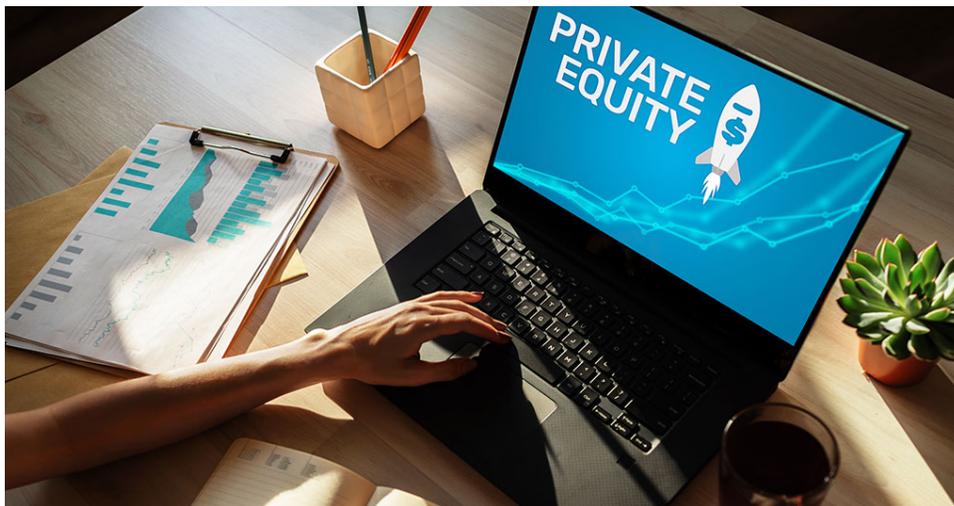


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Capital Options – Family Offices and Private Equity



Established franchisees have seen financing and capitalization alternatives blossom during the past few years. Traditional capital using straight senior financing and embedded equity or external equity capital has evolved to become only one of many alternatives for companies looking to grow.

But it's important for franchisees to have a firm understanding of their business's goals and growth strategies, including generic growth plans, remodeling projects (required and elective), and opportunities to expand through acquisitions, says Carty Davis, a boutique investment bank partner who has completed hundreds of transactions in the multi-unit franchise and restaurant space.

He recently wrote about the importance of understanding the differences between the various types of lenders and capital providers and how to pinpoint the ones that might work best. Here's what he says about one type of capital provider:

Family offices and private equity. High-growth opportunities, acquisitions, and new brands often require additional equity to strengthen the balance sheet. The two primary equity sources supporting franchising are family offices and PE firms. Generally, the primary difference between family offices and PE groups is their investment horizons. Family offices typically invest in businesses for the long run, whereas PE firms generally have a more limited timeframe of 5 to 7 years. For this reason, franchisors typically favor

family office investors as they provide more stability over a longer period than their PE counterparts.

While franchisors may prefer family offices over PE firms, PE investors are still the most prevalent equity investor in both independent brands and large franchisee businesses. It is important to note that PE firms come in all shapes and sizes. Companies should look for PE firms that invest in people and businesses and are not just out for short-term financial returns. There are more PE firms looking for franchise opportunities than ever before. Do your homework and make sure an equity firm is a good fit before bringing them on.