

FRANCHISORS FORECAST IMPROVED TOP LINE. MARGIN PRESSURE CONTINUES

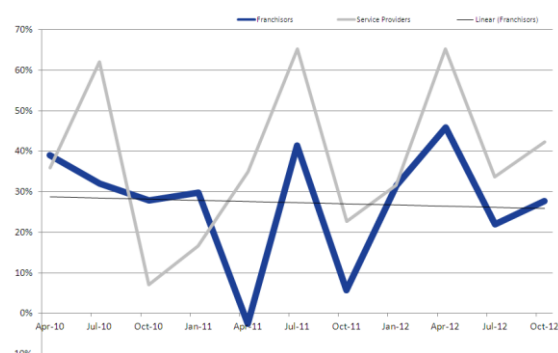
Franchise Consultants' October 2012 *Franchising Confidence Index* demonstrates a continuation of mixed results across overall sector growth drivers. Franchisors were most positive in their outlook for general business conditions, franchisor growth prospects and sales levels per franchisee. Meanwhile, franchisor forecasts indicated a continuing negative/poor outlook for franchisee operating costs and profitability levels.

The latest results indicate a consolidation in franchisor and service provider (views for franchisors generally) forecasts for general business conditions. Franchisor responses improved to a net 28%, compared to 22% in July. Similarly, service provider sentiment improved to 42% (current) from 34%.

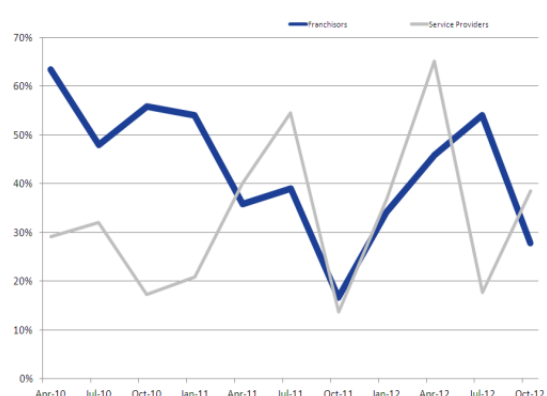
Interestingly, franchisor sentiment for general business conditions (at net 28%) again topped general business forecasts, as reported in the September NZIER (-5%), National Bank (17%) and October BNZ (20%) business confidence surveys.

Franchisor sentiment toward their own growth prospects declined from a net positive 54% (in July) to 28%. By contrast, service provider sentiment toward the same increased from 20% (in July) to 38%, regaining some ground from the relative highs reported in April.

GENERAL BUSINESS CONDITIONS



FRANCHISOR GROWTH PROSPECTS



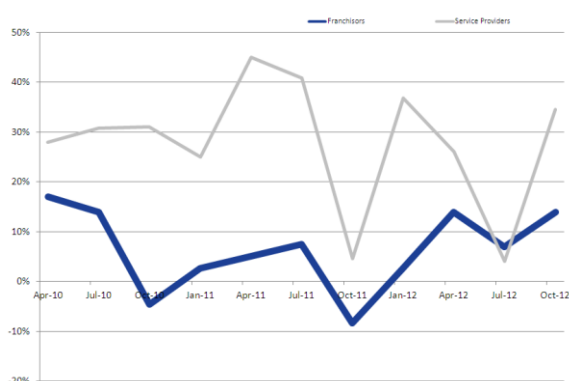
RESULTS SUMMARY TABLE *

	Franchisors												Service Providers														
	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12					
General business conditions	39%	32%	28%	30%	-3%	41%	6%	32%	46%	22%	28%	36%	62%	7%	17%	35%	65%	23%	32%	65%	34%	42%					
Access to financing	-5%	-6%	-19%	-14%	-10%	24%	-19%	18%	16%	15%	14%	8%	12%	7%	8%	40%	43%	9%	37%	39%	7%	42%					
Access to suitable franchisees	17%	14%	-5%	3%	5%	8%	-8%	3%	14%	7%	14%	28%	31%	31%	25%	45%	41%	5%	37%	26%	4%	35%					
Availability of suitable staff	29%	16%	16%	25%	36%	0%	17%	21%	0%	12%	6%	40%	27%	45%	50%	35%	27%	14%	26%	4%	1%	23%					
Availability of suitable locations	53%	34%	30%	38%	26%	7%	22%	37%	14%	21%	23%	48%	31%	52%	54%	20%	32%	32%	26%	30%	6%	27%					
Sales levels per franchisee	59%	36%	48%	33%	33%	44%	22%	29%	51%	34%	22%	28%	27%	-7%	4%	15%	50%	14%	11%	52%	39%	19%					
Operating costs per franchisee	-2%	-29%	51%	-22%	-38%	-32%	-31%	-26%	-24%	-12%	-17%	-52%	-46%	-41%	-33%	-30%	-27%	-27%	-11%	-43%	-17%	-23%					
Franchisee profitability levels	41%	16%	16%	5%	-3%	22%	3%	-8%	30%	5%	-3%	-12%	-15%	-24%	0%	0%	14%	-23%	-5%	14%	20%	0%					
Franchisor growth prospects	63%	48%	56%	54%	36%	39%	17%	34%	46%	54%	28%	29%	32%	17%	21%	40%	55%	14%	37%	65%	18%	38%					

