Franchise Matrix™ Methodology

The sole objective of the FranCompare™ Franchise Recognition Program is to determine and promote what we feel are the best franchise systems within their distinct industry categories. The analysis relies solely on data provided in each company's most recent (2018) Franchise Disclosure Document (FDD). By relying on directly comparable data from each company's FDD, we have attempted to minimize the element of subjectivity in making our recommendations. Accordingly, the structure (Franchise Matrix™) that we use for the analysis is entirely metrics-based and is totally void of any marketing promotion or "hustle" that one might find in other franchise-focused or lead generation websites. We feel comfortable that we are recommending the "best" among the franchise systems evaluated in each industry sub-sector, based on an unbiased metrics-based, value-driven system that readily allows for side-by-side comparison.

Our sense is that most prospective franchisees will initially look at industry groups in which they have some experience or strong interest. Therefore, we have broken down the industry groups into over 100 readily identifiable Secondary Categories.

In terms of the in-depth analysis, we have selected over 40 distinct variables detailed in each company's 2018 FDD, and we have further assigned a weight (out of a total value of 1,000) to each of these variables. We subsequently selected the recognized leaders within their market segment and, solely through the metrics provided in each franchisor's 2018 FDD, compared them side-by-side. The company with the highest total value is noted as "Best in Category" franchise for that segment.

The Franchise Matrix™ is broken down into 4 parts and each part is allotted a maximum value. These are:

- Key Unit Investment Variables (25%)
- "Real" Unit Growth (30%)
- "Real" Unit Performance (35%)
- "Real" Financial Strength (10%)

The selection process starts with sorting through the over 2,100 2018 Franchise Disclosure Documents (FDDs) that we have in our library (www.FranchiseDisclosures.com). FDDs were acquired from the various registration states. Franchisors are required to register their franchise system through an FDD before they can sell a franchise in those states. New FDDs must be submitted each year if franchisors want to continue selling franchises in that state. If a franchise system has not submitted a 2018 FDD to the various states, then they were not considered in the study. In some cases, franchisors are considered exempt from submitting an FDD and, accordingly, were not considered.

From the ~2,100 FDDs that we do have, each company is sorted into over 100 distinct secondary categories and the type of customers it serves:

Primary Category – There are 12 primary categories (Eats, Fitness, Child & Youth, Senior Services, etc.).

Secondary Category – There are over 100 secondary categories (Ice Cream Shops, Child Enrichment, Home Health Care, etc.).

To the extent that there is a minimum of 4 active franchisors in a particular Secondary Category for which we have a 2018 FDD, we select individual franchisors for consideration. As will be discussed below in greater detail, we feel that it is extremely important for a franchisor to provide a meaningful Item 19 - Financial Performance Representations. Without a historically based starting point, it is extremely difficult for a prospective franchisee to construct a realistic pro forma income statement. Since "Real" Unit Performance accounts for 35% of a franchisor's total score, companies that do not provide an Item 19 are heavily penalized. Accordingly, we first picked franchisors who provide an Item 19 and, from that group, we select those which have the highest total unit count. If there are no 4 such companies that provide an Item 19, we then select the largest remaining franchisors who do not provide an Item 19. There are some industries in the Secondary Category in which none of the franchisors provides an Item 19.

By focusing on the largest franchisors in a particular Secondary Category, many exceptional companies are automatically excluded from consideration. While this is unfortunate for those not considered, we determined that most prospective franchisees would feel more comfortable with a larger company than one with fewer operating units. We also wanted to limit our comparison to a maximum of 4 companies.

In a handful of Secondary Categories, we have included an analysis of only 3 companies.

Over the past 30 years, the World Franchising Network has published over 50 books and directories related to franchising. We would like to stress that the analyses provided were done on an entirely arm's-length basis and with no bias towards a company with which we may have had a long-term relationship.

