



FRANCHISE UPDATE'S 10TH ANNUAL
**FRANCHISE LEADERSHIP &
DEVELOPMENT CONFERENCE**
SEPTEMBER 24 - 26 CHICAGO



The State of Franchising

Darrell Johnson

President, FRANdata

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



What's Ahead in 2009

- Focus is on 2009
 - General Economic Forecast
 - Franchise Forecast
 - Implications
 - Conclusions
- Additional trend data on FRANdata web site



General Economic Forecast

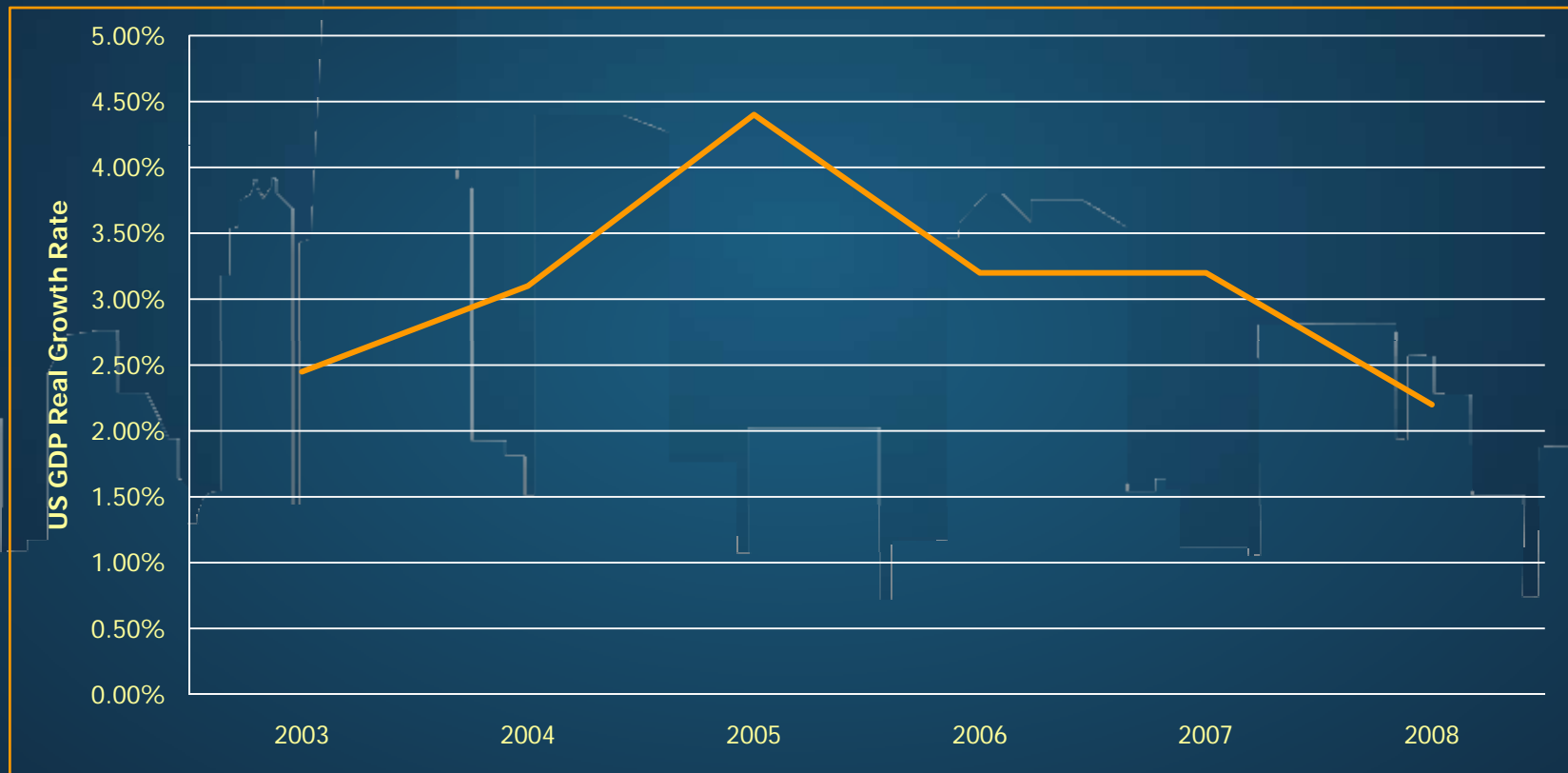
- No Bounce
- At least 2010 before Economic Stabilization

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



General Economic Forecast

US GDP Real Growth Rate, 2003 to 2008



FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



General Economic Forecast

- No Bounce
- At least 2010 before Economic Stabilization
- Unprecedented de-leveraging under way
- Pretty clear which way interest rates will go