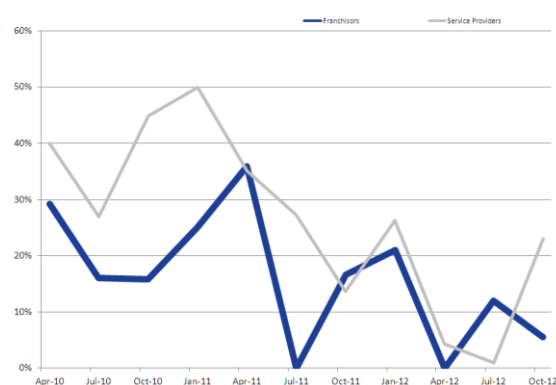
*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

Both franchisor and service provider sentiment toward access to suitable franchisees showed an increase from July. Franchisors seem to be slightly more cautious, however, with only a slight increase from a net 7% to 14%. The increase in service provider opinion was a lot more marked, from net 4% to 35% (a substantial 31% gain from the last survey). Service providers' higher confidence levels continued toward accessing suitable staff with an increase of net 22%, but were not shared by franchisors who displayed a loss of confidence with a drop from net 12% to 6%.

ACCESS TO SUITABLE FRANCHISEES



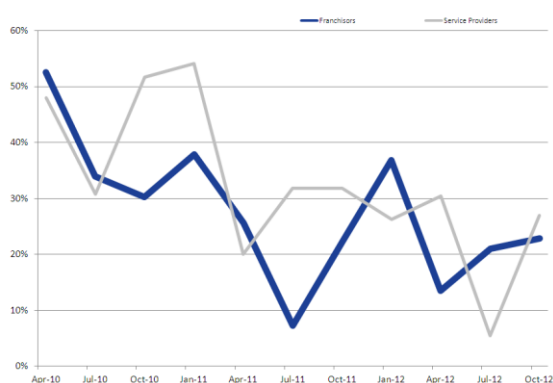
ACCESS TO SUITABLE STAFF



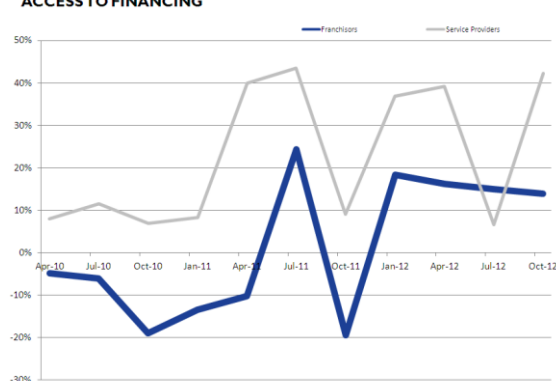
In the charts below, we see increased confidence from both groups of respondents towards perceived access to suitable locations. Franchisors, however, were again more reserved with a small net 2% increase, compared to service providers' 21% net gain since July. The two groups ultimately displayed similar levels of confidence despite these differences, at net 23% and 27% respectively.

In relation to access to funding, again results were quite different between the two groups. Franchisors appear to have kept relatively stable levels of confidence since July, with only a small drop of net 1% to 14% this quarter. Service providers, on the other hand, have become a lot more optimistic towards franchise funding with a considerable net 35% increase.

