



WINDSOR
ADVANTAGE

Thirty At Noon
Webinar Series

Franchise Lending in 2022

Current Landscape and Best Practices



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PEOPLE

Staff of 60+ across three locations:
Chicago
Charleston
Indianapolis



VOLUME (CLOSING)

Over \$300 million in SBA 7(a) and USDA
loans closed annually



VOLUME (SERVICING)

Full-suite servicing portfolio for over \$1.8
billion 7(a) and USDA loans



NATIONAL REACH

Loans funded in all 50 states. Lender clients in
36 states from California to New England.

FRANCHISE LENDING IN 2022



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Information and Analysis from the
Franchise Business Model Experts

WHY ARE WE HERE?

- Excerpts from FRANdata's Franchising Outlook for 2022
- What are the Numbers Saying? Interesting Learnings from the Pandemic
- What Should Lenders Pay Attention To?
- What Brands Are Performing? Recent Top FUND Scores
- Tips for Evaluating the Franchise Disclosure Document (FDD)

FRANCHISING'S OUTLOOK FOR 2022

Key Takeaways:

❖ Franchising led the recovery:

- 2021 revenue in Franchising grew by 16.3%
- Unit and revenue growth is expected to continue in 2022, albeit at a slower pace due to headwinds in the larger economy

❖ Job growth continues in the Franchise space:

- Franchise employment is forecasted to grow at a rate of 3.1% and recover to pre-pandemic levels (we will look at some charts)
- That is a net gain of almost 257,000 jobs compared to 2021

FRANCHISING'S OUTLOOK FOR 2022

Key Takeaways:

- ❖ The successes will come with challenges:
 - Labor shortages continue persist, and this is one of the main inhibitors of growth in 2022
 - Supply chain issues affect operations, speed to open new units and the buildout cost for those locations
 - Inflation (or fear of it) is putting pressure on all areas of the economy
- ❖ Overall, Franchising had an exceptional year in 2021, benefiting from the fast vaccine roll-out and extensive government stimulus
- ❖ Covid was a positive for some brands and acted as a “cleanse” for some sectors

REVENUE BY SECTOR

Franchise Output by Business Line (\$Billion)

	2018	2019	2020	2021 (Est.)	2022 (Proj.)
Business Services	\$99.2	\$101.7	\$84.4	\$95.3	\$99.8
Percentage change		2.6%	-17.1%	13.0%	4.7%
Commercial & Residential Services	\$45.5	\$45.8	\$49.3	\$52.7	\$55.9
Percentage change		0.7%	7.7%	6.9%	5.9%
Lodging	\$86.4	\$89.2	\$52.0	\$82.8	\$87.1
Percentage change		3.2%	-41.8%	59.2%	5.2%
Personal Services	\$37.9	\$39.3	\$26.0	\$35.8	\$39.6
Percentage change		3.8%	-34.0%	37.9%	10.5%
Quick Service Restaurants	\$256.6	\$267.9	\$241.0	\$261.2	\$276.2
Percentage change		4.4%	-10.1%	8.4%	5.8%
Real Estate	\$53.4	\$55.3	\$48.4	\$60.2	\$61.5
Percentage change		3.7%	-12.5%	24.3%	2.2%
Retail Food, Products & Services	\$115.1	\$118.3	\$121.1	\$127.0	\$130.3
Percentage change		2.8%	2.3%	4.9%	2.5%
Table/Full-Service Restaurants	\$73.0	\$76.5	\$55.1	\$72.8	\$76.4
Percentage change		4.8%	-27.9%	31.9%	5.0%
Total	\$767.1	\$794.2	\$677.2	\$787.7	\$826.6
Percentage change		3.5%	-14.7%	16.3%	4.9%

UNIT RETENTION AND GROWTH BY SECTOR

Franchise Establishments by Business Line

	2018	2019	2020	2021 (Est.)	2022 (Proj.)
Business Services	103,886	102,645	97,732	99,296	100,727
Percentage change		-1.2%	-4.8%	1.6%	1.4%
Commercial & Residential Services	66,495	67,226	73,116	75,678	77,708
Percentage change		1.1%	8.8%	3.5%	2.7%
Lodging	33,240	33,997	34,455	35,041	35,501
Percentage change		2.3%	1.3%	1.7%	1.3%
Personal Services	114,058	118,825	110,050	114,012	117,594
Percentage change		4.2%	-7.4%	3.6%	3.1%
Quick Service Restaurants	194,395	196,794	183,543	188,402	192,426
Percentage change		1.2%	-6.7%	2.6%	2.1%
Real Estate	64,170	65,307	66,332	67,929	69,284
Percentage change		1.8%	1.6%	2.4%	2.0%
Retail Food, Products & Services	151,390	155,649	157,538	162,579	165,955
Percentage change		2.8%	1.2%	3.2%	2.1%
Table/Full-Service Restaurants	32,843	33,160	31,004	32,027	32,819
Percentage change		1.0%	-6.5%	3.3%	2.5%
Total	760,476	773,603	753,770	774,965	792,014
Percentage change		1.7%	-2.6%	2.8%	2.2%

