The McLean Group
INVESTMENT BANKING

Franchise
M&A Market Update©

4 QTR 2011 Franchise M&A Overview January 2012

The McLean Group Leads Global Buy Side Engagement

The McLean Group has been engaged by a leading, highly-respected, consumer-oriented private equity firm to identify high-growth, high-quality franchisor brands in which to invest. Ideal candidates for the $1 billion PEG will have $3 million to $5 million in EBITDA, attractive growth rates, distinctive brands with competitive advantages, strong and predictable free cash flow, talented management teams, and the potential to enhance value by accelerating same-unit sales, growing franchisees and expanding across geographies.

Contact Managing Director Burt Yarkin, 510-444-6195, byarkin@mcleanllc.com to learn more.

A World View.

As 2011's fourth quarter drew to a close, global economic uncertainties continued to have repercussions throughout the US Franchise and Restaurant Franchise sectors. Major questions remained as to the European Union's ability to address the similarly grave economic turmoil it currently faces. In the US, major stock indices plunged in late September/early October as twin specters of long-term unemployment and "double-dip recession" weakened consumer confidence and reduced discretionary spending in turn. By yearend, indications that the US economy was recovering and unemployment declining led to recovery in the broader markets and consequently the Dow Jones Industrial Average rose 5.5% for the year. Despite economic uncertainties, consumer discretionary spending rose in 2011 and investors' interest in acquiring or investing in quality franchise companies remains very strong.

Higher Costs, Lower Demand, Bankruptcy.

During the second half of 2011, rising food/commodities prices, high gas prices, and stagnant per capita income weakened consumer demand, jeopardizing several restaurant chains' long-term prospects: Friendly's Ice Cream Corp. filed for bankruptcy in October. When no buyer surfaced, owner Sun Capital sold Friendly's assets, with court approval, to a Sun affiliate in December. Real Mex Restaurants, Inc., owner of Chevys and other Mexican-food chains, also filed for bankruptcy in October. Souper Salad and Grandy's filed for bankruptcy in mid-September, and Quiznos, with fewer than 3,400 restaurants – down from 5,200+ in 2007 – is attempting to restructure $1.1 billion in debt. In today's uncertain times, excessive leverage too often proves risky.

Too Many Restaurants?

Industry bankruptcies have created "zombie restaurants" of such restructured chains as Friendly's, Sbarro, Chevys and Perkins, whose need to discount aggressively threatens healthy franchise and independent restaurants. After the number of US restaurants grew 100,000+ to 550,000 from 1996 to 2008, US per capita restaurant visits fell 7% from 2008 to 2011: retrenchment may be required to balance supply and demand. Competition will intensify in 2012 and chains that have yet to achieve economies of scale may prove likely, if unwilling, candidates for acquisition by strategic/financial players capable of delivering greater efficiencies.

[1] "Slicing Costs, and Still Serving," by William Neuman, The New York Times, December 27, 2011.

Through it All, McDonald's Leads the Way.

McDonald's continues to innovate with a raft of new product offerings, including healthier choice menu options that have brought in new consumers without cannibalizing existing product lines and also increasing its global revenues by 36% in the past five years to $77.4 billion. As always, a brand with a sterling reputation and singularly strong corporate strategy can thrive in the most challenging business environments.

Noteworthy Recent M&A Transactions in Franchises & Franchise Restaurant Chains

Date	M&A Target Issuer	Value ($MM)	Buyers/Investors	Sellers	Transaction Comments
1/3/12	Lawn Doctor (Closed)	N/A	Levine Leichtman Capital; Levine Leichtman Capital SBIC Fund	Lawn Doctor	January 3, 2012 was both the announced date and definitive agreement date of this M&A transaction.
10/6/11	Veggie Grill (Closed)	$11.00	Brentwood Associates	The Veggie Grill	The Veggie Grill issued common shares to the investor in return for an $11 million round of Regulation D funding.
9/8/11	Chem-Dry (Harris Research) (Closed)	N/A	Baird Capital; Thrivent Financial for Lutherans; Baird Capital V	The Home Depot	Harris Research's Chem-Dry brand, with 4,000 in-home cleaning service franchisees worldwide, was acquired.
7/14/11	C2 Education Centers(Closed)	$30.00	Serent Capital	C2 Education Centers	Serent's $15 million to $30 million equity funding will be invested in infrastructure, systems and curriculum.
5/3/11	J.D. Byrider Systems(Closed)	N/A	Altamont Capital; Prospect Capital	J.D. Byrider Systems	A used car and finance company franchise, J.D. Byrider Systems was acquired.

About The McLean Group

The McLean Group is an investment bank providing mergers and acquisitions (M&A), business valuation and strategic consulting services to middle market businesses. Headquartered in the Washington, DC metropolitan area, we are among the largest independent middle market investment banks in the nation. The McLean Group has a presence in more than 30 cities in the US, serving domestic and international clients with a broad resume of successfully consummated financial transactions. Our research staff leverages state-of-the-art, proprietary corporate information and transaction data, providing our clients with unmatched information on which to make transaction decisions.

The McLean Group will be attending the International Franchise Association annual meeting in Orlando, FL on February 12-14, 2012. Please call or email Managing Director Burt Yarkin (510-444-6195, byarkin@mcleanllc.com) ***to schedule an appointment with The McLean Group.***