Industry Spotlight

How To Sell Your Franchise for More With Boxwood Partners

The boutique investment firm has successfully guided dozens of private equity deals, most involving franchises. Here's what its leaders are looking for in a client ready for the next stage in their business life.

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The wonky, wild world of private equity can be intimidating to the average entrepreneur with its committed capital, sophisticated limited partners and complex financial engineering. But Boxwood Partners Managing Partner Patrick Galleher says a successful deal comes down to the simple stuff.

Those deals involve big and well-known franchise players like The Lash Lounge, Sylvan Learning*, Neighborly, Koala Insulation and Junk King. Boxwood Partners typically represents the founder-owners of franchises who are looking for that exit or cash injection, Galleher said.

“The free cash-flow dynamics of franchisors, the relatively high EBITDA margins at the franchisor level [and] the economies of scale with very little staffing produces a lot of systemwide sales and cash flow,” Galleher told Powills. “So private equity over the last 10 to 15 years is paying very, very strong multiples to buy and invest in franchises. So from an advisory perspective, it became a very attractive market for us to focus on.”

Unit-level economics are the biggest key-performance indicator when deciding whether or not to take those franchisors or franchisee groups on as a client.

“If your franchisees aren’t making money, the franchisor is not going to continue to grow,” Galleher said. “We look very closely at validation and FBR [Franchise Business Review] reviews. If they’re not selling new units, then they’re probably not going to continue to grow and also not be attractive to a private equity firm.”

As part of their due diligence, Galleher said, private equity firms will look at how many franchisees are buying multiple locations, how fast they open those locations under a development agreement and the conversion rate of store locations that are sold and opened.

That’s a good reason not to rush things, according to Powills.

“Sometimes the franchisor skips over those [unit-level economic] elements, and goes toward ‘Where are my leads? Go sell me franchises,’” Powills said. “Cool — we sold deals … but are they opening the package that they agreed to? You see stall out there. If you’re not going through that checklist and you’re just selling to sell, or you’re bringing candidates that aren’t the dream franchisee, then you’re setting yourself up for a valuation down the line that’s not going to be what you expect it to be.”

The fundamentals are critical for another reason, Galleher said: As intimidating as the private equity process may be for franchisors, the jargon and statistics that are a part of everyday franchise life are just as opaque to the money men (and women).

“To be honest, most private equity doesn't really understand the difference between FSOs, brokers and organic leads at this point,” he said. “So they're really looking at the end results — the end KPIs.”

Whether you're a veteran franchisor or aspiring entrepreneur looking to launch your first franchise, 1851 Growth Club can help. Click here now to find out how!