

FRANDATA UPDATE

EDITH WISEMAN CFE,
PRESIDENT, FRANDATA

QUESTION FOR YOU



- How many of you have heard of Raising Cane's?
- How many of you have been to Raising Cane's?
- How many of you want to go to Raising Cane's?

RAISING CANE'S



Ice-T National Iced Tea Day



Livvy Dunne National Champion Gymnast



Post Malone Campaign



“Grab life by the Chicken Fingers, do you, be you”



RAISING CANE'S PLACES 5TH IN THE ORANGE COUNTY REGISTER'S 2023 TOP...



THE BALTIMORE SUN MEDIA GROUP NAMES RAISING CANE'S A 2023 TOP...



RAISING CANE'S RANKS 7TH FOR LARGE COMPANIES IN THE OKLAHOMAN'S 202...

2024 IFA/FRANDATA SURVEY KEY TAKEAWAYS

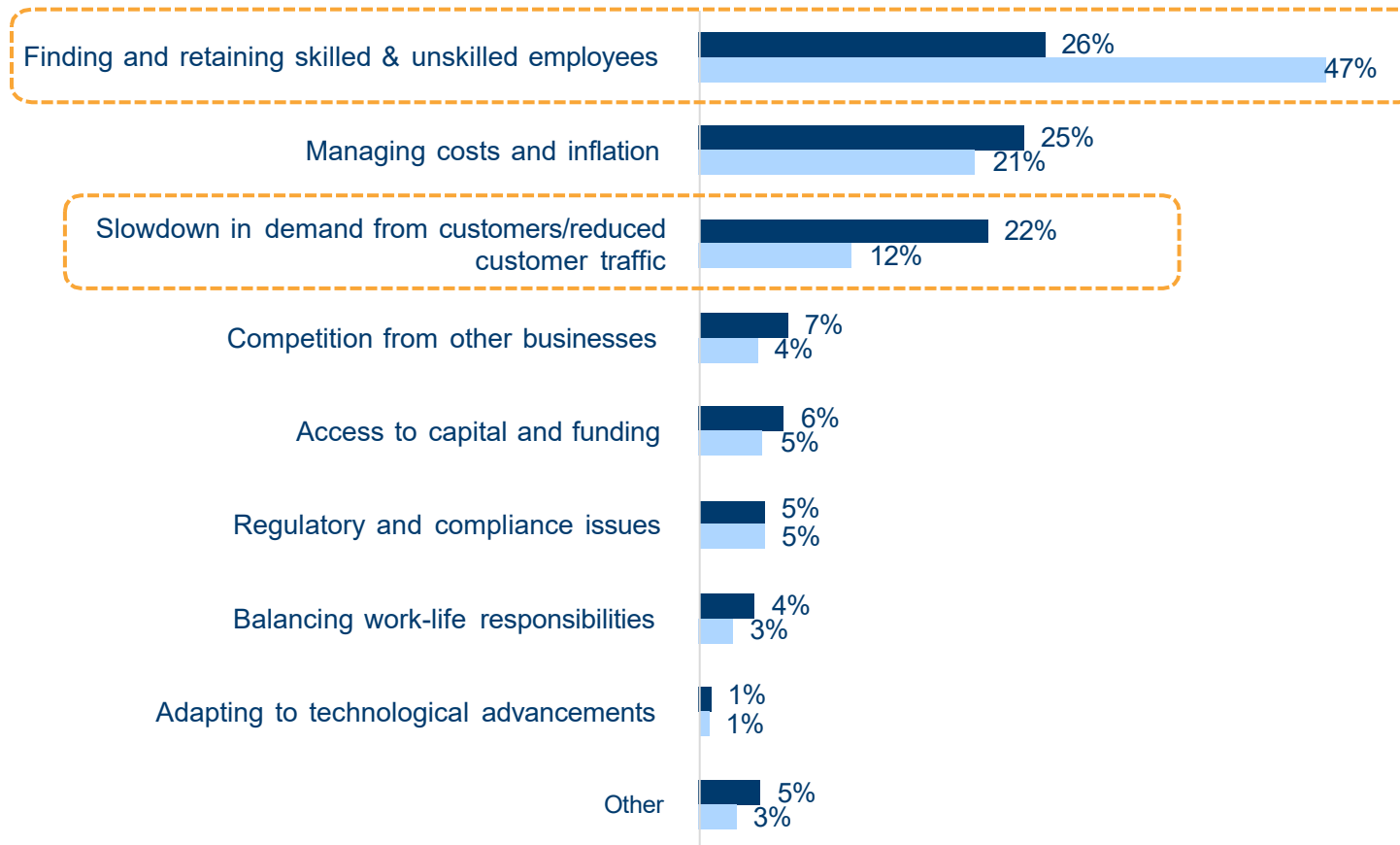
- 80% of franchisees **experienced lower business earnings** in the past year
- Cost of retaining labor remains high, especially in employee health care
- Rising expenses for **insurance, inventory, supplies, and marketing** have driven cost increases

