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THE MONITOR 200® ISSUE

Franchise, Inc.

Franchising has become so popular that according to the International Franchise Association (IFA), it's now used in over 300 industries. Who doesn't like a business model that's stood the test of time and contributes so much to the U.S. economy?

Well, the Biden Administration for one. Specifically, the Federal Trade Commission (FTC) has franchising in its crosshairs and is mulling new regulations for existing franchise relationships in addition to beefing up pre-sale disclosure requirements under its "Franchise Rule."

The FTC's interest in franchising just happens to coincide with the Department of Labor and the State of California's ill-conceived effort to designate franchisors and franchisees as joint employers. That move, which is just a shorter pathway for unions and employment lawyers to go after franchisors and franchisees, could have significant ramifications.

This past March, the FTC called for public comments about the franchisor/franchisee relationship on a wide range of topics. It then held a digital hearing on May 2 with its controversial chairwoman, Lina Khan, moderating a discussion deviously named "Is Franchising Fair?"

The FTC's request for comments and the Khan tribunal covered many of the issues franchisors, franchisees and their associations have been battling over for years.

Why is my franchise agreement so one-sided? Why can't I negotiate it? Why must I go to arbitration when there is conflict? What gives a franchisor the right to charge additional fees that weren't in the original agreement? Why must I remodel my store now when it says seven years in the agreement? Why is there a non-compete clause after my agreement terminates? Why must I buy products and services directly from my franchisor when I can buy them cheaper elsewhere? Why does my franchisor want to sue me for liquidated damages if I close a store, even if I was losing money? Why can't I sell my stores to whomever I want to?

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Rethinking Your Franchise Agreements

By Dennis Monroe

Last month's column about an evolving franchise model is particularly relevant in light of emerging disputes between franchisees and franchisors and how it is being played out in front of the Federal Trade Commission. To continue to evolve the franchise model for better results, I've put together 12 items that I'd like franchisors to focus on:

1. Franchisors should be partners with franchisees, as well as recognize the importance of the legal relationship. This means once the prospect becomes a franchisee, they have an effective stake in the future of the company, particularly in the areas of capital expenditures and improvements, shared financial information, creation of best practices and first-hand knowledge of new products and marketing.

Franchisees should have significant input in all of these, versus a top-down approach. This sets a new dynamic and will create a better result. Don't share just successes, but also failures, so franchisees understand the pitfalls. Set up protocols so when one franchisee is struggling, other franchisees can partner with them to help make them successful. The resulting culture should be one of a partnership.

2. Look at multi-revenue streams. For instance, a QSR that offers in-store dining and drive-thrus can add meal replacement pick up easily. Consider adding a food truck for onstreet sales or festivals, plus catering, and third-party or inhouse delivery. Explore helping franchisees obtain sub-licensing rights to non-traditional sites, such as colleges, hospitals and music venues. Traditionally, the franchisor retained these rights for themselves, but if carefully negotiated, this can provide franchisees with an additional revenue source.

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MONITOR 200®
THE TOP 200 FRANCHISEES IN THE U.S.

The Monitor's annual ranking of the Top 200 franchisees in the nation begins on page 8.

Wells Fargo Fund's Freddy's and Miller Ale House Transactions

Wells Fargo Restaurant Finance recently announced they closed in April on a multi-bank syndication for private equity firm **Thompson Street Capital Partners** and their brand, **Freddy's Frozen Custard**. Wells Fargo was the lead arranger on the facility, which was a revolver and a term loan. The amount was not disclosed.

According to Managing Director **Jake Nash**, head of business development for Wells Fargo, the transaction refinanced the debt obtained in 2021 when Thompson Street acquired the brand. The revolver will also provide the company with a liquidity facility, and "bring down the cost of capital for them."

"We like the management team, and both their track record and unit economics are strong," said Nash. And, with Thompson Street's ownership, "they are growing quickly and we want to be a partner in that growth."

Wells Fargo also recently refinanced a term B loan with a five-year revolver and term loan A structure for **Miller's Ale House**, which is owned by private equity firm **Roark Capital**. "It provided the company with lower-cost and more flexible financing," he said. "In turn, that will accelerate growth and new store development."

Nash said the company has performed well, "which allowed for excellent deal execution on an eight-bank syndication." Wells Fargo was lead arranger.

"We were able to launch and close the deal in less than three weeks," he said, which is no easy feat when collaborating with seven other banks. "One of the reasons we were able to do so is we have a great partnership with Roark Capital."

The casual dining sector has struggled over the past few years, "so I think it speaks to the quality of company, the strength of management and the ownership group" for the deal to get done, Nash explained.

As for the restaurant sector, in general, he said, "There has certainly been recent disruption in the bank market, so it will be interesting to see how that plays out in the restaurant industry in the back half of the year—especially with rumors of sale processes and potential IPOs on the horizon." He said that regardless, Wells Fargo remains committed to the industry, offering "attractively priced capital."

For more information, contact him at jake.nash@wellsfargo.com, or at (404) 694-7737.

Auspex Capital Completes M&A Advisory and Raises Capital Wendy's and YUM! Franchisees

Boutique investment banking firm **Auspex Capital** provided advisory on the following transactions:

• **Meritage Hospitality Group Inc.** acquired an additional 25 Wendy's restaurants located in North Carolina and Virginia.

"The acquisition of these 25 Wendy's restaurants is consistent with the Company's five-year growth plan to acquire an operating base up to 400 Wendy's and build new Wendy's restaurants," said Meritage CEO **Robert Schermer, Jr.** With the acquistion, he said, Meritage is operating 385 restaurants across 16 states.

"We will immediately integrate the new restaurants into our operating and accounting platforms as well as include them in our Wendy's remodeling program, designed to modernize restaurants and enhance the overall guest experience," he said.

Meritage funded the acquisition with a combination of cash, equity and bank financing and expects the 25 additional restaurants to add approximately $42 million in annual sales and be accretive to earnings going forward. Bank financing was provided by **Bremer Bank**.

Auspex Capital facilitated the acquisition of the restaurants for Meritage Hospitality Group by assisting the company with raising the senior debt for the acquisition, as well as procuring a development line of credit.

• **RGT Investments**, a Destin, Fla.-based commercial real estate investment company that specializes in tier-one, QSR properties, has completed the sale of two KFC properties and one Taco Bell property in Cincinnati, Ohio, and Canton, Miss. to individual 1031 exchange buyers. **Retail Investment Group** managed the sale process for RGT. The aggregate sale price was $5.2 million with an average cap rate of 5.27%. Auspex was financial advisor to RGT on the sale of the properties.

For more information, contact Managing Director **Chris Kelleher** at (562) 424-2455 or at ckelleher@auspexcapital.com.

VFI Corporate Finances New Initiatives and Other Equipment Needs for Restaurants

"We are not here to replace a bank," said **James Coleman**, senior vice president, business devleopment for **VFI Corporate Finance**, an equipment lender to the restaurant industry. "We're here because we can finance those softer assets; we can finance the whole package."

Multi-unit restaurant companies are often challenged by having to source financing from numerous equipment vendors, he explained, "from signage, to carpet, to ovens. Everything is coming from a different source. We look at it as a project."

Or, the franchisor may be asking franchisees to install equipment over a number of stores for a new initiative. For one franchisor, "The rollout required 2,000 soft-serve machines, and they were tapped out for financing with those vendors," Coleman explained. "We stepped in and helped out."

VFI will loan from $500,000 on up to $30 million. Larger transactions in the restaurant industry tend to be anywhere from $6 million to $10 million.

The company was launched in 1987, financing all industries, and is a self-financed, investment-grade direct lender. They entered the restaurant industry when they saw it was underserved in equipment financing. "Traditional lenders shy away from restaurant assets like FF&E, technology, signage and other soft assets," he said.

They target the multi-unit restaurant owner with topline revenue of $15 million. Coleman stressed the restaurant companies they work with must have audited or reviewed financial statements.

"It's invaluable," he said of the audited financials. "It opens up the capital markets to them. Things are really tightening up (with capital), and that separates a company when they can provide those. I'm running into operators with 10, 20 locations who are getting the financials."

Underwriting takes from three to five days, "and when we price and structure, we meet with three to five committee members here," he said. "We are going in advance and reviewing the transactions and the needs of the client before we even send out a term sheet. That keeps our approval ratios at a high rate because no one wants to waste time."

Coleman has been with VFI for 15 years, and prior to that held positions with larger, traditional banks. He said he "started out on the floor at VFI reaching out to potential lessees. I did tens of millions of dollars in the restaurant industry, and I had a niche there. I know what it takes to do a refresh, or a mandated rollout with timelines."

He even takes his work home with him, or we should say, he takes it out to eat with him. "I look around the room and notice the things that go into making the restaurant operate. Part of the fun for me is getting to know that restaurant operator, and helping them grow." For more information, you contact him at jcoleman@vfi.net, or at (801) 438-0773.

C Squared Closes on Franchisee M&A, Refinancings

Investment banking firm **C Squared Advisors** recently represented their clients on the following transactions:

• **KK Corporation** acquired 104 Subway locations in the Houston market, securing $32 million in capital for the deal. "The company is a long-time operator who was able to purchase locations in their backyard," said **Pete DiFilippo**, principal with C Squared. "They have been preparing their infrastructure, and this enabled them to get the proper structure for their capital needs."

• **Liberty Restaurant Enterprise**, owned by franchisee **Laddi Singh**, recapitalized existing debt and obtained additional capital to fund growth of their Popeye's business in the Northeastern United States. **Huntington Bank** acted as lead agent on the syndication, with **Bremer Bank** participating.

"It's been tougher and tougher to get deals done," said **Brent Elsass**, C Squared's lead banker on the deal. "It's a testament to Laddi: When things are getting softer out there, he's still developing and growing. It was refreshing to see banks get aggressive and coming in the deal. There wasn't a lack of interested groups for this."

• **Charton Management** recently sold eight Burger King units in Southeast Ohio and West Virginia to BK franchisee **Ampler Group**.

"We were really excited about the deal," said Elsass, who again was the lead on the transaction and represented Charton. "These were good assets, and I am confident we'll see Ampler grow more."

While Burger King has had challenges as of late, "No one is turning a blind eye to that," he said. "But with the 'Regain the Flame' campaign and changes in the C suite and the buzz coming out of there, the brand is on the rebound. Those (buyers) who believe in that trend line, even if they pay a little bit more now, it will be worth it in a year. It depends on whether you are a believer right now. Personally, I am. All brands have their highs and lows, but BK has spent their time in the cellar too long."

• **Rockdale Donuts, Inc.** recently sold two Dunkin' Donuts locations in SE Massachusetts. The buyer was **Franga Management, LLC**. **Bank of Rhode Island** provided debt to the buyer for the transaction.

"It was a strong deal," said **Dan Connelly**, C Squared principal and the lead banker on the deal. "The unit economics of the stores were well above the average: about $1.7 million apiece. We see Dunkin' units trading at about 8x-to-10x adjusted EBITDA, and this deal was at the upper end of that range. We had multiple offers."

Both buyer and seller are long-time Dunkin' franchisees, and Connelly sees interest from existing franchisees in the brand. "Given the turbulence over the last few years, the franchisor has managed to still support their franchisees and people are bullish on the brand."

That turbulence has encouraged other franchisees, in all brands, to sell locations, he added. "I think we are seeing folks simplify their lives" by downsizing or exiting the business.

For more information, contact **Carty Davis**, partner, at carty@c2advisorygroup.com or at 910-528-1931.

Burke Retires After 30-plus Restaurant Finance Career

During the interview, he casually said, "And then I went and joined a Franciscan order of monks in Bosnia." Wait. What?

We were talking with Kevin Burke, who just announced his retirement last month from investment banking firm Trinity Capital, now a division of Citizens Capital Markets. We had asked him to recount his professional career, and after a few years of investment banking positions with names like Dillion Read and Prudential Bache in Manhattan 30-some years ago, the career detour with the Franciscans just popped up in the conversation.

"At the time, I thought it would last forever," he said of his sabbatical there. "I had time to study, learn other languages. It was a chance to reflect on my faith and where I was going in the world. I wish everyone could do that. For me it was life changing, because I came out a different person—hopefully a much better person."

It also turns out that the war in Bosnia-Herzegovina was heating up, and Burke was spending way too much time in a bomb shelter. For him, it was time to return to the U.S. and his banking career.

But he didn't venture to Manhattan, where his career started. Burke was tired of Manhattan's "hustle and bustle" and "wet, ruined shoes in the winter," he added, laughing. He decided to move to Los Angeles "with the sunshine and palm trees, and all the wonderful things the state has to offer," he said.

He worked in investment banking again, and then started his own convenience store finance company, which offered securitized financing for gas stations. Burke and his team learned another company, Franchise Mortgage Acceptance Company (FMAC), was doing the same thing for restaurants.

He met FMAC founder Buz Knyal soon after, and in 1996, joined to combine forces with Burke running "all financial aspects of the firm. We were drinking through a fire hose when it came to learning about the restaurant industry." As it turned out, so many franchisees needed to improve their financial statements so they could be consistent from borrower to borrower, in order to group and later securitize them. They hired the big four accounting firms that could help in the effort.

