



FRANCHISE VALUATIONS

Cambridge Partners is pleased to announce that it is currently appraising the assets of two highly recognizable franchise brands as part of recent M&A transactions. The valuations are being prepared for purposes of purchase accounting in accordance with ASC 805 (Business Combinations).

One establishment operates in the casual dining space while the other in fast food.

The following is intended to highlight an acceptable approach to valuing the franchise agreement intangible asset. Apart from the real estate and equipment, the typical franchise enterprise derives most of its income from its franchise agreement intangible asset. These agreements provide value to their owner (the franchisee) by supporting sales and earnings in the following ways:

- Sales are supported by an increased ability to attract customers with an established brand. The agreement calls for support to the franchisee by way of advertising, promotions, territorial exclusivity, market analysis, etc.
- Net incomes for franchised establishments are typically higher than non-franchised systems because of the size, scale and efficiencies of the system, including procurement of food products and better management of inventory and working capital.

The valuation of the franchise agreement can often be measured using an income based approach, including the *"with" and "with-out" method*. In this approach, a discounted cash flow model is developed to compare and contrast the projected cash flows assuming the franchise agreements are in place and not in-place. The difference between the forecasts represents the cash flow attributable to the franchise agreement. Cambridge Partners is well experienced in franchise related valuation matters and can assist owners, accountants, investors, financial institutions and others with the appraisal of tangible assets (e.g., real estate, leaseholds and equipment) as well as intangible assets, franchise agreements, stock equity interests and much more. We have completed assignments for both small and very large franchisees. Please contact us with questions.