MOST SIGNIFICANT BUSINESS CHALLENGE

EMPLOYEE RECRUITMENT AND RETENTION ISSUES HAVE EASED, BUT HIGH OPERATING COSTS AND DECLINING CONSUMER SPENDING REMAIN SIGNIFICANT CHALLENGES

Most Significant Business Challenge

■ 2024 ■ 2023



MOST SIGNIFICANT BUSINESS CHALLENGE

EMPLOYEE RECRUITMENT AND RETENTION ISSUES HAVE EASED, BUT HIGH OPERATING COSTS AND DECLINING CONSUMER SPENDING REMAIN SIGNIFICANT CHALLENGES

- **The percentage of franchisees experiencing a slowdown in customer demand increased 10% from last year**
- Common theme - employees want more before they perform. Expectation of higher pay and lack of desire to work or strong work ethic
- In states like California, regulatory requirements for employees on larger businesses impact smaller businesses because employees want to go to bigger organizations that have to increase their wages

We have been paying 100% of the health insurance premiums for our employees, but for the first time we will have to start charging them. We are losing money this year and will also have to lay off people.



Building &
Construction
Brand Franchisee

Wages have almost doubled in the last 6 years since we opened - but the rates we can charge have only gone up 30-50%. Wages are our biggest expense. We hire lower skilled workers to compensate, but they are less reliable and often jump between jobs.



Health & Fitness
Brand Franchisee

The best part of being in a franchise is the name recognition and **marketing**. Oftentimes, we are less competitive because of the high cost of being in a franchise.



Decorating &
Home Design
Franchisee

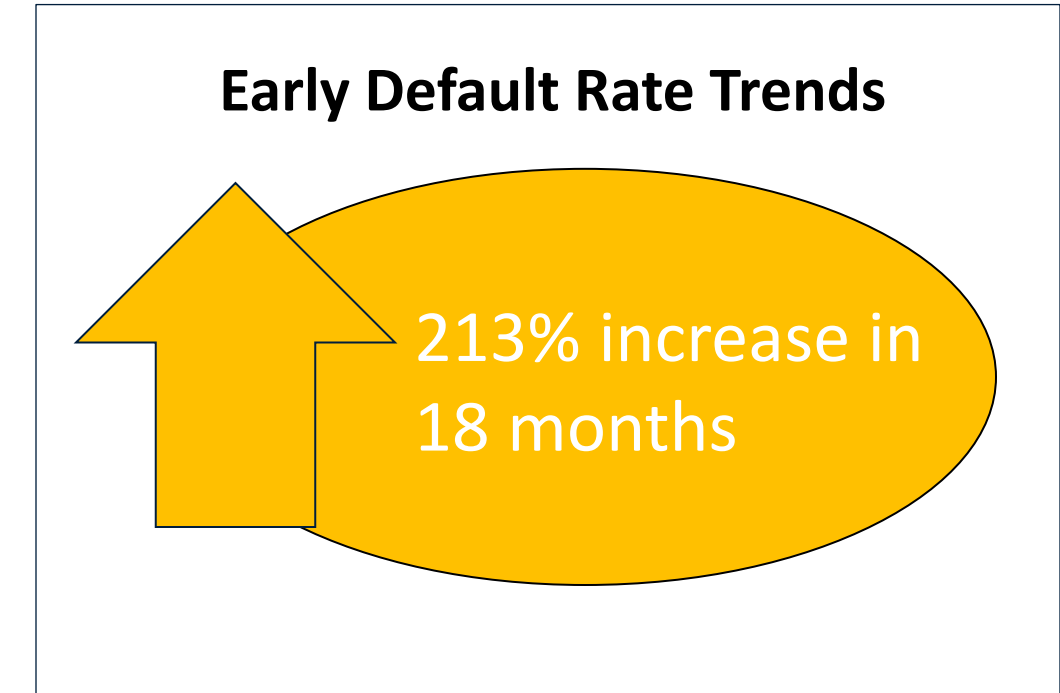
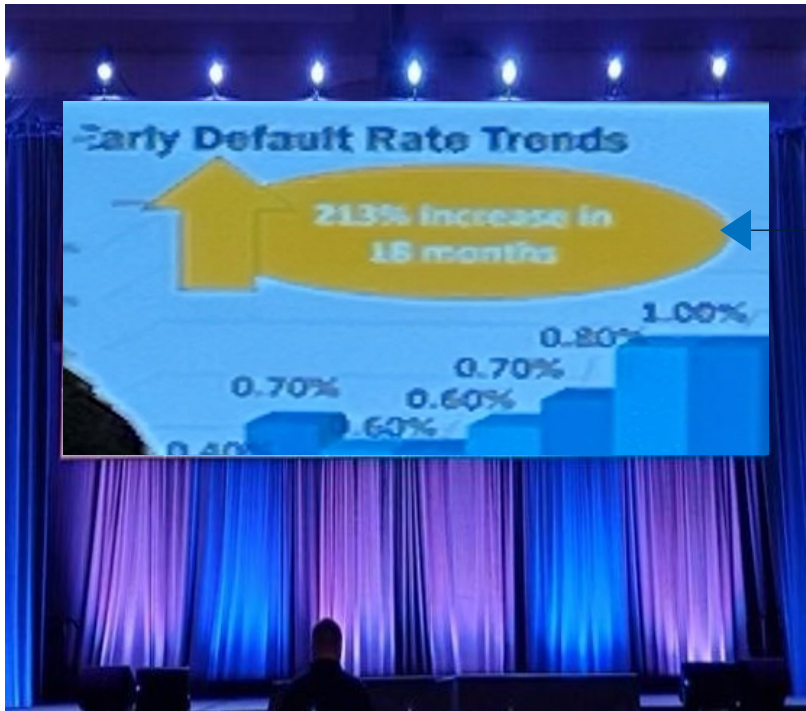
FRANdata
Franchise Business Intelligence