"I enjoyed that," he said. "The whole thing was a pioneer expedition. Groundbreaking."

As it turns out, they were financing about $1.5 billion in gas station and restaurant loans a year. "We ended up with about a $5.5 billion portfolio," he said.

The company went public in 1997 and "we had a banner year in 1998. Unfortunately, there was the Asian debt crisis, which undermined the debt markets." The boom in securitized lending for restaurants was over, and "we ended up selling the company."

Trinity Capital debuts

Burke had learned a great deal about the restaurant industry during his time at FMAC, and had garnered an immense rolodex of contacts. It was time to leverage both, so he launched Trinity Capital in 2000.

"We had a good rapport with a lot of the franchisors, because when we were securitizing loans, it brought a lot of liquidity to the system, which allowed them to grow," he recounted. They were hired by both YUM! Brands (known as Tricon Global Restaurants, at the time) to restructure a significant portion of the Taco Bell franchisees' debt—just under 100 different franchisees' businesses, in total.

At the same time, Trinity was engaged by PE firms TPG, Goldman Sachs and Bain Capital, the owners of Burger King then, to assist them in buying and restructuring Burger King franchisees, Burke recalled. "We restructured just over 250 different Burger King franchisees over about two years. And, we helped advise them on a myriad of other financial issues."

Trinity has evolved over the last 20-plus years. The firm started out "doing a lot of consulting and restructuring work—we represented more than a dozen franchise associations, helping them resolve issues with the franchisor," he said. The Trinity team worked with franchisors to provide insight into what franchisees could reasonably afford and help them set the standards around those numbers.

"We were unique," Burke stated. "Then we pivoted to traditional investment banking: equity and debt." Since inception, the firm has closed on $20 billion in financial transactions in the restaurant industry, which encompasses about 500 assignments, from loan generation and restructuring to M&A, recapitalization, "the whole ball of wax," he said.

"The longer you are in business, the more you develop a perspective of what works and what doesn't," Burke said. "That governs how you deal with clients. Our people are very tenured, and that provides a lot of consistency."

He reported although he is retiring from Trinity Capital, "you'll still see me around" in some capacity: maybe advising, maybe on a board in the industry. Part of that is so he can still interact with folks in the industry.

"I have made some great friends in the business; my best friends are in the business," he said, which has had him even attending clients' weddings, their children's weddings and other special occasions. "I'm really grateful to this industry; I'm grateful I've been a part of all of this." You can reach him at kburke4765@gmail.com.

Trinity Capital to Continue Its Legacy of Financial Advisory

With the retirement of Trinity Capital's founder, Kevin Burke (see accompanying article facing page), Managing Directors **David Stiles** and **Howard Lo** have been tapped to co-lead the advisory firm going forward.

"We've always worked as a team, and will continue to with that collaborative approach," said Stiles. Since inception, Trinity has closed on around $20 billion in transactions for their clients, he reported.

Both Stiles and Lo have been leaders at Trinity, joining the firm in 2002 and 2004, respectively. Stiles worked with Burke at franchise loan securitization lender FMAC before Burke launched Trinity in 2000. When Burke went out on his own and he needed to build a team to handle all the new business, he contacted Stiles to join him.

Lo was working at PricewaterhouseCoopers when a headhunter approached him about a position at the investment banking firm.

"I jumped at it," said Lo. His first assignment was to assist in Trinity's work on restructuring financially beleaguered Burger King franchisees. "I've always been interested in restaurants, and watching brands and learning why they are successful."

Trinity was acquired in 2020 by Citizens Capital Markets, a division of Citizens Bank, which also has an active restaurant finance group.

"Citizens gives us an advantage in the marketplace," said Lo. "We are part of a larger organization that offers multiple services that we didn't before (the acquisition)," including lending relationships and capital.

While it is generally well known that M&A activity has slowed in the last year due to rising interest rates, commodity prices and other inflationary pressures, both Stiles and Lo see optimism from restaurant operators.

"We're seeing a pick up in conversations with owners exploring transactions in the current environment," said Stiles. "They want to know when the challenges will abate, and we see that as more activity in the second half of the year. Those phone calls are not stopping."

Lo added, "Labor and supply disruption are stabilizing, and same store sales performance has been positive for consecutive quarters for many brands. Operators are working on their P&Ls so they can improve margins to where they were a couple of years ago. We are geared up to transact when owners contemplate going to market."

He sees that as a coming backlog of activity starting to shake loose in the second half of this year and into 2024. "Sellers are going to jump back in," Lo said. In fact, "private equity and strategic buyers are sitting on a lot of cash they need to deploy. There is pent up interest."

Part of the interest to explore selling is coming from operators who got into the business in the 1980s and in this era of disruption, they are more seriously considering exiting the business, or slowing down to finally enjoy retirement, "and if they have family involved in the business, they are passing the torch," said Stiles. If not family, or other strategic operators seeking acquisitions, then there are plenty of "hungry PE and Wall Street types who are paying attention to the money still to be made in this business. They are typically younger, and are making their mark."

"With Kevin, we built a leading restaurant investment bank, and we are going to continue to build on that," said Stiles. "I take a lot of pride in knowing I have played a role in helping long-time operators monetize their life's work and in the growth of so many other restaurant operators' businesses or family office's and private equity's restaurant portfolios. I like being part of that puzzle, and I love being connected to the industry."

You can reach David Stiles at 310-488-0884 or at david.stiles@citizensbank.com. Contact Howard Lo at 310-569-2538 or at howard.lo@citizensbank.com.

Capital Solution Corp. Completes Jamba Deals

Financial advisory firm **Capital Solution Corp** recently advised on the sale of 11 Orange County, Calif. Jamba Juice locations owned and operated by **SMS Retail Management**, to an existing Los Angeles-based multi-unit Wingstop franchisee, **Waleed Mansour**. **BciCapital Franchise Finance** provided financing for the acquisition.

"The fact that it was an experienced franchise with a relationship with the lender was helpful," said **Ryan Kress**, CEO with Capital Solution Corp., "And **Lex Lane** of BciCapital made it very efficient on the financing side to get the deal done."

This transaction follows Capital Solution's advisory on the sale in 2022 of an eight-store Jamba portfolio in Fresno, Calif. for Wowza Concepts & Panos Joulios to the family office of 13th Floor Capital. Based in Miami, Fla., 13th Floor Capital owns and operates over 40 Cinnabon, Auntie Anne's and Jamba locations throughout California and Canada.

"I think that it is a QSR concept, and the fact that Focus Brands owns Jamba gives the brand credibility, and therefore there's been a lot of interest in it," said Kress. "And even though California has had its challenges, these deals were still attractive."

For more information, contact him at ryan@capitalsolutioncorp.com, or at 480-247-0900.

Full Course to Invest in Small Foodservice Concepts

"I took a bet on myself," said **Lauren Fernandez**, CEO and founder of **Full Course**, a restaurant investment and development firm. "Everyone thought I was crazy."

She's referring to nine years ago, when she left her job at Focus Brands where, as an attorney by education, she was running the legal and franchise administration departments, and also helped license products for those restaurant brands.

In 2016, "I left the company and pushed my chips into restaurant ownership," Fernandez said, and purchased three underperforming Chicken Salad Chick restaurants. The brand was young; she purchased store No. 6 in the system.

She knew she had a learning curve and told her business partners they wouldn't see her "until we're in the black."

First, she got her three general managers in her corner. "I sat down with them and said, 'I'm going to show you the leader I am, and how I'm going to learn so much from you. You're going to help me make this better.' I showed up and worked their hours, and really made it happen. We believed we could do it."

"What followed was rapid-fire succession, and we opened eight restaurants in 20 months," she recalled. She and her team got good at opening restaurants, systemizing the process and building a sophisticated operations team. They were also a test market for delivery at the time for the brand.

She sold the restaurants back to corporate in December 2018.

"I took a year off—I've been working since I was 14," she said, and personally challenged herself to figure out what she would do next. "Something was poking at me. Why weren't there more stories like Stacy Brown's (founder of Chicken Salad Chick)? Where they go from one to 100? There's something off there. There has to be an answer."

Fernandez started to do her homework and learned mom-and-pop restaurants aren't worth a lot of money. "Maybe one or two turns of EBITDA," she said. "They haven't unlocked enterprise value. You see valuation escalation after three units."

These independents, she said, "don't understand growth as a primarily foundational issue. They're missing out on the capital coming into the industry."

Enter Full Course

Fernandez tapped her inner circle of connections, and then put together an investment thesis for the business, Full Course. With numerous M&A transactions under her belt from her time at Focus, plus her legal skill set and a variety of product launches she headed, she put together a model.

In 2020, she launched a playbook for owners, and by mid-year, she was teaching restaurant owners "how to push product out of the four walls." It was established as a 501(c)(3), where she and her team educated everyone from the dishwasher to the existing franchisee.

"I wanted to level the playing field," she said. "I'm a daughter of a Cuban immigrant, and my dad was passionate about education."

Then came the for-profit part of the business: becoming an incubator for foodservice concepts and brands. Full Course recently closed on a $14 million capital raise for their FC Polaris Fund I, LLC. Fernandez said the plan is for every $20 million they raise to cover five to seven clients that have one to three locations, with the plan to grow them to a size where they are a good target for PE investment. Their first two investments have been made: Naan Stop, a fast casual Indian concept and Fripper's, an artisan sausage company,.

Full Course takes a 15% equity stake in a company, and charges a 3% percent of sales for a development fee. The fund takes a 34% stake in the company. All in all, she said, it's a minority investment where the founder maintains control.

Full Course helps the founder build the brand through four silos: non-traditional locations, such as airports, hospitals and stadiums; traditional brick-and-mortar locations; product development for retail channels; and franchising and licensing.

"You can't just hand a check to a founder. We have a boots-on-the ground development team that will help them open these units and deploy the capital," she said. "We spend a lot of time on each aspect of the business."

All of their subject matter experts are working together to increase the business' multiple, with the plan for an exit after five years.

And although Full Course is open to all, "I want to invest in women and minority-owned businesses. There is so much talent and diversity in our industry and it should have a chance to be elevated," said Fernandez. "They deserve a shot."

Contact Lauren Fernandez at lauren@fullcourse.com, or at 678-389-4336.

Could the Marked and Continuing Deterioration in U.S.-China Relations Eventually Impact U.S. Restaurant Bellwether Companies Which Have a Giant Presence in China?

Many experts believe that U.S.-China relations have sunk to their lowest level in more than fifty years. The U.S. believes that China's promotion of state capitalism, blatant disregard for human rights, its unflinching support of Russia's President Putin, and provocative statements regarding Taiwan represent a danger to the preservation of global political stability.

On the other hand, China believes that the U.S., which is becoming (in its eyes) less dominant on the global stage, is working to diminish China's standing in the world and to isolate it from other Western powers. A quote from Chinese Foreign Ministry spokesperson Mao Ninga at a May 22, 2023 press conference is a good summary of China's exasperation: "The U.S. says it wants to speak to the Chinese side while seeking to suppress China through all possible means."

Trade disputes and retaliatory tariffs, along with spying charges by both sides, have fueled an increasing contentious relationship between the superpowers over the last few years. Notably, China considers the tariffs and export controls imposed by the U.S. to be unjustified and protectionist. Tensions have further escalated since the U.S. shot down what appears to be a Chinese spy balloon in February 2023. Stephen Roach, the ex-Morgan Stanley economist and now a senior fellow at Yale University's China Center, has an interesting take: "If a balloon can derail this relationship the way it did so swiftly, it just tells you how damaged and distrustful the two nations are of this relationship."

The most recent development which adds friction to the relationship was China's May 29th decision to reject a U.S.-proposed meeting between U.S. Secretary of Defense Lloyd Austin and his Chinese counterpart at an early June defense summit in Singapore. China declared the U.S. must "correct its mistaken actions" to resume military dialogue. The apparent lack of military communications channels introduces the dangerous possibility of misinterpretation of even a small act by either party.

A few days before this, dueling late May announcements from each country did not help matters. First, China barred Chinese companies from buying microchips from Idaho-based Micron Technology, Inc. (NASDAQ: MU). At the same time, the U.S. completed the first phase of a trade deal with Taiwan. China considers this a violation of the "One China" principle under which China holds there is only one sovereign state under the name China and that Taiwan is an inalienable part of China.

Based on all this, it is not impossible that China's ire at the U.S. could be extended even to non-strategic businesses like the extensive fast food businesses that Yum Brands!, Inc. (NYSE: YUM), Starbucks Corporation (NASDAQ: SBUX) and McDonald's Corporation (NYSE: MCD) have established in that country. Note the following key statistics:

• Of the three companies, YUM has by far the most exposure. It operates around 13,000 restaurants under six brands across 1,800 cities in China. More specifically, YUM's Kentucky Fried Chicken (KFC) restaurants located in China generated about 25% of the KFC segment's 2022 worldwide consolidated revenue of $31.1 billion, or around $7.8 billion. In addition, YUM's Pizza Hut 2022 sales in China were about $2.1 billion (16% of total 2022 Pizza Hut revenue). So, around $10 billion of overall YUM revenue could be exposed if China were to target domestic KFC and Pizza Hut restaurants as a symbol of economic retaliation against the U.S.

