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Today's
webinar
will start
momentarily...**



Understanding the New National Franchising Standards

Presented By:
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Today's Presenter



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What is the new National Franchising Financial Standard?

Vision: Owner/Operators are financially healthy and successful.

Purpose: Owner/Operators are capable of growing and reinvesting in their restaurants by optimizing and managing all financial aspects of their business.

Standard: Operate a financially viable restaurant business, meet all financial obligations, and be credit worthy in order to meet ongoing and future business needs.



Courtesy of McDonald's USA, LLC



What is the new National Franchising Financial Standard?

Measurement and guidelines:

Financial Viability of the Restaurant Business as determined by an overall point system applied to the individual viability measurements. The individual financial viability measurements are as follows:

- Cash Flow Coverage Ratio greater than or equal to 1.2
- TTM Liability Turnover equals 7 Days or less
- Equity greater than or equal to 25%



Courtesy of McDonald's USA, LLC



What is the new National Franchising Financial Standard?

An Organization must achieve an overall score of 6 or greater to meet the financial viability measurement.

6



What is the new National Franchising Financial Standard?

■ Metrics

<u>CFC Ratio</u>	<u>Points</u>
1.4 or higher or No Debt	4
1.2 to 1.39	3
1.1 to 1.19	2
1.0 to 1.09	1
Less than 1.0	-1

TTM Liability Turnover Ratio – In Days

Positive (+) days indicate degrees of positive working capital;
negative (-) days indicate a traditional liability turnover.

Greater than 10 Days +	4
0 to 10 Days +	3
Greater than 0 Days up to 7 Days -	2
Greater than 7 Days up to 14 Days -	0
Greater than 14 Days or Higher -	-2

Equity

Greater than 70% Equity	2
25% to 70%	1
Less than 25%	-2



What is the new National Franchising Financial Standard?

- Metrics – other considerations
 - Submits timely and accurate Financial Statements to McDonald's.
 - Pays McDonald's and others on time.





What does the new Standard mean to my organization?

- The calculation of ratios has not changed
- The new system attributes a point value to a range of the value of the ratio
- The new system allows an Owner Operator to have a Cash Flow Coverage ratio of 1.0 – 1.2 as long as they have positive TTM Working Capital and Equity greater than 70%



What does the new Standard mean to my organization?

- The new system provides Owner Operators with the potential to “Pass” when they would have been ineligible under the old system
- Building cash in your organization leads to less risk when dealing with viability



What does the new Standard mean to my organization?

- Under the new system the Liability Turnover in days metric is now being measured over **trailing twelve months**, not at the time of measurement. This has a significant impact on viability as a greater emphasis has been placed on maintaining positive working capital in your business throughout the year.



Example - McDonald's NFS Guidelines Prior to April 1, 2014

CFC Ratio	
1.2	3 Points
TTM Liability Turnover in days	
0 days up to 7 days -	2 Points
Equity	
25% to 70%	1 Point
Score	6 Points



Example – New McDonald's NFS Guidelines as of April 1, 2014

The scenario below exemplifies how the new system allows an Owner Operator to have a passing score with a Cash Flow Coverage ratio below 1.2 as long as they maintain positive TTM Working Capital and Equity greater than 70%

CFC Ratio	
1.0 – 1.09	1 Point
TTM Liability Turnover in days	
0 days up to 10 days+	3 Points
Equity	
Greater than 70%	2 Points
Score	6 Points



What does the new Standard mean to my organization?

Be sure to check with your CPA and/or financial advisor to understand your financial viability under the new 6 point system.

Ratio Calculations

Run On: 4/1/2014
 Organization Name & Number: RONALD McDONALD
 Total Owner/Operators: 1

The measurements below are computed using financial statements loaded to Web FFS and DO NOT represent your Business Review.

Key Indicators of running a financially viable business are Est. Net Equity of 25% or greater, Cash flow Coverage of 1.2 or Higher, and TTM Liability Turnover Days of 7 days or less.

