Yale SCHOOL OF MANAGENT

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Exploring Franchisees as a Post-MBA Entrepreneurial Path

Franchisees can be attractive entrepreneurial vehicles for aspiring entrepreneurs

Peter Mistretta[1]
Jim Sharpe[2]
A. J. Wasserstein[3]

The search fund world is growing steadily, with more and more searchers each year. Additionally, the entrepreneurship through acquisition (ETA) ecosystem continues to innovate and iterate with new creative forms and structures. An arena once dominated by a "one size fits all" approach to ETA is now populated with all sorts of search fund styles and methods. Some of these structures include accelerators, geographically concentrated searches, long-term hold vehicles, emerging market geographies, and projects centered on programmatic acquisitions. We discuss these many approaches in our case note, Exploring Various Search Fund Structures. While the search fund world continues to permutate, one potential method has not gained broad traction or popularity: purchasing a franchise business or a product distribution business.

We are curious and enthusiastic about franchise companies for aspiring search fund entrepreneurs for many reasons, which we will explore below. Franchise firms make up a large part of the U.S. economy, with $787 billion of economic output and 8.2 million direct jobs represented across more than 4,000 brands. This is a material segment of our economy, representing almost 3% of gross domestic product, and should be further explored by any inquisitive entrepreneur.[4] The basic premise of a search fund is to acquire a business that is a going concern to de-risk the entrepreneurial proposition and increase the probability of success. Franchise operations expand on this notion of risk mitigation, a central tenet in search funds, by providing a proven business model, a brand, and a set of operating systems and procedures in addition to a going concern with a track record.

When we present franchise companies as potential candidates for ETA entrepreneurs, we aim to encourage aspiring entrepreneurs to augment the aperture through which they view prospective possibilities. Do we think a franchise is the right choice for every MBA student thinking about an entrepreneurial adventure? No. Do we believe it is right for some highly educated MBAs? Absolutely!

Few ETA entrepreneurs initiate their search with a limited focus on franchisee operations. Rather, they discover the model in their journey. That was the case with Michael Horowitz (Harvard Business School 2015), who launched a self-funded search immediately after completing his MBA. Horowitz was not initially focused on franchise opportunities, but he eventually discovered the compelling model and then focused exclusively on franchises. He purchased a seven-restaurant Wingstop portfolio with $5.6 million in revenue in 2018. Over five years, he developed five additional restaurants and acquired eight more, culminating in $28 million in revenue and $4 million in pro forma 2023 EBITDA* – quadrupling in size. Horowitz is a rare example of a post-MBA graduate embracing franchises as an entrepreneurial opportunity. He demonstrates that franchises are not only tenable and scalable but also compelling value creation vehicles.

Although unusual, Horowitz is not alone as an MBA graduate embracing a franchise route. Jim Sharpe, an entrepreneur in residence at Harvard Business School and a commentator on all things search, estimates in a survey of 187 ETA businesses purchased by Harvard Business School graduates in the past decade that 19 (or 10%) purchased franchise operations – 10 immediately upon graduation and nine mid-career. Here is an incomplete list of post-MBA franchise operators, some of whom are included in Sharpe's survey. Barry Dubin (Northwestern University's Kellogg School of Management 2006) operates over 1,000 KFC stores with more than $1 billion in revenue. Mike Cox and Stephen Breedon (both Harvard Business School 2021) are Jackson Hewitt Tax Prep franchisee operators. Patrick Dunagan (Harvard Business School 2014) is a health franchisee entrepreneur via the Anytime Fitness concept. David Karsenti (Harvard Business School 2017) runs omnipresent mall brands Cinnabon and Auntie Anne's as a franchisee. Austin Kassner (Harvard Business School 2022) is engaged in the Spherion Staffing franchise system. Alex Sloane and Matt Perelman (both Harvard Business School 2015) operated 165 Burger King and 55 Popeyes restaurants before a blockbuster exit to publicly traded Carrols Restaurant Group, Inc. (Nasdaq: TAST). James Temple (University of Virginia Darden School of Business 2009) channeled his affinity for all things quantitative into his entrepreneurial efforts as a Mathnasium franchisee. Although anecdotally, there are relatively few post-MBA franchise entrepreneurs, our list establishes that there are some – and we hope to see more.

In spite of these success stories, when most MBA students hear the word franchise, their reaction is visceral and pejorative. We rarely witness students responding with enthusiasm and approbation. To understand and address this tendency, this brief case note will explore two themes. The first is why MBA students are so reluctant to contemplate a franchise business – what the core underpinnings are that make a franchise such an unpopular and heterodox course. Please see **Figure 1** for twelve reasons we identified why searchers eschew franchises. The second notion we will examine is why MBA students should evaluate franchise options for their search fund pathway. Please see **Figure 2** for twelve reasons why ETA entrepreneurs would be wise to at least open their minds to include franchises as a viable opportunity.

* Earnings before interest, taxes, depreciation, and amortization

Figure 1: Twelve reasons why MBA students shun franchises

01 Social stigma – this is as uncool as you can get
02 Royalty payments
03 Most franchised businesses lack contractual recurring revenue and are B2C
04 Same-store growth can be capped and therefore growth could be capital intensive
05 Organic and acquired growth requires franchisor approval
06 Barriers to entry in a system
07 Limited buyer pool when exiting
08 Constraints on operating policies
09 Many franchisees have low-wage labor with very high turnover rates
10 Low awareness or resources in elite MBA programs – no peer momentum
11 Franchisor might overdevelop and impair economics
12 Low perceived social impact

Figure 2: Twelve reasons why search fund entrepreneurs should consider franchises

01 Proven business model
02 Stable revenue and cash flow streams
03 Highly fragmented acquisition opportunities once in the system
04 Easier integration of acquisitions
05 Opportunity to rent the brand
06 Community of shared knowledge
07 Some banks have specialty lending units that focus on franchisees
08 Some systems have extremely compelling 4-wall ROIC and unit economics
09 Unique real estate economics
10 No need for a great idea
11 Shallow competitive talent pools
12 Franchisor might favor a professional, credentialed CEO

Before we move into the heart of the note, we will provide a succinct overview of franchising.

A short primer on franchising[†]

Franchising, at its core, is just another method for producing, selling, and distributing goods or services. But what makes franchising unique is how it separates ownership of the business model, or franchise concept, from ownership of the operations. As a result, a franchise system has two pieces.

First, there is the franchisor. The franchisor develops and owns the franchise concept. The franchise concept includes a detailed and standardized playbook for operating a business as well as a brand under which that business is operated. In developing a franchise concept, a franchisor generally starts as an operating business. However, when deciding how to scale, a franchisor often opts to rely on third parties, or *franchisees*, rather than growing the business entirely on its own to conserve capital and focus on brand and systems development.

