

# Creative Financing Solutions

**Canadian Franchise Association**

**Law Day**

March 3, 2009



# Creative Financing Solutions



# Creative Financing Solutions

- Overview
  - Introduction of Panellists
  - The State of the Economy & Franchising
  - When is Financing Typically Required?
  - How can a Franchisor Improve a Franchisee's Success in Obtaining Financing?
    - Sources of Financing
    - Methods of Facilitating Loans and Other Best Practices
    - Key Documents to Facilitate the Loan Process
  - Dealing with Problematic Scenarios

# Creative Financing Solutions

- Introduction of Panellists

# Creative Financing Solutions

- The State of the Economy & Franchising
  - United States
    - Economy
    - Franchising – IFA Economic Outlook - 2009
  - Canada
    - Economy
    - Franchising – CFA Membership Survey - 2009

# Creative Financing Solutions

- When is Financing Typically Required?
  - Franchisor
  - Franchisee

# Creative Financing Solutions

- How can a Franchisor Improve a Franchisee's Success in Obtaining Financing?
- Consider:
  - Sources of Financing
  - Methods of Facilitating Loans and Other Best Practices
  - Key Documents to Facilitate the Loan Process

# Creative Financing Solutions

- Sources of Financing
  - Traditional
    - Financial Institutions
    - Canada Small Business Financing Program (CSBF)
  - Non-Traditional
    - Franchisor
    - Family and Friends
    - Business Development Bank of Canada & Business Coaching
    - Other Alternative Lenders?

# Creative Financing Solutions

- Methods of Facilitating Loans and Other Best Practices
- Understanding the Lender's Priorities
  - Cash Flow and Risk Analysis
  - Security
  - Disclosure Document Review and Upgrade
  - Ensure Accuracy and Consistency
  - Criteria for Choosing Franchisees and Site Selection Criteria
  - Ensure Accuracy of Annual Operating Costs and Earnings Projections

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- Methods of Facilitating Loans and Other Best Practices cont...
  - Working Capital Requirements
  - Allocate Internal Resources or Outsource Lender Relationships with Brokers
  - Franchisor Due Diligence to Pre-qualify Prospects Early and Regularly
  - Dealing with Multi-Unit Franchisees

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- Methods of Facilitating Loans and Other Best Practices
  - Generate List of Preferred Lenders and Meet with Them
  - Prepare Operational Pro-forma Statements
  - Review of Franchisor's Internal Systems

# Creative Financing Solutions

- Key Documents to Facilitate the Loan Process
  - Consent Form from Franchisee
  - Franchisee's Personal Guarantee
  - Certificate of Insurance
  - Employment History
  - Personal Credit History

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# Creative Financing Solutions

- Key Documents to Facilitate the Loan Process
  - Business Plan [*See Appendix for more details*]
  - Other Documents
    - General Security Agreement
    - Subordination Agreement
    - Registration of Notice of Subordination
    - Franchise (Comfort) Letter

# Creative Financing Solutions

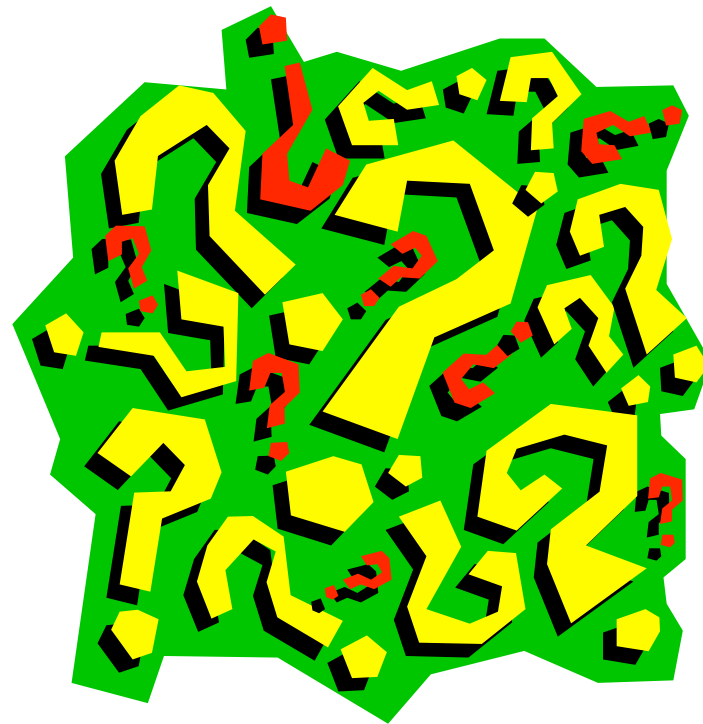
- Dealing with Problematic Scenarios
  - Pre-default Franchisor Action for Problem Locations
  - Franchisee Loan Default: Bank / Franchisor Cooperation
  - Franchisee's FA is Terminated
  - Franchisee Insolvent, Bankrupt or Voluntary Assigned into Bankruptcy

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# Creative Financing Solutions


- Dealing with Problematic Scenarios
  - Factors Affecting Franchisor Decision & Action (Possession, Operation, Pay Bank, Do Nothing)
  - Franchisor Has Assumed Control of the Business
  - Resale of Business

# Questions?




# Contact Us

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# Appendix - Business Plans

- Financial
  - Profit & loss and cash flow forecasts
  - Opening balance sheet
  - Cost of business with breakdown by asset
  - How business will be capitalized (owner equity, landlord TI, bank loan)
  - How loan will be secured and repaid

# Appendix - Business Plans

- Non-Financial
  - How and why the site was chosen
  - How the franchisee is qualified to run the business
  - Background on franchisor and its track record