• About one-third of SBUX's total company-operated stores -- 6,019 of 18,253 -- were in China as of October 2, 2022 (the last day of fiscal 2022). SBUX's China revenue totaled $3.0 billion in FY 2022.

• MCD had 4,978 licensed restaurants in China as of December 31, 2022, or about 12% of its worldwide total of 40,275 as of that date. The hamburger giant does not disclose the precise amount of its China revenue, but its 2022 revenue from "International Developmental License Markets and Corporate" was just below $2.3 billion.

These three restaurant/food companies could avoid becoming pawns in the back-and-forth between China and the U.S. for one simple reason: the restaurant and store locations provide a significant number of jobs for Chinese citizens. Indeed, YUM has more than 400,000 employees in China, and SBUX and MCD employ in excess of 60,000 and 180,000 workers in the country, respectively.

Consequently, the restaurant giants could be insulated in China in much the same way Apple Inc. (NASDAQ: AAPL) is. When Apple CEO Tim Cook visited China in late March, he was treated with great courtesy, as the computer giant has for years relied upon Chinese labor to produce its global hardware products. (Many U.S. technology companies like software companies are unable to operate in China due to censorship demands. Even beyond that, such software companies would provide relatively few jobs for Chinese workers.)

Jim McFadden is a CFA and has 25 years of experience as a Wall Street analyst and portfolio manager.

Top 200 Franchisee Growth Over the Past Decade

Inflation and (a few) acquisitions were the main drivers of sales growth in 2022

Bridgewater Associates founder Ray Dalio has written that there are two main drivers of asset class returns: inflation and growth. In the chain restaurant business in 2022, inflation clearly trumped growth.

Sales in 2022 for the Top 200 restaurant franchisees in the nation reached $53.3 billion, an increase of 10.6% over 2021, while the increase in the number of restaurant locations operated by the top franchisees rose 4.1%. In fact, if you look at 50 franchisees in our ranking that had the highest sales increases in 2022, almost half had little to no unit growth.

Using 2019 as a pre-Covid benchmark year, the Top 200 franchisee's sales grew by a total of 26.7% over a three-year period, with unit growth rising 11%.

Inflation was the big story in 2022 for the Top 200 as it took a toll on franchised restaurants. Restaurant operators couldn't raise prices fast enough to offset the huge price jumps in food, labor and utilities, and store-level margins suffered. Last year's first- and second-quarter margin declines shocked operators as well as their franchise lenders, the latter spending the better part of the year ironing out covenant defaults.

Fortunately, commodity inflation has moderated from the elevated levels of 2022, and margins are improving slowly in 2023. Employee availability is better than last year and operators are resuming their standard hours of operation.

On the deal side, merger and acquistion activity amongst the Top 200 franchisees ground to a halt in 2022 as buyers and sellers wrestled over valuation. Higher interest rates didn't help deal flow, either, as it created uncertainty amongst buyers around future returns. Franchise investment bankers and brokers tell the Monitor activity is improving once again as margins stabilize and lenders finally hang out their "open for business" signs.

As for further franchisee consolidation by the Top 200 businesses, it no longer can be considered a given. Lenders are second-guessing expansion plans and a number of franchisors are reassessing their commitment to more brand consolidation. It's more likely a franchisee will attempt to get into another brand, but that means building stores from the ground up, something inflation has already made more expensive.

Some franchise brands are even cracking down on franchisees, reserving expansion rights to those that score above average on their store inspections. Last month on a Restaurant Brands International (Burger King, Popeyes, Tim Hortons and Firehouse Subs) conference call, Executive Chairmain Patrick Doyle said he wanted franchisees who "visit their restaurants regularly."

Customers would like that, too.

#	Company	2022 Revenue	Major Concepts		Senior Executives
1	**Flynn Restaurant Group** *San Francisco, CA*	**$4,000,000,000**	944 Pizza Hut 439 Applebee's 367 Arby's	292 Taco Bell 189 Wendy's 128 Panera Bread	**Greg Flynn** - Chairman/CEO **Lorin Cortina** - CFO/EVP
2	**Dhanani Group** *Sugar Land, TX*	**1,732,000,000**	554 Burger King 388 Pizza Hut	383 Popeyes 42 La Madeleine	**Shoukat Dhanani** - CEO **Ashraf Meghani** - CFO
3	**Carrols Restaurant Group** *Syracuse, NY*	**1,730,000,000**	1,022 Burger King	65 Popeyes	**Deborah Derby** - CEO/President **Anthony Hull** - CFO
4	**Sun Holdings** *Dallas, TX*	**1,590,000,000**	220 Arby's 210 Papa John's 170 Popeyes 150 Burger King	131 Applebee's 70 McAlister's Deli 39 IHOP	**Guillermo Perales** - CEO **Doug Williams** - CFO
5	**KBP Brands** *Leawood, KS*	**1,436,000,000**	684 KFC 118 Arby's	76 Taco Bell 162 YUM! Multi	**Michael Kulp** - CEO/President **Adam Wright** - CFO
6	**HAZA Group** *Sugar Land, TX*	**940,000,000**	403 Wendy's	143 Taco Bell	**Ali Dhanani** - CEO/President **Ahsan Iqbal** - Controller
7	**Summit Restaurant Partners** *Richardson, TX*	**873,000,000**	275 IHOP 114 Applebee's	29 Sonny's BBQ	**Joe Langteau** - President **Doug Shaw** - CFO
8	**Sizzling Platter** *Murray, UT*	**807,000,000**	446 Little Caesars 93 Jamba	87 Wingstop 23 Dunkin'	**Jim Balis** - CEO **Kristopher Cox** - VP of Finance
9	**Pacific Bells** *Vancouver, WA*	**762,000,000**	278 Taco Bell	66 Buffalo Wild Wings	**Tom Cook** - CEO **Geno Orrico** - CFO
10	**Yadav Enterprises** *Fremont, CA*	**737,000,000**	247 Jack in the Box 108 Denny's	48 TGI Friday's	**Anil Yadav** - CEO/President **Richard Pawlowski** - CFO
11	**WKS Restaurant Group** *Cypress, CA*	**734,000,000**	141 Wendy's 113 Denny's	68 El Pollo Loco 43 Krispy Kreme	**Roland Spongberg** - CEO/ President **Paul Tanner** - CFO
12	**GPS Hospitality** *Atlanta, GA*	**678,000,000**	412 Burger King 62 Pizza Hut	19 Popeyes	**Tom Garrett** - CEO **Scott Jasinski** - CFO
13	**Covelli Enterprises** *Warren, OH*	**668,000,000**	275 Panera Bread	6 Dairy Queen	**Sam Covelli** - CEO/President **Robert Fiorino** - CFO
14	**Diversified Restaurant Group** *Las Vegas, NV*	**652,000,000**	298 Taco Bell	29 Arby's	**David Grieve** - Chairman **SG Ellison** - President
15	**Tacala** *Vestavia Hills, AL*	**629,000,000**	347 Taco Bell	1 KFC	**Joey Pierson** - CEO/President **Ragan Cain** - CAO
16	**Meritage Hospitality Group** *Grand Rapids, MI*	**626,000,000**	353 Wendy's	1 Taco John's	**Robert Schermer Jr.** - CEO **Tracey Smith** - CFO
17	**K-Mac Enterprises** *Fayetteville, AR*	**560,000,000**	321 Taco Bell	9 YUM! Multi	**Tina Reagan** - CEO **Jason Miller** - CFO
18*	**Charter Foods** *Morristown, TN*	**525,000,000**	331 Taco Bell 34 YUM! Multi	28 Long John Silver's	**Robert Jenkins** - President **Nathan Buchanan** - CFO
19	**D.L. Rogers Corp.** *Grapevine, TX*	**518,000,000**	269 Sonic Drive-In		**Shawn Rogers Cather** - Chairman/CEO **James Junkin** - President/COO
20	**Border Foods** *New Hope, MN*	**500,000,000**	237 Taco Bell		**Aaron Engler** - President **Brian Axness** - CFO

** Denotes revenue estimate*

#	Company	Major Concepts		Senior Executives
		$400 MILLION TO $500 MILLION		
21	**Desert De Oro Foods** *Kingman, AZ*	214 Taco Bell 91 Pizza Hut	31 KFC	**Mark Peterson** - Franchisee **Krystal Burge** - Franchisee
22*	**Ampler Group** *Chicago, IL*	150 Burger King 100 Little Caesars	97 Taco Bell 92 Church's Chicken	**Steve Wiborg** - Executive Chairman **David Wahlert** - CFO
23	**Manna Development Group** *Encinitas, CA*	155 Panera Bread		**Paul Saber** - CEO/President **Patrick Rogers** - CFO
24	**Ampex Brands** *Richardson, TX*	202 KFC 113 Pizza Hut	22 Long John Silver's 18 Taco Bell	**Tabbassum Mumtaz** - CEO **Eric Easton** - CFO
25	**Doherty Enterprises** *Allendale, NJ*	82 Applebee's	41 Panera Bread	**Edward Doherty** - Chairman/CEO **Daniel Bratcher** - CFO
26	**CMG Companies** *Plano, TX*	196 KFC/TB 100 Sonic Drive-In	30 Genghis Grill 20 Little Caesars	**Pushpak Patel/Nik Bhakta** - Co-CEOs **Collin Thompson** - CFO
27	**Northwest Restaurants** *Woodinville, WA*	140 Taco Bell 30 KFC	22 YUM! Multi	**Brett Sibert** - CEO **Dawn Edwards** - Director of Finance
28	**Manna** *Louisville, KY*	155 Wendy's	80 Fazoli's	**Ryan Bridgeman** - President **Troy Hanke** - CFO
29	**FMI Group** *Houlton, ME*	199 KFC 102 Pizza Hut	23 Burger King 11 Panera Bread	**Dwight Fraser** - Founding Partner **Arlene Dore** - CFO
30	**VantEdge Partners** *Overland Park, KS*	151 Taco Bell 74 Dunkin'	23 YUM! Multi 13 KFC	**PE Backed**-CEOs are at each concept level
31	**Cotti Foods** *Rancho Santa Margarita, CA*	115 Wendy's	102 Taco Bell	**Peter Capriotti** - CEO **Holden Capriotti** - President
32	**Tasty Restaurant Group** *Plano, TX*	220 Pizza Hut 92 KFC	68 Burger King 20 Dunkin'	**Robert Rodriguez** - CEO **Neil Thomson** - CFO
33	**Boddie-Noell Enterprises** *Rocky Mount, NC*	333 Hardee's		**William L. Boddie** - Chairman/CEO **W. Craig Worthy** - CFO/EVP
34	**Warner Foods Management** *Encino, CA*	142 Jack in the Box	14 Noodles & Co.	**Sudesh Sood** - CEO **Paul Renyer** - Director of Finance
		$300 MILLION TO $400 MILLION		
35	**Alvarado Restaurant Nation** *Greenwood Village, CO*	217 Taco Bell	9 KFC	**Rob Alvarado** - CEO **Will Evans** - CFO
36	**Thrive Restaurant Group** *Wichita, KS*	148 Applebee's	3 Modern Market	**Jon Rolph** - CEO **Greg Stroud** - CFO
37	**Ghai Management Services** *Livermore, CA*	140 Burger King 38 Taco Bell	19 Popeyes	**Harsh Ghai** - CEO **Sunny Ghai** - President
38*	**Hamra Enterprises** *Springfield, MO*	96 Wendy's	65 Panera Bread	**Mike Hamra** - CEO/President **Simeon Shelton** - CFO
39	**Delight Restaurant Group** *Greenwich, CT*	131 Wendy's	29 Taco Bell	**Andrew Krumholz** - Managing Partner **Rich Krumholz** - Managing Partner
40	**Out West Restaurant Group** *San Diego, CA*	78 Outback Steakhouse		**David Goronkin** - CEO **A. Keith Wall** - CFO
41*	**Quality Restaurant Group** *Greensboro, NC*	170 Pizza Hut 75 Sonic Drive-In	65 Moe's SW Grill 27 Arby's	**Matt Zeiger** - CEO **Kevin Staudt** - VP Finance
42*	**Wendy's of Colorado Springs** *Colorado Springs, CO*	184 Wendy's	4 Golden Corral	**Richard Holland** - CEO **Thomas Reinhard** - CFO