These franchisees, the second part of the system, are independent entrepreneurs. They own and operate their individual businesses, but they do so according to the operating model developed by the franchisor and under the brand it has created. For the privilege, franchisees pay franchise fees, which typically are divided into two parts: royalties and marketing contributions. Royalties are the "rent" that franchisees pay to a franchisor to use its business model and brand. These payments, usually 6–8% of a franchisee's gross sales, represent the main source of a franchisor's revenue. Besides royalties, franchisees contribute another 3–5% of their gross sales to cover marketing expenses that the franchisor incurs on their behalf to build the franchise concept's brand equity.

The dynamic outlined above has profound implications for the financial profiles of franchisors and franchisees. Franchisors are capital-light, high-margin businesses. While a franchisor might own some physical assets, its primary assets are intangibles, specifically the business model and brand that serve as the foundation of its franchise concept. A franchisor's revenue, for the most part, derives from monetizing these intangibles through royalties, which a fairly lean cost structure can generate. On the other hand, franchisees take on risk and conduct the lion's share of a franchise system's underlying operations. Doing so potentially involves a much heavier investment in capital, cost of goods or services sold, and labor, resulting in a possibly more asset-intensive, lower-margin financial profile.

To be clear, franchisors are typically superior business models to franchisees. With their contractual recurring revenue, asset-light operations, and enviable operating leverage, they are a dream business model. They are also much more difficult to build and acquire than franchisees. Franchisors, understandably, trade at significantly higher EBITDA multiples than franchisees. We asked a tier-one private equity firm with twenty-plus franchisor acquisition observations totaling more than $30 billion in trading value and were told the average buy is 5x revenue and 16x EBITDA, with some deals touching nearly 20x EBITDA. Clearly, being a successful franchisor is less accessible than being a franchisee. See **Figure 3** for the primary differences between franchisors and franchisees.

[†] This section is reproduced with some minor changes from our case KBP Foods and Barry Dubin.

Figure 3: A brief comparison of franchisors and franchisees

	Franchisor	Franchisee
Contractual recurring revenue	Yes	Unlikely
Capital intensity	Low	Higher
Operational intensity	Low	Higher
Operating leverage	High	Lower
Entry EBITDA multiples	High	Lower
Exit EBITDA multiples	High	Lower
Scalability	High	Lower with complexity
Ease of entry	Very hard	Easier
Established brand	No	Yes
Established operating systems	No	Yes
Operating flexibility	Yes	No

Although many people associate franchising with fast-food chains, often referred to as quick service restaurants (QSR)[‡], there is incredible diversity within the franchise universe. One useful framework for making sense of this heterogeneity divides franchises into two categories: business format and product distribution.[5]

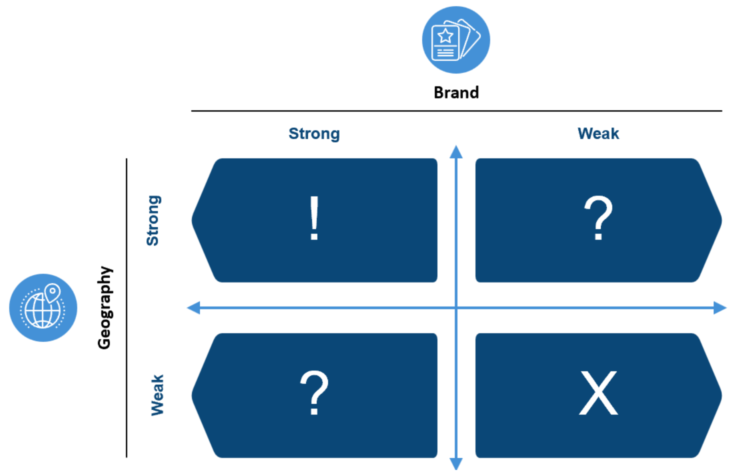
A business format franchise is a franchise concept in which franchisees own and operate businesses that leverage the business model, operational playbook, and brand developed by the franchisor. Fast-food chains, such as McDonald's, Taco Bell, and Dunkin', fall into this bucket, but they are by no means alone. Service concepts, whether business-to-consumer or business-to-business, proliferate here as well. Prominent examples include The UPS Store (shipping and logistics), Kumon Math and Reading Centers (education), and Jiffy Lube (oil change and other car maintenance).[6] Additionally, health and wellness concepts like Massage Envy and Planet Fitness are types of franchises. Furthermore, ubiquitous hospitality concepts like Hampton by Hilton, Hyatt Place, Courtyard by Marriott, and La Quinta are all franchises.

In contrast, a product distribution franchise is a sales relationship between a supplier and an independent dealer. Examples include automotive dealerships and soda bottling companies. This type of franchise generally has a lower profile than its business format counterpart.

Being a franchisee entrepreneur is not a surefire route to success. Two key decisions any aspiring entrepreneur will need to get right are which franchise brand to use as an entrepreneurial vehicle and where to operate. With thousands of franchise concepts available, selecting which one to work with is a crucial step. An inferior brand concept will not produce desirable results. Furthermore, operating a strong brand in the wrong geographic market will also likely result in a disappointing outcome. See **Figure 4** for a matrix depicting the important implications of brand and geographic area selection. In our discussion below, we assume that entrepreneurs get the brand and geography decisions correct.

[‡] The International Franchise Association projected that in 2022 192,426 (24%) of the 792,014 franchise establishments would be QSR.

Figure 4: Likely potential outcomes when franchise entrepreneurs select a brand and geographic market



Reasons why MBA students avoid franchise businesses

Given the magnitude of the franchise economy, we find it perplexing that there are so few ETA franchise entrepreneurs. To better understand this, we queried search fund entrepreneurs on why they did not pursue this arc. The points we outline below summarize the key recurring themes of why ETA entrepreneurs dismiss franchises. We acknowledge that some of these elements are legitimate reasons for being cautious when evaluating franchise opportunities. However, we also endeavor to convince aspiring entrepreneurs that several of the reasons why search entrepreneurs categorically avoid franchise opportunities are, in reality, misperceptions. It is interesting to note that a number of the points enumerated below cross over from ETA in general and seem to amplify when contemplating franchises. In other words, being a franchise entrepreneur is perceived as even lower on the food chain than being a search fund entrepreneur.

Social stigma – this is as uncool as you can get

The prevailing perception of franchising on elite MBA campuses is that franchising someone else's brand is a path pursued predominantly by people who cannot start their own branded concept. To put it bluntly, franchising is seen as fake business ownership and pretend entrepreneurship because franchisees have not developed their own operating playbook. For the MBA crowd, franchising does not fall squarely within the common perception of being entrepreneurial. For some, it has the veneer of buying a job.

Many MBA students have rigid perceptions that define what are acceptable and desirable career paths – and what entrepreneurship looks like. In a September 2022 newsletter published by asset manager Verdad, investment team member Dan Rasmussen muses on the topic of MBAs' post-graduate career selections:[§]

> *MBAs seem to be opting for careers well-suited for cocktail party conversation – venture capital pioneers, private equity visionaries, and healthcare innovators – instead of the careers chosen by those who have gone on to become the wealthiest people on the planet.*[7]

We embrace a more commercial orientation to entrepreneurship and seek out compelling, risk-adjusted wealth creation opportunities no matter what the industry and business, so long as they are legal and ethical. Aspiring entrepreneurs pursuing franchising may find themselves quarantined at the "uncool" table at their

[§] Credit goes to our friend Trish Higgins for sharing this quote in Chenmark's weekly newsletter.

post-MBA dinner parties along with those people who have gone on to become the wealthiest people on the planet – and we think that is pretty cool.