EMPLOYMENT BY SECTOR

Franchise Employment by Business Line					
	2018	2019	2020	2021 (Est.)	2022 (Proj.)
Business Services	629,027	624,388	564,863	586,523	604,362
Percentage change		-0.7%	-9.5%	3.8%	3.0%
Commercial & Residential Services	250,318	252,803	253,682	288,542	303,096
Percentage change		1.0%	0.3%	13.7%	5.0%
Lodging	740,711	758,054	510,761	664,886	710,023
Percentage change		2.3%	-32.6%	30.2%	6.8%
Personal Services	519,369	547,094	475,580	527,718	552,692
Percentage change		5.3%	-13.1%	11.0%	4.7%
Quick Service Restaurants	3,770,426	3,880,612	3,544,759	3,728,402	3,810,044
Percentage change		2.9%	-8.7%	5.2%	2.2%
Real Estate	256,328	262,130	245,437	265,954	277,497
Percentage change		2.3%	-6.4%	8.4%	4.3%
Retail Food, Products & Services	1,020,002	1,061,686	1,014,127	1,069,837	1,095,301
Percentage change		4.1%	-4.5%	5.5%	2.4%
Table/Full-Service Restaurants	1,088,352	1,116,894	923,097	1,060,736	1,096,149
Percentage change		2.6%	-17.4%	14.9%	3.3%
Total	8,274,532	8,503,661	7,532,305	8,192,600	8,449,162
Percentage change		2.8%	-11.4%	8.8%	3.1%

WHAT SHOULD LENDERS PAY ATTENTION TO?

- 2020 and 2021 PPP, EIDL and other stimulus had specific effects on the marketplace
- Stimulus was applied universally, even to those businesses who might not have been struggling
- Demand for traditional loan products dipped as business owners had cash on the balance sheet
- Lenders saw fewer defaults than would have been expected in a crisis
- Example...SBA made payments for a year...hard to default in that circumstance

WHAT SHOULD LENDERS PAY ATTENTION TO?

- Demand is returning, but lenders have a unique challenge in underwriting deals.
- Lenders are faced with unknowns because “*we don’t know who's teetering and who's not*”
- Extra cash on the balance sheet does not mean they are doing well
- No payment defaults 2 years does not mean they are doing well
- The traditional metrics by which lenders evaluate opportunities are obfuscated
- These uncertainties are making credit groups more conservative

WHAT SHOULD LENDERS PAY ATTENTION TO?

- Focus on validation of the Franchisor's process and their transparency because the data is not necessarily clear
- Transparency – Both in the Item 19 (FDD) and though direct relationship building with banks
- Education – How do Brands prepare franchisee borrowers for their interactions with you?

WHAT SHOULD LENDERS PAY ATTENTION TO?

- The Franchisor / Franchisee Relationship – Is There A Healthy Balance Between Meeting the Development Timelines and Ensuring Franchisee Success?
- What Assumptions is the Franchisee Making in their Projections? Inflated Payroll Costs? Increased Buildout Costs?
- Mixed Revenue Streams? Is Delivery/Online a Big Piece?
- Are the Assumptions for Projected Use of Proceeds and Cash Flow Current?
- If The Loan Request is to Finance an Acquisition, Partner Buyout, or other Change in Ownership – What is the Basis for the Purchase Price?

RECENT TOP FUND SCORES

Food:

- Tropical Smoothie – 910
- Marco's Pizza – 890
- Mountain Mike's Pizza – 885

Childhood Education/Related:

- Primrose School – 900
- Kiddie Academy – 885
- Goddard Schools – 875
- School of Rock - 860

RECENT TOP FUND SCORES

Automotive:

- Tint World— 865
- Christian Brothers Automotive – 840

Pet-Related:

- Pet Supplies Plus – 820
- Dogtopia – 735
- Wild Birds Unlimited – 710

Services:

- Two Men and a Truck— 890
- The UPS Store – 840
- College Hunks – 730

TIPS FOR EVALUATING THE FDD

FDD Checklist

- Item 3 and 4 – Litigation and Bankruptcy
- Item 19 - Performance Representations
 - How transparent are they being? No information? Just topline unaudited financials? Full P&Ls for Franchised Units?
- Item 20 – Opened Closed Units – Focus on Terminations and Ceased Operations Other
- Item 21 – Franchisor Financials – Where is the money coming from and where is it going on the Franchisor level

OPEN QUESTIONS FROM THE GROUP

Questions?

NEXT 30 @ NOON SERIES... MARCH 17TH



Building Direct Relationships with Franchise Brands

Broker relationships are a terrific way to source franchisee-loan opportunities, but what if you could get deal-flow directly from a Franchisor without paying a broker fee? How do Lenders connect with Franchise Brands that are growing in their region and what kinds of conversations are they having with Brand Leadership? Join Paul Santomauro from FRANdata and a Top Franchise Executive as they have a Q/A on franchise finance and discuss relationship building in the industry.

HAVE YOU SIGNED UP FOR LENDERS CONNECT YET?

LendersConnect

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LendersConnect is an online small business lending community accessible via web or mobile device, featuring opportunities for Peer-to-peer dialogue, Industry news & events, Video networking, **Educational sessions**, Mentoring partnerships, Access to industry resources, and more...

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FRANdata is the only source of comprehensive information about franchising:

- Fact-based research and analysis
- World's largest database of franchise information – 40,000 FDDs and growing
- Tracks and analyzes more than 3,500 brands in 30 sectors and 235 industries
- Manages the Franchise Registry with over 8800+ lender members

FRANdata 's capabilities are unique in the franchise world

- Custom Research: Addresses questions/needs with timely analysis
- Reports: Data, analysis, trend forecasts
- Complete objectivity: FRANdata receives no advertising or referral fees

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