index (FBI) combines indicators of the growth or decline of industries where franchise activity has historically been concentrated with measures of the demand for franchise business services and the general business environment. The components of the index are:
 - a. Employment in Franchise Businesses (ADP)
 - b. Number of Self Employed (BLS)
 - c. Unemployment Rate (BLS)
 - d. Retail Sales of Franchise-Intensive Industries (Census Bureau)
 - e. Small Business Optimism Index (NFIB)
 - f. Small Business Credit Conditions Index (NFIB)



Source: IHS Markit Economics January 2018 Outlook

Output Distribution by Sector 2018



Source: IHS Markit Economics January 2018 Outlook

Growth Drivers

Proven Business Model

- By signing with a franchise, new business owners eliminate the guesswork of trying to figure things out on their own
 - Backed by a proven business model and the pros who know how to best start up shop, run daily operations, and everything else along the way
-

Customer Loyalty and Recognition

- Shoppers see a known brand and are more likely to shop there than their independent or brand new counterparts (who may or may not have a current or working business model)
 - Business owners also see the value in starting with a company who has their back – and plenty of vetted statistics – in order to provide the most growth as quickly as possible
-

Finding the Right Partners

- Finding the right partners is a key ingredient to long-term success and profitability for the franchise brand
- There's likely to be cultural barriers, political barriers, legal barriers, language barriers, and other factors that differ from standard U.S. operations. That's why it's important to identify key people on the ground who know and understand all of these issues thoroughly

Future of Franchising

More Multi-Unit Owners

- Once the franchise owners are acquainted with functioning of franchisees, many franchise owners start opening another location. Thus by recreating success in multiple locations, one can quickly grow one's revenues and increase one's business' sustainability

Enhanced Technology

- Technology is changing quickly but the franchise industry is struggling to keep up in many ways. The franchise industry is quickly realizing the importance of making this switch and now, franchisors are working methodically to update all of their franchise locations with updated technology
- Most franchisors won't force this technology on their franchisees but it will be strongly encouraged through a deployment stage on an incremental basis depending on cash flow and franchisee needs

Business Within a Business

- Franchisees take advantage of the non-traditional store-in-store approach by opening a location inside an existing office supply store, or other relevant business. These centers are located in large national and regional retail stores
- The approach is known as a business-within-a-business location. Other franchisees have seen the benefit and are taking advantage of this new model, including people in the quick service restaurant industry who are opening stores in discount retail shops
- Consumers win because they get instant access to the stores they need and franchisees win because they can tap into other businesses customer bases

Challenges

Challenges

Challenges that are likely to be faced by a franchise owner

Stick to Certain Rules

Owning a franchise, one must be prepared to follow certain rules. Personal touches cannot be added with the objective of improving the brand

Most Franchises Have a Minimum Net Worth Requirement

Chances of owning a franchise depends largely on one's financial strength

Owning a Franchise is a Big-Time Commitment

It is not possible to be a part-time franchise owner. Serious commitment has to be made to run the establishment

High Start-up Costs

One can expect start-up costs to go high when entering this business

Long and Tough Approval Process

There is long and tough approval process, so it is recommended to consult other franchisees to have a clear understanding of the approval process

Source: 10 Challenges Facing Franchise Owners...June 2017

M&A Transactions

Transactions in Franchise Industry in the past 3 years (All figures in \$million)

DEAL DATE	TARGET	LOCATION	DEAL SIZE	ACQUIRER
22-Oct-18	Supervalu	Minneapolis, MN	\$2,900	United Natural Foods
31-May-18	La Quinta Inn and Suites (Hotel Franchise and Management Businesses)	Irving, TX	\$1,950	Wyndham Worldwide
17-Apr-18	Smashburger Master	Denver, CO	\$100	Jollibee Foods
6-Feb-18	Brabham Oil Company	Bamberg, SC	\$43	Enmarket
27-Mar-17	Popeyes Louisiana Kitchen	Atlanta, GA	\$1,800	Restaurant Brands International
8-Mar-17	PIR	Honolulu, HI	\$105	Restaurant Brands NZ
5-Oct-16	Baja Fresh	Irvine, CA	\$27	MTY Food Group
30-Sep-16	Vantage Hospitality Group	Coral Springs, FL	\$41	Red Lion Hotels
23-Sep-16	Starwood Hotels & Resorts Worldwide	Stamford, CT	\$13,600	Marriott International
16-Sep-16	Mattress Firm	Houston, TX	\$2,400	Steinhoff International Holdings
26-Jul-16	Kahala Franchising	Scottsdale, AZ	\$310	MTY Food Group
1-Feb-16	OCH International	Tualatin, OR	\$72	Ashland