Franchisees pay a percentage of revenue as a royalty

In every franchised system we have seen, franchisees pay a royalty to the franchisor to rent the turnkey set of systems, procedures, and brand the franchisor has developed. The most common royalty structure is a revenue-share, typically ranging from 6% to 8% of franchisee revenues. Many observers bristle at this foundational component of the franchising relationship. After all, 6–8% of revenue can be half of store-level EBITDA in lower margin categories like QSR. Operators of independent brands in the same category could pass that margin on to their customers and employees or keep it for themselves.

What these cynical onlookers often discount, however, is the value that high-quality franchisors give their franchisees in return for their royalty investments. Of course, we do not assert that every franchisor earns its royalty, but the strongest franchisors have developed brand equity, operational routines and support, real estate know-how, technology solutions, and more that provide franchisees substantial value commensurate with (or in excess of) the amount of royalties invested.

Most franchised businesses lack contractual recurring revenue and are B2C

Aspiring ETA entrepreneurs love B2B businesses with contractual recurring revenue – and for good reason. When compared to consumers, business customers can be less sensitive to pricing, have deeper pockets, and are more stable. For first-time search fund CEOs, the holy grail is finding a software or services business that has contracted (or at least predictably recurring) revenue generated by long-time business customers. This cocktail of attractive business model attributes creates a stable foundation on which a first-time CEO can spend time learning the business before having to make dramatic decisions. Revenue predictability also facilitates planning for things like capital investments and staffing.

Most franchised concepts we have seen are squarely consumer retail ones. While franchised concepts in some categories generate recurring revenue from monthly or annual membership fees (think fitness, massage, healthcare, aesthetics, and others), the quality of that revenue, measured by metrics like customer lifetime value and contribution margin, is inferior to revenue generated by most recurring B2B relationships. In fact, the most recognizable and abundant franchised concepts are QSRs that generate revenue from one-off consumer transactions. These firms start each day with zero dollars of revenue when their doors open. The realities of this kind of model require an aspiring entrepreneur to understand the staying power of the brand and the category it is operating within to evaluate the quality of revenue they are buying.

Although most franchise concepts are indeed B2C, some are B2B. Smash My Trash, Shred-it, redbox+, Doorstep Details, and Spherion Staffing are examples of B2B concepts. And despite the business model realities of the B2C concepts, franchises of the enduring, classic, American consumer brands have been stable, cash-flowing annuities for their owners for decades, relatively unfazed by recessions or pandemics.

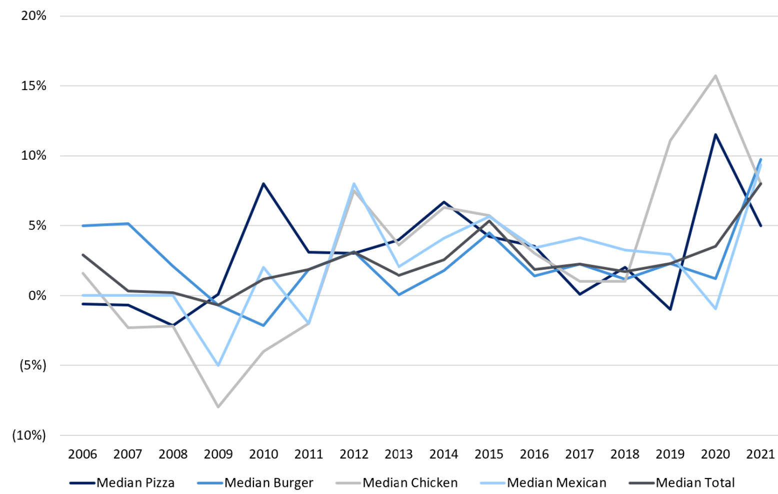
Same-store growth can be capped, and therefore growth could be capital intensive

Mature franchise units[**] (in operation for around five years) in well-established categories that are no longer innovating the product or service offering tend to grow organically, generally in line with the

[**] In franchising, the term “units” refers to locations, stores, clinics, clubs, territories, and any other geographic unit a franchisee can buy a license to operate from the franchisor.

Consumer Price Index (CPI). To illustrate this phenomenon, we have benchmarked the same-store sales growth (the retail industry's organic growth metric) for twelve tier-1 QSR brands across each of the main QSR categories in **Figure 5**. Over a 16-year period, these twelve brands experienced 2% same-store sales growth per year, on average, within a fairly narrow distribution.

Figure 5: QSR same-store sales growth benchmarking



Source: Created by case writers using publicly available U.S. Securities and Exchange Commission filings

The implication of underwhelming organic growth prospects at the individual unit level is that to grow requires adding more units, either through acquisition or new development (also referred to as de novo development). Both acquisitions and de novo development require investment capital that is internally generated, sourced from external debt providers, or garnered from outside equity providers. Growing quickly and consistently likely means accessing capital for new stores and fresh acquisitions – a potentially dilutive and expensive proposition.

However, gathering capital is a differentiated skill set in the franchising community. An enterprising entrepreneur who is comfortable with and excited by fundraising and engaging with capital markets may be able to quickly scale to a level it would take other self-funded franchisees in the system years to accomplish.

De novo and acquired growth requires franchisor approval

In the most common brick-and-mortar model of consumer retail franchising, a franchisee buys from the franchisor one franchise license per franchised location they intend to operate. However, when a franchisee wants to grow their footprint of units beyond the number of licenses the franchisee owns at the time, the franchisee must purchase more licenses from the franchisor. A license gives a franchisee the exclusive right to operate a franchised location in a pre-defined, protected geographic area. This sequence is the case whether the franchisee wants to grow their scope by developing new locations de novo or by acquiring existing locations from other franchisees (or, less commonly, from the franchisor).

This is all to say that franchisors are the gatekeepers to growth in their systems, and there are several reasons why a franchisor may not grant access to the growth a franchisee is after. We share a few common ones we have observed:

- Franchisors often sell exclusive rights to markets (in exchange for large, multi-unit development agreements), precluding other franchisees from expanding, even if they are already operating units in that market.

- Franchisors can take issue with how a franchisee represents the brand or executes on the operating playbook. A franchisor may categorically refuse to sell additional licenses to a misaligned or underperforming franchisee even if the franchisee is not technically in default of the franchise agreement.

- Franchisors may favor a certain franchisee or group of franchisees and will direct acquisition opportunities that other franchisees (or prospective franchisees) are pursuing toward their preferred franchisees.

The franchisor is an additional counterparty in an acquisition process, and the relationship with the franchisor requires substantial attention to ensure the entrepreneur has line of sight to the scale they aspire to. The other side of the same coin is that developing a strong relationship with the franchisor can earn a franchisee favorable rights to operate in the system.