It should be noted that the methodology noted below is modified in terms of the specific Secondary Category being evaluated. In most cases, the company with the most desirable statistic regarding a particular variable will be awarded the highest reasonable score for that variable (say 20 of a total of 20 possible points). Its competitors will have reduced scores that are a function of how far their score falls behind that of the "Winner" for that specific variable. In all cases, there is a hierarchy of scores from the highest to the lowest score for that variable. As an example, if one company has a footprint of 32 states and its competitors have footprints of 18, 7 and 4, the company with 32 states would receive the highest relative score.

Noted below is a summary of the various items considered in the analysis of the Franchise Matrix™.

1. Key Unit Investment Variables (25%):

Year-End Total Units (Franchised): As noted in Item 20, this represents the total number of franchise units at the end of the franchisor's fiscal year. In most cases, this will be December 31, 2017.

Year-End Total Units (Company-Owned): As noted in Item 20, this represents the total number of company-owned units at the end of the franchisor's fiscal year. In most cases, this will be December 31, 2017.

Total Year-End Units: This is a combination of franchised units and company-owned units.

% Franchised: This represents the ratio of year-end franchised units to total units.

% Company-Owned: This represents the ratio of year-end company-owned units to total units. Our opinion is that it is important that the franchisor have some company-owned units (skin in the game), so that it can better understand the actual day-to-day operations from the franchisee's point-of-view and provide any necessary corrective action.

US Footprint (# US States): As noted in Item 20, this represents the total number of U.S. states in which the franchisor operated at the end of the franchisor's fiscal year. The greater the distribution throughout the U.S., the better all franchisees are served. As an extreme example, if all of a franchisor's operating units are located on the East Coast, it is unlikely that a single franchisee on the West Coast would receive the same level of support.

Total Investment (Low Investment): As noted on Page 1 of the FDD, this represents the lower end of the initial investment required for a new franchisee to open his or her business. The major components of the investment are shown in greater detail in Item 7.

Total Investment (High Investment): As noted on Page 1 of the FDD, this represents the upper end of the initial investment required for a new franchisee to open his or her business. The major components of the investment are shown in greater detail in Item 7.

Average Total Investment: This is the arithmetical average of the Low Investment and High Investment. While this is an easy way to determine the average initial investment required, it is admittedly inexact. It, nevertheless, requires no interpretation or specialized analysis on the part of the analyst. Given that the same Average Total Investment calculation is used for all franchise systems, it is imminently fair.

Franchise Fee (Single Unit): As noted in Item 5, the franchise fee represents a front-end, one-time-only payment to grant a franchise for a single unit at a single location. It is supposed to reimburse the franchisor for the costs incurred in setting up a new franchisee – from recruiting through training and manuals. Most recently, the huge fees paid to franchise brokers and outside third parties are included in the franchise fee. The franchise fee is generally included as part of the initial investment ranges noted above.

Annual Royalty Fee (On-Going After Trial Period): As noted in Item 6, this represents the payment (usually paid monthly) to the franchisor for the on-going support that the franchisor provides. It is essentially the franchisee's cost for being part of the larger franchise system and for all the "back-office" support the franchisee receives. The royalty fee is usually a percentage of gross sales and is generally in the neighborhood of 5% to 7%. In some cases, the fee decreases as the volume of sales (or other measure) increases. In others, the fee is held at an artificially low level during the start-up phase of the franchisee's business, then increases once the franchisee is better able to afford it.

Term of Initial Contract: As noted in Item 17, this represents the number of years that are granted to the franchisee to operate as a franchisee of the franchisor's system. So long as all of the terms of the Franchise Agreement are carried out by both parties, the franchisor cannot terminate the relationship.

Term of First Contract Renewal: To the extent that the franchisee has adhered to all of the terms of the Franchise Agreement throughout the term of the Initial Contract, the franchisor is obligated to offer the franchisee an extension as stated in Item 17. There can be any number of self-serving reasons why a franchisor might want to terminate the relationship before the contract term ends. This can be based on the flimsiest of reasons. Accordingly, it is critical that a franchisee follows all of the terms of the Franchisee Agreement so that the franchisor cannot unilaterally and unfairly terminate the Agreement.