AVERAGE FRANCHISED LOCATION EXAMPLE

	2021	2023	% Change
Revenue	\$1,619,335	\$2,140,599	32%
Profit Before Other Expenses	\$727,622	\$710,770	-2%
Advertising & Marketing	\$40,881	\$55,662	36%
NAF	\$32,387	\$42,812	32%
TOTAL ADVERTISING (NAF+AD)	\$73,268	\$98,474	34%

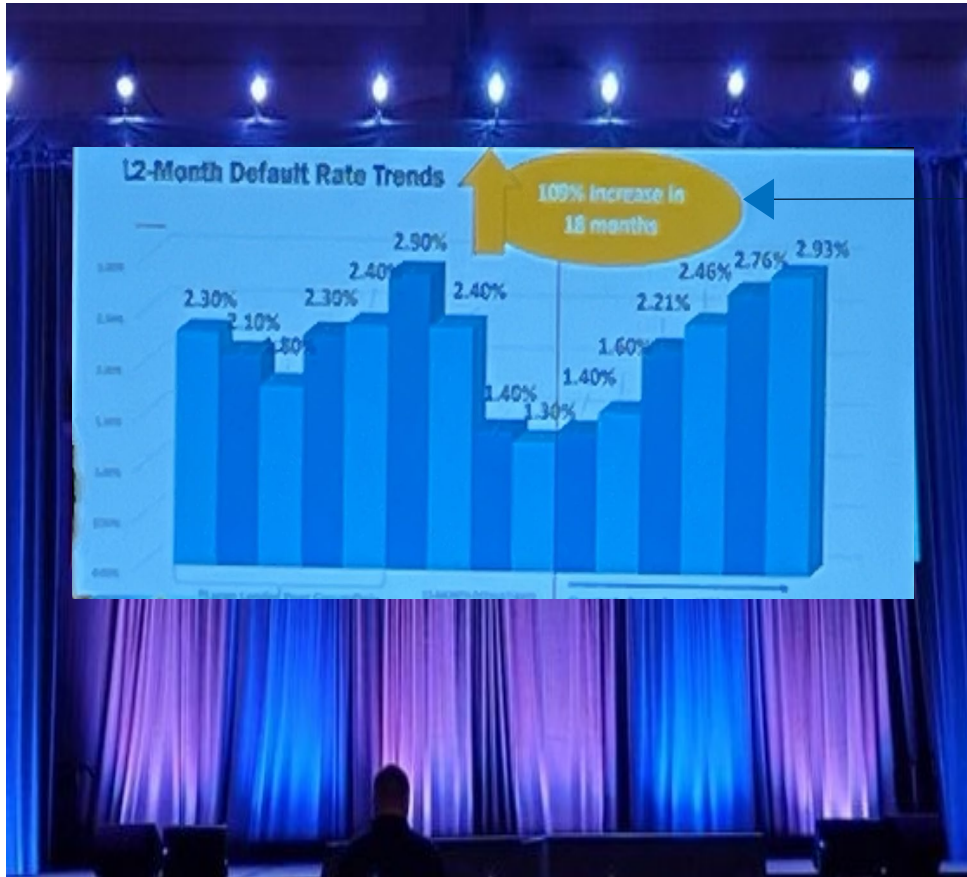
“FAST AND FURIOUS”

- 2024 National Association of Government Guaranteed Lenders (NAGGL)



An SBA loan is considered to be in Early Default if the default occurs within 18 months of the initial disbursement of the loan proceeds