General Economic Forecast

Loan Rates 1998 – August 2008





General Economic Forecast

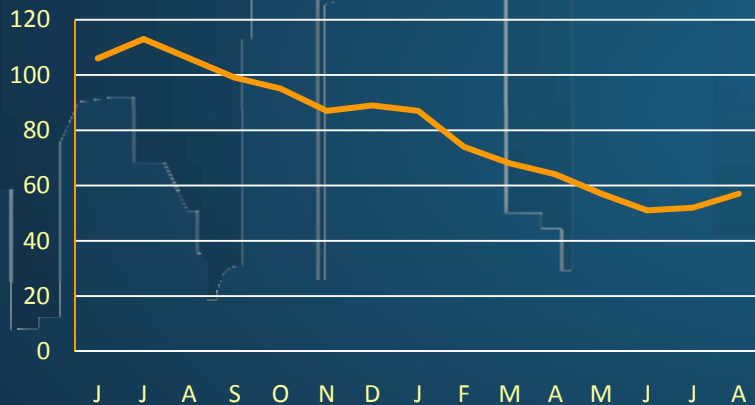
- No Bounce
- At least 2010 before Economic Stabilization
- Unprecedented de-leveraging under way
- Pretty clear which way interest rates will go
- Crisis of Credit Becoming Crisis of Confidence