ACCESS TO SUITABLE LOCATIONS

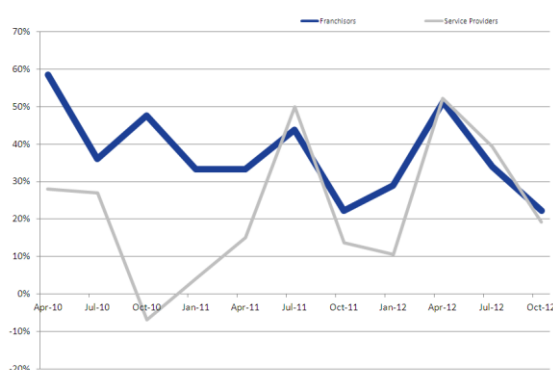


ACCESS TO FINANCING

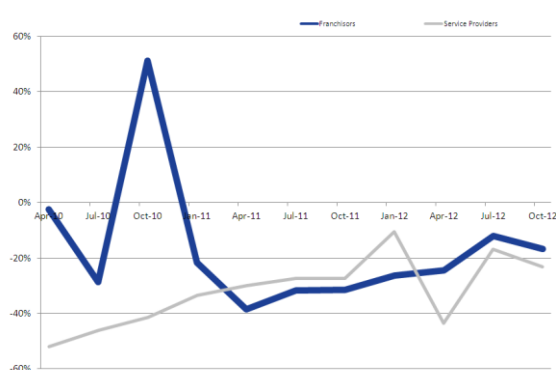


The following tables explore further monetary aspects from a franchisee perspective. Here franchisor sentiment toward sales decreased further this quarter, from a net 34% to 22%. Service providers echoed this downward trend at a net 19%. Both franchisors and service providers continue to forecast stormy waters for franchisee operating costs, ending at a net negative 17% and 23%, respectively.

SALES LEVELS PER FRANCHISEE



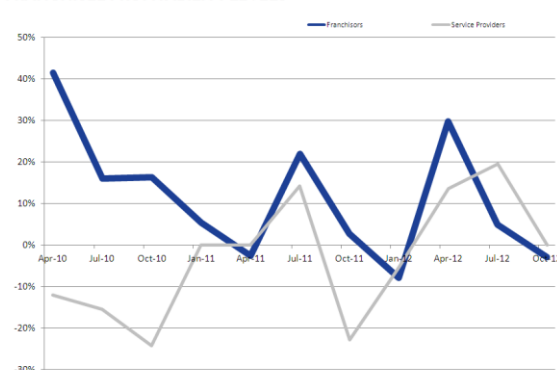
OPERATING COSTS PER FRANCHISEE



Not surprisingly, overall sentiment toward future franchisee profitability levels also declined. Franchisors forecast a net negative 3%. Service providers forecast a net 0%. Both groups are clearly concerned.

Franchisor and service provider forecast sentiment were surprisingly aligned for franchisee sales levels, operating costs and profitability levels.

FRANCHISEE PROFITABILITY LEVELS



Franchisors were asked how things were looking in their sector. An analysis of 18 short written responses (out of the 36 overall responses) revealed muted improvement in sentiment toward general business conditions, when compared with previous periods. Meanwhile, some franchisors continue to note a challenging operating environment within their specific sub-sectors.

The following responses (ordered from negative to positive sentiment) are indicative of the wide range of responses received:

- *"It can't get worse [but] we feel that this current recession is only a good thing as it gets rid of the weak, unproductive companies and pushes the strong to get better."*
- *"Not easy at present."*
- *"Improved prospects and sales since last survey."*
- *"With a slight warming of building activity in Auckland, the next 12 months are looking more positive."*

The main themes related to high levels of competition, declining margins, and the importance of good business practice and strategy. Some comments referred to the impact Government could have on some business models, with possible legislative/policy changes creating uncertainty.

Service providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses were slightly more mixed between positive, negative and neutral for this quarter. Some examples of responses given (from negative to positive) include:

- *"Increased activity for some but with pressure on margins across the board."*
- *"Costs will continue to rise so tight management of expense lines and prudent pricing should keep businesses on an even keel."*
- *"Opportunity is knocking once again. Prospects are looking up for those with the correct structures and systems in place."*