INCREASE IN DEFAULTS



12 Month Default Rate Trends

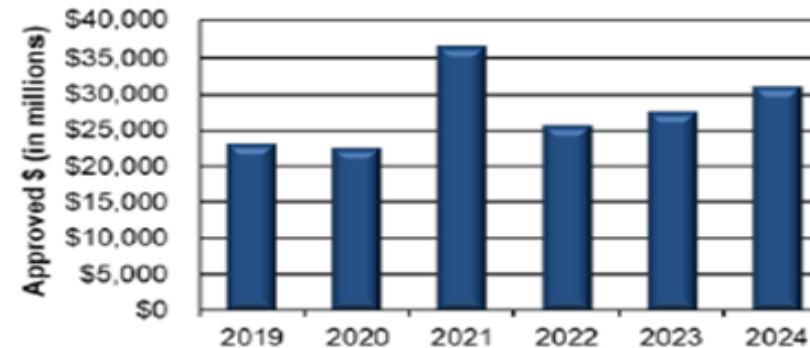
109% increase in 18 months

SBA APPROVED LOANS

YTD Activity – Total 7(a) and 504

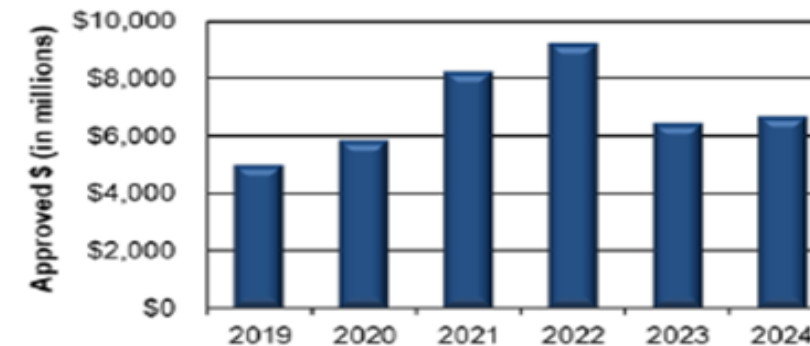
7(a) Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2024	70,242	\$ 31,124,036,200
2023	57,362	\$ 27,515,666,000
2022	47,678	\$ 25,693,805,700
2021	51,856	\$ 36,536,756,800
2020	42,298	\$ 22,549,825,700
2019	51,907	\$ 23,175,811,000



504 Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2024	5,993	\$ 6,664,906,000
2023	5,924	\$ 6,419,378,000
2022	9,254	\$ 9,207,996,290
2021	9,676	\$ 8,218,105,540
2020	7,119	\$ 5,826,885,000
2019	6,099	\$ 4,958,552,000



Time Period Comparison (full FY)

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Source: SBA presentation at the 2024 NAGGL National Conference (National Association of Government Guaranteed Lenders)

SBA DOLLAR LENT

Year	Sum of Dollars Lent	Count of Borrowers	Average Loan Size
2020	\$19,515,701,800	36660	\$532,343.20
2021	\$32,558,810,100	46202	\$704,705.64
2022	\$23,323,680,900	42880	\$543,929.13
2023	\$24,798,290,400	52513	\$472,231.46
2024	\$28,906,378,900	65891	\$438,699.96
Grand Total	\$129,102,862,100.00	244146	\$528,793.68

SBA FRANCHISE PORTFOLIO- DOWNWARD TREND?

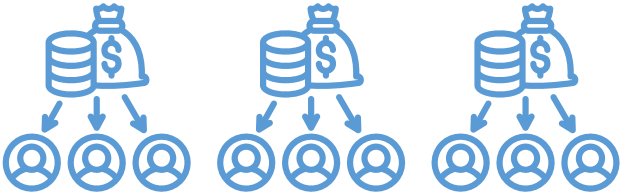
May of 2023 SBA Eliminated the Franchise Directory & The Requirement to Report on Franchises

Year	Sum of Loans Made	Count of Borrowers	Average Loan Size	% of Franchise \$ Loaned in Portfolio
2020	\$4,105,486,000.00	5030	\$816,200.00	21%
2021	\$6,877,457,900.00	7216	\$953,084.52	21%
2022	\$5,056,468,000.00	5967	\$847,405.40	22%
2023	\$4,572,722,700.00	6881	\$664,543.34	18%
2024	\$3,630,545,900.00	5635	\$644,284.99	13%
Grand Total	\$24,242,680,500.00	30729	\$788,918.63	19%

In 2023 Live Oak Bank, one of the largest franchise lenders in the nation, reported \$263,297,200 in franchise loans. They did not report at all in 2024.

There is a serious level of underreporting in the SBA portfolio for franchise lending

FRANCHISE LENDING ENVIRONMENT 2024



558 Lenders

5635 Loans

4174 - Number of Loans Made by Top 10% of Lenders
74% - 56 Lenders
4710 - Number of Loans Made by Top 20% Lenders
84% - 112 Lenders both in # of Loans and Dollars Lent



SBA'S OFFICE OF CREDIT RISK MANAGEMENT (OCRM)

What we are seeing...

- **Lender Policies, Procedures, and Internal Controls**
- **7(a) program platform housed in a division (not a subsidiary)**
- **Attorney Closings (and other services)(no awards for creativity...)**
- **Lender responsible for review Franchise and ROBS documents (including GP)**
- **Fully Secured Determination**
- **Lien Confirmation**



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Source: SBA presentation at the 2024 NAGGL National Conference (National Association of Government Guaranteed Lenders)

ISSUES – WHAT ISSUES?