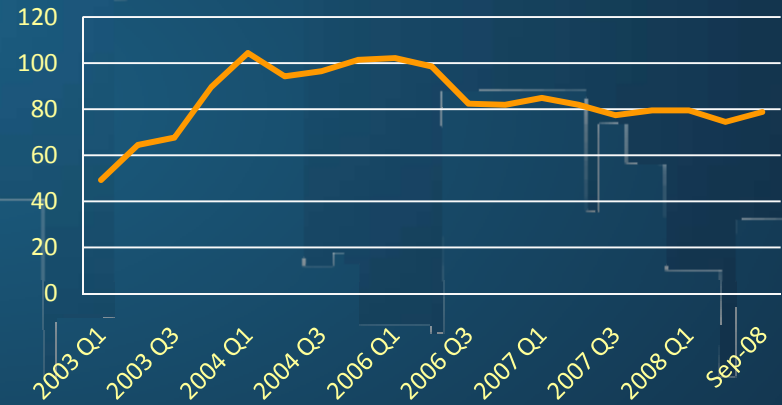
General Economic Forecast

Consumer/Business Demand

Conference Board Consumer Confidence



Business Roundtable CEO Economic Outlook Index





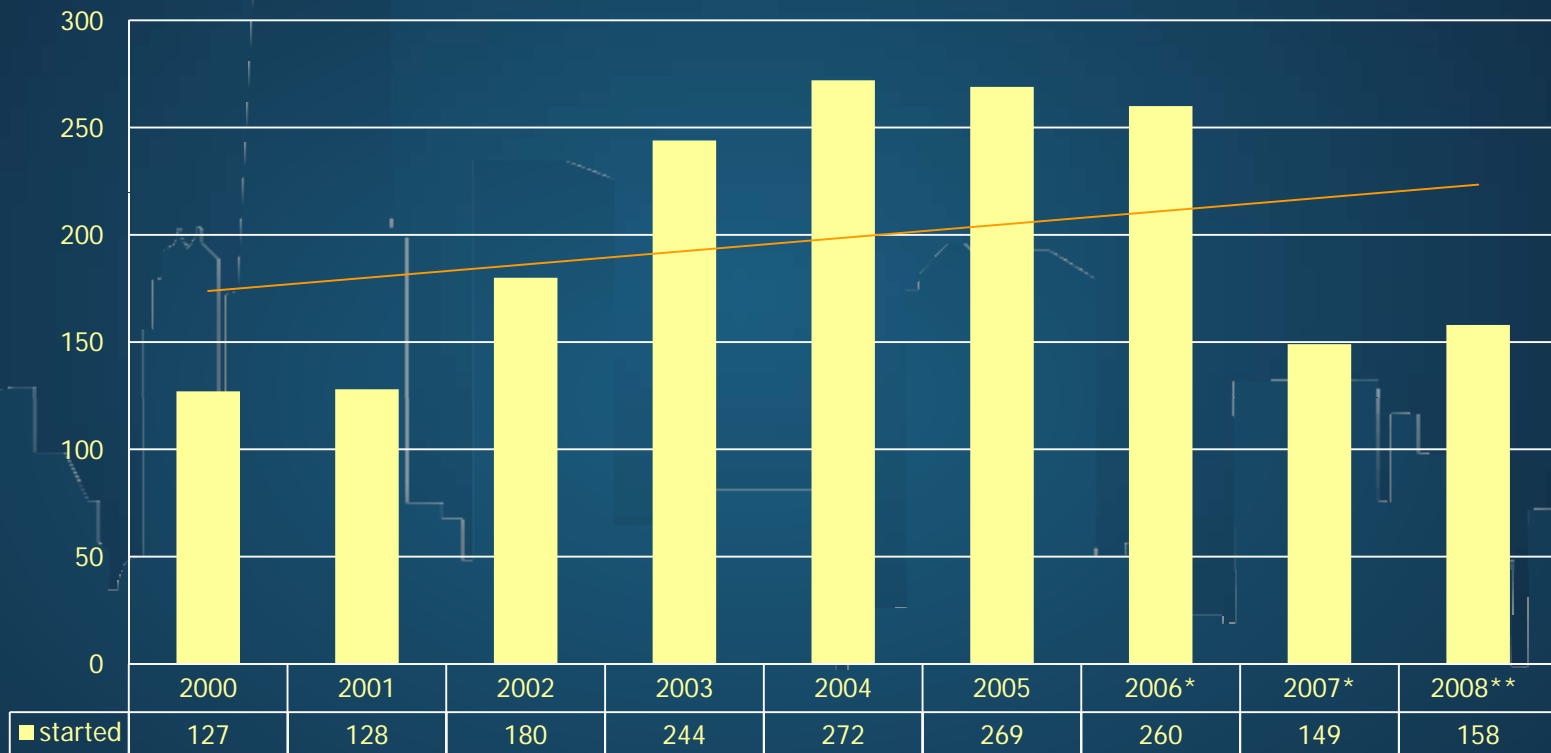
Franchise Forecast for 2009

- Franchisors — there will be winners
 - Some sectors will stay hot
 - New brands will continue but at a slower pace



Franchise Forecast for 2009

Brands Starting to Franchise Since 2000



*Estimate

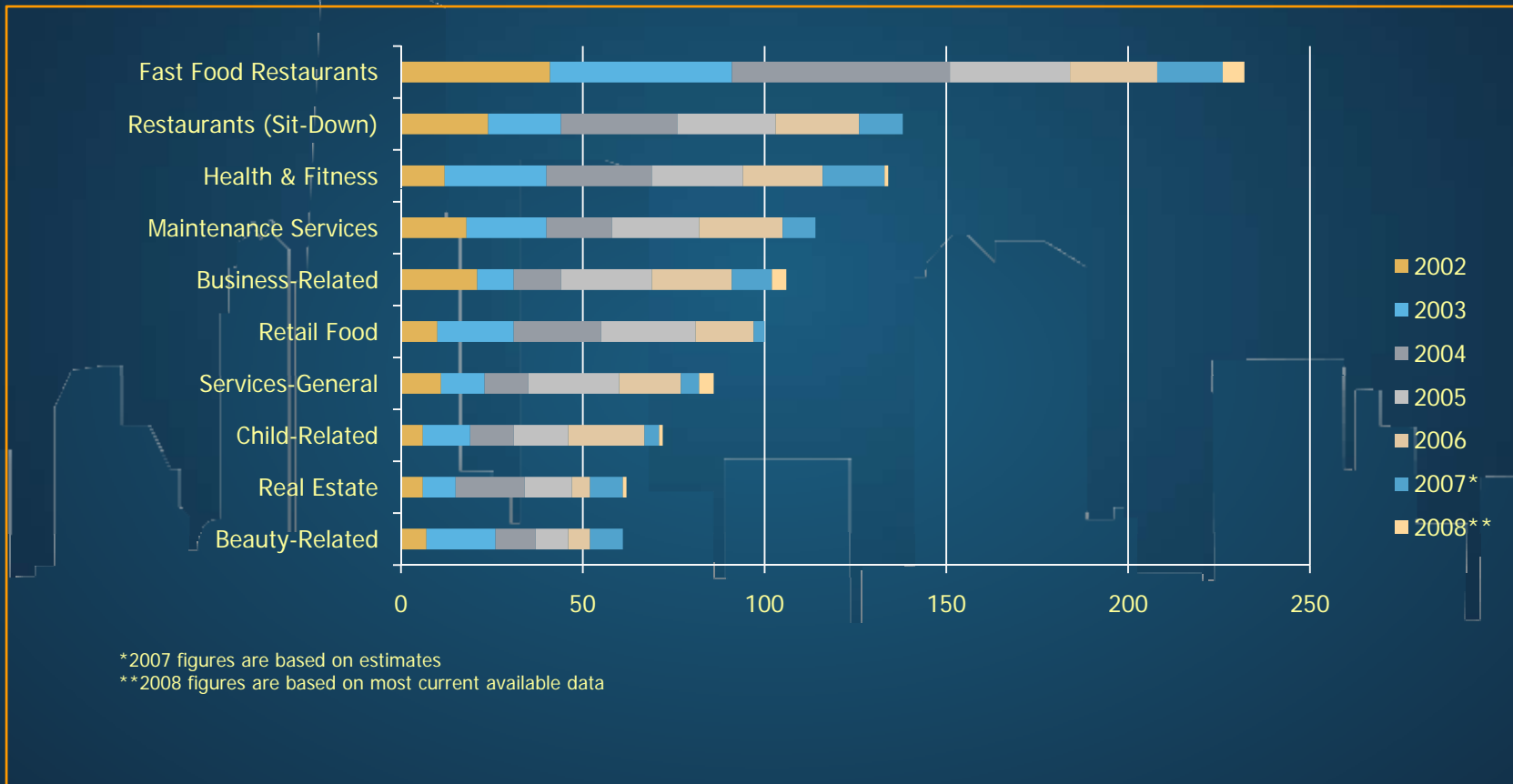
**Forecast

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



Franchise Forecast for 2009

Top Ten industries by New Concepts Added, 2002 to 2008





Franchise Forecast for 2009

- Franchisors — there will be winners
 - Some sectors will stay hot
 - New brands will come at a slower pace
 - Increasing number of foreign brands entering the US
 - Brand acquisitions will continue



