ApplePie
CAPITAL

Why Franchise Debt Belongs in Your Portfolio

The Opportunity

Franchise debt is a new fixed-income asset type that offers attractive yields through investments in highly qualified entrepreneurs *and* established franchise brands that serve thousands or even millions of consumers and businesses. From a risk-reward perspective, franchise businesses are among the most reliable types of enterprises because they follow proven business models and are backed by the central resources of a national or regional brand with strong incentives to see their franchisees succeed.

> High-quality franchise debt often yields high single-digit to low double-digit returns.

For investors, high-quality franchise debt can yield high single-digit to low double-digit returns over the course of the loan, typically three to seven years in duration. By deploying capital to a "business-in-a box," investors can generate a reliable income stream that supports a multitude of fixed-income or alternative asset strategies. At the same time, franchise loans stimulate the local economy by funding entrepreneurs starting, retrofitting, acquiring or expanding a business.

Despite this appealing investment profile, franchise debt has been unavailable to accredited investors until now. Recent regulatory changes stemming from the JOBS Act and advancements in marketplace technology are making this asset type widely accessible to qualified individual and institutional investors for the first time.

ApplePie Capital is a leading marketplace lender for franchise debt, and partners with successful franchise brands to connect well-qualified franchise entrepreneurs seeking capital with investors. As other marketplace lenders such as LendingClub and Prosper have transformed the lending process for personal credit, ApplePie Capital is transforming franchise financing with a process that is simpler and faster than a conventional bank loan.

The efficiencies of the marketplace lending model, combined with the expanding reach of personal networks, and growing interest in alternative asset classes has opened up this unique new opportunity to put capital to work in proven Main Street businesses.

A Compelling Investment

Franchise debt can deliver the following benefits for investors:

> "Franchised businesses have an advantage over independent small businesses in that franchises have the ability to statistically and quantitatively measure a brand's performance history."[1]
>
> *International Franchise Association (IFA)*

A reliable income stream
In comparison to other small businesses, franchises carry less risk because they operate by a business model that has an established track record. Consequently, franchise loans produce stable and predictable income, with monthly payments of principal and interest.

[1] International Franchise Association Educational Foundation, *Small Business Lending Matrix and Analysis*, March 2013

Franchise debt is an alternative asset type.

Franchise loans are not a traditional asset type like equities or fixed-income investments and can be considered an alternative asset. As such, franchise loans deliver returns non-correlated to traditional asset classes and can thus reduce risk and volatility, while improving the overall performance of a portfolio.

Portfolio diversification

Investors have a broad choice of investing in franchise debt across geography, brand, industry, loan duration and risk profile.

In 2015, the franchise industry is expected to employ 8.82 million Americans.[2]

An opportunity to invest in local communities

Franchise loans provide capital to entrepreneurs who hire employees and stimulate the local economy. Franchise loan investments fund local jobs and economic growth.

In this white paper, ApplePie Capital presents the investment thesis for investing in franchise debt. The paper also examines the unique advantages of investing through ApplePie Capital, the only loan marketplace dedicated exclusively to franchise debt and helping investors access this asset class.

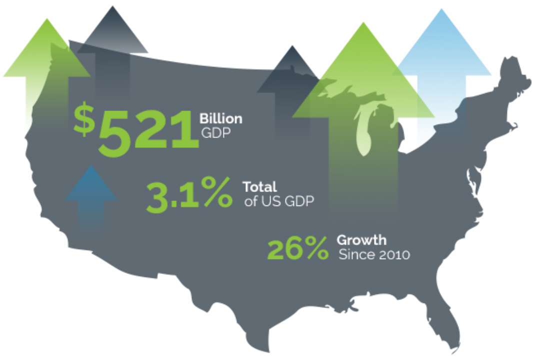
[2] IFA's Franchise Business Economic Outlook for 2014, September 2014 Update