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#	Company	Major Concepts		Senior Executives
43	**Southern Rock Restaurants** *Franklin, TN*	148 McAlister's Deli		**David R. Blackburn** - CEO **Lisa Mathis** - CFO
44	**Fourteen Foods** *Eden Prairie, MN*	242 Dairy Queen		**Matt Frauenshuh** - CEO
45	**Carlisle Corp.** *Memphis, TN*	166 Wendy's		**Chance Carlisle** - CEO **Eric Lucka** - SVP Accounting
46	**Redberry Restaurants** *Toronto, ON*	137 Burger King 24 Pizza Hut	14 Taco Bell	**Ken Otto** - CEO **Rob Masson** - CFO
	$250 MILLION TO $300 MILLION			
47	**Retzer Organization** *Greenville, MS*	105 McDonald's		**Jim Hal Burt** - President **Wendy Bell** - Controller
48*	**Harman Management Corp.** *Campbell, CA*	113 KFC	139 YUM! Multi	**James S. Jackson** - CEO **Jim Beglin** - President of Ops.
49	**American West Restaurant Group** *Orange, CA*	270 Pizza Hut		**Jason Cochran** - CEO **Jeff Geddes** - CFO
50	**Team Lyders** *Brighton, MI*	178 Taco Bell	3 Arby's	**Peter Lyders** - CEO **Jini Foust** - COO
51*	**JK&T Wings** *Shelby Township, MI*	97 Buffalo Wild Wings		**Kent Ward** - CEO **Matthew Soderman** - CFO
52	**Team Schostak Family Restaurants** *Livonia, MI*	62 Applebee's 55 Wendy's	12 MOD Pizza	**Mark Schostak** - Chairman **Ken Stanecki** - CFO
53*	**EYM Group** *Irving, TX*	144 Pizza Hut 46 KFC	32 Denny's 26 Burger King	**Eduardo Diaz** - President **Alejandro Monroy** - Dir. of Finance
54	**The Briad Group** *Livingston, NJ*	107 Wendy's		**Brad Honigfeld/Rick Babrick** - Co-CEOs **Michael Shenk** - CFO
55	**SSCP Management** *Dallas, TX*	78 Applebee's	43 Sonic Drive-In	**Sunil Dharod** - CEO **Dan Patel** - CFO
56	**S & L Companies** *Portage, WI*	87 Culver's		**Jeffrey Liegel** - CEO **Chad Stevenson** - President
57*	**GS Dallas Group** *Stafford, TX*	145 Subway	132 Wingstop	**Sanjeev Khanna** - Chairman **Shivam Khanna** - Managing Partner
58	**Wendy's of Bowling Green** *Bowling Green, KY*	133 Wendy's		**Michael O'Malley** - CEO **John Hughes** - President
59	**Quality Dining** *Mishawaka, IN*	148 Burger King		**Daniel Fitzpatrick** - CEO **Christopher Collier** - CFO
60	**Ambrosia QSR** *Vancouver, WA*	135 Burger King	19 Popeyes	**Luke Pisors** - CEO/President **Reuben Rentas** - VP of Accounting
61*	**Premier Kings** *Montgomery, AL*	187 Burger King	28 Popeyes	**Jay Gill** - President
62	**B & G Food Enterprises** *Morgan City, LA*	156 Taco Bell	3 YUM! Multi	**Gregory Hamer, Sr.** - CEO **Ellen Pennison** - CFO/VP
63	**RPM Pizza** *Gulfport, MS*	180 Dominos		**Glenn A. Mueller** - CEO **Ken Cox** - CFO
	$200 MILLION TO $250 MILLION			
64	**Sailormen** *Miami, FL*	146 Popeyes		**David Damato** - CEO **Jonathan Marmolejos** - CFO

** Denotes revenue estimate*

#	Company	Major Concepts		Senior Executives
65	**Cave Enterprises** *Chicago, IL*	181 Burger King		**Adam Velarde** - CEO **Patrick Kalina** - CFO
66	**The Kades Corp.** *Houston, TX*	68 McDonald's		**Kenneth Kades** - President
67	**AFC Brands** *Atlanta, GA*	80 Taco Bell	47 Applebee's	**Bill Georgas** - CEO **Mike Rummel** - CFO
68	**Fugate Enterprises** *Wichita, KS*	153 Pizza Hut	75 Taco Bell	**J. Larry Fugate** - President **Ron Bazzelle** - CFO
69	**JRN** *Columbia, TN*	137 KFC	13 YUM! Multi	**Tyrone Neal** - CEO **Dick Moore** - CFO
70*	**Summerwood Corp.** *Conshohocken, PA*	151 Taco Bell	4 KFC	**James Nasuti** - CEO **Matt Doelger** - President
71	**Carolina Restaurant Group** *Charlotte, NC*	123 Wendy's		**Quint Graham** - CEO/President **Gary Miller** - CFO/VP
72	**AES Restaurants** *Zionsville, IN*	156 Arby's		**John Wade** - CEO **Luke Prifogle** - CFO
73*	**Valluzzo Companies** *Baton Rogue, LA*	79 McDonald's		**John Valluzzo** - President **Michael & Nicholas Valluzzo** - Owners
74	**San Antonio Wings** *San Antonio, TX*	125 Wingstop		**Charles Loflin** - CEO **Monica Garza** - Controller
75	**Lemek** *Elkridge, MD*	61 Panera Bread		**Brian Lemek** - Owner **Calvin Anderson** - Controller
76*	**PJ United** *Birmingham, AL*	197 Papa John's		**Doug Stephens** - CEO **Brad Leonard** - CFO
77	**Hospitality Restaurant Group** *Traverse City, MI*	103 Taco Bell		**Martin J. Lobdell** - President **Jeremy Krol** - Director of Finance
78	**PR Restaurants** *Framingham, MA*	59 Panera Bread		**Mitchell Roberts** - CEO **Dean Carman** - CFO
79	**Stine Enterprises** *Phoenix, AZ*	87 Jack in the Box	14 Denny's	**Steve Stine** - CEO **Tim Flynn** - CFO
80	**Southern Multifoods** *Jacksonville, TX*	108 Taco Bell	5 YUM! Multi	**Drew Durrett** - CEO/President **Robert Cudd** - CFO
81	**Pizza Properties** *El Paso, TX*	49 Peter Piper Pizza	11 Applebee's	**John T. Hjalmquist** - CEO **Shandel Gildon** - CFO
82*	**ADT Pizza** *Westport, CT*	205 Pizza Hut	16 Taco Bell	**Adam Diamond** - CEO **David Tetens** - COO
	$175 MILLION TO $200 MILLION			
83	**Chaac Foods** *Irving, TX*	124 Pizza Hut	39 Bojangles	**Luis Ibarguengoytia** - CEO/President **Peter Golden** - Controller
84	**The Saxton Group** *Dallas, TX*	72 McAlister's Deli		**Matt & Adam Saxton** - Co-CEO's **Max Jodry** - CFO
85*	**Romulus Restaurant Group** *Phoenix, AZ*	103 IHOP		**Chris Sumners** - CEO/President **Kevin Brown** - CFO
86*	**BAJCO Group** *Canfield, OH*	190 Papa John's		**Nadeem Bajwa** - CEO **Faisal Bajwa** - CFO
87	**Bojangles of WNC** *Arden, NC*	106 Bojangles	6 Salsarita's	**Jeff Rigsby** - CEO **Randall Odom** - CFO

** Denotes revenue estimate*

#	Company	Major Concepts		Senior Executives
88	**Emerge!** *Houston, TX*	48 Sonic Drive-In 48 Pizza Hut	23 Taco Bell 18 KFC	**Kamal Singh** - President **Cristal Munoz** - Finance Director
89	**Celebration Restaurant Group** *Celebration, FL*	96 Pizza Hut	32 Taco Bell	**Andy Rosen** - CEO **Vikki Hodgkins** - CFO
90	**BurgerBusters** *Virginia Beach, VA*	87 Taco Bell	6 Blaze Pizza	**Tassos Paphites** - CEO/President **Gregory Rowland** - CFO
	$150 MILLION TO $175 MILLION			
91	**MRCO** *Brentwood, TN*	86 Taco Bell		**Amin/Imaan Ferdowsi** - Partners **Shab/Shareef Aminmadani** - Partners
92*	**Guernsey Holdings** *Los Angeles, CA*	87 Sonic Drive-In	38 Little Caesars	**Mike James** - CEO **Jacques Grondin** - COO
93	**CKA Management** *Lyndhurst, NJ*	74 Wendy's		**Keith Kas** - CEO **Marty McFeely** - CFO
94	**Emerald City Pizza** *Mukilteo, WA*	142 Pizza Hut		**Terry Hopkins** - CEO **John Nguyen** - CFO/Managing Partner
95	**Wen JAI Restaurant Group** *Pompano Beach, FL*	84 Wendy's		**Jhonny Mercado** - CEO **Tommi Wahrman** - CFO
96	**AJP Enterprises** *Tacoma, WA*	54 Arby's	47 Jack in the Box	**Ajay Chopra** - Partner **Steve Wazny** - Partner
97	**TL Cannon** *Ponte Vedra Beach, FL*	57 Applebee's		**Matthew Fairbairn** - CEO **Clyde Brant** - CFO
98	**Tar Heel Capital** *Boone, NC*	87 Wendy's		**Tad Dolbier** - CEO **Tiga Darner** - CFO
99	**The Rose Group** *Newtown, PA*	50 Applebee's		**Jeffrey Warden** - CEO/President **Christopher Tobia** - CFO/EVP
100	**Calhoun Management Corp.** *Clemson, SC*	89 Wendy's	6 Wingstop	**Pick Lindsay** - Owner **Sherman Christensen** - CFO
101	**Rucker Restaurant Holdings** *Austin, TX*	63 Jack in the Box	34 Denny's	**Clyde Rucker** - CEO **Jake Wesner** - CFO
102	**MBN Brands** *Atlanta, GA*	65 Jimmy John's 58 Burger King	23 KFC 10 Little Caesars	**Wyatt Batchelor/Leo Nolan** - Partners **Kevin & Michael Mulcahy** - Partners
103*	**Far West Services** *Costa Mesa, CA*	103 Wingstop		**Jorge Luis Ortiz Garcia**- President **Patrick Goitia** - CFO
104*	**Wenspok Resources** *Spokane Valley, WA*	82 Wendy's		**Jennifer Robson** - President **Amanda Brown** - Controller
105	**Atticus Franchise Group** *Atlanta, GA*	100 Sonic Drive-In		**Michael Drum** - Managing Partner **Bill Gmaz** - Managing Director
106*	**Mas Restaurant Group** *Houston, TX*	112 Taco Bell	3 YUM! Multi	**Chad Motsinger** - CEO **Ben Walsh** - CFO
107	**JEM Restaurant Group** *Daniel Island, SC*	69 Taco Bell	28 Pizza Hut	**John McGrath** - CEO **Allen Wood** - CFO
108	**TD Food Group** *Honolulu, HI*	39 Taco Bell	34 Pizza Hut	**Kevin Kurihara** - CEO/President **Brent Matsumoto** - CFO/VP
109	**Primary Aim** *Zanesville, OH*	77 Wendy's		**Ben Thompson** - President **Stephen Thompson** - CFO
110	**Purple Square Management** *Tampa, FL*	97 Dunkin'	35 Popeyes	**Vik Patel** - CEO/President **Sneha Patel** - CFO
111*	**HV Restaurants** *Houston, TX*	89 Jack in the Box		**Manny Colorado** - Partner **Mohammed Ahmed** - Partner

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#	Company	Major Concepts		Senior Executives
	$125 MILLION TO $150 MILLION			
112*	**MBR Management** *St. Charles, MO*	136 Dominos		**Mark Ratterman** - President **Jeffrey Tope** - VP Finance
113	**Spark Restaurant Holdings** *Houston, TX*	68 Wendy's	8 Buffalo Wild Wings	**Sanjay Mehra** - CEO **Amandeep Kaur** - Finance Director
114*	**Rottinghaus Co.** *La Crosse, WI*	290 Subway		**Eric Nissen** - CEO **Pete Hansen** - CFO
115	**High Noon Restaurant Group** *Lafayette, LA*	78 Popeyes		**David Damato** - CEO **John Fink** - CFO
116	**The Falcons Group** *Atlanta, GA*	55 Checkers/Rallys 27 Dunkin'	11 TGI Friday's 10 Qdoba	**Shamsu Charania** - CEO **Matney Gornall** - CFO
117*	**Rensko Holdings** *Delaware, OH*	141 Tim Hortons	4 Jimmy John's	**Michael Simon** - CEO **Jenine Skowron** - Partner
118	**Quality Restaurant Concepts** *Birmingham, AL*	58 Applebee's		**Fred Gustin** - President **Charles Galloway** - CFO
119*	**ARS Brands** *Rolling Meadows, IL*	69 Wingstop	34 Dunkin'	**Asif Rajabali** - President
120	**JRI Hospitality** *Salina, KS*	74 Freddy's		**Jason Ingermanson** - CEO **Josh Muller** - CFO
121	**Benton Properties** *Springdale, AR*	71 Sonic Drive-In		**Anthony Sherman** - President **AJ Moses** - CFO
122	**Fresh Dining Concepts** *Coral Gables, FL*	135 Aunite Anne's 25 Jamba	20 Cinnabon	**Luis San Miguel** - CEO **Yildris Rodriguez-Ross** - CFO
123*	**Schmidt Family Restaurant Group** *Portsmouth, OH*	76 Wendy's	5 Buffalo Wild Wings	**Justin Schmidt** - CEO/President **Stacey Humphreys** - CFO
124*	**Janjer Enterprises** *Silver Spring, MD*	40 Popeyes	37 IHOP	**Mike Burke** - COO **Rodney Saunders** - CFO
125	**The Wolak Group** *Falmouth, ME*	95 Dunkin'		**Ed Wolak** - CEO/President **Kim Wolak** - COO
126	**Kazi Management St Croix** *Frederiksted, Virgin Islands*	51 KFC	21 Burger King	**Zubair Kazi** - President **Shambhu Acharya** - CFO
127	**Starboard Group** *Coral Springs, FL*	73 Wendy's	16 CiCi's Pizza	**Andrew Levy** - CEO **Darius Gilanfar** - CFO
128*	**Cowabunga** *Alpharetta, GA*	111 Dominos		**Michael Orcutt** - CEO **Julie Geoghan** - CFO
	$100 MILLION TO $125 MILLION			
129	**Strang Corp.** *Cleveland, OH*	41 Panera Bread		**Donald W. Strang III** - CEO **Matthew Garito** - CFO
130	**DMAC-SD** *Liberty Township, OH*	72 McAlister's Deli	8 Moe's SW Grill	**Dale Mulvey** - President **Mandy Mears** - Controller
131	**North Texas Bells** *Collyville, TX*	63 Taco Bell	23 Wingstop	**Troy Morrison** - President **Taylor Morrison** - VP of SD&A
132	**Apple Metro** *Harrison, NY*	24 Applebee's	1 Pizza Studio	**Zane Tankel** - CEO **Judah Miller** - CFO
133	**Summit Restaurant Group, LLC** *Blue Springs, MO*	125 Pizza Hut	7 Long John Silver's	**Thomas N. Jorgensen** - CEO **Lisa Evans** - CFO
134	**DRM** *Omaha, NE*	98 Arby's		**Matt Johnson** - CEO/President **Mike Swope** - CFO