Franchise Forecast for 2009

- Franchisors — there will be losers
 - Franchisors covering G&A from fees vulnerable
 - Brands with marginal performance will stand out

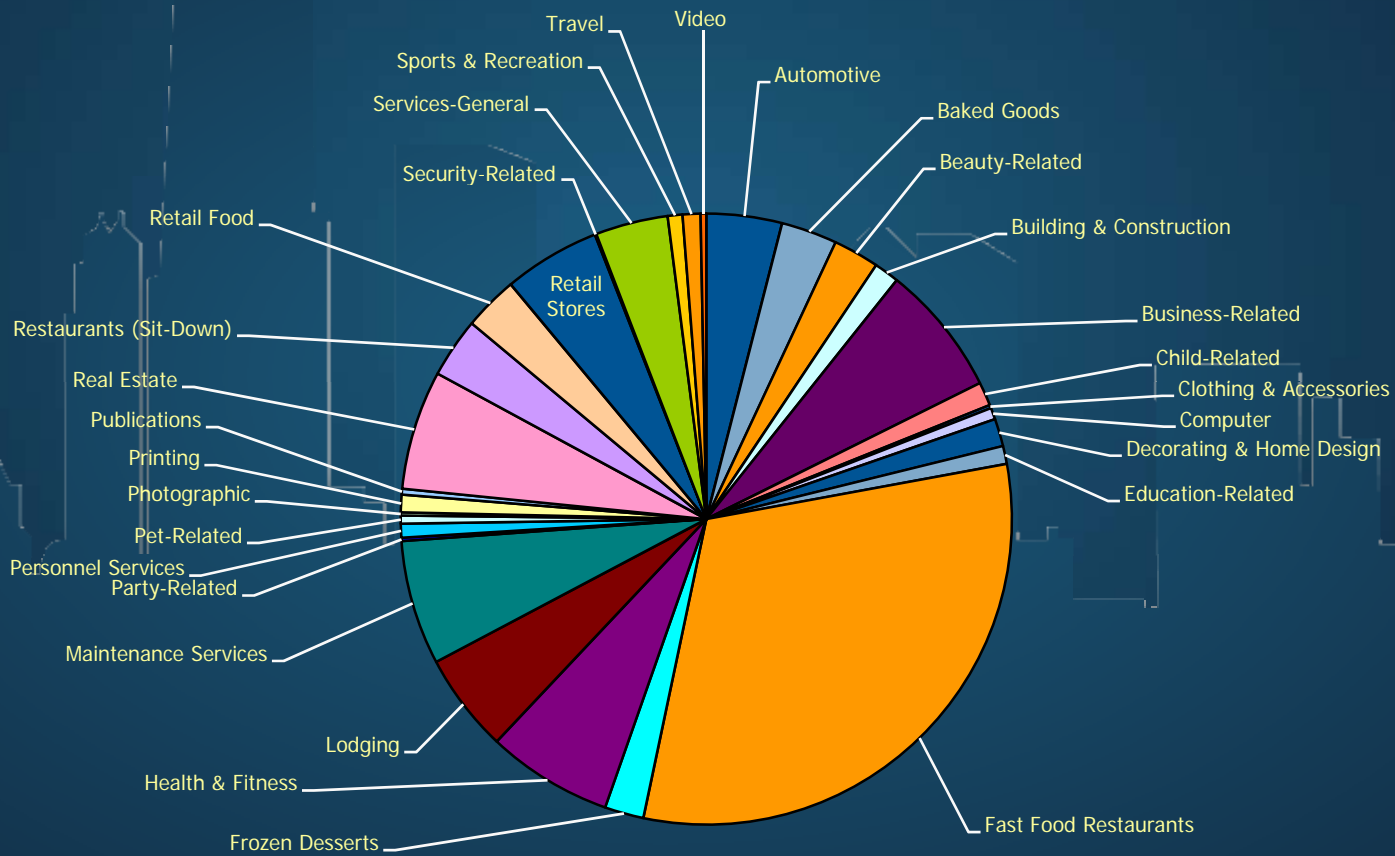


Franchise Forecast for 2009

- Franchisees — there will be winners
 - Better performers will have better capital access
 - Opportunities to buy under-performing units
 - Opportunities to expand into other brands



Industry Market Share by Franchised Units



FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



Franchise Forecast for 2009

- Franchisees — there will be losers
 - Marginal performers will exit in greater numbers
 - Increased exiting will lead to increased litigation
 - Capital access will be a big challenge