Barriers to entry in a system

Similar to how franchisors are the governors of growth once a franchisee is in the system, franchisors are also the sentinel to entry into the system. Franchisor approval of a franchisee applicant's candidacy always entails some form of evaluation of the aspirant's financial capacity and operating credentials. For example, franchisors typically have minimum net worth requirements that a new franchisee needs to demonstrate. Even when newcomers can demonstrate their net worth satisfactorily, the industry-standard franchise agreement requires franchisees to personally guarantee the franchisee–franchisor relationship. Only some franchisors consider the franchise agreement personal guarantee a negotiable item.

As with the growth process within the franchise system, the franchisor is an additional counterparty in the entry process, making the prospective franchisee's relationship with the franchisor something that requires careful nurturing. This might warrant consideration and attention before an acquisition opportunity is sourced. However, there is, again, a flip side to this. A prospective franchisee who develops a preferential affiliation with the franchisor could be welcomed with open arms, and the franchisor could tee up investment opportunities the novice may not have uncovered on their own.

Limited buyer pool when exiting

For many of the same reasons aspiring acquisition entrepreneurs have avoided franchised acquisition opportunities, other buyer profiles are also skeptical of franchising. Exit opportunities tend to thus fall into the following categories: 1) sale to another existing franchisee; 2) sale to a new, pre-approved franchisee who often owns and operates franchises in other systems; or 3) sale to a private equity investor or a family office. An initial public offering (IPO) may also be an exit opportunity for franchisees, but our research suggests the IPO path is only tenable to franchisees who have achieved the scale only a handful of franchisees ever have.

To whom a franchisee exits is also at the franchisor's discretion in many ways, even if the franchisee can find a bona fide offer for their business. The omnipresent right of first refusal entitles the franchisor to buy back the locations itself to operate as corporate-owned stores and allows it to divert the acquisition opportunity to preferred acquirers. Qualified buyers understandably balk at spending meaningful diligence energy and resources if they are unable to get clarity from the franchisor that they will be approved as the acquirer for a transaction they are negotiating.

Although this is certainly a valid concern for some entrepreneurs who have an exit in mind, it might be a non-issue for those operators who are focused on retaining the business indefinitely. We embrace the notion of holding assets for decades – especially when underlining businesses can be purchased for very attractive EBITDA multiples.

Constraints on operating policies

Key decisions on many of the core topics elite MBAs study are taken out of franchisees' hands and are instead overseen by the franchisor. Marketing, for example, is a functional area overseen almost entirely by the franchisor. Additionally, brand marketing is done at the corporate level, and local marketing (channels, design, publisher, etc.) usually needs to be approved centrally by headquarters. Pricing is either set by the franchisor, or changes suggested by franchisees need corporate approval. Procurement is rarely competitive, with franchisees required to purchase nearly everything they need to run their businesses from a small number (sometimes just one) of corporate-approved suppliers. Geographic sites selected for new locations need to be approved by the franchisor. Merchandising, product decisions, and menu setting are done almost entirely by the franchisor. In essence, the franchisor mandates most of the core operating and marketing decisions involved in running a business unit.

In most cases, the franchisor has the best interest of franchisees in mind when making operating and strategy decisions, although that does not mean franchisors always make the right decisions even when franchisees are top of mind. However, in some cases, the misalignment of economic incentives inherent in the franchisor–franchisee relationship (the franchisor's economics are levered to system-wide sales, whereas franchisees' economics are linked to store-owned profits) can create a divergence in what is considered a rational economic decision depending on which party is deciding. Well-known examples of this tension are the Dollar Menu at McDonald's and Subway's $5 Footlong. Both drive volume through the QSRs' doors. However, even when they were introduced, they were seen as low margin at best. Now, with years of food cost and labor inflation, they are loss leaders for franchisees.

Despite the inherent limitations on operating freedom, many franchise entrepreneurs report very much feeling like an owner and an operator of their business. Furthermore, with many decisions established by the franchisor, the CEO can immerse themselves in operations and execution – which is a distinct advantage for first-time and inexperienced CEOs. Entrepreneurs in franchising need to channel their strategic energy into operational excellence within their 4-walls, unit growth, and collaboration with the franchisor on topics that are the franchisor's responsibility.

Finally, well-regarded franchisee operators can have input with the franchisor. Franchisors often establish a franchise advisory council, which is a formal communication channel for certain operators to transmit and provide feedback to the franchisor.

Many franchisees have low-wage labor with very high turnover rates

Even the best-run franchised operations are constantly hiring, given the prevalence of low-wage, part-time labor. These staff members are extremely price sensitive and transient. The situation is particularly acute in categories in which a significant portion of the staff have little to no specialization (e.g., QSR, some automotive services, etc.). To contextualize very high turnover rates, Greg Flynn (Stanford Graduate School of Business 1994), the largest restaurant franchisee in the U.S. with over 2,300 locations across six brands and over $3.5 billion in annual revenue, estimates his group's annual staff turnover at 100%.[8]

The burden of high turnover on a first-time CEO can be catastrophic, particularly if an acquisition transition catalyzes elevated turnover and raise requests en masse. However, given the staff profile, an ETA entrepreneur in franchising may provide professional growth opportunities that would otherwise never have been available. Still, most businesses have a choke point that is the CEO's bane – no business is easy or perfectly smooth. In franchise ownership, human capital management is the conundrum that needs to be solved, which can be common in non-franchise ETA acquisitions as well. Aspiring CEOs considering the franchise route should reflect on whether they are comfortable managing and interacting with blue-collar, low-wage labor segments and all of the attendant challenges.

Low awareness or resources in elite MBA programs – no peer momentum

We did a casual, non-exhaustive survey of top MBA programs and did not find much franchise-related content. We did not find courses dedicated to franchising, nor did we identify faculty members researching franchising. We discovered very few cases on franchising. We did not encounter student clubs focused on franchising, and we did not locate franchising coverage at career services centers. Franchising does not seem to be a common discussion topic in the MBA dining halls in the same way that investing, consulting, healthcare, non-profits, technology, and other paths are. Relatedly, we found only a few students from top MBAs pursuing careers in franchising after graduation. The few exceptions we could learn of were Palm Beach Atlantic's Titus Center for Franchising, Northwood University, The Tariq Farid Franchise Institute at Babson College, Certificate in Franchise Management at Georgetown University, Yum! Center for Global Franchise Excellence at University of Louisville College of Business, and Benjamin Lawrence who holds the Aziz Hashim Professor of Franchise Entrepreneurship chair at Georgia State University.

This set of observations is curious – do top MBAs abjure franchising because they are not exposed to it, or is franchising not covered on campuses because MBAs do not often pursue it? We are not sure in which direction the causation goes or whether there is causation. We also will not go as far as to argue that MBAs tend to pursue well-trodden paths chasing the allure of a shiny object, but we will argue that exposure to franchising on MBA campuses could turn some aspiring entrepreneurs on to a new avenue through which to funnel their entrepreneurial energy.