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#	Company	Major Concepts		Senior Executives
135	**Grand Mere Restaurant Group** *Overland Park, KS*	133 Pizza Hut		**Victor Heutz** - CEO/President **Steve McDermott** - VP Finance
136*	**Heritage Partners Group** *Dallas, TX*	60 Wendy's	36 Papa John's	**Nick Rhoads** - Managing Partner **Nathan Hamilton** - Managing Partner
137*	**Hishmeh Enterprises** *Ventura, CA*	107 Dominos		**Tareq Hishmeh** - CEO/President **Nick Hishmeh** - CFO
138*	**Fourjay** *North Little Rock, AR*	51 Wendy's	17 Slim Chickens	**Howard Martindale** - CEO **Laure Warren** - Controller
139	**Metro Corral** *Winter Park, FL*	21 Golden Corral		**Eric Holm** - President **Erich Booth** - CFO
140	**Northland Restaurant Group** *Eau Claire, WI*	101 Hardee's	3 Taco John's	**Jon J. Munger** - President **Dan Shuda** - CFO
141	**RBD California Restaurants Limited** *City of Industry, CA*	64 KFC	10 YUM! Multi	**Raziel Valiente-Chung** - CEO **Allan Kam Wong** - CFO
142	**KC Bell** *Wichita, KS*	36 Freddy's	24 Taco Bell	**Paul Hoover** - CEO **Travis Jasnowski** - CFO
143	**Rackson Restaurants** *Bridgewater, NJ*	66 Burger King		**Chris Johnson** - CEO **Sue Daggett** - CFO
144*	**1788 Chicken** *West Lake Hills, TX*	50 Zaxby's		**Drew Gressett** - President **Chris Phillips** - CSO
145	**Potomac Family Dining Group** *Midlothian, VA*	48 Applebee's		**Dennis Benson** - CEO **Julie Heimer** - Controller
146	**Daland Corp.** *Wichita, KS*	95 Pizza Hut		**Bill Walsh** - CEO **Alan Seiwert** - CFO
147	**Den-Tex Central** *San Antonio, TX*	79 Denny's		**Dawn Lafreeda** - President **Lori MacKay** - Controller
148	**Consolidated Restaurant Group** *Destin, FL*	75 Burger King	1 Del Taco	**Edward Stutz** - CEO **Michael Riggle** - CFO
149	**Parrish Restaurants** *Dallas, TX*	24 McDonald's		**Roland Parrish** - CEO
150	**Vibe Restaurants** *Dallas, TX*	77 Little Caesars	29 Wingstop	**Irfaan Lalani** - CEO **Shalin Patel** - CIO
151	**C&R Restaurant Group** *Newport Beach, CA*	46 Taco Bell		**Brian Cox** - CEO **Matt Cox** - CFO
152	**DYNE Hospitality Group** *Little Rock, AR*	96 Tropical Smoothie		**Nick Crouch** - Co-CEO **Glen Johnson** - Co-CEO
153	**Phase Three Brands** *Tampa, FL*	77 Hardee's	2 Wingstop	**Jack Kemp** - CEO **Bree Radford** - CFO
154	**Superior Restaurant Group** *Princeton, NJ*	44 Wendy's		**Todd Bialow** - CEO **Robert Cammarano** - President
	$90 MILLION TO $100 MILLION			
155*	**Hoogland Foods** *Brentwood, TN*	103 Marco's Pizza		**McLain Hoogland** - President **Jon Hill** - CFO
156	**JS Fort Group** *Downers Grove, IL*	127 Jimmy John's		**Jeffrey Fort** - CEO **Jeff Erickson** - CFO
157	**Anna Management** *Morristown, NJ*	94 Dunkin'		**Dipak R. Patel** - CEO **Suresh Rao** - CFO
158	**Roaring Fork Restaurant Group** *Milwaukee, WI*	58 Qdoba		**Ron Stokes** - President **Jim Anderson** - CFO

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#	Company	Major Concepts		Senior Executives
159	**Paradigm Investment Group** *Keene, NH*	81 Hardee's	4 Blaze Pizza	**Christopher Wollan** - President **Dean Fox** - CFO
160	**The Jones Group** *La Porte, IN*	35 Buffalo Wild Wings	1 BlackRock	**Michael Jones** - CEO **Val Ingram** - CFO
161	**Stellaris Group** *Pacific Palisades, CA*	67 Carl's Jr.		**Ahmad Moalej** - CEO
162	**Red Door Foods** *Greenville, SC*	26 KFC 25 Krystal	15 Arby's	**Argus WIley** - President **Jake Rasor** - CFO
163	**Genesh** *Lenexa, KS*	51 Burger King	24 Denny's	**Mukesh Dharod** - CEO/President **Phil Hammond** - Controller
	$80 MILLION TO $90 MILLION			
164	**Ansara Restaurant Group** *Farmington Hills, MI*	21 Red Robin	5 Twin Peaks	**Victor Ansara** - CEO/President **Nadia Khalyleh** - CFO
165	**Friendly Franchisees Corp.** *La Palma, CA*	63 Carl's Jr.		**Harshad Dharod** - CEO **Alex Kalinsky** - General Counsel
166*	**JSC Management Co.** *Lyndonville, NY*	65 Burger King		**James & Sarah Cammilleri** - Owners **Steve Vann** - President
167	**JJB Brands** *Flowood, MS*	102 Pizza Hut	13 Checkers	**Mike Quinn** - CEO **Jason Setzer** - CFO
168	**Serazen** *Costa Mesa, CA*	70 Papa John's		**Doug Pak** - CEO **Darcie Mangus** - COO
169*	**Marwaha Group** *Anaheim, CA*	137 Subway	11 Burger King	**Raghu/Rohit Marwaha** - Co-CEOs **Rinku Marwaha** - CFO
170	**Denco Family** *Whittier, CA*	30 Denny's	8 Popeyes	**Ritu Portugal** - CEO/President **Rahul Marwah** - CFO/VP
171	**Avants Management Group** *Athens, GA*	33 Zaxby's		**Gary Avants** - President **Melissa Crowe** - Vice President
172*	**Freeland Group Restaurants** *Fort Wayne, IN*	83 Pizza Hut	3 Dave's Hot Chicken	**Todd Hollman** - CEO/President **Matt Fortney** - CFO
	$70 MILLION TO $80 MILLION			
173	**S-Group Companies** *Sandusky, OH*	30 Wendy's		**John Stock** - President **Craig Buckingham** - CFO
174	**Brumit Restaurant Group** *Asheville, NC*	65 Arby's		**JoAnn Yoder** - President **Greg Catevenis** - CFO
175	**Utah Del** *Salt Lake City, UT*	33 Del Taco		**Paul Hitzelberger** - Chairman/CEO **Jane Hitzelberger** - CFO
176	**Desert Taco** *Scottsdale, AZ*	52 Del Taco		**Brent Veach** - CEO
177	**Lehigh Valley Restaurant Group** *Allentown, PA*	20 Red Robin	4 Wingstop	**Michael Axiotis** - CEO/President **Nikki Bloom** - CFO
178	**BMW Management** *Temecula, CA*	21 Sizzler		**Gary W. Myers** - President **Aimee Bearden** - CFO
179	**Century Restaurants** *Charleston, SC*	63 Jersey Mike's		**Chris Brown** - CEO **Dave Murphy** - CFO
180	**Apple Investors Group** *Chino Hills, CA*	27 Applebee's	3 IHOP	**Andy Patel** - President **Nimesh Dahya** - CFO
181*	**Legacy Restaurant Group** *Lenexa, KS*	53 Wendy's		**Felix Tollinche** - CEO/President **Jarrod Widdows** - Controller

** Denotes revenue estimate*

#	Company	Major Concepts		Senior Executives
		$60 MILLION TO $70 MILLION		
182	**RoHoHo** *Charleston, SC*	38 Papa John's	15 Jersey Mike's	**Philip Horn Jr.** - President **Peggy Hunt** - CFO
183	**The Mendoza Company** *Columbus, OH*	20 McDonald's		**Alex Mendoza** - President **Robin Mills** - CFO
184	**RREMC Restaurants** *Merritt Island, FL*	37 Denny's	5 Hurricane Grill	**John Metz**- CEO/President **Natalia Powell** - CFO
185	**Clark Business Solutions** *Rhinelander, WI*	22 Culver's		**Josh Clark** - President **Anna Pasanen** - VP Accounting
186	**All Star Management** *Bourbonnais, IL*	36 Wendy's		**Mario Allegro** - President **Stacey Crook** - VP Finance
187	**DND Groups** *Mission Viejo, CA*	32 Dairy Queen	14 Taco John's	**Dara Dejbakhsh** - CEO/President **Nader Dejbakhsh** - CFO
		$50 MILLION TO $60 MILLION		
188	**Diya Holdings** *Chicago, IL*	28 Dunkin'	10 Taco Bell	**Sanjeev Khatau** - Principal **Karim Khowaja** - Operator
189	**Carolina Franchise Holdings** *Boca Raton, FL*	47 Burger King		**Bruce Daniels** - CEO
190	**US Leader Restaurants Opco** *Miami, FL*	28 Taco Bell		**Kara Nordstrom** - President
191	**Blue Ribbon Restaurants** *Troy, MI*	14 Famous Dave's		**Elliott Baum** - CEO **Michael C. Devlin** - CFO
192	**Platinum Corral** *Jacksonville, NC*	12 Golden Corral		**Billy Sewell** - President **Becky O'Daniell** - CFO
193	**Northwest Group** *Tigard, OR*	41 Jack in the Box		**Rajeev Gupta** - CEO/President **Pooja Sheth** - Controller
		$45 MILLION TO $50 MILLION		
194	**Shamrock Companies** *Hinsdale, IL*	26 Taco Bell	4 Wingstop	**Dan McGue** - Managing Director **John Mlinarcik** - Controller
195	**Phoenix Organization** *Boca Raton, FL*	21 Burger King	6 Denny's	**Glenn Levins** - CEO **Pam Faber** - Administrator
196	**Merbree Holdings** *Ketchum, ID*	21 MOD Pizza	11 Jersey Mike's	**Bob Merullo** - CEO **Kevin Embree** - CFO
197	**Tria Company** *Battle Creek, MI*	29 Burger King	7 Arby's	**Paul Gregory** - President **Melissa Pierce** - Controller
198	**Tetra Management** *Wichita, KS*	46 Pizza Hut		**Greg Shelton** - President **Doug O'Connor** - CFO
199	**Elbardi Group of Companies** *Doral, FL*	43 Charleys Philly Steaks	2 Gyu Kaku	**Mario Contreras** - CEO/President **Jesus Urdaneta** - CFO
200	**MPZ Holdings** *Columbia, SC*	47 Marco's Pizza		**Kal Gullapalli** - CEO