Understanding The Franchise Market

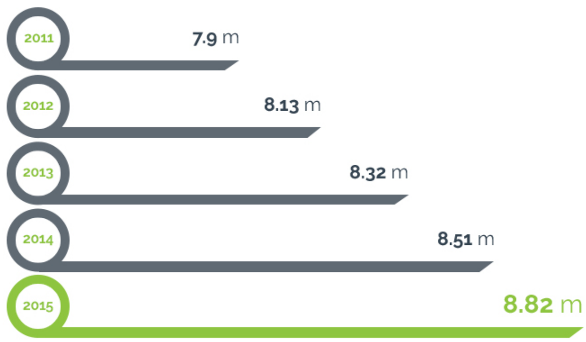
The Franchise Market

In the U.S., there are more than 5,000 national and regional franchise brands. These brands operate in numerous sectors of the economy, including Automotive, Business Services, Commercial and Residential Services, Lodging, Personal Services, Quick Service Restaurants, Table/Full Service Restaurants, Real Estate, Retail Food, Retail Products and Services, among others. As of September 2014, there were more than 768,000 franchise units worldwide.[3]

Franchise Industry in 2015



Franchise Industry Employment



*2015 data (Source: Franchise Business Economic Outlook, International Franchise Association, 2015)

What is a Franchise?

According to the IFA, a franchise is an agreement or licensing arrangement that gives a person or group of people (the franchisee) the right to market a product or service using the trademark or trade name of another business (the franchisor). The franchisee can offer that product or service using the franchisor's business practices. In return, the franchisee must pay fees to the franchisor, and the franchisor has an obligation to support franchisees.

Franchises Are Not Owned By The Franchise Brand

Franchises businesses may look similar to corporate-owned chains, but they differ in one very important aspect: Franchises are operated by small business owners; chains are run by company employees. The franchisee has invested his or her own capital and sweat equity into the business. That's an important distinction. Franchise entrepreneurs have skin in the game.

[3] Ibid

The Franchise Industry - A Large and Growing Market

Franchise Business Economic Outlook: January 2015 Forecast

	Estimates						Forecast (Jan. 2015)
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Establishments	746,646	740,098	736,114	747,359	757,857	769,683	781,794
Percent Change	*-3.5%*	*-0.9%*	*-0.5%*	*1.5%*	*1.4%*	*1.6%*	*1.6%*
Employment ('000)	7,800	7,780	7,940	8,127	8,334	8,569	8,816
Percent Change	*-2.8%*	*-0.3%*	*2.1%*	*2.3%*	*2.5%*	*2.8%*	*2.9%*
Output ($Billions)	674	699	734	768	804	844	889
Percent Change	*-3.2%*	*3.6%*	*5.0%*	*4.7%*	*4.6%*	*4.9%*	*5.4%*
GDP ($Billions)	405	414	434	453	473	495	521
Percent Change	*-1.2%*	*2.2%*	*4.8%*	*4.4%*	*4.3%*	*4.7%*	*5.1%*

Source: IFA's Franchise Business Economic Outlook for 2015, January 2015

Franchise debt is a large and dynamic market. More than $46 billion in capital demand and 73,000 transactions were projected for 2014.[4]

Franchise Establishments by Sector

	Establishments	% of Total
Automotive	31,418	4.0%
Business Services	96,837	12.4%
Commercial & Residential Services	63,671	8.1%
Lodging	26,905	3.4%
Personal Services	113,875	14.6%
Quick Service Restaurants	157,595	20.2%
Real Estate	90,320	11.6%
Retail Food	62,740	8.0%
Retail Products & Services	100,897	12.9%
Table/Full Service Restaurants	37,536	4.8%
	781,794	

[4] International Franchise Association Educational Foundation and FranData, Small Business Lending Matrix and Analysis, March 2014