Transfer Fee: Item 6 notes the amount charged by the franchisor to the franchisee for transferring ownership of the franchise to a third party. It is important to fully understand any limitations to the transfer and whether or not the franchisor has the right to meet any offer by a third party.

Year Incorporated: This is the year the business was originally incorporated as a business. The incorporation date is noted in Item 1. Obviously, the longer a franchise has been in business, the longer it has had to optimize the system.

Franchising Since: This date can usually be found in Item 1, but not always. Many franchise systems have gone through various ownerships and it is frequently difficult to determine how long they have actually been franchising. Since it is unclear in some cases how long the franchise has actually been franchising, we do not assign a value to this variable.

Issuance Date of FDD: This date is usually stamped at the bottom of the first or second page of the FDD. Usually, Issuance Date of XXX.

2. "Real" Unit Growth (30%):

Accurately measuring "Real" Unit Growth is critical in comparing one franchise system against another. Accurately measuring "real" unit growth is critical in comparing one franchise system against another. Most franchisors would have you believe that their numeric growth over the most recent 3-year period is paramount. Others would maintain that the "continuity rate" deserves primary attention. The continuity rate compares the number of units at the beginning of each year with the number of operating units at the end of each year. If the end-of-year units are greater than the start-of-year units, then that is considered excellent performance by many.

In a perfect world, a franchisor would add new units at a rate that it could adequately support and there would be no units that would leave the system. Unfortunately, this is seldom the case. Franchisees come and go for a number of reasons, some of which are not a negative reflection on the franchisor (such as the transfer of business to the next generation). Most changes in unit ownership, however, have a negative connotation.

All changes in unit ownership are reflected in Item 20. Unfortunately, all we are left with are numbers. The reasons for any changes are never provided in the FDD itself. Accordingly, we have decided not to consider unit Closures, Transfers to new franchisees or Turnovers, which are the sum of Closures and Transfers. Because we cannot adequately determine the circumstances for these changes, they are not part of either the Franchise Matrix™ calculation or the FranCompare™ Franchise Recognition Program. We would strongly recommend, however, that a prospective franchisee spend the time to learn the reasoning behind Closures, Transfers and Turnovers.

Table No. 1 of Item 20 summarizes the changes in total units over the 3-year period and also calculates the net changes by year. The chart shows the change in both franchised and company-owned units.

Base Year Beginning Units: This is the number of units at the beginning of the base year, as noted in Table 1 of Item 20.

New Franchised Units Opened Over Following 3 Years: Table 3 of Item 20 in the FDD details the changes that occur for franchised units in each of the preceding 3 years. The categories universally used are made up of the following components.

Table No. 3: Status of Franchised Outlets For Years 2015 to 2017

Outlets at Start of Year	240
Outlets Opened	+45
Terminations	- 10
Non-Renewals	- 6
Reacquired by Franchisor	- 2
Ceased Operations – Other Reasons	- 1
Outlets at End of Year	266
Net Change During Year	+ 26

It is important to distinguish between New Outlets Opened and Net Changes in Total Franchised Units. Net Changes are the difference between Outlets at Start of Year (240) and Outlets at End of Year (266). The Franchise Matrix™ uses New Franchised Units Opened Over Following 3 Years to calculate % New Franchised Units Opened Over Base Year Units.

Total Franchised Units End of Year 3: As noted in Table 1 of Item 20. This figure is used to calculate the 3-Year Compound Annual Unit Growth.

% New Units Opened Over Base Year Units: New Franchised Units Opened Over Following 3 Years divided by Base Year Beginning Franchised Units.

3-Year Compound Annual Unit Growth: Compound Annual Growth Rate measures the unit growth from base year to end of 2016. Assuming proper support on the part of the franchisor, higher growth is rewarded.

3-Year Average Continuity Rate: The Continuity Rate is an important and commonly used metric within the franchising industry that measures the success of a franchise system over its most recent past. Continuity rate is determined for each year by dividing end-of-year total units by beginning-of-year total units and dividing the annual rates by 3 to arrive at an average.