** Denotes revenue estimate*

ALPHABETICAL LISTING

Company	Rank
1788 Chicken	144
ADT Pizza	82
AES Restaurants	72
AFC Brands	67
AJP Enterprises	96
All Star Management	186
Alvarado Restaurant Nation	35
Ambrosia QSR	60
American West Restaurant Group	49
Ampex Brands	24
Ampler Group	22
Anna Management	157
Ansara Restaurant Group	164
Apple Investors Group	180
Apple Metro	132
ARS Brands	119
Atticus Franchise Group	105
Avants Management Group	171
B & G Food Enterprises	62
BAJCO Group	86
Benton Properties	121
Blue Ribbon Restaurants	191
BMW Management	178
Boddie-Noell Enterprises	33
Bojangles of WNC	87
Border Foods	20
Brumit Restaurant Group	174
BurgerBusters	90
C&R Restaurant Group	151
Calhoun Management Corp.	100
Carlisle Corp.	45
Carolina Franchise Holdings	189
Carolina Restaurant Group	71
Carrols Restaurant Group	3
Cave Enterprises	65
Celebration Restaurant Group	89
Century Restaurants	179
Chaac Foods	83
Charter Foods	18
CKA Management	93
Clark Business Solutions	185
CMG Companies	26
Consolidated Restaurant Group	148
Cotti Foods	31
Covelli Enterprises	13
Cowabunga	128
D.L. Rogers Corp.	19
Daland Corp.	146
Delight Restaurant Group	39
Den-Tex Central	147
Denco Family	170
Desert De Oro Foods	21
Desert Taco	176
Dhanani Group	2
Diversified Restaurant Group	14
Diya Holdings	188
DMAC-SD	130
DND Groups	187
Doherty Enterprises	25
DRM	134
DYNE Hospitality Group	152
Elbardi Group of Companies	199
Emerald City Pizza	94
Emerge!	88
EYM Group	53
Far West Services	103
Flynn Restaurant Group	1
FMI Group	29
Fourjay	138
Fourteen Foods	44
Freeland Group Restaurants	172
Fresh Dining Concepts	122
Friendly Franchisees Corp.	165
Fugate Enterprises	68
Genesh	163
Ghai Management Services	37
GPS Hospitality	12
Grand Mere Restaurant Group	135
GS Dallas Group	57
Guernsey Holdings	92
Hamra Enterprises	38
Harman Management Corp.	48
HAZA Group	6
Heritage Partners Group	136
High Noon Restaurant Group	115
Hishmeh Enterprises	137
Hoogland Foods	155
Hospitality Restaurant Group	77
HV Restaurants	111
Janjer Enterprises	124
JEM Restaurant Group	107
JJB Brands	167
JK&T Wings	51
JRI Hospitality	120
JRN	69
JS Fort Group	156
JSC Management Co.	166
K-Mac Enterprises	17
Kazi Management St Croix	126
KBP Brands	5
KC Bell	142
Legacy Restaurant Group	181
Lehigh Valley Restaurant Group	177
Lemek	75
Manna	28
Manna Development Group	23
Marwaha Group	169
Mas Restaurant Group	106
MBN Brands	102
MBR Management	112
Merbree Holdings	196
Meritage Hospitality Group	16
Metro Corral	139
MPZ Holdings	200
MRCO	91
North Texas Bells	131
Northland Restaurant Group	140
Northwest Group	193
Northwest Restaurants	27
Out West Restaurant Group	40
Pacific Bells	9
Paradigm Investment Group	159
Parrish Restaurants	149
Phase Three Brands	153
Phoenix Organization	195
Pizza Properties	81
PJ United	76
Platinum Corral	192
Potomac Family Dining Group	145
PR Restaurants	78
Premier Kings	61
Primary Aim	109
Purple Square Management	110
Quality Dining	59
Quality Restaurant Concepts	118
Quality Restaurant Group	41
Rackson Restaurants	143
RBD California Restaurants Limited	141
Red Door Foods	162
Redberry Restaurants	46
Rensko Holdings	117
Retzer Organization	47
Roaring Fork Restaurant Group	158
RoHoHo	182
Romulus Restaurant Group	85
Rottinghaus Co.	114
RPM Pizza	63
RREMC Restaurants	184
Rucker Restaurant Holdings	101
S & L Companies	56
S-Group Companies	173
Sailormen	64
San Antonio Wings	74
Schmidt Family Restaurant Group	123
Serazen	168
Shamrock Companies	194
Sizzling Platter	8
Southern Multifoods	80
Southern Rock Restaurants	43
Spark Restaurant Holdings	113
SSCP Management	55
Starboard Group	127
Stellaris Group	161
Stine Enterprises	79
Strang Corp.	129
Summerwood Corp.	70
Summit Restaurant Group, LLC	133
Summit Restaurant Partners	7
Sun Holdings	4
Superior Restaurant Group	154
Tacala	15
Tar Heel Capital	98
Tasty Restaurant Group	32
TD Food Group	108
Team Lyders	50
Team Schostak Family Restaurants	52
Tetra Management	198
The Briad Group	54
The Falcons Group	116
The Jones Group	160
The Kades Corp.	66
The Mendoza Company	183
The Rose Group	99
The Saxton Group	84
The Wolak Group	125
Thrive Restaurant Group	36
TL Cannon	97
Tria Company	197
US Leader Restaurants Opco	190
Utah Del	175
Valluzzo Companies	73
VantEdge Partners	30
Vibe Restaurants	150
Warner Foods Management	34
Wen JAI Restaurant Group	95
Wendy's of Bowling Green	58
Wendy's of Colorado Springs	42
Wenspok Resources	104
WKS Restaurant Group	11
Yadav Enterprises	10

About the Monitor 200

The Monitor 200 research includes questionnaires and phone surveys, and in some cases, a review of public documents. We sincerely thank the companies that responded to our survey, as most of the top 200 companies in this year's ranking provided us with complete data.

We rank companies according to revenue generated by the company's franchised restaurants. If the company happens to operate a restaurant concept that is not franchised, or is the franchisor of another concept, we will not include that number in the overall revenue or unit count. In some cases where an acquisition took place earlier in the year, we may derive pro-forma revenues in calculating the company's ranking.

In the case of a tie in the amount of total revenue, we settled the tie in favor of the company with the most units.

For companies that did not respond to our survey, we confirmed the number of units operated by the company, and then estimated the revenue based on concept and regional averages.

If you believe your company might make the Monitor 200 list or we've missed you or you know of another company that should be listed, email Matt Haskin at mhaskin@franchisetimes.com to be considered for next year.

Continued from page one

3. Consistently re-evaluate unit economics. Are units making a threshold profit after franchisee royalties? The discussion from my article last month about an evolved franchise model for the industry is particularly relevant in light of the current environment of disputes between franchisees and franchisors, much of it concerning capital upgrades in an attempt to increase sales.

4. Look at initial and future capital expenditures. The other corollary is the return on investment, which coincides with how much initial capital to spend, as well as how much to continue to put in for remodels, rehabs and upgrades. The minimum goal is to have the annual revenue equal to three times the initial investment. Additionally, investments should strive for a 20% plus return.

5. Stay current with common and evolving technology. Recognize that technology is a way to be efficient in labor expenses, attract customers and keep track of profitability. Technology needs to be constantly upgraded with a uniform approach systemwide. If a franchisee comes up with a new idea for software or technology, it should be shared with the other franchisees to see if it should be implemented systemwide.

6. It's critical to share financial information and best practices between all partners. Individual unit numbers can be on an anonymous basis if necessary, but it's important that everyone in the franchise system use a common general ledger system so that when they are comparing costs, they know exactly how labor, food or occupancy costs equate.

7. Re-evaluate the use of personal guarantees. Personal guarantees are seldom enforced. If your franchisee is well capitalized, you consider whether they are really necessary. Be flexible in terms of recquiring guarantees, and if you decide to have them, there should be a limitation and possibly be allowed to burn off.

8. Do you really need a right of first refusal? The franchisor's right of first refusal creates all kinds of problems for franchisees when they want to sell. Franchisors have the right to approve an assignment, but the approval cannot be unreasonably withheld. Since the right of first refusal is not helpful to an effective transition for franchisees, it should be taken out of new franchise agreements, or at least be converted to a right of first offer.

9. Development rights are tricky. Often franchisors try to sell development rights for large territories and get the money upfront. A better approach is the right of first offer for surrounding territories, so existing franchisees don't have to use capital to tie them up, but have the right to make an offer if the franchisor decides to expand in adjacent territories.

10. Non-competes and post-covenant provisions. Non-competes should be reasonable, even during the term of the franchise period. The reality is that many multi-unit operators will choose to develop other concepts besides yours. Technically, every restaurant competes for share of stomach, so there should be reasonable non-competes, while still protecting your intellectual property.

11. Reduce royalties until the location is profitable. Franchisors should acknowledge that there are start-up costs to getting a franchise up and going, and therefore until the franchise location is profitable, the royalties should be reduced. Once there is profitability the full amount can be charged, as long as it can be justified. Does the average 5 to 6% being charged justify the services the franchisor performs? I think it's more important to have royalties that are sustainable and reasonable and allow the franchisee to have the profitability necessary for success.

12. Is a national ad fund necessary? While there is still a need for strong brand collateral at the national level, most of the marketing will be done at the store level through local advertising and social media. Many franchises are still requiring franchisees to contribute a set amount into a national ad fund, which I'm not sure is necessary. To be successful, franchisees should receive branded materials and guidelines from their franchisor, but after that they need to be able to localize their approach.

The days of thinking of franchising as a parent/child relationship are over. Mutual respect and partnership is the new dynamic that will go a long way in creating a healthy and financially successful system.

Dennis Monroe is chair of Monroe Moxness Berg, a law firm which focuses on M&A, taxation and other business matters for multi-unit restaurant business. You can reach him at dmonroe@mmblawfirm.com, or at 952-885-5962.

Rellevant Partners, the New York-based investment firm founded by **Janice Meyer** and **Jessica Kates**, has made an equity investment in **Tso Chinese Takeout & Delivery** based in Austin, Texas. Tso recently opened its fourth unit and has another scheduled at the beginning of next year, also in the Austin market. The company intends to expand in Texas for the foreseeable future. Tso predominantly uses its own cars for delivery, not 3PD, and the technology platform that supports it is proprietary. There are no plans to franchise near-term but the concept definitely lends itself to franchising. Rellevant was the lead investor in the round. Meyer, Kates, former Whole Foods Co-CEO **Walter Robb**, and Torchy's founder **Mike Rypka** serve on the company's executive advisory board. For more information contact Janice Meyer at janice.meyer@rellevant.com.

Surprised that mega-franchisee **Greg Flynn** bought 260 **Pizza Huts** in Australia? Don't be. Flynn knows the market well. He has a master's degree in economics from the University of Queensland in Brisbane, Australia.

The International Council of Shopping Centers (ICSC) annual convention in Las Vegas attracted approximately 25,000 attendees last month, and according to **Joe McKeska** of **A&G Real Estate**, the sentiment was upbeat at the show. "There hasn't been much retail development in the last 10 years, so demand for existing retail space, especially high quality locations, is very high," he said. McKeska added there is tremendous demand for space from high-growth retailers and fast-casual restaurants. **Kevin Hewitt**, ICSC's director of membership told the Monitor that high-demand categories also include pickleball concepts.

Red Robin's credit agreement sets the interest rate at the highest of the Prime Rate (8.25%), the Federal Funds Rate plus 0.5% per annum (5.75%), or the one-month term Secured Overnight Financing Rate ("SOFR") plus 1.0% per annum (6.05%). Red Robin will pay approximately $21 million in interest expense in 2023 compared to $10 million in 2020 on approximately $30 million more in debt outstanding. The company just announced a sale-leaseback of 10 real estate locations for $30 million at an initial cap rate of 6.67%.

Sweetgreen is forecasting 2023 adjusted EBITDA in a range of negative $13 million to negative $3 million. The so-called "mission-driven, next-generation restaurant and lifestyle brand that serves healthy food at scale," has been a bust since it went public November 18, 2021. That day the company sold 13 million shares at $28 per share, raising almost $400 million for the company. The shares traded for around $9.50 recently.

Fortunately for **Carrols Restaurant Group**, the largest Burger King franchisee, the company slammed on the brakes with regards to acquisitions and its $300 million of senior notes, which pay a 5.875% rate, aren't due until 2029. **S&P Global Ratings** revised its outlook for the notes to positive from negative on May 15 citing first quarter improvements in EBITDA, free operating cash flow and its credit metrics. Adjusted EBITDA was up by 540 basis points over a year the company reported positive operating cash compared to a year ago when it had a cash flow deficit of $20 million in 2022. S&P notes "the majority of Carrols' outstanding debt is fixed rate, limiting near-term pressure from the higher interest rate environment."

What's up with **Hawaiian Bros**? The plate lunch brand reported a net loss of approximately $32.7 million in 2022 on top of an $18.7 million loss in 2021. But in March, the company completed a refranchising transaction of 11 locations in the Dallas area with multi-unit franchisee **Stine Enterprises** (Jack in the Box and Denny's, #79 on the Monitor 200 ranking) for approximately $26.4 million. The deal calls for 75 additional units to be developed by Stine and provides the company with enough cash to recapitalize the business. The company finished the year with 32 restaurants in operation, and according to its recently filed FDD, they average $3.7 million per unit. Franchisees pay a 5% of gross sales royalty for the first five years until there are 50 restaurants in the system and then a 6% royalty will be required. Franchising interest has been brisk. Hawaiian Bros recently signed a pair of multi-unit agreements: DKPM Investments, a large Jimmy John's franchisee, will open five Hawaiian Bros locations in Lincoln and Omaha. BraveHart Development, a Scooters Coffee, Anytime Fitness and Marriott and Hilton franchisee will open 10 units across Iowa.

Evercore ISI analyst **David Palmer** points out in a recent report that **Texas Roadhouse** grew traffic by over 50% cumulatively since 2010, however wage costs as a percent of sales have grown by approximately 600 basis points. Palmer sees food cost deflation possibly occurring for casual dining chains in the second half of the year.

It's one thing after another in California with the restaurant industry in the governor and state legislature's crosshairs. Which chains have the most unit exposure to the State of California? According to Barclay's analyst Jeff Bernstein, **Starbucks** is the most exposed with 3,237 locations. **McDonald's** (1,218), **Jack in the Box** (944), **Taco Bell** (830) and **Burger King** (567) round out the top five.