Source: Pitchbook

Global Rankings

Global Franchise Rankings

Top 10 global franchises – rankings around the world October 2018

RANK	FRANCHISE NAME	COUNTRY	INDUSTRY
1.	McDonald's	United States of America	Fast Food Franchises
2.	KFC	United States of America	Chicken Franchises
3.	Burger King	United States of America	Fast Food Franchises
4.	Pizza Hut	United States of America	Pizza Franchises
5.	7 Eleven	United States of America	Convenience Store Franchises
6.	Marriott International	United States of America	Hotel Franchises
7.	RE/MAX	United States of America	Real Estate Franchises
8.	Dunkin'	United States of America	Bakery & Donut Franchises
9.	InterContinental Hotels and Resorts	United Kingdom	Hotel Franchises
10.	SUBWAY®	United States of America	Sandwich & Bagel Franchises

Source: Franchise Direct

FRANCHISE INDUSTRY

McDonald's

- **Year Business Began:** 1955
- **Franchising Since:** 1955
- **Headquarters:** Oak Brook, IL
- **Estimated Number of Units:** 37,240



NAME OF FEE	LOW	HIGH
Initial Franchise Fee	\$0	\$45,000
Real Estate and Building - 3 month's rent	Base Rent: \$0 Percentage Rent: 0%	Base Rent: \$210,000 Percentage Rent: 42.5%
Signs, Seating, Equipment, and Décor	\$300,000	\$1,500,000
Opening Inventory	\$10,000	\$35,000
Miscellaneous Opening Expenses	\$40,000	\$50,000
Travel and Living Expenses while Training	\$3,000	\$35,000
Additional Funds - 3 months	\$80,000	\$355,000
ESTIMATED INITIAL INVESTMENT TOTAL	\$433,000	\$2,230,000

Source: Franchise Direct

FRANCHISE INDUSTRY

KFC

- **Year Business Began:** 1939
- **Franchising Since:** 1952
- **Headquarters:** Louisville, KY
- **Estimated Number of Units:** 20,825



NAME OF FEE	LOW	HIGH
Application & Background Check Fee (per person)	\$300	\$500
Deposit Fee	\$20,000	\$20,000
Option Fee	\$25,000	\$25,000
Training Expenses	\$7,000	\$10,000
Permits, Licenses, and Security Deposits	\$50,000	\$100,000
Real Property	\$400,000	\$1,100,000
Building & Site Costs	\$534,000	\$930,000
Equipment, Signage, and Décor, POS & MERIT	\$329,000	\$476,000
Start-up Inventory	\$10,000	\$10,000
Grand Opening Expense	\$5,000	\$5,000
Insurance	\$7,250	\$10,050
Miscellaneous Costs	\$5,000	\$10,000
Additional Funds	\$50,000	\$75,000
TOTAL ESTIMATED INITIAL EXPENDITURE¹	\$1,442,550	\$2,771,550

Source: Franchise Direct

¹The estimated initial investment range covers new "Traditional" restaurant types. There is a separate FDD for "Express" restaurant types

FRANCHISE INDUSTRY

Burger King

- **Year Business Began:** 1956
- **Franchising Since:** 1956
- **Headquarters:** Miami, FL
- **Estimated Number of Units:** 16,770



NAME OF FEE	LOW	HIGH
Franchise Fee	\$15,000	\$50,000
Travel and Living Expenses while Training	\$0	\$25,000
Real Property/ Occupancy Charge	\$90,000	\$850,000
Civil & Architectural Drawings / Professional Fees	\$10,000	\$45,000
Zoning Expenses	\$1,000	\$25,000
Improvements / Construction	\$25,000	\$950,000
Landscaping	N/A	\$60,000
Equipment	\$84,600	\$294,600
Decor Package	\$0	\$88,000
Signage & Drive-Thru	\$3,000	\$166,000
Pre-Opening Wages	\$28,000	\$61,000
Opening Inventory	\$2,500	\$12,000
Cash and Inventory Control System	\$35,000	\$60,000
Insurance	\$8,000	\$25,000
Working Capital / Additional Funds	\$15,000	\$90,000
Business Licenses, Utility Deposits, Lease Deposits, and Payments	\$6,000	\$30,000
2-Story Interior Playground	N/A	\$245,000
ESTIMATED INITIAL INVESTMENT TOTAL¹	\$323,100	\$3,076,600

Source: Franchise Direct

¹The estimated initial investment range covers from an indoor MRS facility restaurant type with 0-20 seats up to a ROC 2502 restaurant type with 72-80 seats and full size co-branded facility with 20/20 image (50-80 seats)