Franchisor might overdevelop and impair economics

As has been described already, the franchisor's interests are not always perfectly aligned with franchisees', given that their economics are levered to be system revenue centric, and franchisees' economics are synced to operating unit profits. This can create the perverse incentive of building the system as broadly as possible to maximize system-wide sales, even if at the micro level, new units are cannibalizing the economics of existing units (which is what franchisees care about).

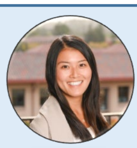
The aspiring entrepreneur thus has to understand the franchisor's growth ambitions in the market they intend to operate in and has to evaluate whether they believe the market can support that scale without dismantling the economics the entrepreneur is underwriting in their acquisition. To mitigate this risk, many states have laws that assist in protecting franchisees.

Low perceived social impact

MBAs want their careers to be meaningful and the output of their work to make an impact. Additionally, many MBA programs, including the Yale School of Management, have some societal component in their vision and values. The mission statements of top MBA programs describe the purpose of these schools as being to train leaders for futures spent changing the world, making a difference, and positively impacting their communities.

On the surface, success in franchising accomplishes none of the impact goals MBAs care about. In many cases, franchises sell low-quality consumer goods that are not even very healthy for their consumers. However, reality is a bit more nuanced. While we will not argue that owning Applebee's franchises is akin to democratizing access to high-speed broadband internet in underserved markets in terms of societal impact, we will argue that some franchises bring to the mass market products and services that are otherwise only accessible to affluent demographics. Examples of this include some health and wellness concepts (e.g., Planet Fitness and Massage Envy) and some educational services tutoring concepts like Kumon. Given the prevalence of low-wage, low-skill labor in the category, franchise businesses can also be fantastic early-career launching pads for young workers. Furthermore, QSR franchisees might not serve the healthiest food to customers, but they do offer affordable choices to economically disadvantaged groups who might not have the time or resources to source or prepare healthier food.

Finally, growing franchises create jobs. Although these jobs might not be the very best quality jobs, they provide economic opportunity for many people who otherwise do not have access to jobs without specific educational and skill requirements. According to the 2022 International Franchise Association Franchising Economic Outlook, with 775,000 establishments in the U.S., franchises support nearly 8.2 million jobs. The report indicates franchise jobs grew by 3.1% from 2021. Anecdotally, we love to hear stories about disadvantaged employees who work at a franchisee in an hourly-wage, entry-level job who rise to be salaried regional-manager leaders. Franchisees create viable jobs and economic opportunities.



Diana Ding (Stanford Graduate School of Business 2022) is pursuing multi-site healthcare acquisition and de novo development opportunities in partnership with Sydney Lehman, a classmate from business school. Prior to receiving her MBA, Ding worked at Apax Partners in New York as a private equity professional and as an investment banker at Morgan Stanley. While at the GSB, Ding was the co-president of the ETA club.

My career goal has always been to run my own business. My investing background helped me realize that I love being a decision-maker and having a seat at the table. However, when I thought about the rest of my career, I knew I wanted to spend my time building people up and not just doing deals. I look forward to meaningfully impacting my community by leading a small business. I also know that, while I have the baseline skillset for identifying and evaluating attractive industries and businesses, I can expect many learning opportunities and challenges to come with operating. Still, I couldn't be more excited about this path.

My partner, Sydney, and I have been spending our search in several multi-site healthcare categories. We are looking for high-growth healthcare categories with significant whitespace to develop new de novo alongside our acquired clinics. The returns on de novo developments across healthcare have proven to be extremely attractive. Our plan is to support our provider partners in the developed and acquired clinics with best-in-class corporate resources like H.R., I.T., finance and accounting, and technology to allow them to focus on what they do best – providing great care to patients.

I probably would not consider a franchised acquisition or de novo development opportunity, even if it were in one of the categories we are excited about, although I also haven't considered it very strongly. My impression is that I would not have as much autonomy in running the business as a franchisee compared to running an independent operation. In addition, strategic areas that are core to our value creation strategy are often

> out of a franchisee's control, for example, supplier relationships, marketing, day-to-day operations, territory selection, and more. For these reasons, franchised opportunities probably are not a fit.

Reasons why MBA students should consider franchisee businesses

In spite of the potential challenges, we are quite enthusiastic about franchises as an opportunity for post-MBA entrepreneurs. We believe that the franchise model offers many compelling arguments that should entice aspiring ETA entrepreneurs into this realm. However, before we delve into the reasons why franchises can be alluring, we want to acknowledge that every business model and format has unappealing characteristics – no pattern is perfect and without encumbrances, including franchises. Therefore, we encourage search fund entrepreneurs to scrutinize the franchise opportunity through a risk-adjusted, return-adjusted lens. As a young, first-time, inexperienced CEO, it is important to assess whether the franchise paradigm facilitates achieving the entrepreneur's professional and personal ambitions with an attractive risk–reward profile. We believe franchises offer a lower risk proposition on multiple dimensions than a non-franchise business and, for that reason, can be an actionable choice for ETA entrepreneurs. To be clear, we do not envision post-MBA entrepreneurs owning and operating a single franchise unit. Rather, we visualize these entrepreneurs owning dozens or hundreds of units in a single brand or multiple brands while building fully professionalized and institutionalized enterprises.

Justin Kaplan is a partner at [Balance Point Capital Partners](), a $1.7 billion Westport, Connecticut–based private credit and equity asset management firm. Balance Point is an investor and significant shareholder in one of the largest Taco Bell franchisee groups in the Mid-Atlantic. He states:

> We have gotten to know the franchisee model over a few years and are quite enthusiastic about it. There are three compelling ways to grow; all have attractive capital return opportunities. We are growing through new store openings and love the unit economics there. Additionally, we are making add-on acquisitions within the brand and can purchase stores at attractive multiples. Finally, we are working on growing same-store sales within existing stores, and that has powerful incremental EBITDA contribution with no additional capital requirements. We are partners with very talented executives who know QSR and the brand and are a delight to work with. These businesses have pretty stable cash flow streams and grow at a moderate pace. We think franchise investments in the right brand with the right leaders present a compelling risk-adjusted return profile.

We will now enumerate twelve key points which we believe make franchises a very convincing pathway for post-MBA students. While this evidence might not fully mitigate the reasons detailed above why students veer away from franchises, we think MBA students should contemplate franchises in full context, understanding the enticing elements of this model in addition to the perceived and actual deficient ingredients. By fully reflecting on the good in addition to the bad, students might see franchises in a fresh and more positive light.

Proven business model

The entire ETA framework sits on the notion of acquiring a going concern that is a proven business model. There is no tolerance for discovering elusive product–market fit. ETA is centered on purchasing something that works and then amplifying the business through various growth initiatives. Being a franchisee takes this concept to a further degree. When buying a franchise, the ETA entrepreneur gets a going concern in the purchased assets and a store-level proven business model that has successfully replicated in hundreds or thousands of locations. There is an extensive and proven data set of operating success and replication. For example, Planet Fitness operates over 2,000 locations in 50 states throughout the U.S. We interpret this as a clear positive example of a thriving and proven business model.