Home Equity Cash Out Levels



FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



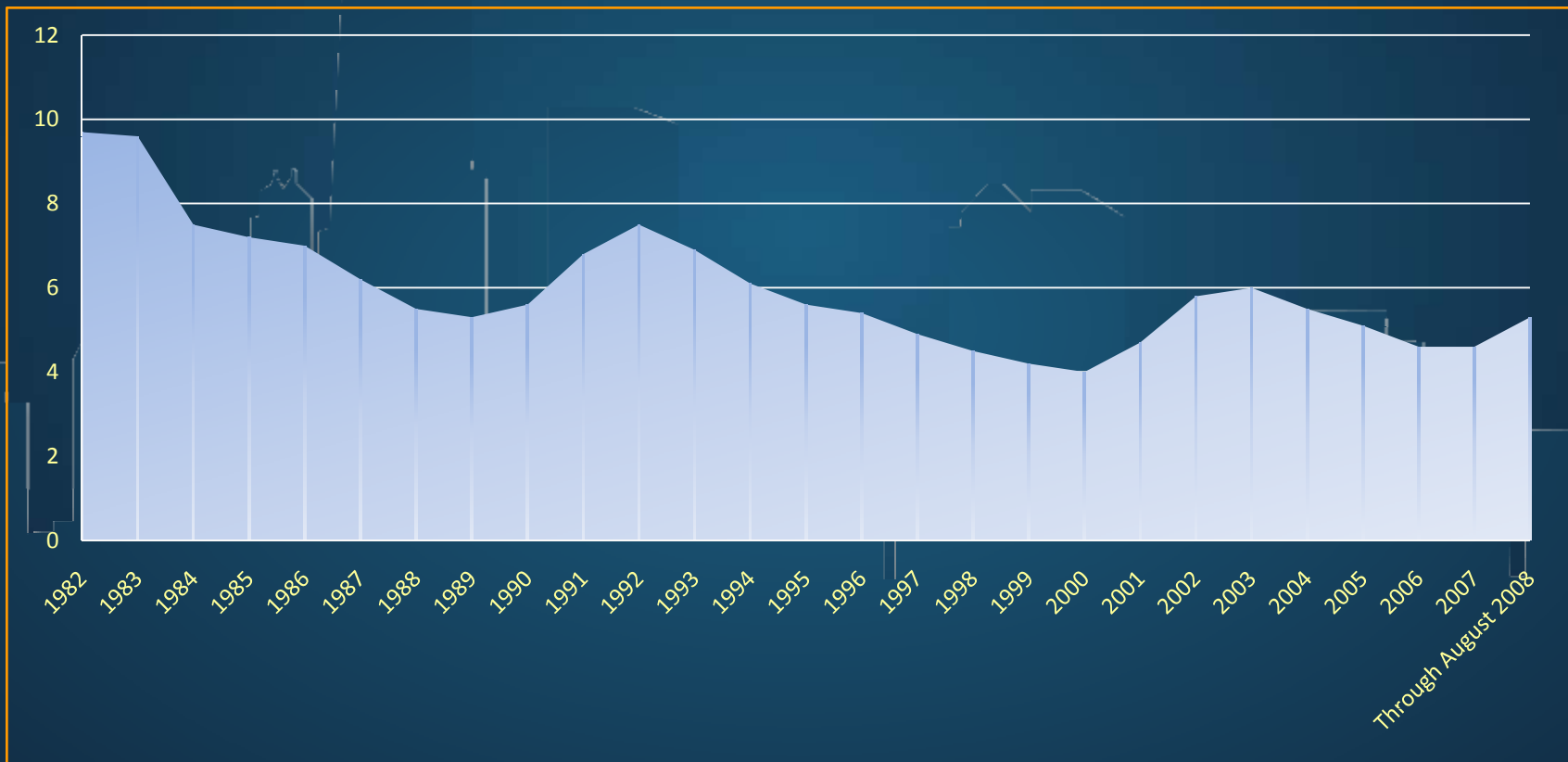
Franchise Forecast for 2009

- Franchisees — there will be opportunities
 - Rising unemployment usually stimulates development