FRANCHISE INDUSTRY

Pizza Hut

- **Year Business Began:** 1958
- **Franchising Since:** 1959
- **Headquarters:** Plano, TX
- **Estimated Number of Units:** 15,000



NAME OF FEE	LOW	HIGH
Initial Franchise Fee	\$25,000	\$25,000
Development Fees	\$25,000	\$50,000
Equipment	\$100,000	\$450,000
Opening Inventory	\$4,000	\$8,000
Smallwares	\$10,000	\$50,000
Building and Site Improvements	\$130,000	\$1,575,000
Land		Varies
Delivery Vehicles		Varies
Computers	\$15,000	\$30,000
Computer System Training	\$0	\$1,500
Additional Funds (3 months)	\$5,000	\$21,500
Miscellaneous	\$10,000;	\$22,000
Advertising	\$0	\$16,500
Start-Up "Other"	\$3,000	\$4,000
ESTIMATED INITIAL INVESTMENT TOTAL¹	\$327,000	\$2,253,500

Source: Franchise Direct

¹The estimated initial investment range covers multiple variations of new "Traditional" restaurant types. Please see FDD for more details. There is a separate FDD for "Express" restaurant types as well

7 Eleven

- **Year Business Began:** 1927
- **Franchising Since:** 1964
- **Headquarters:** Irving, TX
- **Estimated Number of Units:** 62,105



NAME OF FEE	LOW	HIGH
Initial Franchise Fee	\$0	\$1,000,000
Training Expenses	\$0	\$9,000
Down Payment for Opening Inventory	\$20,000	\$20,000
Additional Opening Inventory	\$13,200	\$48,100
Cash Register Fund	\$300	\$5,000
Store Supplies	\$250	\$2,000
Licenses and Permits	\$6,000	\$8,000
Real Estate and Equipment	Covered in "7-Eleven Charge" (see Other Fees)	
Goodwill	Only applicable to incoming franchisee's buying a current franchisee's interest in a franchise	
Additional Funds During First 3 Months	\$0	\$60,000
ESTIMATED INITIAL INVESTMENT TOTAL	\$39,750	\$1,152,100

Source: Franchise Direct

FRANCHISE INDUSTRY

Marriott International

- **Year Business Began:** 1967
- **Franchising Since:** 1967
- **Headquarters:** Bethesda, MD
- **Estimated Number of Units:** 6,520



NAME OF FEE	LOW	HIGH
Initial Franchise Application Fee	\$92,500	\$92,500
Pre-Opening Training and Services	\$128,100	\$194,500
Pre-Opening Revenue Management Support and Training	\$9,000	\$14,200
Property Management System (PMS), Reservation System (MARSHA), and One Yield Systems and Training	\$200,000	\$240,000
Other Systems and Training	\$84,000	\$104,000
Market Feasibility Study	\$15,000	\$25,000
Land	Not determinable because of variables	

NAME OF FEE	LOW	HIGH
Building Permit, Tap, and Impact Fees	Not determinable because of variables	
Building Construction	\$169,000	\$267,000
Kitchen and Laundry Equipment (per guestroom)	\$5,000	\$6,100
Furniture and Fixtures	\$23,300	\$28,400
Technology Hardware & Software and Network Infrastructure	\$2,800	\$15,800
Operating Supplies	\$5,400	\$6,600
Professional Design Services (per guestroom)	\$8,500	\$13,400
Insurance	\$95,000	\$272,000
Start-Up Costs	\$4,500	\$7,500
Hard Cost Contingency (10% of hard costs)	Not determinable because of variables	
Food Safety and Sanitation Compliance	\$490	\$490
Opening Advertising	\$100,000	\$150,000
Additional Funds per guestroom (first 3 months)	\$3,000	\$5,000
Estimated Total¹	\$67,354,090	\$105,312,590

Source: Franchise Direct

¹The estimated initial investment range is for a 301-room Wyndham Hotel New Construction. The range does not include the cost of purchasing or leasing real estate. Please see FDD for more details, including Conversion estimates

FRANCHISE INDUSTRY

RE/MAX

- **Year Business Began:** 1973
- **Franchising Since:** 1975
- **Headquarters:** Denver, CO
- **Estimated Number of Units:** 7,930



NAME OF FEE	LOW	HIGH
Initial Franchise Fee	\$17,500	\$37,500
Office Set-Up	\$3,500	\$95,000
Exterior Office Signage	\$500	\$10,000
Furniture, Fixtures, and Equipment	\$5,000	\$40,000
Inventory and Supplies	\$500	\$4,000
Training Fees and Expenses	\$1,500	\$4,000
Miscellaneous Opening Costs	\$2,000	\$19,000
Additional Funds – 3 months	\$10,000	\$75,000
ESTIMATED INITIAL INVESTMENT TOTAL	\$40,500	\$284,500