The Franchise Debt Market

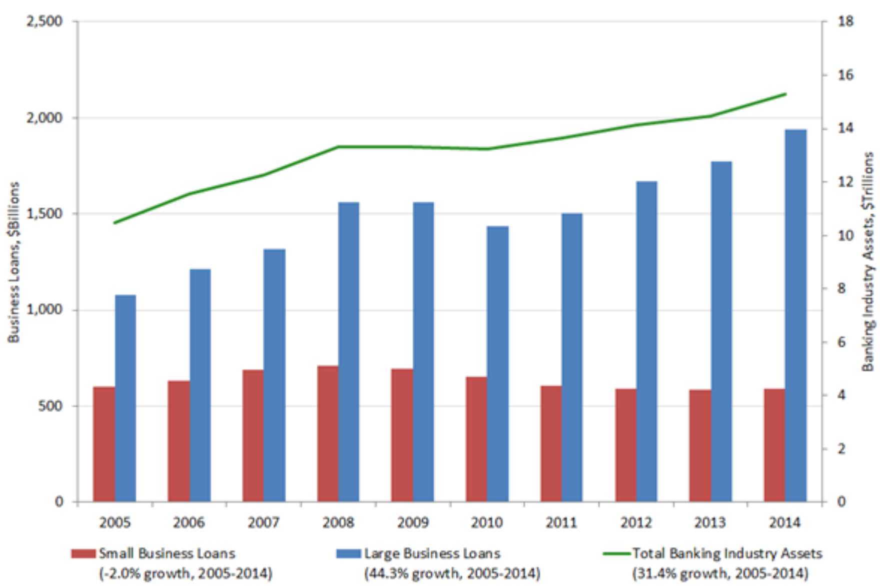
What is a Franchise Loan?

There are two major types of franchise loans: 1) Shorter-term, working capital lines of credit to fulfill immediate cash needs; 2) Strategic longer-term financing to help borrowers to start, expand, acquire, retrofit or refinance a franchise business.

Longer-term franchise loans range from $50,000 to $2 million or more. Typically, they are three to seven years, and investors can earn high single-digit to low double-digit returns. The rate paid to investors depends on a number of factors, including the historical performance of the franchise brand and the experience and the creditworthiness of the franchisee borrower.

Until recently, franchise loans were funded almost exclusively by regional and community banks, or by private sources of capital, such as family and friends. However, since the 2008 financial crisis, the process of securing a traditional bank or SBA loan has become difficult due to more stringent underwriting standards. According to the IFA, "Banks' willingness to provide conventional lending tightened drastically during the recession and has not improved much since."[5]

Bank Lending to Businesses Since 2005



Small loans are defined as those with values less than or equal to $1 million.

Large loans are those with values that exceed $1 million.

Note: All data shown are as of June 30 for the respective year, and include commercial and industrial loans and nonfarm nonresidential loans.

Source: Federal Deposit Insurance Corporation; author's calculations.

[5] International Franchise Association Educational Foundation, *Small Business Lending Matrix and Analysis*, March 2013

The greater difficulty in securing franchise loans has created an opportunity for individual and institutional investors to fill the financing gap while earning attractive returns. By combining new technologies and improved business processes, marketplace lenders are simplifying and expediting the flow of capital from investors to franchise entrepreneurs.

Borrower profile

Franchise loans are made to borrowers who are thoroughly vetted by both the brand and by the marketplace lender. The borrowers are typically entrepreneurs who understand their local markets and the franchise business. According to *The Wall Street Journal* [6], the profile of a franchise owner in 2013 looked like this:

- 71.9% are men and 28.1% are women
- The median age of franchise owners is 45-54
- 44% have a Bachelor's degree
- 19% have an advanced degree
- 12% are military veterans

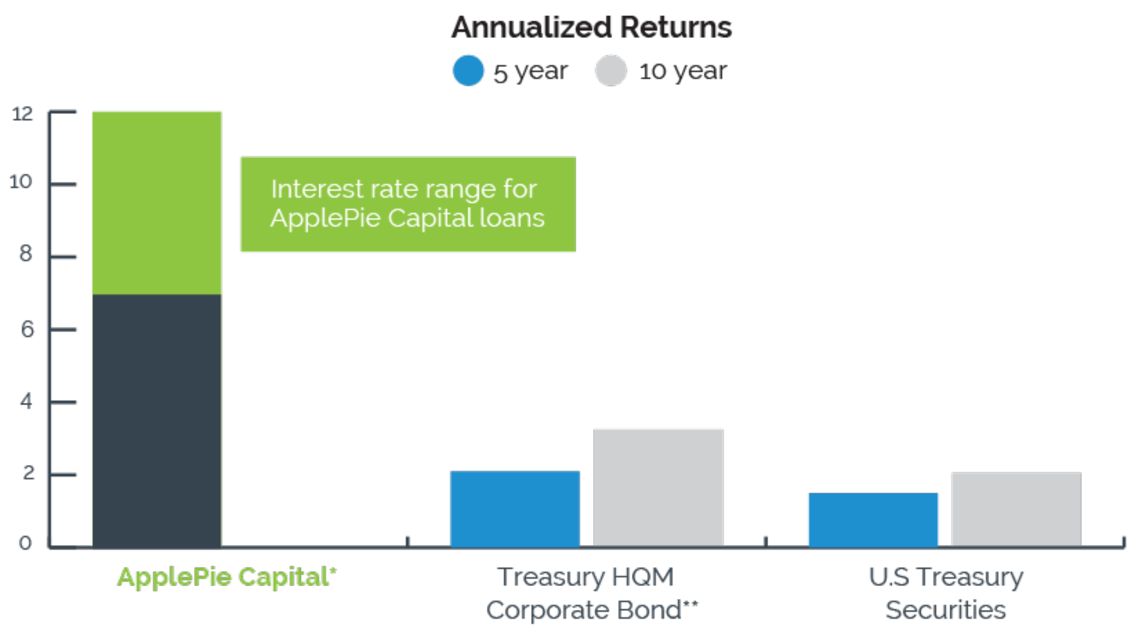
Typically, the entrepreneur seeking investment capital is a single-unit or multi-unit operator looking to add new units or remodel or refinance existing units or an area franchise representative looking to build out a territory. Borrowers can also be experienced franchise managers interested in becoming an owner-operator. Many franchisees own multiple stores or units.

[6] *The New Face Of Franchisees, The Wall Street Journal,* Aug. 13, 2013

5 Reasons To Invest in Franchise Debt

No. 1 Franchise debt offers attractive return potential for fixed-income investors.

Investors can earn stable high single-digit to low double-digit returns that are higher than those of traditional fixed-income securities.



* Figures do not include ApplePie Capital's servicing fee or potential loan losses.

** High Quality Market corresponds to U.S. corporate bonds whose credit quality is a market-weighted average of the top three qualities (Aaa, Aa, A). Source: U.S. Department of the Treasury..

No. 2 Franchise debt of top-tier brands has a history of quality.

The industry's top franchisors have a demonstrable track record of ensuring the quality and creditworthiness of its franchisees. As a result, loans to franchisees from the best franchisors tend to be lower risk, particularly in comparison to loans or investments in other start-up businesses. Just as important, franchisors have a clear financial stake in their operators' success and provide resources to maximize the franchise's profitability. Independent businesses and start-ups simply don't enjoy this advantage.

No. 3

Franchise debt offers broad diversification capabilities.

Franchise debt can fulfill two purposes of an investor's portfolio, depending on the loan's characteristics and the investor's strategy. Franchise debt can be part of a fixed-income allocation or an alternative asset allocation. Additionally, franchise debt offers broad geographic, demographic and sector diversification.

No. 4

Franchise debt is transparent and easy for investors to understand.

Franchise operations are straightforward and lack the complexity and uncertainty of more complicated and unproven business models. Franchise Disclosure Documents (FDDs) and Bank Credit Reports provide a measured level of transparency into franchise operating metrics.

FDDs provide extensive information about the franchisor and the franchise organization. These documents are intended to give potential franchisees enough information to make educated decisions about an investment. Additionally, franchise financial reporting is done in accordance with the auditing and compliance requirements of the franchisor.

No. 5

Franchise debt is an investment in entrepreneurship and the American Dream.

Franchise loans enable investors to support entrepreneurship and fuel economic growth and jobs in local communities. Franchisees are hard-working entrepreneurs interested in building a business and a better life for themselves.

ApplePie Capital: An Efficient Way to Invest in Franchise Debt

ApplePie Capital is the most effective way for investors to deploy capital to franchise debt. Because of its expertise and exclusive focus on franchise debt, ApplePie Capital has created a vibrant lending ecosystem that fuels the growth of the franchise industry, while providing investors with unprecedented access to the franchise debt asset class.