Franchise Forecast for 2009

Annual Unemployment Rate, 1982 to August 2008



FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



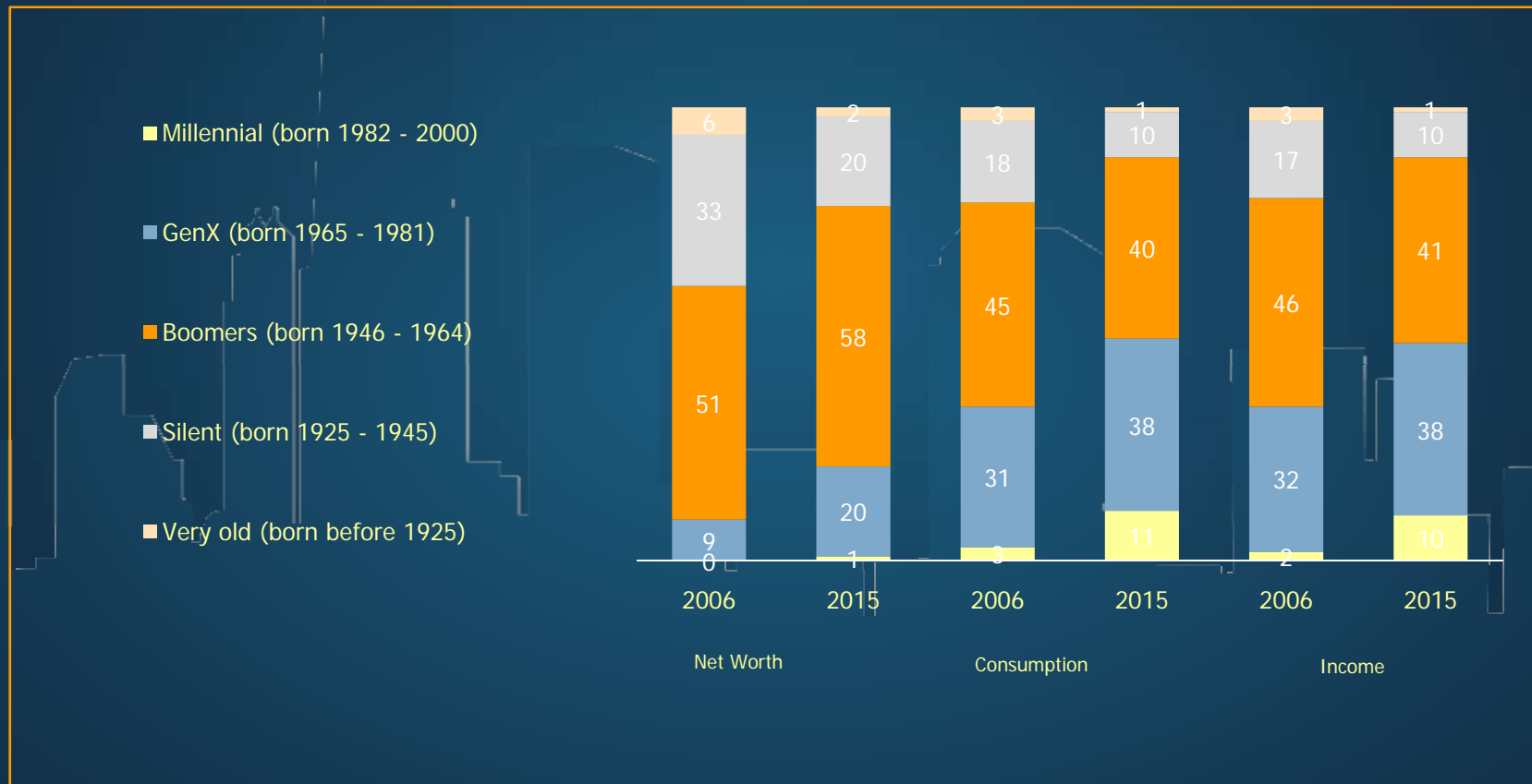
Franchise Forecast for 2009

- Franchisees — there will be opportunities
 - Rising unemployment usually stimulates development
 - GenX-ers and GenY-ers are coming on



