

SAGE *Solutions*

Six Must-Do's For Mega-Franchisees!

- 1. Contract negotiation with the Franchisor to enable the mega-franchisee to use advanced estate planning technique to avoid significant 40-50% current gift tax and future estate tax...and potential income tax. Most franchisors (e.g. McDonald's Corp) only allow franchisees to utilize revocable trusts to own franchise operating LLC units. Many franchisors are open to negotiation to amend this policy on a case-by-case basis for their top franchisees. Substantial life insurance premiums can be applied more effectively within the application of advanced planning techniques.*
- 2. In many franchises, the franchisee is permitted by the franchisor to own the underlying real estate. In many cases, the franchisee's life plan is to sell the operating franchises in the future and become a passive owner of the real estate, with a participating lease. It is important for the franchisee to structure the leases properly while actively in business, as well as to apply advanced estate planning strategies to avoid taxes and creditor-proof the asset. Creditor Protection can be provided against divorce exposure, negligent activity, or nuisance law suits of the franchisee's children ... if proper techniques are applied.*

3. *Franchisees are continuously required to remodel and ‘scrape & re-build’ the shops, both to modernize the aesthetics, as well as to improve drive-through flow and other operational efficiencies. Sage Hill has developed and owns unique analytical technology which enables the franchisee to maximize his / her ROI and enterprise value achieved.*
4. *Where business succession (to family or internal franchisee management) of the franchise is the franchisee’s goal, it is critically important to leverage the tax and human impact, and resultant cash flow to the current owner. Given the impact of this planned event upon current key franchisee management and upon the franchisor’s approval, there is important linkage between this plan and the franchisee’s advanced estate plan for one’s family.*

When negotiated properly with the franchisor general counsel and franchise development executive, a win-win-win-win is achieved for:

- Franchisee*
- Franchisor*
- Franchisee Management Team*
- Franchisee Family*

5. *There is significant movement in the mega-franchise industry currently. Franchisee interests are being sold to private equity firms and to other mega-franchisees at a significant pace. Low interest rates and current financing liquidity provide for a very supportive market. Additionally, low ‘AFR’ rates support intra-family transfers very functionally in an efficient cash flow / tax process when structured properly.*

Philip J. Toffel Jr., JD, CEO & Managing Partner

Sage Hill Family Office..The Family Office with understandable solutions to complex franchisee wealth issues ...

Saratoga Springs, New York

Minneapolis, Minnesota

*ptoffel@sagehilladvisory.com
www.sagehilladvisory.com*