Source: Franchise Direct

FRANCHISE INDUSTRY

Dunkin'

- **Year Business Began:** 1954
- **Franchising Since:** 1955
- **Headquarters:** Canton, MA
- **Estimated Number of Units:** 12,540

NAME OF FEE	LOW	HIGH
Initial Franchise Fee	\$40,000	\$90,000
Building Costs	\$19,500	\$588,653
Site Development Costs	\$0	\$295,500
Additional Development Costs	\$4,700	\$150,000
Real Estate Costs	Varies	
Equipment, Fixtures and Signs	\$25,000	\$269,250
Electronic Cash Register / Retail Technology System	\$16,000	\$61,000
Opening Inventory	\$4,000	\$20,000
Miscellaneous Opening Costs	\$9,500	\$70,000
Licenses, Permits, Fees and Deposits	\$500	\$5,500
Uniforms	\$0	\$1,200
Insurance	\$4,500	\$16,000
Travel and Living Expenses While Training	\$2,000	\$35,000
Marketing Start-Up Fee	\$0	\$10,000
Additional Funds for First 3 Months of Operation	\$0	\$100,000
ESTIMATED INITIAL INVESTMENT TOTAL (doesn't include real estate costs)¹	\$97,500	\$1,717,103

Source: Franchise Direct

¹The estimated initial investment range covers the multiple variations of restaurant types referenced above. Please see FDD for more details

InterContinental Hotels

- **Year Business Began:** 1946
- **Franchising Since:** 1956
- **US Headquarters:** Atlanta, GA
- **Estimated Number of Units:** 195 (5,350 across all InterContinental Hotels Group brands)



NAME OF FEE	LOW	HIGH
Application Fee	\$150,000	\$150,000
Property Improvement Plan (PIP) Fee	\$8,500	\$8,500
Land	Varies	
Building Construction	\$56,846,050	\$76,909,300
Furniture, Fixtures & Equipment	\$10,031,645	\$16,719,410
Opening Inventory	\$1,050,000	\$2,100,000
Primary Identification Sign (including installation, freight, foundation and wiring)	\$210,000	\$420,000

NAME OF FEE	LOW	HIGH
Hotel Openings Services & Transitions (HOST) training	\$8,000 plus trainer expenses	
New Hotel Opening Training Materials	\$0	\$5,000
Initial Certification Training Program (plus trainer expenses)	\$5,370	\$15,000
Pre-Opening Training	\$1,200	\$1,200
Pre-Opening Re-visit (plus trainer expenses)	\$0	\$5,000
Back of House Program	\$550	\$10,000
Licenses and Permits	Varies	
Professional Fees	\$750,000	\$3,000,000
Security Deposits	\$10,000	\$50,000
Insurance	\$200,000	\$625,000
Financing and Closing	Varies	
Additional Funds and Prepaid Expenses during the initial Phase (first 3 months after opening)	\$1,000,000	\$2,625,000
Hotel Photography	\$3,500	\$6,200
ESTIMATED INITIAL INVESTMENT TOTAL¹	\$70,436,315	\$102,938,610

Source: Franchise Direct

¹The estimated initial investment range is for a 301-room Wyndham Hotel New Construction. The range does not include the cost of purchasing or leasing real estate. Please see FDD for more details, including Conversion estimates. These estimates do not include real estate related costs or other items that HHFL cannot estimate.

FRANCHISE INDUSTRY

Subway

- **Year Business Began:** 1965
- **Franchising Since:** 1974
- **Headquarters:** Doral, FL
- **Estimated Number of Units:** 44,610



NAME OF FEE	LOW	HIGH
Initial Franchise Fee	\$15,000	\$15,000
Real Property	\$2,000	\$12,000
Leasehold Improvements	\$29,900	\$194,500
Equipment Lease Security Deposit	\$7,500	\$15,500
Optional Security System	\$2,450	\$3,550
Freight Charges (varies by location)	\$3,000	\$5,800
Outside Signage	\$1,600	\$8,000
Opening Inventory	\$4,400	\$6,050
Insurance	\$1,200	\$5,000
Supplies	\$500	\$1,300
Training Expenses (including travel & lodging)	\$2,500	\$4,500
Legal and Accounting	\$1,000	\$3,500
Opening Advertising	\$2,500	\$4,000
Miscellaneous Expenses (business license, utility deposits & small equipment)	\$4,000	\$8,000
Additional Funds—three months	\$12,000	\$42,000
ESTIMATED INITIAL INVESTMENT TOTAL¹	\$89,550	\$328,700

Source: Franchise Direct

¹The estimated initial investment range covers from a Non-Traditional Location size up to a Traditional Location size.