Issues in Franchise Loan Processing

2024 Annual Conference
Breakout Session

NO HELP FROM SBA



Lender Responsibilities Regarding Franchise Eligibility

What steps should a lender follow when it receives a loan application from a franchise?

- The lender must obtain the FDD and related documents, including all documents that the franchisor requires franchisee to sign
- The lender must review the documents to determine whether any of the previously described issues exist as well as to evaluate the financial/ performance data included in the documents
- And what should the lender do if it has concerns over loan approval?
 - Our old answer would have been for the lender to process the loan on a non-delegated basis through the Loan Guaranty Processing Center (LGPC)
 - But the LGPC is advising lenders that, even for loans processed under non-delegated authority, it is now the lenders' responsibility to determine franchise eligibility **AND**
 - **7(a) questions** is advising lenders that it will answer general eligibility questions, but will not review documents for individual franchises

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LENDERS NEED HELP

Lender Responsibilities Regarding Franchise Eligibility

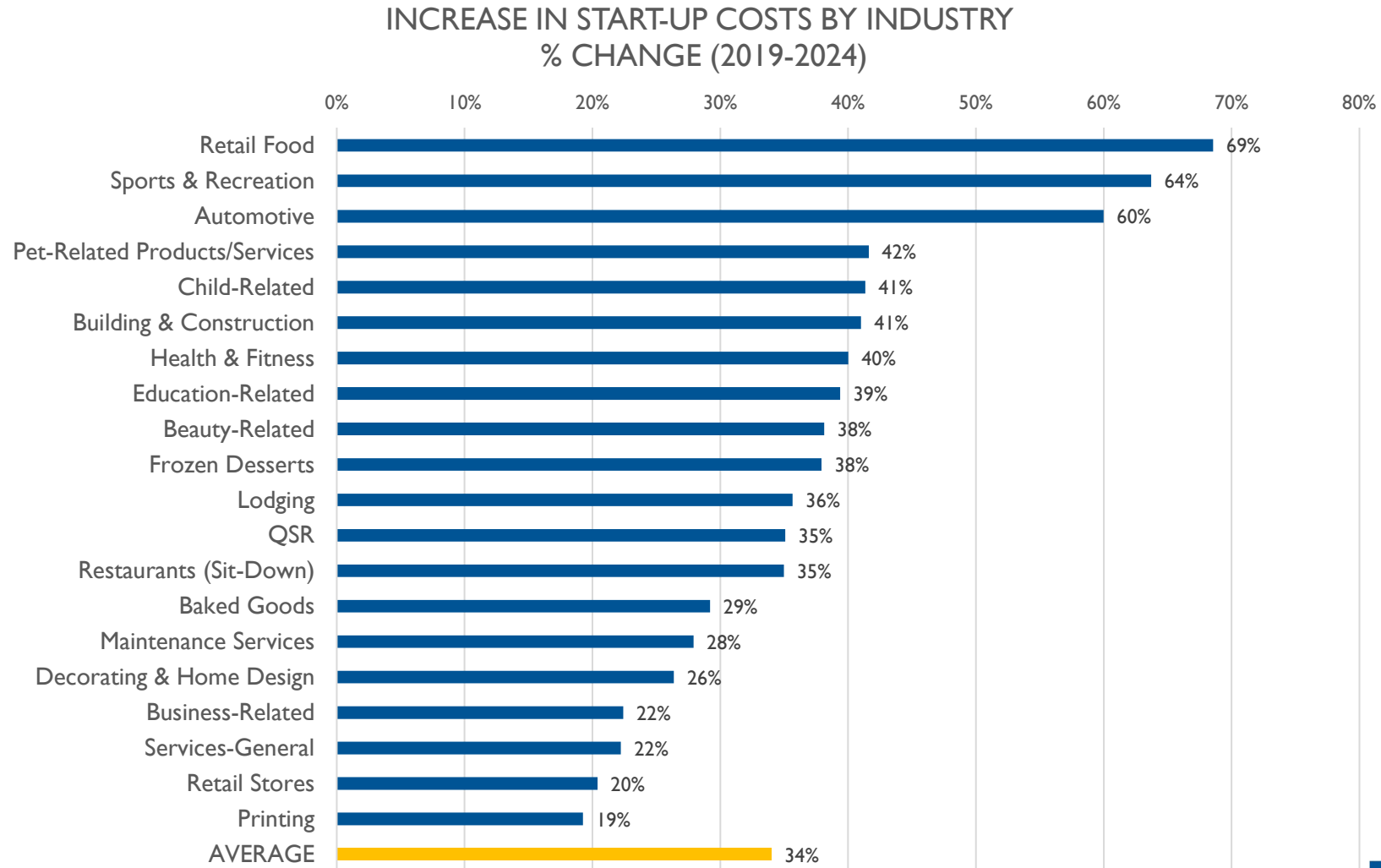


- Consider utilizing services available from the private sector entity, FRANdata, that provides information and tools for lenders to understand franchise eligibility and credit risk
- But please note, that SBA does not require lenders to get any type of confirmation from an outside source as to eligibility of a franchise brand, and does not accept or rely on franchise eligibility or creditworthiness determinations made by any private sector entity