Franchise Forecast for 2009

Total Share by US generation





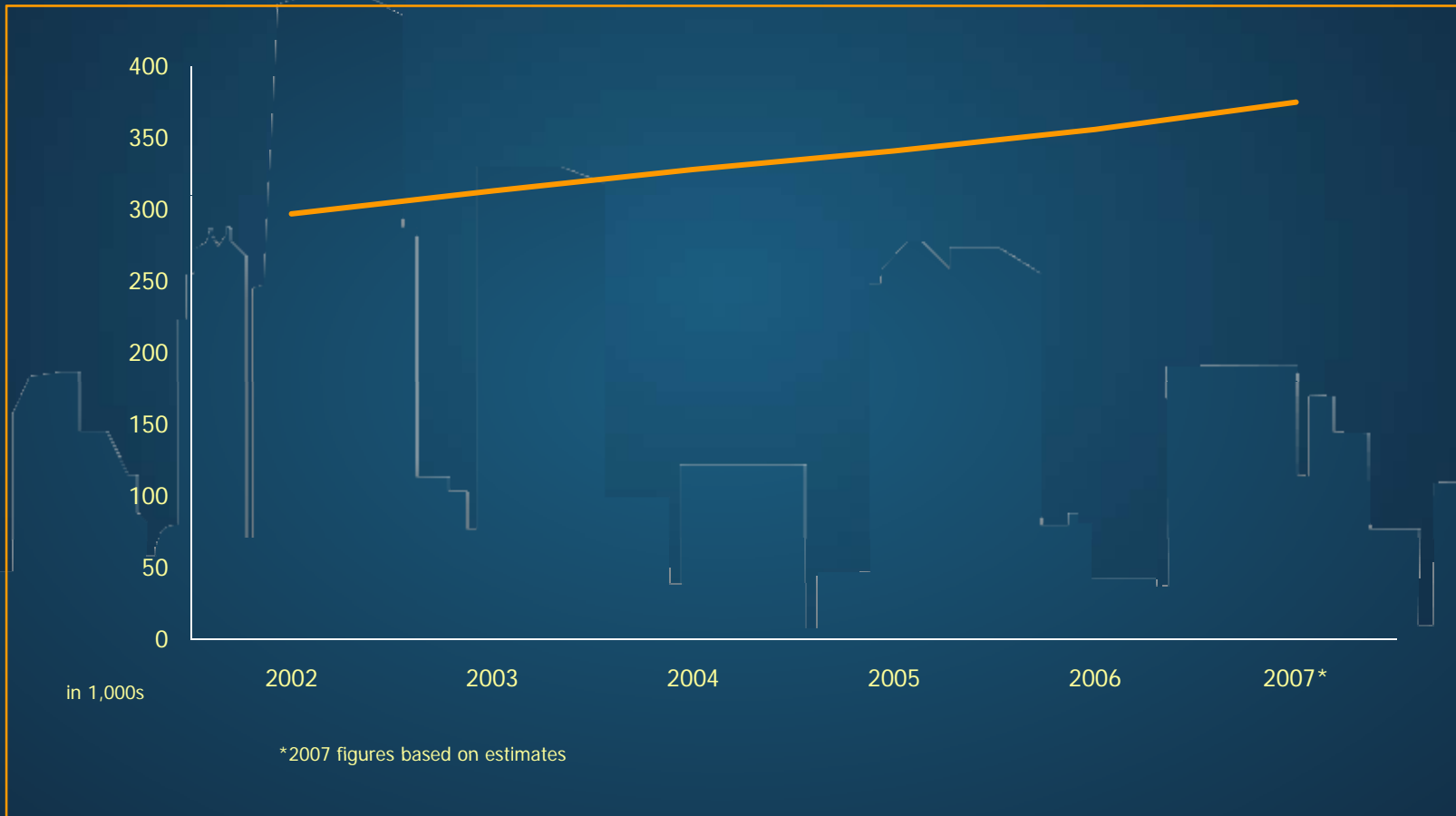
Total New Franchise Units 2002 - 2007

The industries below grew faster than the average of all franchising between 2002 and 2006:

INDUSTRY	AVG	5 year
Computer Products and Services	41.3%	273.6%
Clothing & Accessories	35.2%	221.1%
Publications	19.5%	99.6%
Health & Fitness	15.1%	73.4%
Child-Related	13.3%	64.7%
Pet-Related Products/Services	11.9%	56.7%
Decorating & Home Design	11.7%	55.1%
Security-Related	8.0%	34.5%
Real Estate	7.9%	35.5%
Building & Construction	7.4%	32.8%
Services-General	7.3%	32.2%
Retail Food	6.2%	26.8%
Travel	6.1%	26.5%
Education-Related	5.2%	22.6%
Baked Goods	4.8%	20.4%



Total New Franchise Units, 2002 to 2007



FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



Implications – Capital Access

- Think Like A Banker
 - Franchisors
 - Financial strength
 - Management experience
 - Operational performance



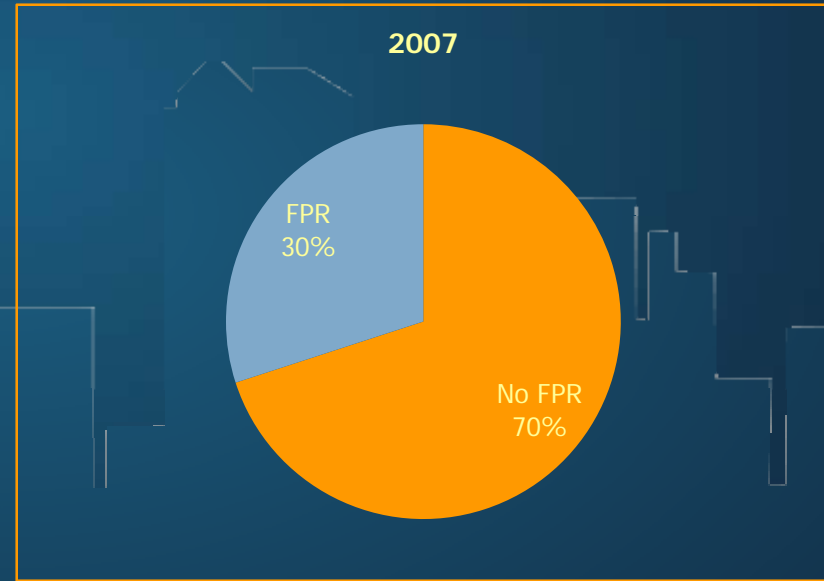
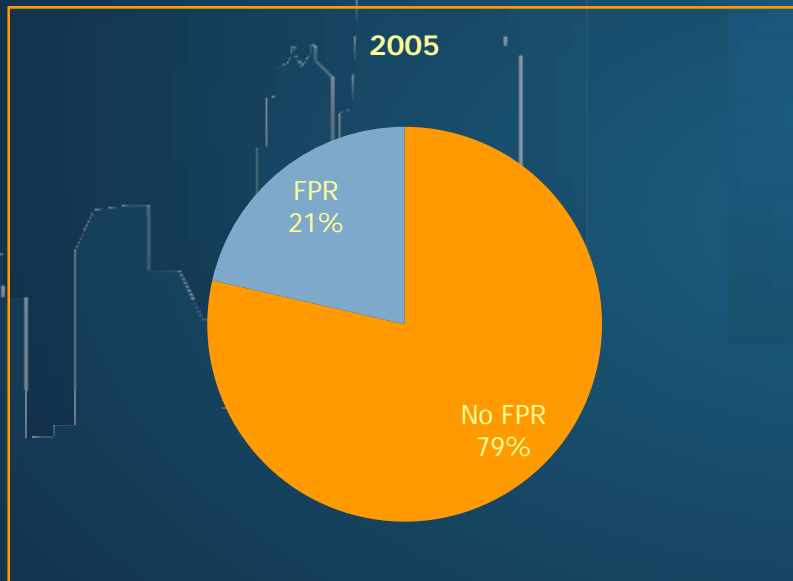
Implications – Capital Access