Concluding Comment

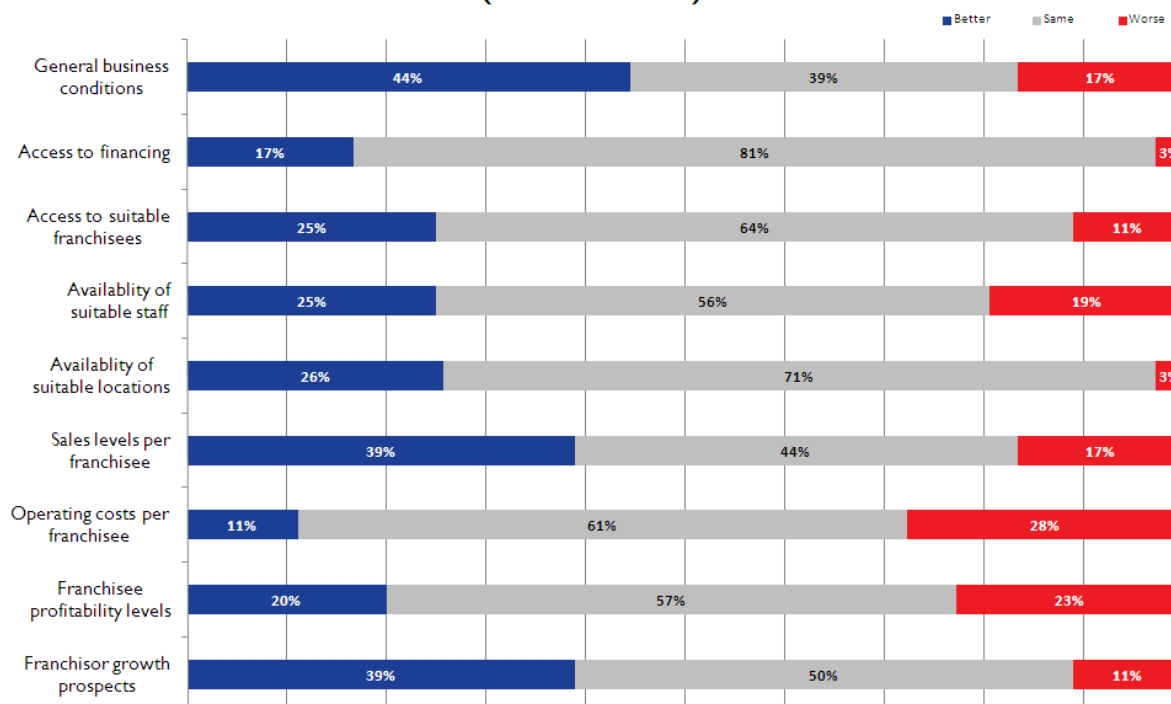
Franchise Consultants' October 2012 Franchising Confidence Index demonstrates a continuation of mixed forecasts overall sector growth drivers. Franchisors were most positive in their outlook for general business conditions, franchisor growth prospects and sales levels per franchisee. Meanwhile, franchisor forecasts indicated a continuing negative/poor outlook for franchisee operating costs and profitability levels.

Both franchisors and service providers were surprisingly aligned in their forecasts for franchisee sales levels, operating costs and profitability levels. And with low and/or negative forecasts for unit-level operating costs and profitability, the challenge for franchisors and franchisees alike will be to maximise opportunities within a continuing tough environment.