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Source: SBA presentation at the 2024 NAGGL National Conference (National Association of Government Guaranteed Lenders)

INCREASE IN START-UP COSTS BY INDUSTRY



FUND™ SCORE* BY INDUSTRY

INDUSTRIES	MEDIAN FUND SCORE		
	2022	2023	2024
Automotive	650	668	540
Beauty-Related	583	585	600
Child-Related	548	525	635
Health & Fitness	583	545	555
Maintenance Services	505	515	505
Personnel Services	415	580	515
Pet-Related Products/Services	735	713	753
QSR	625	590	610
Restaurants (Sit-Down)	585	618	635
Retail Food	600	615	668
Retail Stores	450	448	535
Sports & Recreation	630	610	670
Lodging	680	690	628



8 out of the 13 industries displayed have a median fund score acceptable to most lenders.

*YTD 2024 Data

HSR* BY INDUSTRY

INDUSTRIES	MEDIAN HSR SCORE			
	2022	2023	2024	
Automotive	90	125	50	
Beauty-Related	115	110	100	
Child-Related	70	70	100	
Health & Fitness	75	80	70	
Maintenance Services	30	40	40	
Personnel Services	20	20	55	
Pet-Related Products/Services	140	130	150	
QSR	90	70	90	
Restaurants (Sit-Down)	70	70	70	
Retail Food	85	70	100	
Retail Stores	0	10	50	
Sports & Recreation	75	80	60	
Lodging	90	90	100	

7 out of 13 industries witnessed growth from 2022 to 2024 (YTD) in median HSR Scores.

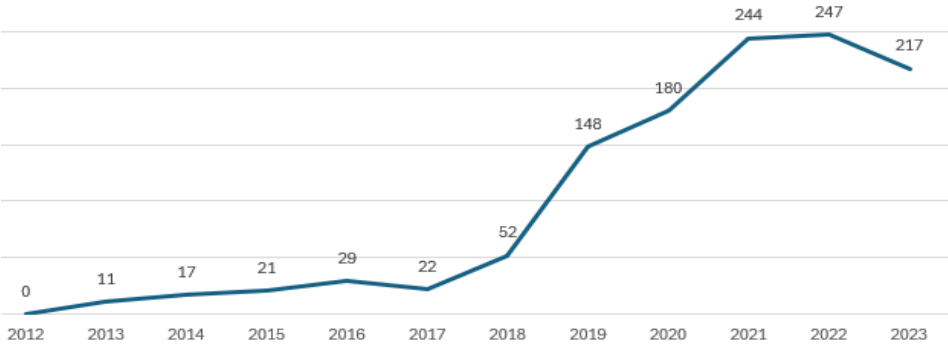
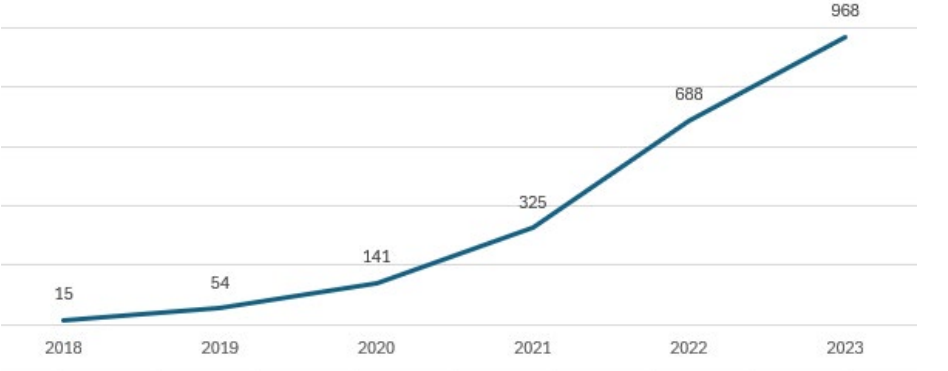
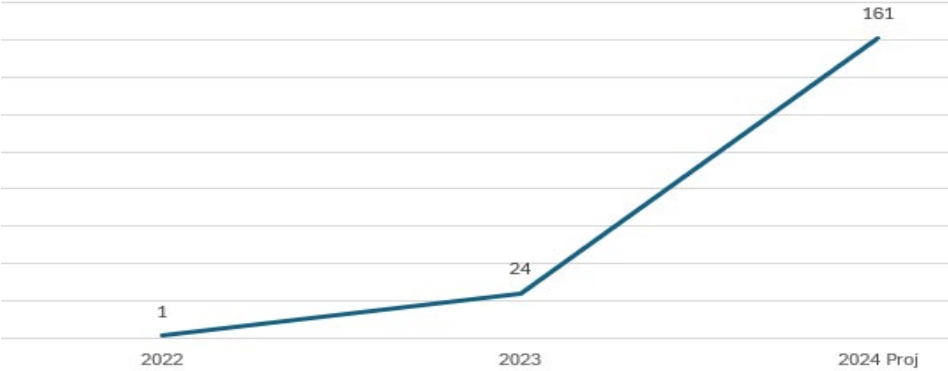
*YTD 2024 Data