But ApplePie Capital is more than just the smart way to access the franchise debt market. It's part of a revolution in financial services that is democratizing capital around the world. ApplePie Capital is one of a growing number of marketplace lenders, sometimes called peer-to-peer or P2P lenders, who are redefining the way that entrepreneurs secure capital to grow their businesses.

The growing volume of marketplace lending is one reason why *American Banker*, the banking industry's leading trade newspaper, named marketplace lending "The Innovation Of The Year" in 2014. It's also the reason for the success of marketplace lenders such as LendingClub, whose recent IPO raised $1 billion.

5 Reasons To Invest Through ApplePie Capital

No. 1

An exclusive focus on proven, high-quality franchise brands.

ApplePie Capital continuously analyzes the historical performance of franchise brands and partners only with those who meet its stringent underwriting criteria. Approximately 15% of all brands qualify for ApplePie's marketplace. All investment opportunities at ApplePie Capital are in franchise brands that have been qualified through its diligence process.

No. 2

A commitment to strong credits through rigorous underwriting.

ApplePie Capital has focused on quality underwriting and has developed a rigorous, proprietary process specific to franchise finance. The due diligence starts with each franchise brand, and also considers the experience and creditworthiness of each borrower on both a quantitative and qualitative basis. At the same time, our franchisor partners evaluate borrowers using their own careful and time-tested methodologies. Together, the multi-factor underwriting process produces high-quality borrowers from established franchise brands.

Approved franchise brand partnerships

We partner with high-quality franchisors who meet our proprietary screening criteria.

+

Borrower screen (franchisor)

We leverage the extensive financial and operational due diligence that our franchisor partners perform on their franchisees.

+

Borrower screen (ApplePie)

We apply traditional credit risk metrics to the borrower and evaluate their experience.

=

Result

Superior risk pricing

No. 3

An opportunity to create a fully diversified portfolio.

At ApplePie Capital's marketplace, investors can place capital in a wide range of loan types by geography, brand, duration and risk, among other loan characteristics. A portfolio of franchise loans can provide much-needed diversification to reduce risk and improve overall returns.

No. 4

An easy way to invest and receive payments.

Investors can perform due diligence directly on our marketplace to quickly evaluate an opportunity and efficiently complete the investment online. We also make investor repayment easy. ApplePie Capital receives monthly principal and interest payments from the borrower and electronically sends a pro-rated share to each investor's designated bank account. Our online investor portal enables investors to securely log in and track their franchise loan portfolio, including a schedule of upcoming payments and a record of payments received.

No. 5

The flexibility to hold a franchise loan in a tax-advantaged account.

Investors at ApplePie Capital have the option of investing in franchise debt directly or through self-directed retirement accounts. A self-directed IRA enables account holders to invest in a broad range of alternative assets – everything from real estate and limited partnerships to precious metals and franchise debt. ApplePie Capital has partnered with PENSCO, the leading self-directed IRA custodian, to make it easy to invest in franchise loans with tax-advantaged funds.

ApplePie Capital Value Creation

ApplePie Capital's value proposition to investors isn't limited to the five reasons above. ApplePie Capital also performs a wide range of services for investors to manage the investment process and protect your capital. Our team adds value for investors by doing the following:

- Assessing risk and return, and pricing debt fairly for all participants
- Collecting capital from all investors required to fund the loan
- Bridging any shortfall in funds from committed capital sources we control
- Issuing debt securities to each investor
- Paying for any securities filing fees required by the states
- Collecting and disbursing payments to investors every month
- Working with the franchisee on behalf of investors on delinquent payments
- Providing annual 1099s to each investor

A fresh new approach to franchise financing.

ApplePie Capital has created a smarter, more efficient marketplace for investors, entrepreneurs and franchisors to achieve their growth objectives.

Investors

We offer investment opportunities in established franchise brands and creditworthy borrowers.

Entrepreneurs

We reduce the friction of franchise financing and quickly get you the capital you need.

Franchisors

We accelerate your growth by providing broader and more efficient access to capital for your franchisees.

Let's Work Together

ApplePie Capital has partnered a leading self-directed IRA custodian to make it easy to invest in franchise loans with tax-advantaged funds. Contact us to learn more.

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