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FRANCHISE CONNECTION

A NEWSLETTER FOR FRANCHISEES, PROSPECTIVE FRANCHISEES & RESTAURANT OWNERS

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EXPERIENCE MATTERS: Preserving Value When There are Lease Issues

by Alan Gallup & John Lukac

Overview:
National Franchise Sales (NFS) uses its experience, knowledge, and proven success to preserve the value of franchised restaurants by reviewing, analyzing, and understanding the needs of each party.

Project Background:
The following is one example of how National Franchise Sales used its experience to preserve market value in a franchise restaurant.

NFS was contacted by an existing client to assist with a lease extension negotiation and a possible sale of one the franchisee's stores. This restaurant was a top performing unit with annual sales of nearly $3,000,000 and was very profitable.

The unit was subleased from the Franchisor who in their "sandwich" position enjoyed a modest rental markup over the master lease rate. The master lease

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and sub-lease were expiring in sixteen months and the Franchisor was unwilling to continue in a sandwich position.

Prior to contacting NFS, the Franchisee had some direct conversations with the landlord's property manager about obtaining a new lease, but never received a proposal. Fearing the loss of this highly valuable store when the lease expired, the franchisee contacted NFS to see if we could help.

NFS renewed the conversations with the Property Manager and discovered that although the existing Franchisee was a successful multi-unit operator, the loss of the billion dollar Franchisor as a tenant, would impact the value of the property for the Landlord as the franchisee did not have the net worth the landlord sought. So, the landlord began to seek a replacement tenant and was courting Chick-Fil-A and In-N-Out as potential tenants. This presented a severe risk to the franchise owner of losing this very valuable location.

Probing further, we learned that the landlord had had an inquiry from Starbucks to take about a quarter of the square footage of the large existing building, and that the landlord would consider an offer to allow the existing brand to continue to lease the remaining 75% of the building. But they said, they needed a much higher rent and a high net worth tenant.

Project Summary:
NFS' assessment of the situation, contacts within the industry and extensive experience in lease negotiations directly resulted in a seven-figure net to Seller despite risk of total value loss

NFS quickly sized up the unit economics to assess the maximum rent affordable, and concluded that the rent that could be paid by the existing franchise business combined with the Starbucks rent, would not be enough to match Chick-fil-a unless we secured an extremely high net worth tenant to become the new franchisee at the location.

With the pressure of the clock running out on the lease, NFS took the engagement to sell the franchise and identified a few extremely well qualified in-brand franchisees that might have an interest in purchasing the business, and the ability to satisfy the landlord's requirements.

NFS presented the opportunity to the best possible candidate, who immediately understood the challenges and had strong in-house real estate negotiation skills. NFS then prepared a Purchase Contract with a lease contingency structured with reasonable expectations for the lease.

Once the Purchase Contract was fully executed and the Buyer approved due diligence, NFS introduced the Buyer to the Landlord. The buyer negotiated a carve-out of around 20% of the square footage for Starbucks, offered a very strong entity and a personal guarantee.

Since an early lease termination would result in some revenue loss to the Franchisor, NFS obtained a commitment from the involved parties to buy-out of the existing sublease.

A final negotiation point included the Seller's contribution towards the construction costs in order to make up for the shortfall in the expense of adding Starbucks into the building. This proved to be the final inducement for the Landlord to enter into this new Lease.

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Engagement Highlights of the transaction:

- NFS uncovered the unusual lease terms necessary to preserve the location
- A quality buyer with the right skills and financial statement was identified quickly
- NFS was able to obtain a valid purchase contact in less than six weeks from the date the franchise was listed for sale
- The close of escrow was completed a few months before the restaurant was scheduled to close its doors, had a new lease not been obtained
- The seller netted over $1,500,000 through the sale on this business that would have been lost (worth zero), had the seller waited any longer to place the business for sale, as the landlord would surely have accepted the Chick-fil-a offer to lease.
- A high profile, high volume location was preserved for the brand
- The Buyer obtained a high-volume franchise with a long term lease at a fair market price

VIEW THE NATIONAL FRANCHISE SALES VIDEO LIBRARY TO LEARN MORE ABOUT THE FRANCHISE BUYING PROCESS

The NFS Buying Process Video Library is just one way in which National Franchise Sales supports those on the buy-side of transactions.

https://www.nationalfranchisesales.com/video-library

NFS SPOTLIGHT: MEGAN BLACK

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Megan Black, has a background in the food service industry, and quickly moved through the ranks at National Franchise Sales from Administrative Assistant to Transaction Manager, to Associate Advisor. Megan has gained in-depth knowledge of restaurant industry and marketing concepts through the direct involvement in multiple franchise ventures. In her dual capacity of Transaction Manager and Associate Advisor, Megan coordinates the details and timeline for NFS franchise transactions moving toward consummation, while also advising her own clients in the acquisition and divestiture of franchise restaurants. Megan is currently working on a degree in Marketing at Orange Coast College, and is also the company Social Media Coordinator.

BRAND SUMMARY: JAMBA

by Ritchie Labate | NFS Jamba Brand Specialist

Jamba Juice is a leading restaurant retailer of "better for you" specialty beverage and food offerings which include flavorful, whole fruit and vegetable smoothies, fresh squeezed juices and juice blends, Energy Bowls, signature "boosts", shots, and a variety of food items including: hot oatmeal, breakfast wraps, salads, sandwiches,

Artisan flatbreads, baked goods and snacks. The company was founded in San Luis Obispo in 1990 and is part of the Focus Brands family (Cinnabon, Auntie Anne's, Moe's Southwest Grill, McAlister's Deli, Carvel, Schlotzsky's). There are approximately 900 Jamba Juice locations operating worldwide

Franchisee Qualifications:

- Sufficient net worth/liquidity to complete transaction
- Minimum Net worth of $350,000
- Minimum Liquidity of $125,000
- Credit Score 700+
- Franchise Fees:
- Monthly Royalty 6% of net sales.
- Monthly National Marketing Fund 3% of net sales.
- Local Store Marketing 1% of net sales.

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