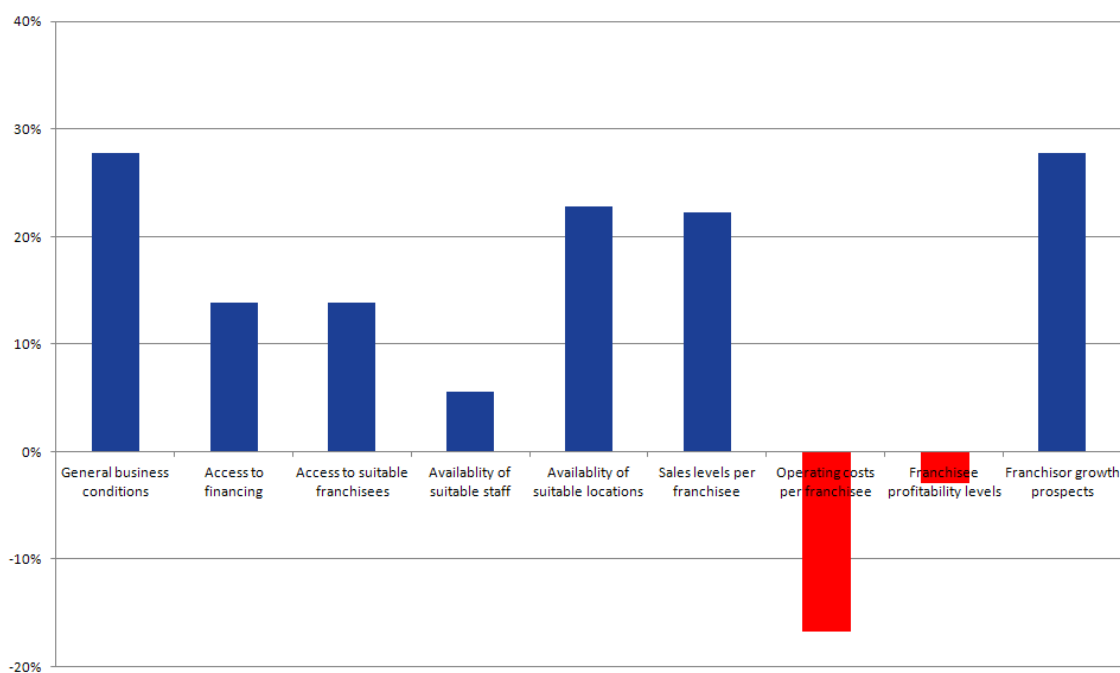
FRANCHISING CONFIDENCE CHARTS

The following four illustrations present individual and net franchisor and service provider expectations (separate charts) for the following year across all questions, including general business conditions and franchisor growth prospects (covered above).

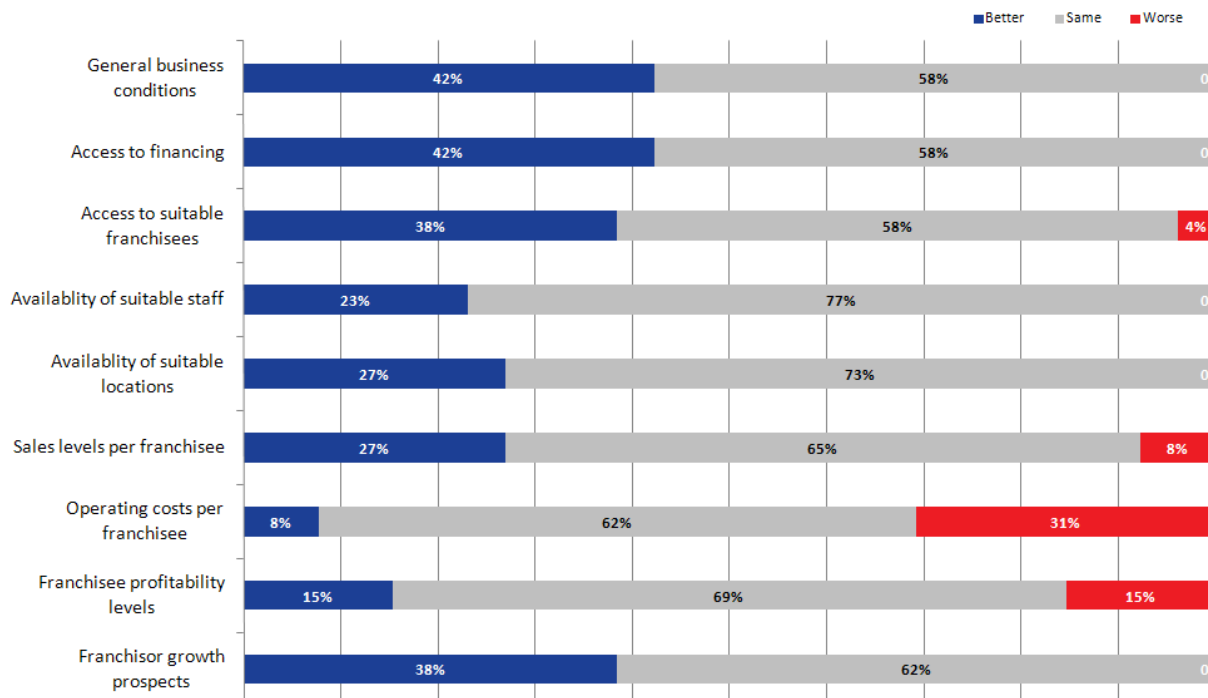
FRANCHISOR EXPECTATIONS (next 12 months)