If there are a high number of closures, non-renewals or transfers within a franchise system, the continuity rate will generally result in a rate of less than 100%, as will a system that cannot support its growth and, accordingly, its franchisees are failing. A high continuity rate is evidence of strong support systems. Continuity rates of over 100% are rewarded and ones with less than 100% are penalized.

3. "Real" Unit Performance (35%):

In our opinion, this section is the most relevant in terms of comparing one franchise system with another within the Franchise Matrix™. What is critical to you as a prospective franchisee is to determine (as best you can) how much you might reasonably earn (*"How Much Can I Make?")* if you faithfully follow the system as outlined by the franchisor.

The most significant component of your expected "Real" Unit Performance is found in Item 19 – Financial Performance Representations (FPR). This is a voluntary opportunity for the franchisor to notify potential franchisees what existing franchisees and/or company-owned units have made in the past. To the extent that a franchisor submits an Item 19, it must be able to justify the numbers presented. Failure to do so would be fraud and punishable by law.

In our effort to determine the Best in Category Franchises, we went through our library of over 2,100 2018 FDDs. Of these, 58% submitted Item 19 data. Although this percentage is more than double the submission rate of only 5 years ago, it is hard to envision the logic of a franchisor intentionally leaving the potential investor in the dark as to what he or she might expect.

Of a maximum of 1,000 points awarded to a franchise system, a maximum of 350 (35%) are determined in part by the information provided in Item 19/FPR. Our sense is that the vast majority of franchisors have a method of reasonably determining how much their existing franchisees make at least at the Average Gross Sales or Revenue level and are capable of submitting an Item 19. The reason why some choose not to do so might depend on a number of factors. The only one that has merit in our opinion, however, is that the Franchise Agreement may not require franchisees to submit the necessary data on sales (at a minimum) and franchisee expenses to the franchisors. Since royalties received by the franchisor are a function of gross sales (generally), it is hard to understand why the underlying information is not provided. At any rate, those companies that did not submit an Item 19 pay a stiff penalty (a maximum of 350 points) in terms of the analysis in the Franchise Matrix™.

Ideally, to provide maximum value and insights for prospective franchisees, franchisors should provide an entire income statement, starting with Gross Sales, less all relevant expenses, and ultimately arriving at EBITDA. EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA effectively strips out the cost of debt capital and its tax effects by adding back interest and taxes to earnings. Although there are potential problems, EBITDA is one indicator of a company's (or franchisee's) financial performance and is used as a proxy for the earning potential of a business.

What we have found is that the majority of franchisors who do submit a minimally informative Item 19 at least provide the Average Gross Sales enjoyed by their franchisees. Accordingly, and notwithstanding the sub-optimal result, we have decided to use Average Gross Sales as the common element in the Franchise Matrix™. To the extent that a franchisor submits an income statement pro forma with an

EBITDA calculation, they are awarded up to an additional 40 points (out of 1,000), while franchisors who do not do so receive 0 points. It is our hope that, over time, all franchisors will submit an item 19.

Company-Wide Average Gross Sales or Revenue: This information is noted in Item 19/FPR of the FDD. We have done our best to formulate a "Standard Methodology" in arriving at an Average Gross Sales where possible. Some franchisors prefer to show only the top quartile (top 25%) of franchisees' Gross Sales figures, while others only show Gross Sales figures for companies that have been in business for over 12 months. The methodology submitted by the franchisor is noted in the Franchise Matrix™.

Unfortunately, there is no generally accepted standard way to present Average Gross Sales. Many present data for franchisees who have been in business greater than 2 years. This is the standard we prefer. Others use a greater than 1 year filter. Still others use a greater than 5 years of continuous operations on reporting Average Gross Sales. Clearly, one would expect that sales for franchisees who have been in business for greater than 2 years to be at a competitive disadvantage when compared with franchisees who have been in business for 5 years. It is important for a prospective franchisee to take into account the period over which the Average Gross Sales figures are calculated. See below how we have tried to come up with a Standard Methodology. Given the latitude provided to franchisors in displaying sales figures, it is not surprising that many opt for a longer historical period. Because sales are a function of the investment made, franchisors are not scored on the basis of Average Gross Sales. It is also important to note whether or not the Gross Sales applies to franchised units, company-owned units or both.

Adjusted Average Gross Sales or Revenue: To compensate for the widely differing periods considered in presenting Average Unit Gross Sales, we have assumed that revenues for companies in business for over 2 years are the standard. Revenues for other periods were adjusted as follows. The same adjustment factors noted below were applied to all franchisors.

Stated Average Unit Gross Sales over 1 year in business were adjusted by 115%.

Stated Average Unit Gross Sales over 2 years in business were adjusted by 100%.

Stated Average Unit Gross Sales over 3 years in business were adjusted by 95%.

Stated Average Unit Gross Sales over 4 years in business were adjusted by 85%.

Adjusted Unit Gross Sales Return on Average Total Investment: What is of critical importance, in our view, is the expected level of sales as a direct function of the Average Total Investment This formula calculates a crude but comparable measure of return on investment at the Average Gross Sales level. It is calculated by dividing Average Unit Gross Sales by the Average Total Investment noted in Section 2 above. The end result shows the annual sales as a multiple of the original investment. In most cases, the multiple is relevant only for the type of industry.

Cumulative 10-Year Gross Sales (Compounded at 5% Growth/Year): While it is easy to overlook a mild discrepancy in a first-year calculation of return on investment, differentials become more glaring if one considers a 10-year horizon. 10 years is generally the term of the original franchise agreement. This 10-year calculation assumes that Year One Adjusted Average Gross Sales grow at a 5% rate each year and are cumulative.

10-Year Sales/Average Total Investment: To better compare Item 19 Average Gross Sales data over a longer period, we have calculated an additional way to compare sales over a 10-year period as a multiple of the original investment. Other things being equal, the highest ratio should justify a higher score than its competitors.

10-Year Total Royalty Payments: While a small differential in royalty rates may appear inconsequential in the first year of a franchise, it is far more meaningful over a 10-year period. This calculation compares Cumulative 10-Year Gross Sales times the Royalty rate spelled out in the FDD. Total Royalty Payments over a 10-year investment period are important only as a function of the original investment. As a potential franchisee, after you commit to a franchise system, you want to minimize the amount of royalties you have to pay to the franchisor over the term of the franchise agreement.

10-Year Royalties / Average Total Investment: In order to be meaningful, 10 years of royalty payments, based on sales compounding at 5% per year, have to be adjusted to reflect the level of the initial investment (Average Total Investment). Once done, the resulting percentages are directly comparable between franchisors.

Detailed Income Statement (EBITDA All Units Optimal): Franchisors who provide a detailed income statement in addition to Average Gross Sales are awarded a premium, depending on the level of detail. EBITDA information are awarded up to an additional 50 points over their competitors who do not. To the extent that the franchisor provides some meaningful information beyond Average Gross Sales, they would be awarded some positive score.

4. “Real” Financial Strength (10%):

All of the data used in comparing Financial Strength is taken from the franchisor’s balance sheet as noted in its most recent FDD. The balance sheet represents the franchisor’s financial position at a given point in time (usually year-end or end of a quarter). The actual submission date of the Balance Sheet is noted. In many cases, the balance sheet included in the FDD is the balance sheet of the parent company, not the actual franchisor. Nevertheless, since the same key ratios are used in all cases, the results should show the financial stability and strength of either the franchisor or the parent company.

The Solvency Ratios noted below are widely used among financial analysts to determine whether or not a franchisor has the financial strength or wherewithal to properly support its franchisees over the term of the Franchise Agreement.

A company's balance sheet is made up of two components – 1) Assets and 2) Liabilities and Stockholders' Equity. By definition, both must be equal. Stockholders' Equity is what remains after subtracting Total Liabilities from Total Assets. Every franchisor's objective is to continually increase Stockholders" Equity and reduce the franchisor's debt burden.