- Think Like A Banker
 - Franchise System
 - Unit Financial Performance Representation



Implications – Capital Access

Percentage of Brands with FPRs, 2005 to 2007





Implications – Capital Access

- Think Like A Banker
 - Franchise System
 - Unit Financial Performance Representation
 - System performance
 - SBA statistics and Franchise Registry status
 - Performance of sector and industry



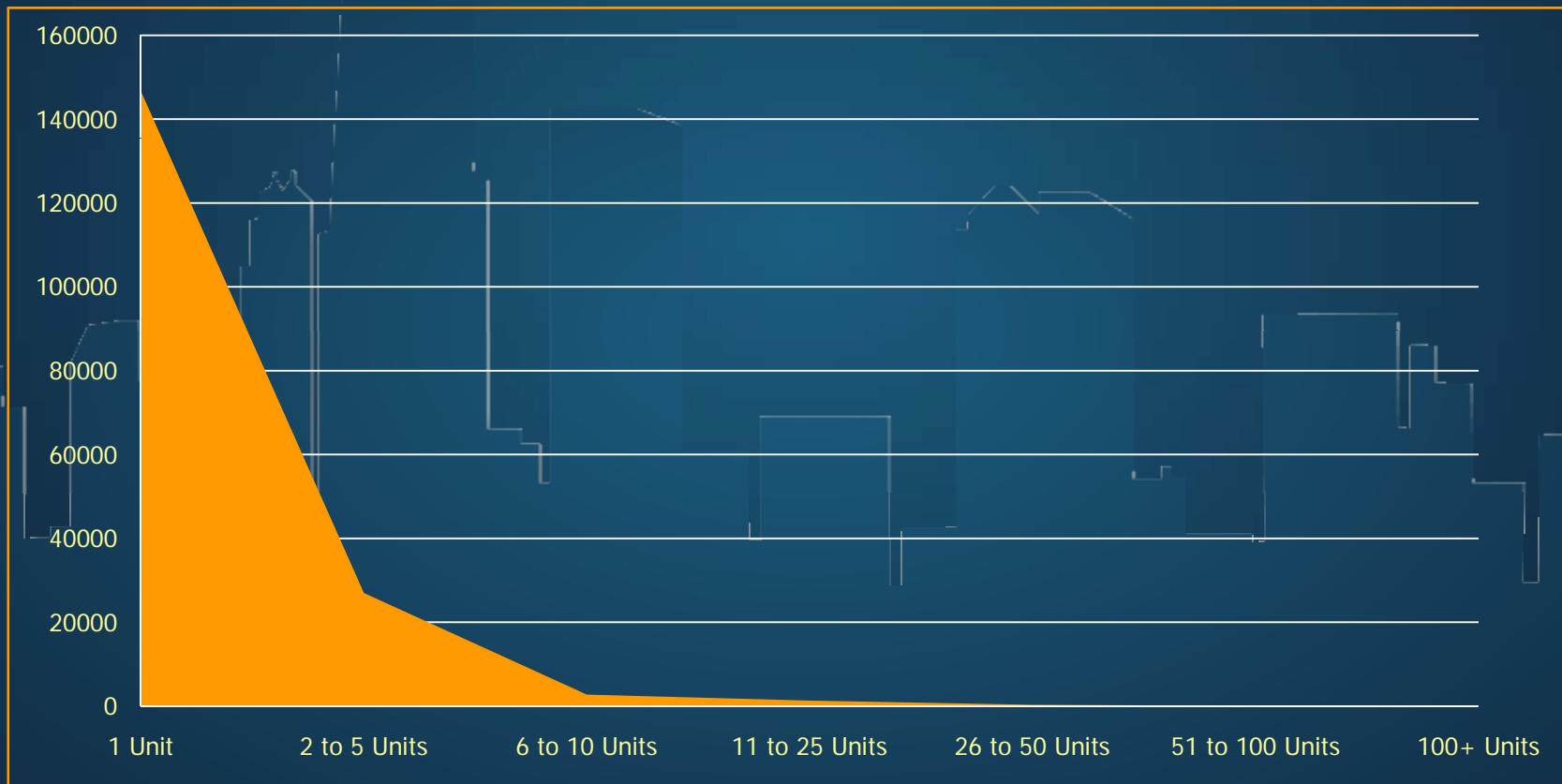
Implications - Development

- Arm franchisees with brand performance information for bankers
- Consider experienced franchisees
 - Better access to capital
 - They control more units



Implications - Development

Count of Franchisees by Number of Units Owned





Implications - Operations

- When economy slows, naturally turn to expenses
- Benchmarking
- Comparative performance metrics



Conclusions

- In the past 20 years, we overcame:
 - S&L Crisis and junk bond collapse late 1980s
 - Collapse of Barings 1994
 - Collapse of Long Term Capital Management 1998
 - 9/11
 - WorldCom/Enron 2002
- This crisis is much deeper but it will pass
- In 2009 franchising will grow
- Greater need for proactive approach

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE



FRANdata

Turning Franchise Data into Information

- Lender Risk Reports
- Benchmarking
- Competitor Analysis
- SBA Franchise Registry
- Contact Lists
- Franchise Research & Analysis

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE