

OPTIMISM BUILDS WITHIN THE FRANCHISING ECONOMIC GROWTH ENGINE

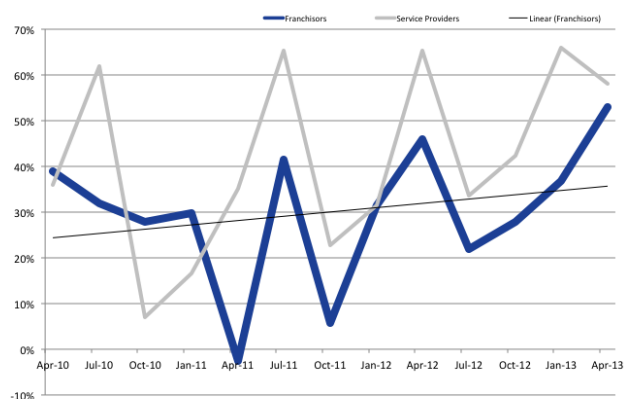
Franchise Consultants' April 2013 *Franchising Confidence Index* show improved optimism for most key growth drivers, as reported by responding franchisors and service providers. Franchisors were most positive about improvements to franchisor growth prospects, sales levels per franchisee, general business conditions, franchisee profitability levels, and access to financing, respectively. A neutral to negative outlook remained for availability of suitable staff, franchisees and locations, and operating costs per franchisee.

The latest results indicate a convergence in positive franchisor and Service Provider (views for franchisors generally) forecasts for general business conditions. Franchisor responses continued to improve to a net 53%, compared to 37% in January. Service Provider sentiment showed a decrease however, from a net 66% to net 58%.

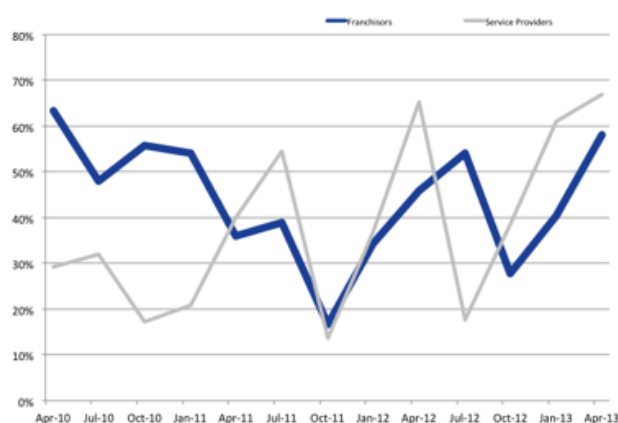
Franchisor sentiment for general business conditions (at net 53%) tops that indicated in recent general business forecasts, as reported in the March NZIER (23%), ANZ Business Outlook (35%) and BNZ (25%) business confidence surveys.

Both franchisor and Service Provider forecasts for franchisor growth improved, with franchisors substantially increasing from net 41% to 58%, and Service Providers from 61% to 67%.

GENERAL BUSINESS CONDITIONS



FRANCHISOR GROWTH PROSPECTS



RESULTS SUMMARY TABLE *

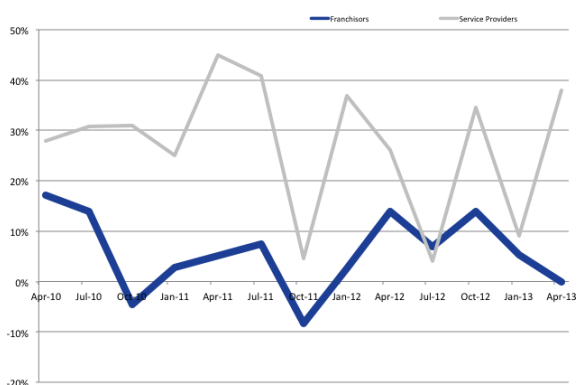
	Franchisors													Service Providers												
	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Jan-13	Apr-13	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Jan-13	Apr-13
General business conditions	39%	32%	28%	30%	-3%	41%	6%	32%	46%	22%	28%	37%	53%	36%	62%	7%	17%	35%	65%	23%	32%	65%	34%	42%	66%	58%
Access to financing	-5%	-6%	-19%	-14%	-10%	24%	-19%	18%	16%	15%	14%	13%	28%	8%	12%	7%	8%	40%	43%	9%	37%	39%	7%	42%	26%	46%
Access to suitable franchisees	17%	14%	-5%	3%	5%	8%	-8%	3%	14%	7%	14%	5%	0%	28%	31%	31%	25%	45%	41%	5%	37%	26%	4%	35%	9%	38%
Availability of suitable staff	29%	16%	16%	25%	36%	0%	17%	21%	0%	12%	6%	-5%	3%	40%	27%	45%	50%	35%	27%	14%	26%	4%	1%	23%	13%	17%
Availability of suitable locations	53%	34%	30%	38%	26%	7%	22%	37%	14%	21%	23%	-5%	0%	48%	31%	52%	54%	20%	32%	32%	26%	30%	6%	27%	31%	33%
Sales levels per franchisee	59%	36%	48%	33%	33%	44%	22%	29%	51%	34%	22%	32%	56%	28%	27%	-7%	4%	15%	50%	14%	11%	52%	39%	19%	44%	54%
Operating costs per franchisee	-2%	-29%	51%	-22%	-38%	-32%	-31%	-26%	-24%	-12%	-17%	-11%	-11%	-52%	-46%	-41%	-33%	-30%	-27%	-27%	-11%	-43%	-17%	-23%	-4%	-17%
Franchisee profitability levels	41%	16%	16%	5%	-3%	22%	3%	-8%	30%	5%	-3%	13%	44%	-12%	-15%	-24%	0%	0%	14%	-23%	-5%	14%	20%	0%	30%	25%
Franchisor growth prospects	63%	48%	56%	54%	36%	39%	17%	34%	46%	54%	28%	41%	58%	29%	32%	17%	21%	40%	55%	14%	37%	65%	18%	38%	61%	67%

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

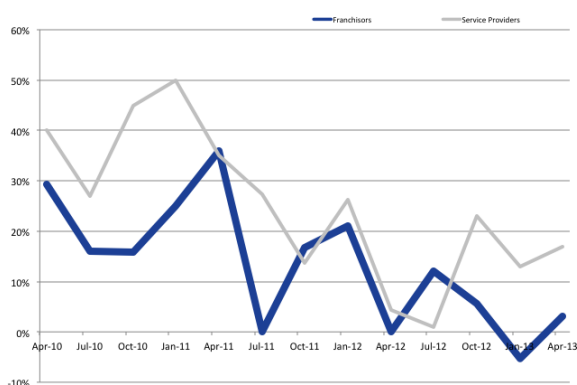
Franchisor sentiment for access to suitable franchisees, staff and locations remained largely neutral, overall. Meanwhile, the outlook for accessing finance improved.

Franchisor sentiment for access to suitable franchisees dropped from net 5% to 0%. Service Providers, however, showed a very large increase of net 29%, from 9% to 38%. This improvement in confidence was also reflected in the outlook for accessing suitable staff, with franchisors rising to net 3% from January's net negative 5% result. Service Provider confidence also increased by net 4% this quarter.

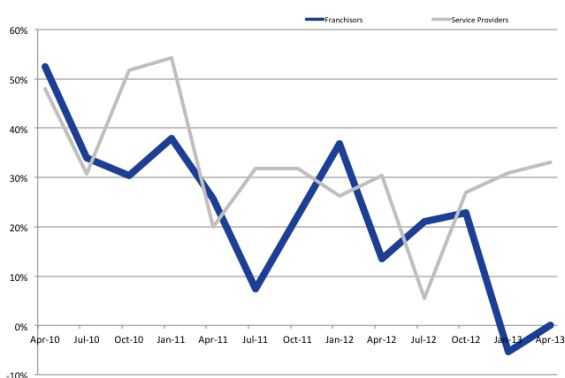
ACCESS TO SUITABLE FRANCHISEES



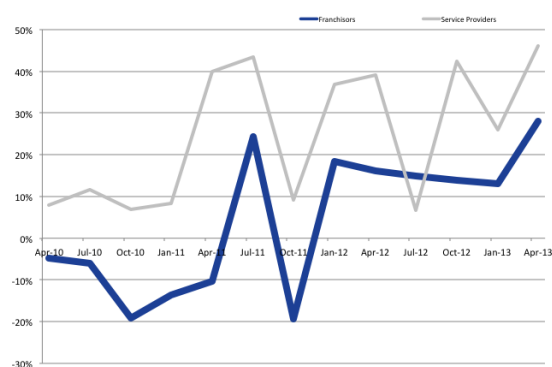
ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



ACCESS TO FINANCING

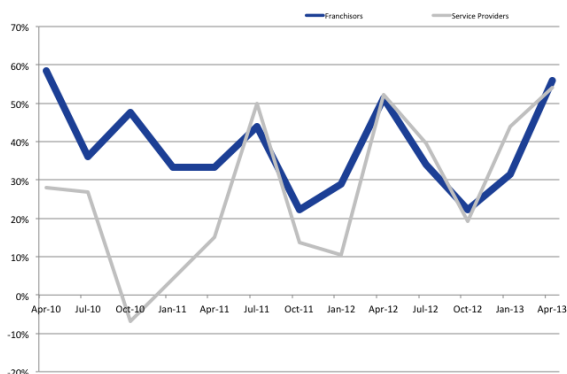


Franchisor outlook for access to suitable locations also increased, up net 5% to 0%. Service Providers were also slightly more positive this quarter (net 33%).

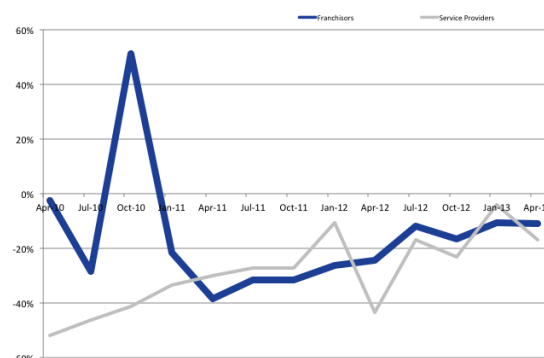
Both franchisors and Service Providers reported improved sentiment in their outlook for access to financing. Franchisors reported a substantial net increase of 15% to net 28%. Service Providers echoed this trend, rising to net 46%.

Expectations for franchisees demonstrate mixed results between both respondent groups.

SALES LEVELS PER FRANCHISEE

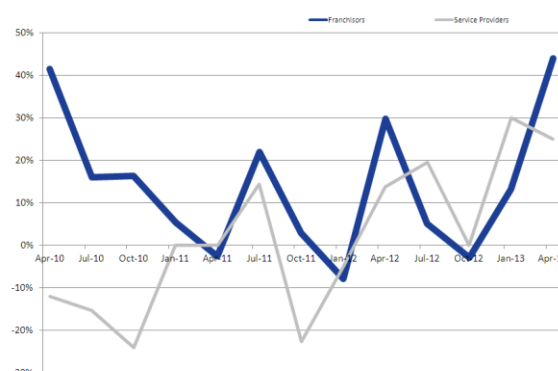


OPERATING COSTS PER FRANCHISEE



Franchisor sentiment toward franchisee sales levels (net 56%) demonstrated a substantial increase over the last quarter. Meanwhile, the outlook for operating costs remained negative at a net negative 11%. Notwithstanding the negative operating cost outlook, franchisor sentiment toward franchisee profit rose to a record net 44%. This is particularly encouraging for franchising given the success of franchising is predicated on franchisees' making profits. On balance, Service Providers, also indicated a net positive sentiment for franchisee profit (net 25%), albeit reduced compared to the previous quarter (net 30%).

FRANCHISEE PROFITABILITY LEVELS



Franchising Outlook

Franchisors were also asked for qualitative responses on how things were looking in their sector. An analysis of 30 written responses revealed a range of positive (20), neutral (3) and downbeat (7) views.

Many franchisors were particularly positive about their results and outlook, with many expecting definite improvement in the next 12 months:

- *“Generally upward signs with high levels of activity in Christchurch & Auckland”*
- *“We are expecting a better second half of the year as more housing and commercial development kick around in Auckland particularly”*
- *“Things are warming up especially in the upper North Island”*
- *“We have a huge growth strategy in place which is just now coming into fruition”*

Encouragingly, the positive outlook was especially prevalent in the education sector this quarter:

- *“The sector is generally enjoying a good period with high levels of interest fostered currently by ongoing press interest.”*
- *“Things are moving well for us.”*

Franchisors with more challenged or downbeat views talked mostly of continued pricing pressure, competition over key locations (forcing up rents and reducing landlord support), finding suitable franchisees and staff.

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses were slightly more positive than the franchisors’, but recognised difficult conditions were still an issue for some. Examples of responses, from negative to positive, include:

- *“Majority are operating in tough competitive markets with profitability being squeezed.”*
- *“Continuation of business closures/mergers should increase pool of potential franchisees, staff and premises.”*
- *“Economic commentators have become markedly less cautious over recent months, with all indicators leading to a more positive outlook.”*
- *“Totally different climate and all very positive.”*
- *“We have noticed an increasing number of franchisors start to expand their networks again.”*

Concluding Comments

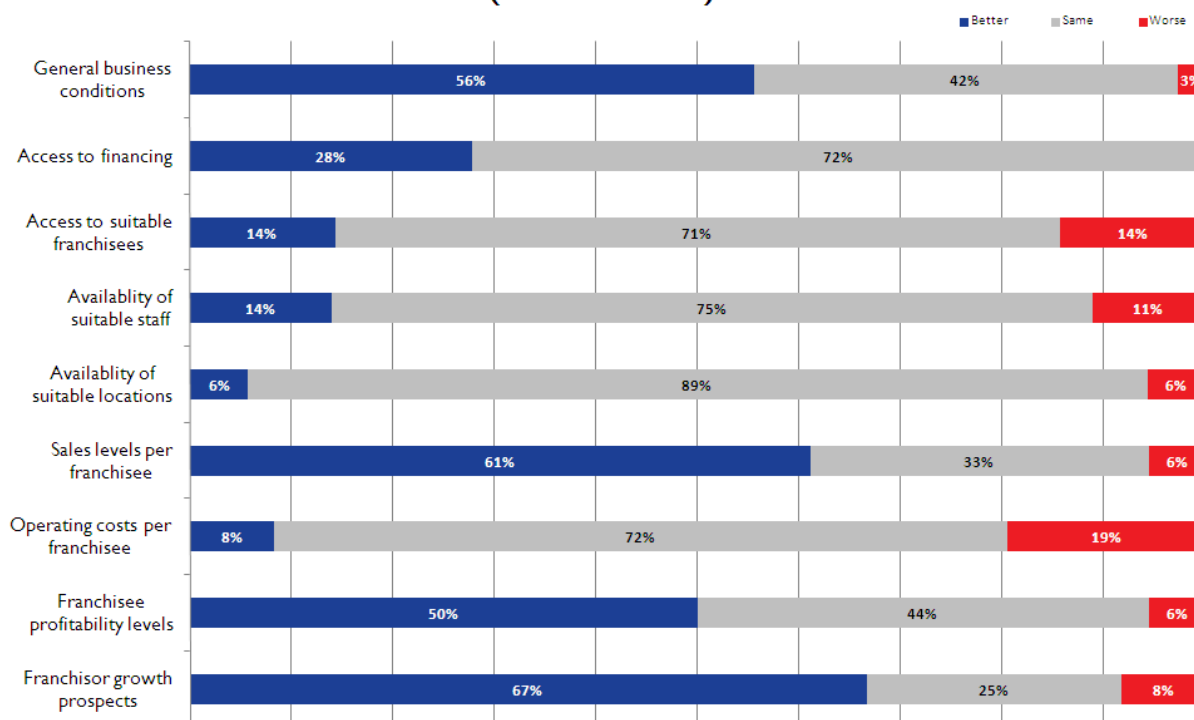
Overall, Franchise Consultants’ Franchising Confidence Index in April 2013 demonstrates much improved optimism across many key franchising growth drivers. Most notable are high and positive levels of sentiment toward franchisor growth prospects, sales levels per franchisee, general business conditions, franchisee profitability levels, and access to financing.

The author is most buoyed by franchisors’ increase in sentiment for franchisee profitability – arguably a franchise system’s most important key performance indicator. The net positive 44% reported by franchisors is the series record – and one indicator that franchising could be set to deliver growing returns to franchisees, franchisors, suppliers and the wider economy.

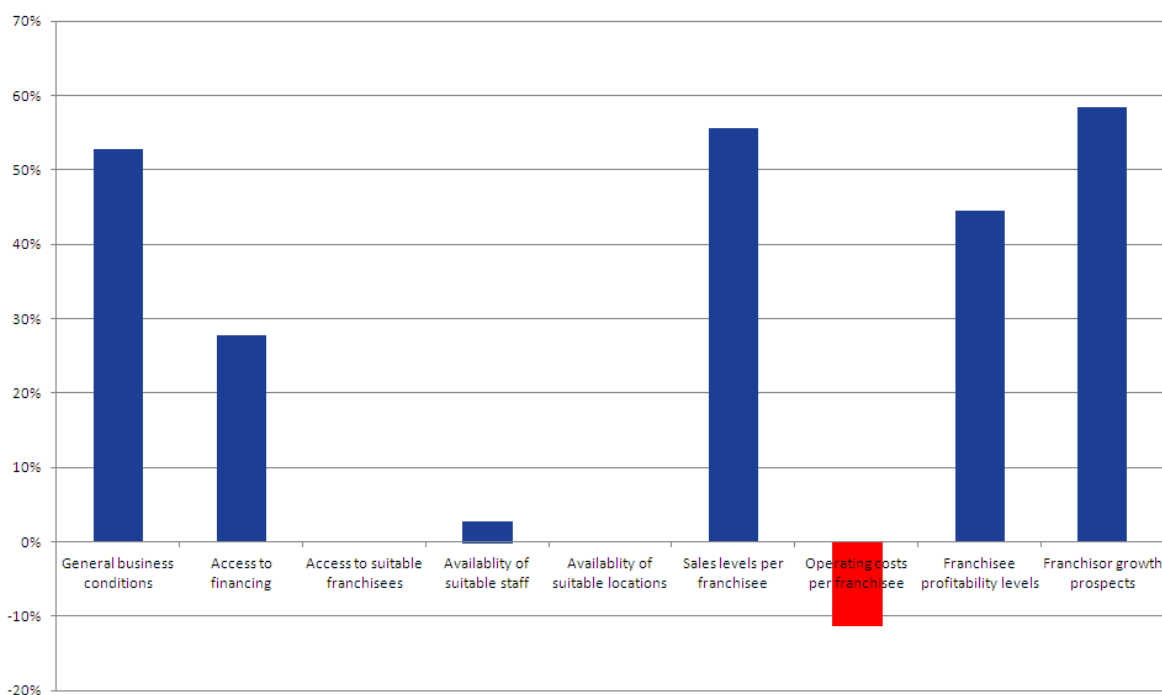
FRANCHISING CONFIDENCE CHARTS

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).

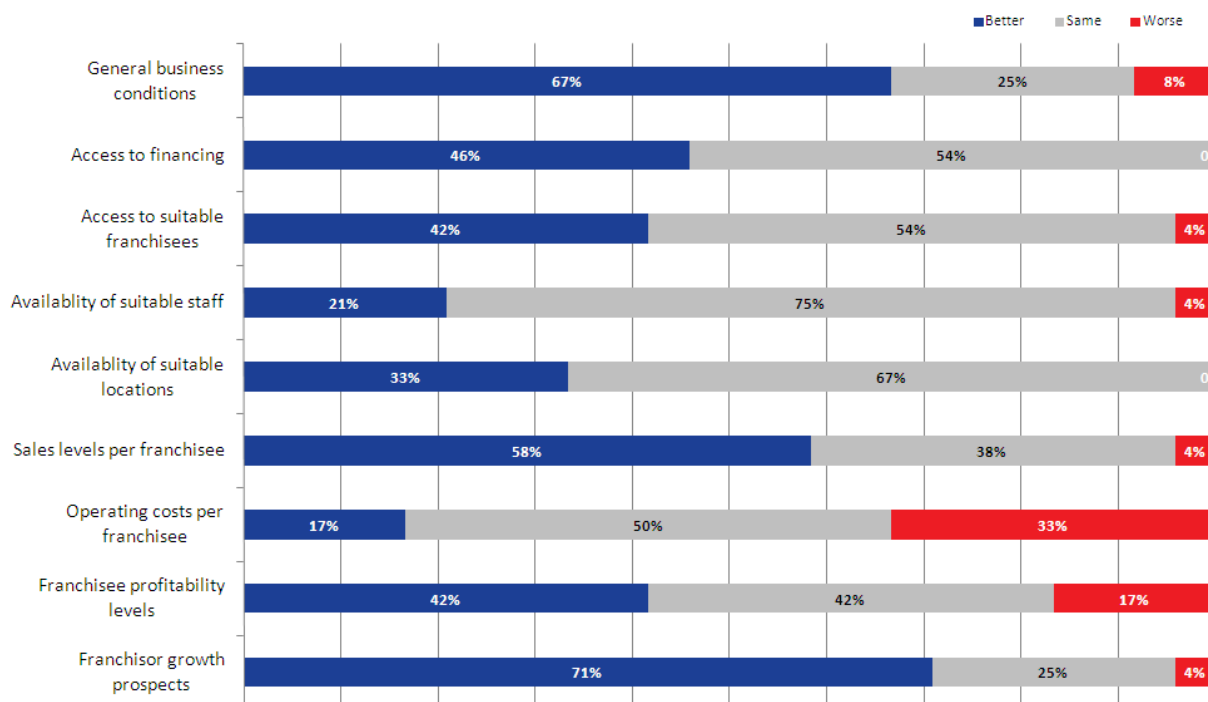
FRANCHISOR EXPECTATIONS (next 12 months)



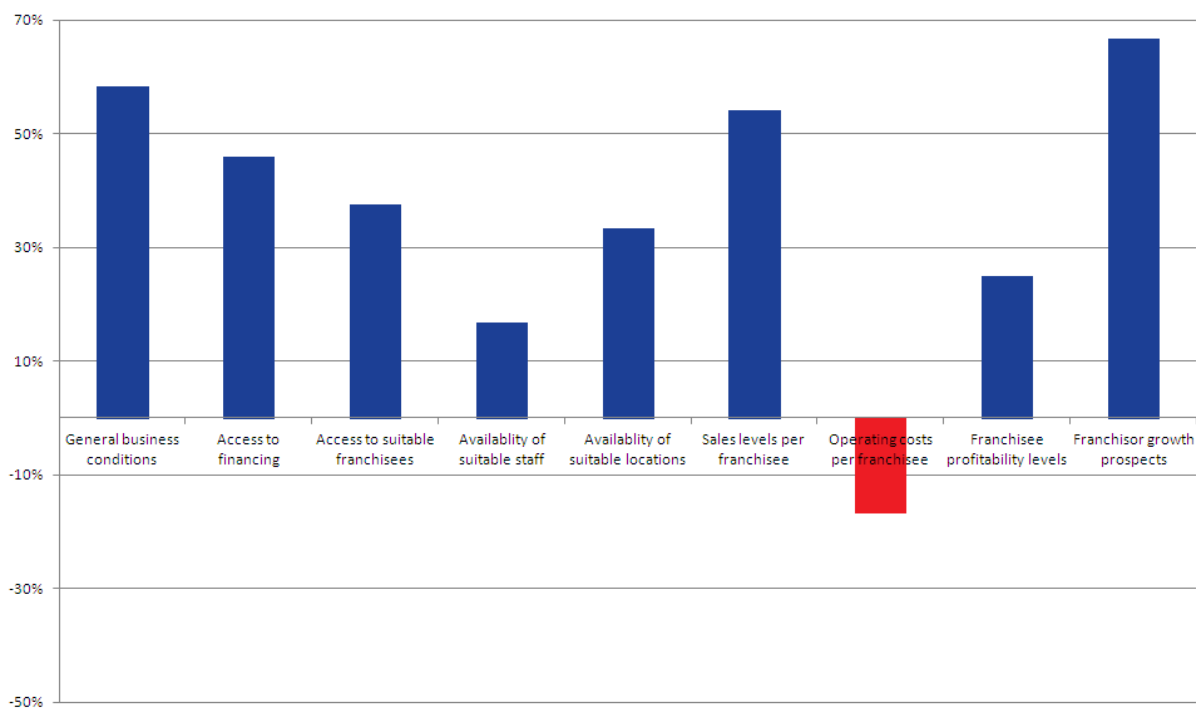
NET FRANCHISOR EXPECTATIONS



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 2012* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 446 individual franchise systems comprising some 22,400 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 100,000 people. 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 36 franchisors and 24 Service Providers collected between Monday 8 and Friday 12 April 2013. Findings from both groups are reported separately. The data and results were compiled by Christina Fowler.

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

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Franchising Confidence Index

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