Baird analyst **David Tarantino** surveyed a number of private restaurant companies about their new unit development costs and asked them how they've been impacted by inflation. He found development costs for new units had increased approximately 34% since 2019 and that they were still rising. The survey said development costs for 2023 were expected to be up approximately 7% versus 2022. Tarantino suggests lower returns on new units could cause some chains to pull back on the pace of development, although 865 of the companies in the survey still intended to increase the number of openings in 2023 versus 2022. Overall industry unit growth is sluggish. According to Technomic, unit count growth of the top 500 chains is less than 1% above 2019 levels.

Wall Street analyst **Mark Kalinowski** analyzed the average sales volume for the big three burger chains: He pointed out in a recent report the average sales volume for a traditional U.S. restaurant was about $3,686,000 for **McDonald's**, $1,981,937 at **Wendy's**, and approximately $1,507,957 for **Burger King**. Kalinowski wrote McDonald's same-store sales increased by +12.6% in the first quarter of 2023, which equates to a dollar gain for the average traditional McDonald's U.S. restaurant in dollar terms of $116,109. Wendy's U.S. same-store sales rose by +7.2% during the same period and equates to a dollar gain for the average traditional Wendy's U.S. restaurant of $43,107. Burger King's U.S. same-store sales increased by +8.7% which equates to a dollar improvement for the average traditional Burger King U.S. restaurant $27,143.

Investing in franchise QSR is not for the faint of heart. **Meritage Hospitality**, the 385-unit **Wendy's** franchisee, says it has spent $265 million on the Wendy's modernization program covering 243 locations. It had committed to reimage 100% of its portfolio by December 31, 2024 and to develop 51 new restaurants by November 30, 2025. Restaurant reimages, the company says, provides an average 14.7% sales lift and a 21% EBITDA lift. Meritage also committed to build 55 new **Taco John's** by December 31, 2026, which will cost approximately $125 million.

Ron Shaich's investment company, **ACT III**, (Au BonPain was Act I and Panera was ACT II) owns roughly 11.6 million shares of the recently IPO'd **Cava Group**. With average unit volumes around $2.5 million and Chipotle-like restaurant margins of 25% in the first quarter, Cava has garnered significant investor interest. Shaich's 12% stake in the company, which at the recent price of around $40 per share, is worth approximately $475 million.

Fat Brands announcement that it was planning to take the **Twin Peaks** brand public isn't a slam dunk, despite strong operating results in the 100-unit polished casual chain. The fact is the market has been reluctant to reward full-service brands, instead favoring QSR, fast-casual and asset-lite franchisors. Fat bought Twin Peaks in 2021 from Garnett Station for $300 million. **Fogo de Chão**, another full-service brand, filed an S-1 back in November 2021, and has yet to complete an IPO, despite $10 million-plus average unit volumes.

Multi-concept operator **BT Brands** has filed a proxy statement to elect one of its board members, **Gary Copperud**, to the board of **Noble Romans**. Copperud would replace Noble Roman's CEO **Scott Mobley**. In a filing in support of Copperud, BT Brands points out that the "single largest contributor to the erosion of shareholder equity since 2014 has been the aggregate salaries paid to the Company's top two executives, Scott Mobley and **Paul Mobley**. BT says the company has paid $5.9 million to the Mobleys since 2014, which they say "is an amount approximately equal to 45% of the total reduction in shareholders' equity over the last eight years. BT owns 1,879,900 shares of Noble Romans, approximately 8.46% of the outstanding shares.

A survey of nearly 700 franchisor executives across several major industries such as automotive, education, fitness, health/beauty, home services, and restaurants showed 77% were confident in their brand's ability to meet franchise growth goals for 2023. The survey was conducted by **BoeFly**, the technology and finance platform that connects borrowers and lenders. "Franchisors are just optimists by nature," said **Mike Rozman**, BoeFly's CEO, acknowledging concerns over higher interest rates and construction costs.

California restaurant real estate broker **Ira Spilky** has some interesting chain names on his 161 current listing of vacant restaurant spaces. The recognizable names on the vacancy list include Joe's Crab Shack, Bonefish, Buca, Baja Fresh, Denny's, On the Border, Elephant Bar, P.F. Chang's and Red Robin. But Spilky also had six downtown San Francisco restaurants for lease. We're guessing you could make a good deal on those. For information contact Ira Spilky at ira@iraspilky.com.

Cava Group's successful IPO has other high-margin, high-growth restaurant brands thinking the market can be receptive to their shares. **Panera** executives should be pleased at seeing Cava's success—shares were offered at $22 and traded as high as $47 the first day of trading.

Speaking of **Panera**, **Covelli Enterprises**, the 275-unit franchisee, has signed a deal to develop 100 **Caribou Coffee** stores in eastern Florida, northern Ohio and western Pennsylvania.

Here Comes Cava Just as Retail is Faltering

Government fiscal/monetary reports have been confusing at best, discouraging at worst. The recently enacted Fiscal Responsibility Act seems to be more like irresponsibility, eliminating the debt ceiling for two years, until, conveniently, after the 2024 election. It is therefore guaranteed that the $32 trillion of U.S. debt will be at least $36 trillion in two years, and annual interest on the debt will be something like one trillion dollars, about 15% of the U.S. total spending, reducing more productive pursuits.

The reportedly stronger jobs numbers (largely accounted for by a PHD designed "birth/death" model) is inconsistent with reported higher unemployment, the stagnant participation rate, a lower household job survey, lackluster business formation, and higher Q1'23 savings rate as a percentage of disposable income. The latter, which peaked in the low 30s at the beginning of Covid-19, has gone from 6.1% in Q3'22 to 9.4% in Q4'22 to 15.3% in Q1'23.

Putting all the fancy surveys aside, those of us in retail land know consumers are cautious. Price/value-driven Cracker Barrel, which should be benefiting from strong travel trends, reported sluggish traffic in April and May. Among value-oriented retailers, Target, with flat comps in Q1, cut their forecast for Q2 and said shrinkage (theft) will cost $500 million more than last year. Macy's adjusted forecasts downward after a lackluster spring season and Costco reported U.S. comps up 0.9% in April and down 1.5% in May. To be fair, WalMart was an outlier on the upside, as U.S. comps were up 7.4%, led by a 27% eCommerce increase.

Capital markets were anxiously awaiting the Fed's decision last week, and with the decision to pause on the interest rate hikes, we can say we are closer to the end of the Fed-driven higher rates. My bet is that, despite the Fed's best intentions, before the stated inflation rate gets anywhere near the 2% objective on a year-to-year basis, a new stimulus program will be put in place, re-igniting inflation. The use of diluted dollars, is, after all, the only way the debt can be serviced.

The IPO window is opening. CAVA Group and GEN Restaurants joined Fogo de Chao' by filing S-1 Registration filings, and CAVA came public on June 15 at $22 and opened at $42 per share. The investment community's admiration of CAVA chairman, Ron Shaich, is a good start toward a warm reception, and CAVA's business model is promising as well. Shaich's reputation is about as good as it gets, since he co-founded Au Bon Pain, which purchased St. Louis Bread (with 20 stores) in the mid 1990s, renamed it Panera and spearheaded the growth to over 2,000 stores today. Panera became by far the biggest winner in the restaurant space over the two decades of public ownership, helping to justify the initial CAVA IPO valuation of approximately $2 billion, which represents an enterprise value of just under 30x the "run rate" of adjusted EBITDA in Q1'23.

Putting a resurgence of restaurant IPOs in context: From mid to late 2021, five IPOs were done, all well received by the marketplace, though some observers (including myself) thought they were fully priced. From Krispy Kreme's to Dutch Bros to Portillo's to First Watch and then Sweetgreen, all increased substantially from their IPO prices. Dutch Bros, Portillo's and Sweetgreen each surged more than 100% at first, but reality has intruded and 18 to 20 months later the five are now down an average of 11% from their IPO prices. Only Dutch Bros is up, by 21.7%, though down 60% from it's high. Portillo's and First Watch are almost exactly the same as they started, though down 60% and 18% from their highs. Sweetgreen takes the prize for volatility, down 80% from its high and 64% from the IPO.

Taking nothing away from (1) CAVA's attractive unit-level model, (2) the well-designed strategic growth plan, and (3) the credentials of Chairman Shaich and the operating team led by Brett Schulman. Adjusted EBITDA in calendar 2022 was $12.6 million, down from $14.6 million in 2021, surging to $16.7 million in Q1'22 versus ($1.6 million) in Q3'22. At this juncture, with due respect as stated above, and the midday crowd at CAVA around the corner from our office, I believe $2 billion is currently more than adequate.

In terms of trading after the IPO, I would buy some if I could get it at the IPO price, but not at $42. In terms of a material long-term investment, I expect a more opportune time for purchase. Almost invariably it requires some courage to step up, if and when a short-term problem presents a buying opportunity. Investors will have learned a great deal more about the realistic opportunities and challenges by that point, so that is usually a better gamble than chasing the latest shiny object.

Roger Lipton has followed the restaurant industry for four decades. Founder of money management and investment banking firm Lipton Financial Services, Inc., he publishes regularly at www.rogerlipton.com. He can be reached at lfsi@ aol.com or (646) 270-3127.

STATS AND QUOTES

THERE ARE SOME BULLS TALKING UP THE U.S. ECONOMY TOO	
Ellen Zentner, Chief U.S. Economist, Morgan Stanley	"May payrolls were well above expectations, but households reported a significant loss of jobs. The report today [June 2] continues to point to a soft landing for the economy and should keep market expectations for a July hike in play."
Art Hogan, Chief Market Strategist, B. Riley Wealth	(The May jobs report) is "a reflection of a labor market that while still robust, is softening gently, not rapidly. That's exactly what the Fed would like to see. The Fed wants to tame inflation without crushing the jobs market, and this is another piece of evidence that they're actually well along the way to getting that accomplished."
Sharon Miller, Head of Specialty Banking and Lending, Bank of America	"While the dual pressures of inflation and supply chain disruptions continue to encumber operations, small business owners remain bullish about their prospects for the year ahead."
Ronald Temple, Chief Market Strategist, Lazard	"Investors know we're in the latter innings of the game [regarding interest rate hikes]. My view of the risk of recession has definitely gone down in the last four or five weeks."
Ben Vaske, Strategist, Orion Advisor Solutions	"Seems like people are waiting and waiting for the negative news to come. And it just keeps not coming."
Preston Caldwell, Chief U.S. Economist, Morningstar	"Overall, the jobs report and broader economic data continues to show an economy that's certainly not in recessionary mode and perhaps is growing at a healthy pace."

INTEREST RATES (%)				
	06/15/23	**Last Month**	**A Year Ago**	**Trend**
Fed Funds Rate	5.25	5.25	1.75	↑
30-Day BSBY 1M*	5.19	5.10	1.26	↑
90-Day BSBY 3M*	5.46	5.29	1.77	↑
30-Day SOFR**	5.05	5.05	1.50	↑
90-Day SOFR**	5.05	5.05	1.50	↑
1-Year Treasury	5.21	4.91	2.87	↑
5-Year Treasury	3.91	3.52	3.34	↑
10-Year Treasury	3.72	3.55	3.24	↑
30-Year Treasury	3.84	3.87	3.29	↑
Prime Rate	8.25	8.25	4.75	↑

*Bloomberg Short Term Bank Yield Index **Secured Overnight Financing Rate

Mick Rosckowff, COO of Emerge, Inc., a multi-unit franchisee of Sonic, Taco Bell, KFC and Pizza Hut talking to Laura Michaels of Franchise Times about protecting employees from burnout: "I'm going to tell you, there's no amount of money, there's no amount of vacation, there's no amount of bonus that you can give someone to avoid burnout."

This from Tom Gimbel, founder and CEO of LaSalle Network, a national staffing and recruiting firm: "There is a lot of optimism which still exists. If the Fed were to slow down right now, consensus seems to be—from the small-and medium-sized business CEOs that I talk to—that the economy could continue to be strong for the next 24 to 30 months."

Ethan Harris, Bank of America's Head of U.S. Economics says restaurant hiring has slowed: "Average restaurant headcount has stagnated and remains below prior year levels and in April the average restaurant headcount decreased on a year-over-year basis across all categories."

A statement from the McDonald's National Owner's Association's on the attempt by the Department of Labor and several states to label McDonald's Corporation a joint employer: "If McDonald's does not want to be considered a joint employer, they need to stop acting like one."

Cava Group CEO Brett Schulman speaking on CNBC's Squawk Box shortly after the company completed its initial public offering at $22 per share: "When you look at our average unit volumes, it's not just one region of the country that's successful, it's all of the regions we operate in."

ABOUT THE CONFERENCE

About RFDC

The **Restaurant Finance Monitor's** annual **Restaurant Finance & Development Conference** is the restaurant industry's premier event for company owners, operators and financial executives.

RFDC is all about the business side of the restaurant industry and an opportunity to get "up to speed" with what's happening in the restaurant business and the capital markets. Attendees **gain key insight** by attending **expert educational sessions and boot camps** covering a wide variety of financial, economic, accounting, technology, strategy, real estate and restaurant operations topics.