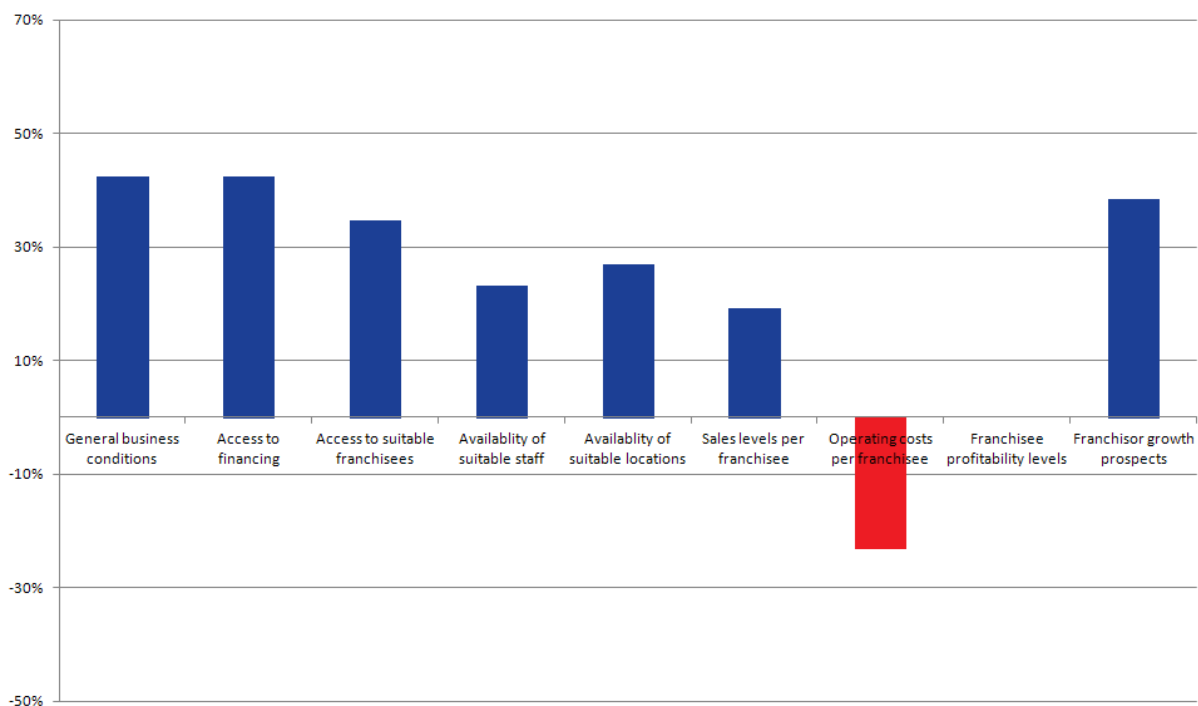
NET FRANCHISOR EXPECTATIONS



SERVICE PROVIDER EXPECTATIONS (next 12 months)



NET SERVICE PROVIDER EXPECTATIONS



Franchising Confidence Index

The Franchising Confidence Index represents the views and expectations of franchising, an important domain of business within the New Zealand economy.

Franchising is a substantial and growing domain of business making up an important part of the New Zealand economy. The *Franchising New Zealand 2010* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 423 individual franchise systems comprising some 23,600 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 80,400 people, including 57,700 permanent full-time employees. Finally, local expert estimates of total franchise system turnover range from \$15 to \$25 billion – suggesting franchising is a strong contributor to New Zealand GDP – as it is around the world. Companies involved in franchising are as diverse as Foodstuffs (New World, PAK'nSAVE, Four Square), NZ Post, Fisher & Paykel, Contact Energy, McDonald's, Columbus Coffee, Fastway Couriers, Harcourts and Fletcher Building.

The Franchising Confidence Index represents confidence in key measures critical to the success of franchising in this country by reporting attitudes toward general business conditions, as well as key franchising growth determinants including access to capital, suitable potential franchisees, staff and locations. The Franchising Confidence Index also covers franchising health attributes and outcomes by exploring franchisee sales, operating costs and profitability, and franchise system growth prospects.

The data and analysis presented represents the views of 37 franchisors and 26 service providers collected between Monday 8 and Friday 12 October 2012. Findings from both groups are reported separately.

Respondents are asked whether they expect conditions to be 'better,' 'same' or 'worse.' 'Net' confidence is the difference between those reporting 'better' and 'worse.'

For more information contact:



Callum Floyd PhD

Franchising Confidence Index

Franchise Consultants (NZ) Ltd

Level 1, 27 Gillies Avenue

Newmarket, Auckland

Ph. 09 523 3858

Fax. 09 520 0387

Email. callum@franchise.co.nz

Web. www.franchise.co.nz, www.franchisingconfidence.co.nz