



# GAS PRICES AND CONSUMER SPENDING

## MARKET CONSIDERATIONS FOR FRANCHISE OWNERS

Most franchise buyers would agree that the price of cheese has a huge impact on the profits of a pizza chain. Much in the same way the price of corn would have on a chicken franchise. But have you considered how changes in disposable income drive consumer behavior and thus, could temporarily impact the cash flow for your potential franchise investment?

When valuing a franchise investment, there are a wide range of obvious and some not-so-obvious factors that may paint an EBITDA picture that is not entirely reliable. Purchasers need to understand how brief blips in performance or economic conditions create changes in revenues and profits. You need to look at all the facts and trends behind a company's financial claims because what looks like an upward trend may actually be the ceiling for forecasted performance.

To ensure you don't overpay for a franchise, look at its long term performance to rule out a temporary situation that skews the numbers. To illustrate this point, the analysts at HORNE tracked how the impact of gas prices might change the perceived marketability of a pizza franchise. What we determined for this and every other franchise segment: Let the buyer beware.

### LOWER GAS PRICES BOOST RESTAURANT VISITS

Since June 2015, gas prices have fluctuated and for a while, dropped 43%. As a result, many Americans responded by traveling more, saving more and spending more. In an analysis of 25 million credit and debit card users by JPMorgan Chase Institute, consumers spent an entire 80% of their gas savings - with the most popular destination for their extra spending being restaurants. Also, a recent article in Nation's Restaurant News reports that the National Restaurant Association projects record foodservices sales in 2016 – attributing it, in part, to lower gas prices driving increased consumer spending.

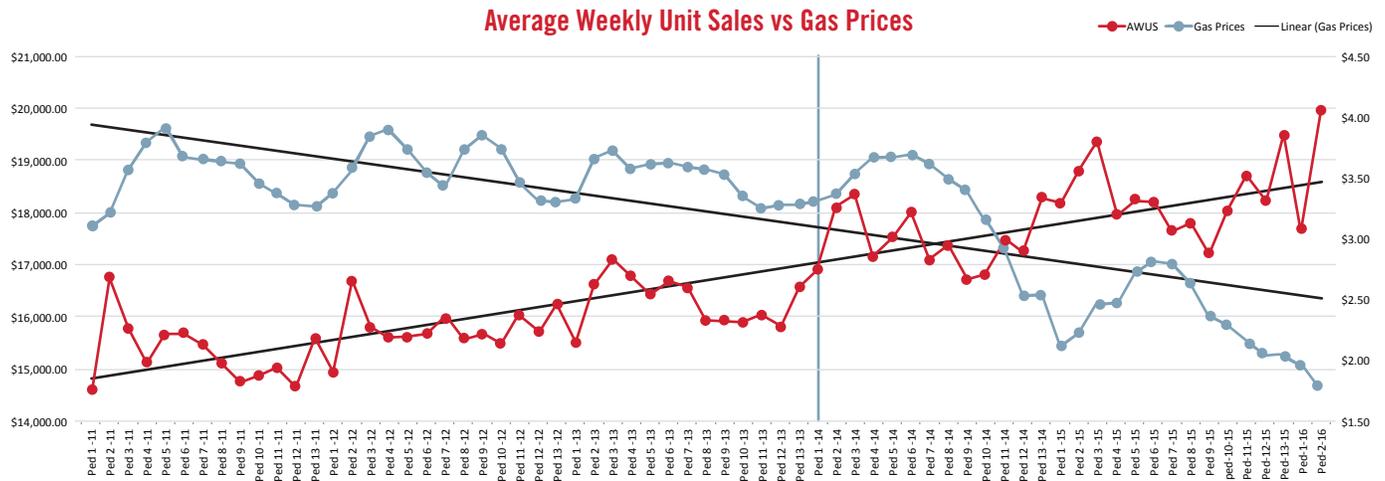
Many, clearly, are choosing pizza for dinner. According to statistics from Franchise Disclosure Documents, pizza restaurants make up 17 percent of the nation's restaurants – a \$40 billion industry. It reports that Americans consume an average of 100 acres of pizza daily or 350 slices per second.

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To better understand how these trends impact the franchise industry, HORNE analyzed ten years of data to track the correlation between the price of gas and pizza sales. What you may have guessed, when gas prices go down, consumer spending goes up – and more people buy pizzas.



## UNDERSTAND WHAT'S BEHIND THE PROFITABILITY PICTURE

How does this affect the franchise buyer? While a yearlong bump in sales is great news to the local pizza franchise owner, if you are considering a franchise investment, these trends become key factors to consider. If gas prices are at an all-time low and sales are at an all-time high, the profitability of that franchise is at its highest. What happens when the price of gas heads up again?

We are now seeing gas prices moving back up and key indicators suggest they will continue to increase into summer. The months of lower gas prices propelled many pizza franchise locations to experience record sales and increased store level EBITDA amounts – making it a good time for a pizza franchise to go on the market because the income statement looks nice. But don't let this past year of low gas prices cause you to overpay for the franchise.

What we found when looking at the impact of changing gas prices on EBITDA, is that it is only one of many external market or environmental factors that may be affecting cash flow. These factors impact profits, pricing, promotions, loan financing, as well as determining long term strategic planning for growth.

## CONSIDER ALL MARKET FACTORS

HORNE Franchise provides consulting to franchisees on when to sell, buy and how to look ahead to project earnings. We understand the franchise industry and stay abreast of industry trends.

With advanced data mining tools, we are able to benchmark performance and provide analytics to help you make more informed decisions. By combining the data analysis with our industry experience, we deliver intelligent advice that extends outside the obvious – for instance, considering market factors such as the elasticity of gas prices to sales. It helps us evaluate the market price and expected return on potential investments.

HORNE understands the factors that impact value to provide you with the most realistic approach as you navigate through your decisions. Along with tracking profitability, analyzing reporting metrics and measuring operational efficiencies, always being aware of the marketability of your investment is an integral piece of the entire financial health snapshot.

*The HORNE Franchise team supports some of the highest performing franchise businesses in the country. We allow franchise owners to stay focused on their customers, business strategy and growth by managing day-to-day financial operations, providing financial planning and consulting, as well as succession planning.*



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