Because of the unique nature of the franchising industry, ratios used in other industries may not be used for comparison purposes. For a more complete definition of key terms, and their importance, please do an internet search. Since most prospective franchisees do not have the financial experience to properly evaluate a franchisor's balance sheet, it is highly recommended that you seek the advice of an accountant or financial advisor.

For the purposes of this analysis, the ratios are noted for comparative purposes only – how one franchisor's balance sheet ratios compare with those of its competitor's. Absolute numbers are important only in terms of the ratios that are noted below. Similarly, it may not be fair to compare the financial ratios in one Secondary Category (e.g. Taco franchise) with those of another and disparate Secondary Category (e.g. Accounting franchise).

Current Ratio: This popular ratio is used to determine the franchisor's ability to fund its Current Liabilities through Current Assets. The ratio is calculated by dividing Current Assets by Current Liabilities. The higher the ratio, the better. A ratio under 100% could be a sign that the franchisor may be unable to pay its short-term obligations when they become due. Keep in mind, however, that this does not suggest imminent bankruptcy and may only be a short-term problem. If, however, the franchisor's Current Ratio is low over a period of years, then you should determine the reason and be wary.

Total Debt to Total Assets Ratio: This measures the extent to which borrowed funds are used to finance the franchisor's future operations and growth. A low ratio is preferred, ideally approaching 0%. A sustained high ratio should be questioned.

Intangibles & Goodwill to Total Assets Ratio: Intangibles Assets consist of trademarks, patents, brand names, licenses, copyrights, and other assets that have value and / or generate cash, including goodwill. Within the franchising community, Goodwill frequently consists of hard to quantify intangible advantages a company has over its competitors, such as its brand name and reputation, exceptional franchisee relations, acknowledged leadership position within the industry, strategic locations, business connections, etc. Unfortunately, there is a built-in incentive for franchisors to value Goodwill excessively and, in so doing, artificially inflate Total Assets and Stockholders' Equity. While it is expected that a company will increase the Total Assets component on its balance sheet on a regular basis, those changes should not come as a result of significant increases in Goodwill or other Intangible Assets.

Long-Term Debt to Shareholders' Equity Ratio: This ratio measures the balance between the Long-Term Debt and Equity in the firm's long-term capital structure. Over time, one should properly expect that growing and sustained profitability from operations would add to Equity, and consequently result in a corresponding decrease in Long-Term Debt. The lower the ratio, the better. One would certainly expect this ratio to be lower for established brands than ones that have fewer years of operations.

Total Score

The Total Score noted is the sum of the values awarded to each variable. The highest Total Score determines the "Winner" in Category Franchise System of the Franchise Recognition Program in that Secondary Category.

Scoring of Variables in Franchise Matrix™

Each weighted variable in the Franchise Matrix™ for each franchisor was awarded a value by a panel of two professionals (Stanford MBA and Coe College Liberal Arts Major). With very few exceptions, values were awarded with the best score being awarded to the franchisor with the highest relative score for each variable. The range of scores awarded for any given variable was based on our collective experience in franchising, knowledge of the industry and the individual franchisors selected. We have done our best to be totally impartial and to let the chips fall where they may.

Objections and Complaints

If you feel that the analysis of FranCompare™ Franchise Recognition Program is based on incorrect data extracted from your 2018 FDD (the issue date of the FDD is noted) or if you feel you have been placed in an incorrect Secondary Category, please let us know and we will modify the information accordingly. To the extent that your franchise system would have otherwise been selected as the Best in Category Franchise in the "new" Secondary Category, we will make proper amends, along with our sincerest apologies.

If you are objecting because we are using what you consider as "proprietary" data in our analysis, please be aware that all of the information used in the analysis is taken from publicly available Franchise Disclosure Documents (FDDs) that are readily available for free on the internet, through state regulators or at a modest cost through third parties. If you wish to challenge our assumption that the data is in the public domain, we request that you put your complaint in a letter and mail it to FranCompare™, 1814 Franklin St., # 800, Oakland, CA 94612 and we will forward your complaint to our attorney. We would hope, however, that you will determine that this is a waste of both your and our time and resources.