Furthermore, when examining the franchise disclosure document (FDD) for Planet Fitness, we observe that, on average, a franchisee in the system enjoys a 38% store-level profit margin with consistent high-single-digit year-over-year sales growth. It is easy to buy into the view that this is a tenable and enduring business model. In aggregate, ample data suggests a lower risk profile than purchasing the typical one-off search fund target with squirrely characteristics and murky operating data not sanitized by a corporate observer (the franchisor) and published in a government-regulated document (the FDD).

Stable revenue and cash flow streams

Many franchise systems lack the hallmark characteristic of contractual recurring revenue that we all crave in a search fund acquisition. Despite this absence, franchise operations tend to have actuarially stable revenue and cash flow streams. What we mean by this is that once a franchise store is running at full operation, the derived revenue and attendant cash flow tends to persist – even without contractually recurring revenue with customers. For example, established QSR stores have persistent income with relatively little deviation. Dominos has reported same-store sales growth in its U.S. stores of over 7% per year each of the last ten years. That metric has a standard deviation of 3 percentage points.[9] Moreover, businesses like a Jiffy Lube franchise location, which provides automotive services like oil changes, tire rotations and purchase, brake inspection and replacement, and vehicle alignment and suspension services, tend to have foreseeable revenue streams and capture their fair share of traffic flow in a given geographic location. Additionally, consumers have some stickiness with a service like oil changes, even if no contract is in place. Furthermore, many health and wellness franchises, like Orangetheory (a specialized boutique fitness concept) or Fyzical (a physical rehabilitation concept), originate at least part of their revenue from subscription-like packages where revenue is either received in advance or on a recurring basis.

Highly fragmented acquisition opportunities once in the system

Once entrenched in a franchise system, an entrepreneur can magnify their business through new store openings – a form of organic growth – or through acquisitions of other operators within the same franchise brand. These activities will likely make the CEO feel like a capital allocator – a role everybody in the search fund ecosystem wants to embrace. We are passionate about programmatic acquisitions and explore this persuasive strategy in our case note On the Nature of Programmatic Acquisition Strategies: Why Entrepreneurs Should Consider This Approach. Executing a programmatic acquisition strategy within a franchise system can be a particularly powerful way to scale a business, with very seductive economic returns. Most franchise systems are populated with local operators who own and manage several to scores of units within a brand. It is atypical for a franchisee operator to be a fully institutionalized and professionalized operator owning hundreds of units. For example, the Maaco franchise system has just over 400 units in operation with over 200 owners. This implies fewer than 2 stores per owner and a highly fragmented portfolio of acquisition opportunities. These small add-on opportunities can often be purchased at very attractive EBITDA multiples. We are aware of a group of entrepreneurs who are purchasing category-leading health and wellness concepts. These franchisees have been successful in acquiring over $17 million of store-level EBITDA (SLEBITDA) for $67 million in 24 different acquisitions, representing an average SLEBITDA purchase multiple of 3.9x. It is important to keep in mind, of course, that

SLEBITDA might be diluted for maintenance capital expenditures, periodic franchisor-mandated reimaging costs, and centralized shared services costs.

Furthermore, deal sourcing is one of the challenges in a programmatic acquisition strategy in a non-franchised context. Identifying and wooing potential acquisition candidates is a formidable process. We explore tactics and techniques for this cumbersome task in our case note On the Nature of Programmatic Acquisition Strategies: How to Source Deals. In the franchise world, acquisition candidates are provided in a tidy manner. Sourcing is done for the searcher in the FDD, which neatly identifies every single franchisee in the system with their contact information – how convenient!

Easier integration of acquisitions

Building on the previous point, programmatic acquisitions in a single franchise brand provide for streamlined and comparatively easy integration. In a non-franchised programmatic acquisition scheme, the acquirer confronts the challenges of assimilating, integrating, and optimizing multiple brands, accounting systems, enterprise software solutions, and operating systems. It is incredibly challenging, and every acquisition has an element of being the first time. This is not true when pursuing multiple acquisitions in an identical franchise system where the franchisor has established a single brand logo, standardized service and product offerings, consistent operating best practices, identical technology stacks, and a unified approach to running the business. All of a sudden, integration seems to be a somewhat approachable task. Simplified integrations increase the probability of harvesting the anticipated cash flows on a lower risk-adjusted basis. Furthermore, with integration being less intimidating, the entrepreneur might cautiously think about an amplified acquisition pace which could result in accelerated equity value creation.

Opportunity to rent the brand

Many entrepreneurs bemoan the marketing fees and royalty payments that franchisors earn from their franchisees. These fees can often run from 6% to 8% of revenues and cover advertising programs and the rights to the franchisor's name and business format concept. We acknowledge that a high single-digit percentage of revenue is indeed a lot to pay a franchisor, but those fees have great value. In addition to gaining access to all of the successful operating policies and procedures, support from the franchisor, education, and training, the entrepreneur obtains the right to use a valuable and established brand name and access to improved cash flow from geographically focused marketing. Building brand awareness and recognition is incredibly difficult and expensive, and most companies never achieve a level of customer awareness beyond reputation, but when becoming a franchisee, especially in a classic brand, for a relatively small amount, entrepreneurs immediately have the right to use a highly recognized brand name. We suspect that if we surveyed a random group of people, there would be incredibly high recognition of classic franchise brands like Dunkin', KFC, Planet Fitness, Valvoline, and Service Master. Recreating that brand awareness would be extraordinarily expensive and time-consuming for a small, solo search fund entrepreneur.

Community of shared knowledge

One element of the search fund world that makes it unique is the community of entrepreneurs and investors willing to help each other by sharing information and experience. This can also occur in the franchisee world, with the added benefit of exact domain expertise and knowledge. Franchisor operators hold multiple gatherings throughout the year in various geographic locations to share information with franchisees and for training purposes. These interactions facilitate connections with a brand's broader community of franchise owners. Franchisee owners within a brand can help new operators and share guidance on best practices and how to scale a group of units. This community of shared knowledge can help a search fund entrepreneur get to a stable operating rhythm more quickly and with more confidence.

Some banks have specialty lending units that focus on franchisees

Part of acquiring an initial franchise and growing the business is obtaining debt financing. Fortunately for franchise entrepreneurs, many commercial banks have established specialty lending units that focus specifically on franchise businesses. These banks have loan officers and credit programs that are attuned to franchise operators. Part of the enthusiasm for franchisees is the historical success rate of these businesses and their proven creditworthiness. Therefore, when contemplating purchasing a franchise, search fund entrepreneurs could enjoy easier access to attractively priced debt capital with banks that are primarily focused on franchisee credit. For example, Live Oak Bank, an active lender elsewhere in the ETA ecosystem, has a dedicated franchise finance group focused on lending to franchisees of approved brands.

Some systems have extremely compelling 4-wall ROIC and unit economics

We are mathematically and financially oriented, and part of what we find so appealing about franchises is the numbers. Some franchisee systems have an extraordinarily high 4-wall return on invested capital (ROIC) and unit economics. We define the 4-wall math as the field-level model (or SLEBITDA) for a single franchise store before any shared services costs. This is a proxy for the unit economics for a solitary location.

We have identified several brands with average store-level system ROIC ranging from 30% to 60% (see **Exhibit 2**). We find this nothing short of stunning. This is an extremely attractive use of capital – even when search fund weighted average cost of capital sits in the high teens. We concede that the ROIC does not account for taxes, maintenance capital expenditures, periodic franchisor-mandated reimaging costs, and centralized shared service costs, but we point out that this is also an unlevered computation.

When we teach this math to students in class, we expect unbridled enthusiasm and curiosity; we get crickets instead. This puzzles us because this is a capital allocator's fantasy. Furthermore, because franchises have a high probability of succeeding, we like to consider the risk-adjusted ROIC. Since many franchise systems have a less than 3% annual store closure rate, the ROIC becomes even more appealing.[10] We have a cynical and pessimistic streak and look at these returns with skepticism at times, but regardless of the factor by which we increase the capital investments or decrease the SLEBITDA, there is plenty of room to be incorrect while still earning enviable returns. Furthermore, franchise acquisitions can provide lucrative returns as well. Our research indicates that small groupings of franchisees can be acquired in the 3–6x SLEBITDA range, implying mid-teens to low thirty percent returns prior to leverage and taxes, maintenance capital expenditures, and centralized shared service costs. There are very attractive returns here. Please see **Exhibit 3** for illustrative franchisee store closing rates.

Unique real estate economics

When purchasing a franchisee that owns its real estate in a free-standing location, there are opportunities to create value through the real estate. If a seller has a comingled asset of an operating business and real assets, the acquirer might be able to disaggregate the assets post-acquisition and realize economic value by shedding the real estate into the highly liquid triple net lease real estate market. Real estate cash flows are often seen as more secure than operating cash flows since they are a priority claim, rather than a residual claim. This often results in the real estate cash flows trading at higher multiples than the comparable operating company cash flows.

We do not assert that this appealing real estate opportunity will be universally available. More sophisticated sellers will engage in the asset separation on their own to capture the economic value. However, episodically, some sellers will not disaggregate the real and operating assets in a sale for a variety of reasons (lack of awareness, avoiding complexity, need for a rapid exit, or absence of motivation). We are implying that this very attractive and compelling real estate dynamic might periodically manifest.

No need for a great idea

We enjoy teasing our students about how perfect the search fund model is for them. They all want to be immediate CEOs; they just do not have capital, experience, a business, or a great idea. A search fund solves all of those dilemmas. A franchise also delivers on the absence of an earth-shattering and innovative idea. With some quick desktop research, an aspiring search fund franchisee entrepreneur can find a neatly organized menu of hundreds of franchise ideas and concepts handily organized into sector segments. It is akin to internet shopping for a business idea. Franchises exist in food service categories, health and wellness segments, automotive concepts, pet-centric ideas, and scores more. Each brand serves a unique addressable audience and has a special twist. There is no shortage of innovative and creative ideas here. Of course, we encourage aspiring entrepreneurs to scrutinize each brand's underlying economic thesis and business model to laser in on one that satisfies their financial goals and framework. ETA searchers can find endless ideas for examination in the franchise world.

Shallow competitive talent pools

We are always confounded when students share their desire to work at hedge funds, consulting firms, and investment banks after graduation. Of course, we understand their interest in glamorous, prestigious, and high-compensation professional arcs, but these are also incredibly competitive fields stocked with a plethora of brilliant people who are willing to work endless hours. Despite the intellectual stimulation and financial rewards, this is a gruelingly fierce environment. In contrast, the world of franchises is not stockpiled with highly educated elite MBA grads who are willing to work one hundred–hour weeks. The talent pools in the franchise world are shallower. It is not our intention to sound dismissive or condescending when we assert this, but the very reason why we are writing this case note is that our smart and ambitious students are not going into franchises. We believe that there is a wonderful opportunity for clever, diligent search fund entrepreneurs to enter a business community where they can truly excel and distinguish themselves partially because they will be amongst the smartest, hardest-working folks in the business. Furthermore, post-MBA types will bring a degree of inquisitiveness, sophistication, and analytical rigor that might not be typically found in franchisee operators. In general, we would rather play in a market with weaker competition than stiffer competition – franchisees might be an avenue for this dynamic.

Franchisors might favor a professional, credentialed CEO

Building on the preceding core issue, franchisors might be keenly interested in working with and helping franchisee operators who have the profile of a post-MBA search funder. Franchisors are moving towards seeking and supporting franchisees who have access to equity and debt capital, are committed to scaling a professionalized business, and can execute this strategy. If a franchisor identifies a search fund entrepreneur as a preferred franchisee – and we think they will – the ETA CEO will have access to superior acquisition opportunities, additional geographical regions, and the ability to provide meaningful operating feedback to the franchisor. Recall that the franchisor–franchisee relationship is a partnership with overlapping economic interests. The franchisor wants superior franchisee partners who can scale and operate the business in the best manner for the franchisor. We believe elite MBAs with pre-MBA experience in banking, consulting, and operations can be particularly appealing partners for franchisors.

Adam Wilver (The MIT Sloan School of Management 2022) started two and acquired four units in the [Smash My Trash] franchise system, which provides mobile dumpster compaction services to construction, manufacturing, and distribution businesses, immediately after his graduation. Prior to business school, Wilver worked at The Carlyle Group in Manhattan as a private equity professional and as an investment banker at Bank of America. While at Sloan, Wilver was the co-founder and president of the ETA club.

When I was in business school, I knew I wanted to do something more entrepreneurial after graduation. I enjoyed and learned a lot in private equity and investment banking, but I did not want to go back to that world. At Sloan, I became very interested and engrossed in the ETA world. I quickly lasered in on doing a self-funded search. While exploring potential businesses, I randomly tripped on the franchise concept. I immediately wrote off franchising as a serious prospect because I had a negative perception that franchises were all QSR and not real entrepreneurial ventures. Later in my search exploration, I connected with a former private equity investor who was operating a portfolio of franchise brands. This opened my eyes to the opportunities within the franchise world, and I started looking at the path through a new lens.

To further explore the franchise world, I worked with a franchise consultant who introduced me to many brands and concepts based on my selection and search criteria. I was looking for something with fairly typical search fund criteria: contractually recurring revenue, high returns on invested capital, clear value proposition, sticky customers, and B2B services. I was still skeptical, but then the consultant showed me Smash My Trash, and it surprisingly ticked all my boxes. I started to get pretty curious and excited. I liked the clear value proposition to customers – selling savings and green initiatives. The business is straightforward operationally and not real estate intensive like QSRs.

Franchises are an incredible opportunity for the post-MBA crowd. You get a business in a box with a proven playbook. The model allows me to focus on exactly what I want: people development, operations, and growth. I get to learn the guts of a business and the fundamentals of ownership with a product or brand that is already established and perfected. I get the small company feel with the support of a large organization, procuring national contracts, and executing a fantastic marketing program that I could never achieve independently. I love that there is a social stigma with franchises – it drives a better and bigger opportunity for me.