In addition to an excellent educational forum, attendees **have the opportunity to meet with a wide variety of financial sources during the conference.**

Who Should Attend?

Restaurant owners, operators, executives and board members of multi-unit restaurant companies—public, private, franchised, non-franchised and independent restaurant groups send multiple representatives to the conference each year. Attendees include owner-operators and their partners, board members, CFOs, controllers, senior executives in finance, operations, development, legal, real estate and franchising. Also invited are lenders, investment bankers, real estate developers, accountants, attorneys, private and public equity investors, consultants, family offices, and other firms with investments in the restaurant industry.

RFDC Finance & Development Mall

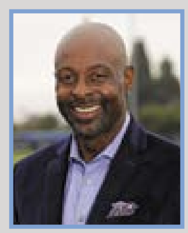
Attendees to RFDC can **meet with representatives** of banks, finance companies, investment banks, private equity firms, merger and acquisition specialists, private investors, real estate developers, sale-leaseback providers, consultants, business brokers and other financial intermediaries to find financing, buy or sell restaurant businesses and real estate, or locate new concepts or existing business opportunities. A variety of financing and deal sources are on hand.

Time is Money

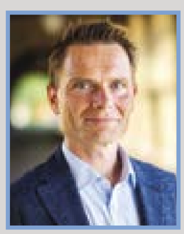
Meetings are typically arranged in advance or by visiting the **Finance & Development Mall** during the conference. If you prefer, we'll help with introductions or set up one-on-one meetings for you. **Consider RFDC a most efficient use of your time!** The conference allows attendees to accomplish a year's worth of travel and financial meetings in just three days!

FEATURED SPEAKERS

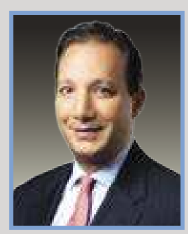
Patrick Doyle
Executive Chairman, Restaurant Brands International
One of the top restaurant executives in the world



Jerry Rice
Famed NFL Receiver
Hall of Fame wide receiver and three-time Super Bowl champion and MVP



Nicholas Bloom
Professor of Economics, Stanford University
Expert on the impact of remote work on the economy



Jason Trennert
Co-Founder and CEO, Strategas
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All are excellent questions and should be addressed. A simple answer is that individuals, private equity funds, family offices and corporations agree to become franchisees because they like a particular brand and the management team, not because they like the franchise agreement. Generally, they sign it and it gets stuck away in a file cabinet. (Subway's FDD and franchise agreement runs 840 pages, by the way.)

The FTC's interest in franchising once again has stirred the pot and the players are debating the so-called "franchise model," a business model that, in theory, is profitable and harmonious for franchisors and franchisees. One side says "don't touch it, it works." The other side says it's not fair anymore for franchisees and needs to be changed.

In the remainder of this column, I'll discuss the changes I've seen in franchising over the past 40 years and some of the reasons why even large multi-unit franchisees who would ordinarily abhor government intervention in their businesses, are asking for more regulation. The FTC has definitely struck a nerve on both sides.

The franchise machine

I attended an IFA convention several years ago and met a fellow with three macaroni and cheese restaurants in the New York area who was thinking about franchising. When he described his business proposition to me, I felt there was nothing compelling in the concept nor the unit economics. The restaurants were located in a single geographic area. He had no infrastructure, nor did he have the capital to support a franchise launch. The sales and margins were average. I told him he should focus on his current operations, and build perhaps one or two outside of his trade area to see if the concept would travel. What he told me I'll never forget: He said I was the only person at the convention who discouraged him from franchising. Why is that?

According to FranData, an average of 250 new franchise companies start selling franchises each year. The flood of franchises isn't because they are all great businesses with wonderful unit economics. In my opinion, only a select few have the unit economics, the track record or the infrastructure to ensure franchisee success.

I believe the reason there are so many new franchise brands coming online each year is because franchising has become an industry unto itself, one where lawyers, consultants, brokers, bankers and promoters earn big fees and commissions when a business decides to franchise. What the mac-and-cheese operator found out at the IFA convention that year is there are lots of promoters advising business owners to franchise their concept, because that's what they do to make money.

Take the franchise preparation business, for instance. A trove of franchise consultants sell franchise "finishing services" to emerging franchisors, which cover the gamut of preparing operating manuals to the marketing of individual franchises. Lawyers are needed to prepare the wordy Franchise Disclosure Documents (FDDs), draft the franchise agreements and file them federally and in the states that require registration. The consulting and legal costs of launching a new franchise can run from $200,000 to $300,000.

And then there are the franchise brokers, who in the last 10 years have become such an integral part of the franchise sales process that few new franchise companies can sell franchises without engaging a broker. Brokering is lucrative, too, with the brokers netting anywhere from 50% to 100% of the initial franchise fee, and in some cases, residual payments in the form of royalties or even equity in the business.

Franchise brokerage businesses, in fact, are so lucrative that three top groups were themselves sold to private equity last year. Franchise Fastlane, a large franchise sales organization, was sold in March 2022 to Southfield Capital Partners. International Franchise Professional Groups, a large broker network, was sold in May 2022 to Princeton Equity Group. FranDevCo, another large franchise broker, received a large investment in September 2022 from ABACO, a private equity firm.

The steady stream of franchise brands entering the market each year, combined with founders looking to cash out, has also led to a rapid rise of "platform franchise companies" that acquire and manage multiple franchise brands. The platform companies are often funded by private equity and centralize legal, franchise sales, administration and marketing.

Restaurant watchers would easily recognize Focus Brands and its seven brands: Auntie Anne's, Carvel, Cinnabon, Jamba Juice, Moe's Southwest Grill, McAlister's Deli and Schlotzsky's. It's a platform company. Another example is Franchise Group, Inc., a platform that operates seven brands: American Freight, The Vitamin Shoppe, Pet Supplies Plus, Buddy's, Wag N Wash, Sylvan and Badcock.

There is nothing wrong with franchise platform brands, per se, it's just indicative of the tremendous demand by investors to become franchisors and collect royalty income. Franchising is popular with investors because it is the ultimate "asset-lite" business model. The franchisees put up all the cash and the franchisor collects fees and royalties for licensing the brand.

Technology has also made it that much easier to reach potential franchise candidates. Franchisors, both large and small, spend millions of dollars each year marketing the sale of their franchises on lead generation websites, social media platforms, franchise opportunity shows, or in publications such as ours, Franchise Times.

The franchise industry needs small businesses like the mac-and-cheese operator to keep the machine going. The demand for new brands has led to a number of consequences, not all of them good. Too many marginal businesses become franchisors, not because their franchisees will ever see a dime in profits, but because the financial incentives are remunerative for the promoters.

With so many franchises coming on board each year, there are bound to be both good and bad ones. But the bad ones taint the good ones and make a lot of noise when they fail. Every year I see the same claims by failed franchises over hyped-up earnings claims, or claims they could operate the franchise as an absentee owner, when in fact their presence (as a low-paid manager) was essential to the operation.

During a Senate Committee on Small Businesses & Entrepreneurship hearing in 2021, Senator Catherine Cortez Masto (D-Nev.) summed up the good ones/bad ones scenario in franchising:

"There are terrific franchise corporations out there that provide opportunities for entrepreneurs to own successful businesses. But there are also franchise corporations that treat entrepreneurs incredibly unfairly," said Senator Masto.

Masto was referring in part to the massive franchise fraud perpetrated by the startup Burgerim that caught the attention of the FTC and Congress, and was first reported by Franchise Times in 2018.

Capitalizing on the hype of gourmet burger restaurants, an Israeli promoter named Oren Loni, without operating any company stores, began selling Burgerim franchises around the U.S. According to the California Department of Financial Protection and Innovation, Loni sold at least 1,550 franchises and collected $57.7 million in initial franchise fees from 2015 to July 2019, but only 130 of those were open through 2018.

When Loni refused to provide refunds and subsequently fled the country, California issued a cease-and-desist order on the sale of future franchises. The U.S. government filed a lawsuit in 2022 against Loni and Burgerim, alleging they charged as much as $50,000 to $70,000 in franchise fees and pitched "a business-in-a-box," operation that required no experience. Military veterans were frequent targets of Loni.

While the vast majority of franchise brands in this country would never deploy the nefarious tactics of Burgerim and Oren Loni, I've seen legacy brands over the years take fees by beefing up development agreements with additional territory, knowing those additional stores will never get built.

The sheer number of new brands coming on stream each year unfortunately makes a repeat performance of a future Burgerim a risk for franchising.

Higher costs for franchisees

The impact of franchising's propensity to produce new franchise systems each year is franchisees across the board are paying higher royalties and fees. I remember seeing Denny's and Arby's franchise agreements written in the '70s that charged 1% or 2% percent of sales. It's not uncommon now to see a new restaurant franchisor charge anywhere from $35,000 to $50,000 per store plus 5% to 6% of sales, or even higher, as an ongoing royalty. If a new franchise can charge a higher royalty rate, then so can an established brand.

Also, everyone in the franchise game understands the annuity value of a royalty stream. One way to increase the value of a franchise enterprise is to charge higher fees and royalties, or increase the amount of cash flow by charging higher fees to existing franchisees.

That's been one of the complaints of American Association of Franchisees and Dealers (AAFD). The AAFD attributes the problems in franchising to pressures on franchisors to produce higher fees and royalties as result of the fact that many are owned by private equity or public companies, and according to AAFD, they seek to "maximize the return only for the franchise company, not the franchisee investor."

Where are all the company stores?

Another factor I think has contributed to unrest between franchisors and franchisees, especially in the restaurant business, is how few company stores franchisors actually own and operate. Instead, they rely on franchisees to make the capital investments and execute the business. Twenty years ago, for instance, McDonald's franchised 85% of its worldwide units. Today that number is 95%.

When a franchisor doesn't have a meaningful base of company stores, there can be a disconnect between the franchisor and franchisee as to who knows how to run the business better—the person on the ground dealing with employees and customers every day, or the person in the corporate office.

Without profits from company stores, franchisors also rely solely on their franchise royalty income, and that itself has become a source for the unrest. Many franchisors have become way too aggressive, increasing costs and fees, or mandating expensive remodels that are often outside of the terms of original agreement.

One comment made to the FTC was from a McDonald's franchisee who said the burger giant was charging for computer services that were not identified in the franchise agreement and were never listed in the original or subsequent offering documents.

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"These charges are being billed at a rate of $10,000-$12,000 per year per location and no documentation for the legitimacy of the expenses is provided. I believe all potential fees paid to the franchisor should be spelled out clearly in the franchise document and any increases due to inflation should be verified by contracts, invoices, or scope of work documents," wrote the franchisee.

The fact some franchisors are charging additional fees comes at a bad time. During last year's record inflation, franchisees had to bear the brunt of higher operating costs, while franchisors collected more royalty dollars based on the inflated sales numbers. It must be galling to franchisees to hear their franchisor crowing on shareholder conference calls about the beauty of the "asset-lite" model.

The sale of the business

A franchisee has a number of options for transferring their franchise business to another party, but that has narrowed recently as more and more franchisors exert control over the transfer process. Franchise agreements generally include a right of first refusal, giving the franchisor a right to acquire the franchised stores at the same price as the third party buyer.

That should be enough to ensure stores aren't sold to a franchisee that the franchisor doesn't want. But more franchisors are inserting themselves into the sales process and either not approving certain buyers, or requiring buyers to complete certain capital improvements, or even agree to a new development agreement. One franchisee in a large QSR business told me his franchisor told him that he could go and find a broker if he wanted to, but ultimately, they would tell him who he could sell his stores to.

David Bear, a 36-unit McDonald's franchisee and Chairman of the McDonald's National Owners Association, accused his franchisor at the FTC hearing of doing the same thing:

"When a franchisee determines they want to sell, McDonald's has been interfering in free trade activities by limiting the purchase candidate pool to a small, hand-selected eligible community," Bear said. "They're even establishing valuation limitations."

Summary

I've seen many changes in franchising over the past 43 years. It's been amazing to see the growth and success of many franchise systems and their franchisees.

But let's face it, after all these years, franchisors still hold all the cards, no matter if the franchise is good or bad. There will always be a few bad apples in franchising given the incentives and the rate of growth. But, just because they have the legal muscle on their side, it doesn't mean they have the right to treat their franchisees unfairly. Requiring franchisees to make expenditures or pay fees that are not in the franchise agreement is unfair. Interferring in the legitimate sale of a franchisee's business by requiring they sell to a franchisee friendlier to the franchisor is unfair.

Requiring more disclosure from franchise sellers and brokers, allowing a franchisee to sue a bad franchisor without going to arbitration, eliminating the non-compete clause on terminations to make the renewal process fairer, these are not unreasonable terms.

The franchise model doesn't work when one side of the transaction has all the power and sees the other side as an ox to gore. It doesn't work when one side gets rich and the one who puts up all of the capital struggles. It doesn't work when franchisee profitability is an afterthought.

When I see franchisees at McDonald's form an association and criticize their franchisor during a public FTC hearing, something is not right in franchising. As Dennis Monroe wrote in his column this month, franchising needs to get back to a partnership model quickly.

—John Hamburger

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