Industry	Count of BRAND	Sum of FRANCHISED UNITS
QSR	215	706
Health & Fitness	151	520
Restaurants (Sit-Down)	106	227
Maintenance Services	86	550
Retail Food	76	466
Building & Construction	57	942
Beauty-Related	51	104
Sports & Recreation	47	174
Services-General	41	217
Pet-Related Products/Services	40	67
Baked Goods	37	141
Business-Related	36	775
Child-Related	34	38
Lodging	32	90
Education-Related	27	31
Automotive	23	53
Retail Stores	23	42
Frozen Desserts	22	129
Real Estate	20	180
Decorating & Home Design	17	144
Personnel Services	13	86
Party-Related Goods/Services	10	21
Clothing & Accessories	9	26
Security-Related	4	14
Printing	4	23
Computer Products and Services	2	5
Photographic Products/Services	2	0
Video	1	0
Travel	1	1
Grand Total	1187	5772

NEW BRANDS ENTERING FRANCHISING

Source: FRANdata New Concept Report

SPEED TO GAIN MARKET SHARE



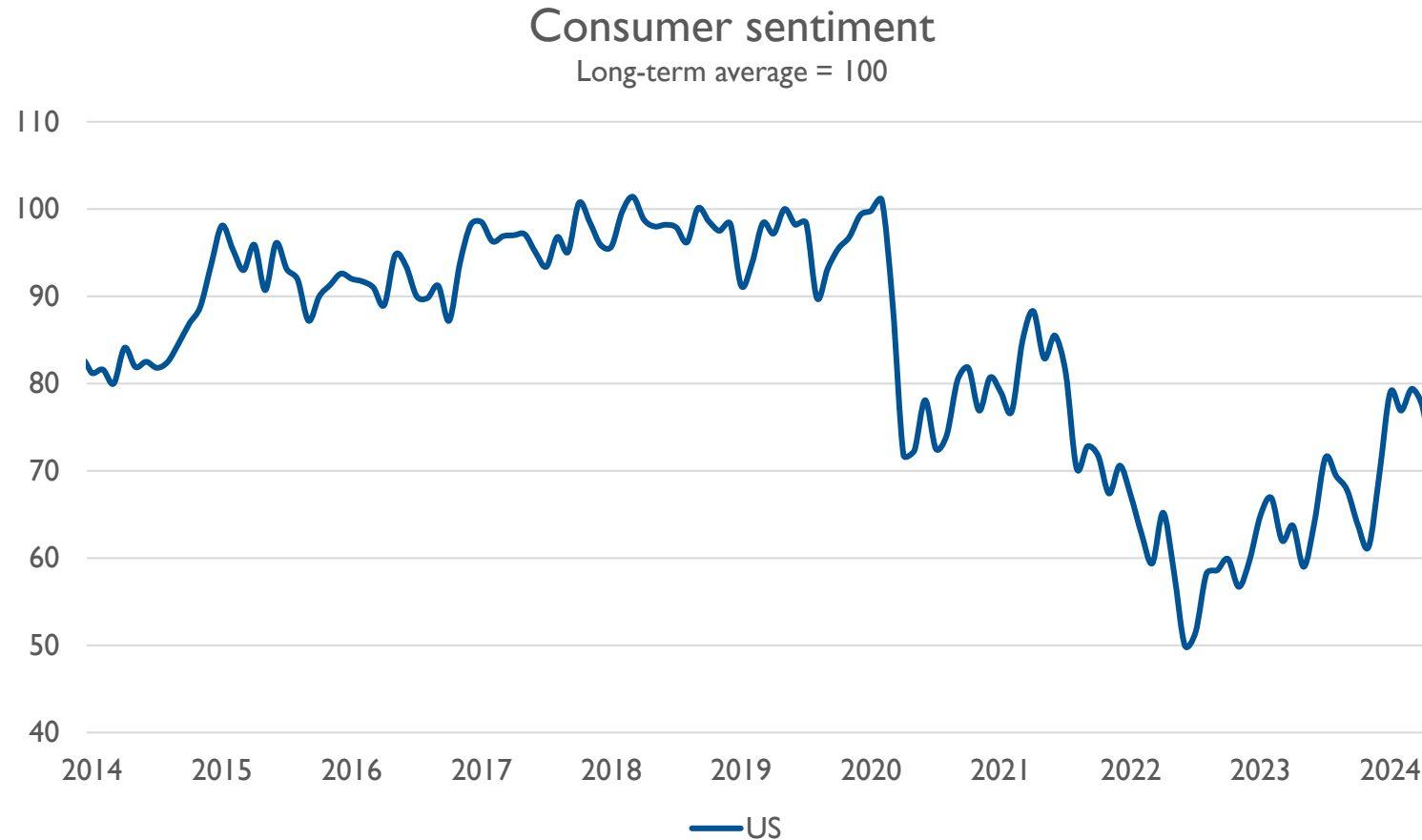
TOP EMERGING BRANDS BY FRANCHISED UNITS

BRAND	FRANCHISOR	FRANDATA INDUSTRY	FRANDATA SECTOR	YR 1ST OFFERED FRANCHISES	FRANCHISED UNITS	COMPANY-OWNED UNITS
EOS Worldwide	EOS Worldwide Franchising, LLC	Business-Related	Business - General	2021	662	0
Arvo Solar	Arvo Solar Franchising, LLC	Maintenance Services	Heating, Cooling, Ventilation	2022	354	3
Sushi Avenue	SAH Holdings, LLC	QSR	Japanese Fast Food	2023	214	109
Ellie Mental Health	Ellie Fam LLC	Health & Fitness	Health - General	2021	183	23
7 Brew	Brew Culture Franchise, LLC	Retail Food	Coffee and Tea	2021	161	19
Travelin' Tom's Coffee	Mobile Coffee Company, LLC	Retail Food	Coffee and Tea	2021	139	3
Humbug Holiday Lighting	Mosquito Hunters, LLC	Building & Construction	Exterior Improvements/Products	2024	122	6
Temporary Wall Systems	Temp Walls Franchise Management, LLC	Building & Construction	Construction & Remodeling	2021	110	0
Top Rail Fence	HFB FenceCo Franchising, LLC	Building & Construction	Exterior Improvements/Products	2022	93	0

CONSUMER

CONSUMER SENTIMENT FALLS TO SEVEN MONTH LOW

DISCOUNTING IS IN!



- The economy performing well, but consumers still not happy
- Consumer sentiment fell from **77.2** in April and 69.1 in May to **65.6** in June and then back up to **70.1** in September

Source: Survey of Consumer Sentiment, University of Michigan

CONSUMER'S INTENT TO SPLURGE BY GENERATION



Definition of Generation	Generation	Fitness	Beauty & Personal Care	Travel
mid-to-late 1990s and early 2010s (14-25)	Gen Z	23%	36%	24%
1981 and 1996 (ages 26–41)	Millennials	20%	33%	29%
mid 1960s-early 1980s (ages 44-59)	Gen X	10%	29%	31%
born between 1946 and 1964, following the end of World War II (ages 60-78)	Baby Boomers	5%	18%	39%

CHANGES

2022

NAF - Up to 6% of gross revenues or **\$450 weekly**, whichever is greater

Start-up -\$2,000 per month for the first 12 months

Local - 2% recommended

2024

NAF - Up to 6% of revenues or **\$1,000 weekly**, whichever is greater (average franchised location spending \$52,000/year with the top tier spending close to \$70,000)

Start-up - \$2,000 per month for the first 6 months, and thereafter, spend a monthly amount required for weekly NAF contributions

Local - 2% recommended

SHIFTING STRATEGY



2020

# of households in Territory	Annual Minimum Local Marketing Spending Requirement
0 to 100,000	\$48,000
100,001 to 125,000	\$60,000
125,000+	\$68,000

2024

Annual Gross Sales for Prior Calendar Year	Annual Minimum Local Marketing Spending Requirement for Current Calendar Year
0 to \$600,000	\$72,000
\$600,001 - \$700,000	\$68,000
\$700,001 - \$1,000,000	\$60,000
\$1,000,001 +	The greater of (i) \$50,000 or (ii) 5% of the prior calendar year's Gross Sales

2024 CULVERS

Franchised Restaurant Sales	Average Population Within a 3 Mile Radius Surrounding the Franchised Restaurants	Average Median Household Income Within a 3 Mile Radius Surrounding the Franchised Restaurants	Average Number of Employees Within a 3 Mile Radius Surrounding the Franchised Restaurants	Average Number of Eating Places Within a 1 Mile Radius Surrounding the Franchised Restaurant
Below \$2,250,000	44342	77707	20998	29
\$2,250,001 to \$2,500,000	50543	79460	24722	34
\$2,500,001 to \$2,750,000	46363	75032	23795	32
\$2,750,001 to \$3,000,000	52241	74279	31565	32
\$3,000,001 to \$3,250,000	46142	73009	26012	29
\$3,250,001 to \$3,500,000	50875	74900	27117	29
\$3,500,001 to \$3,750,000	48307	70054	29583	30
\$3,750,001 to \$4,000,000	53427	73426	27787	30
Over \$4,000,000	52653	73291	28035	30



TAKE-AWAYS

- Economic Environment is difficult for all small businesses including franchises
- This is a time when the friction between franchisees and franchisors increases
- As a franchisor, it is more important now to make lending easier and less costly for your franchisees
- Focus on marketing to drive profitable customers and learn in-depth what your customer values
- Set the right expectations from the beginning

QUESTIONS?



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