I am delighted with my decision to be a franchisee. I am having fun and being challenged, and the business is growing more than I ever imagined. Nearly a year in, the thesis remains intact. I see a clear path towards building a large, professionalized organization and acquiring many other operators in the system who are focused on developing single units. I strongly believe that more MBAs should consider franchising.

Conclusion

While purchasing, owning, and operating franchises is likely not for every post-MBA ETA entrepreneur, we firmly believe this approach could be a wonderful fit for some aspiring entrepreneurs. Yes, there are many reasons why it might not be ideal for some, but upon further and deeper examination, eager entrepreneurs may find that it is a very compelling opportunity with many distinct advantages. At one point, search funds were scorned as faux entrepreneurship and looked down upon as low-brow like franchises are currently. However, search funds are now completely normalized and mainstream at prestigious MBA schools. We think there is an opportunity for franchise entrepreneurs to be viewed in a similar manner.

We encourage you to think deeply about franchises as one of many ways to pursue entrepreneurship. At least make an informed choice and give it enough time to be considered as a possibility. Examine the prospect objectively without allowing preconceived notions to be narrowing constraints.

Good luck in your journey – you just might be a budding successful franchise entrepreneur!

Exhibit 1: Additional resources

- Bisio, Rick and Kohler, Mike. The Educated Franchisee: Find the Perfect Franchise for You. Editorial: Minneapolis, Mn, Tasora Books, 2017.
- Edwards, Robert. The Dark Side of Franchising. Independently Published, 11 Nov. 2020.
- Findaro, Patrick. Employee to Entrepreneur. Independently Published, 22 Nov. 2022.
- Grossmann, Rick. Franchise Bible: How to Buy a Franchise or Franchise Your Own Business. S.L., McGraw-Hill Education, 2021.
- Neonakis, Nick et al. The Franchise MBA: Mastering the 4 Essential Steps to Owning a Franchise. Scotts Valley, Calif., Createspace, 2013.
- Siebert, Mark. The Franchisee Handbook: Everything You Need to Know about Buying a Franchise. Irvine, Ca, Entrepreneur Press, 2019.
- Bhide, Amar V. and Espinoza, Gerardo J. "Note on Buying a Franchise," *Harvard Business Publishing*, November 1990. 491024.
- Gompers, Paul A. and Conneely, Catherine. "Note on Franchising," *Harvard Business Publishing*, February 2012. 297108.

Podcasts and websites:

- A Consumer's Guide to Buying a Franchise | Federal Trade Commission (ftc.gov)
- Business with Beers podcast
- Buying a Franchise – Jim Stein Sharpe
- Home | 2023 Multi-Unit Franchising Conference (multiunitfranchisingconference.com)
- International Franchise Association (IFA) - 1400+ Franchise Opportunities
- View FDD Docs - The FDD Exchange
- Wolf of Franchises | Expert Franchising Analysis & Insights

Exhibit 2: Illustrative franchisee ROIC

Concept	Average unit volume	SLEBITDA (Margin %)	Capital investments	ROIC(1)
planet fitness (2)	$1.97 million	$0.76 million (38%)	$2.16 million	**35%**
orangetheory FITNESS	$1.14	$0.34 (30%)(3)	$1.03	**33%**
EUROPEAN WAX CENTER (4)	$1.02	$0.22 (21%)	$0.36	**60%**
ME Massage Envy (5)	$1.20	$0.30 (25%)	$0.73	**41%**
THE JOINT chiropractic	$0.51	$0.13 (26%)	$0.29	**45%**

Sources: unit economic metrics sourced from concepts' latest FDD as of April 2022, where available; EWC data sourced from July 2021 Form S-1 filing
Note(s): (1) industry convention is to calculate payback period by dividing capital investments by average unit SLEBITDA; this ignores the ramp period of an average unit and the maturity of the average unit in a system; ROIC is defined as the inverse of payback period; (2) PLNT data represents 2019 metrics given Covid impacts on fitness locations; (3) OTF SLEBITDA represents an estimate from industry conversations; (4) EWC only discloses unit economics of "Mature Centers", defined as opened for 5 years, inflating its metrics relative to peers'; (5) ME AUV and SLEBITDA represent estimates from industry conversations

Exhibit 3: Illustrative franchisee store closing rates

	2019	2020	2021	3 year average
Health and wellness				
Massage Envy	1.5%	2.1%	1.7%	**1.8%**
CLUB PILATES	0.0%	0.0%	0.0%	**0.0%**
planet fitness	0.0%	0.1%	0.1%	**0.1%**
Automotive				
meineke	3.3%	0.7%	2.3%	**2.1%**
jiffy lube	0.1%	0.1%	0.0%	**0.1%**
Restaurants				
TACO BELL	0.5%	0.7%	0.6%	**0.6%**
Domino's	0.1%	0.1%	0.1%	**0.1%**
Wendy's	0.8%	1.1%	0.8%	**0.9%**
Education				
Sylvan Learning	3.9%	6.8%	3.2%	**4.6%**
	0.0%	0.0%	0.0%	**0.0%**
MATHNASIUM The Maths Learning Centre	2.7%	6.0%	3.3%	**4.0%**

Source: Created by case writers using FDD information on each brand.

Endnotes

[1] Peter Mistretta is the founder and CEO of Knight Franchise Holdings, an owner and operator of franchised locations of category-leading consumer brands. He is a graduate of the Stanford Graduate School of Business.

[2] Jim Sharpe is a visiting executive at the Harvard Business School, a former ETA entrepreneur, and an ETA mentor. He is the author of the must-read blog Jim Stein Sharpe – Sharing about searching, searchers and running an SME.

[3] A. J. Wasserstein is the Eugene F. Williams, Jr. Lecturer in the Practice of Management at the Yale School of Management.

[4] International Franchise Association's 2022 Franchising Economic Outlook https://www.franchise.org/sites/default/files/2022-02/2022%20Franchising%20Economic%20Outlook.pdf

[5] Gompers, Paul A. "A Note on Franchising." Harvard Business School Case #9-297-108, revised February 29, 2012.

[6] "2019 Franchise 500 Ranking." Entrepreneur, 2019, www.entrepreneur.com/franchise500.

[7] Rasmussen, Daniel. "Do MBAs Want to Be Billionaires?" Verdad, 19 Sept. 2022, verdadcap.com/archive/do-mbas-want-to-be-billionaires?utm_source=Weekly+Thoughts&utm_campaign=2a1ea780c8-WEEKLY_THOUGHTS_10_14_2022&utm_medium=email&utm_term=0_d41baf9e4f-2a1ea780c8-608331349.

[8]Bond, Helen. "Hell of a Ride! Greg Flynn, with 1,245 Restaurants, Is Gunning for More." Www.franchising.com, 2019, www.franchising.com/articles/hell_of_a_ride_greg_flynn_with_1245_restaurants_is_gunning_for_more.html.

[9] Obtained from publicly available Domino's SEC filings.

[10] Obtained from various FDD item 20 information.