	Guideline
Estimated Net Equity	25% or greater
Cash Flow Coverage Ratio	1.2 or higher
TTM Liability Turnover Days	7 days or less
	6 Points or Higher

TTM Feb 2014	Financial Viability Assessment	Last Business Review TTM Oct 2012
25% to 69.9%	1	Above
1.25	3	0.92
4.4	2	6.6
●	6	

TTM Feb 2014 Calculations for your organization based on your most recent financial information submitted are as follows:

❖ **Estimated Net Equity**--estimated value of the business less any debts (before required reinvestments)

Guideline 25% or greater

❖ **Cash Flow Coverage Ratio (CFCR)**--indicates the ability to service debt.

Guideline 1.2 or higher

Calculation:	Pre-Debt Cash Flow Before G&A and Draw (A)	\$	2,850,000
	Less: Actual G&A	\$	1,200,000
	Less: Draw	\$	280,000
	Cash Flow after Draw and G&A	\$	1,370,000
	Divided by: Annual Debt Service (B)	\$	1,100,000
	Cashflow Coverage Ratio		1.25

❖ **TTM Liability Turnover Days**--indicates the ability to pay debts on a timely basis.

Guideline TTM Liability Turnover Days of 7 or less

Calculation:	<u>Computed for each of last twelve months then averaged</u>
	Working Capital ÷ Average Daily Sales = LTO
	Working Capital = Current Assets - Current Liabilities - Current Portion of Long Term Debt + 1/12 Current Portion of Long Term Debt
	Average Daily Sales = Annualized Sales ÷ 363
	TTM Liability Turnover (in days, note - negative days indicate positive working capital) (C)
	4.4

(A) - Pre-Debt CashFlow Before G&A and Draw is reduced by NEP debt payments made during the past twelve months to reflect treatment as occupancy cost.

(B) - Annual Debt Service reflects loan information, utilizing loan payment and origination date, reported by you on the Debt Summary for the past twelve months. This number has not been reviewed to determine whether all loans are in compliance with McDonald's guidelines and McDonald's reserves the right to restate the terms of any loans not in compliance with McDonald's guidelines. NEP debt payments are included in Pre-Debt Cash Flow Before G&A and Draw, and therefore excluded from Annual Debt Service. See footnote (A).

(C) - See TTM Liability Turnover details on the BalSheet tab.

Web FFS
Snapshot



TTM Balance Sheet

Owner/Operator Name & Number:

Organization Name & Number:

of Balance Sheets Consolidated

Total Current Liabilities

Equipment/Other Debt (≤ 7yrs)

Conivestment/Building/Site Debt (≤ 10 yrs)

NEP Debt (≤ 20 yrs)

Non-Restaurant Building and Equipment Debt

Note Payable - Vehicle

Lines of Credit Drawn

Miscellaneous Payable-Long-term

Note Payable-Shareholder

Total Long-Term Liabilities

Total Liabilities

Capital Stock/Owners Capital

Additional Paid in Capital

Treasury Stock

Retained Earnings/Accumulated Earnings

Current Profit and Loss

Draw/Dividends/Distributions

Total Equity/Capital

Total Liabilities and Owners Equity

	Jun-13	Jul-13	Aug-13	Dec-13	Jan-14	Feb-14
	1	1	1	1	1	1
Total Current Liabilities	\$1,811,890	\$1,845,080	\$2,012,597	\$1,960,102	\$1,779,539	\$2,252,524
Equipment/Other Debt (≤ 7yrs)	2,607,970	2,541,656	3,752,622	3,573,164	3,490,622	3,303,413
Conivestment/Building/Site Debt (≤ 10 yrs)						
NEP Debt (≤ 20 yrs)	1,283,568	1,270,044	1,256,647	1,200,630	1,187,375	1,138,472
Non-Restaurant Building and Equipment Debt						
Note Payable - Vehicle	0	0	0	0	0	0
Lines of Credit Drawn						
Miscellaneous Payable-Long-term	0	0	0	0	0	0
Note Payable-Shareholder	0	0	0	0	0	0
Total Long-Term Liabilities	\$3,891,539	\$3,811,700	\$5,009,269	\$4,773,794	\$4,677,998	\$4,441,885
Total Liabilities	\$5,703,429	\$5,656,780	\$7,021,866	\$6,733,895	\$6,457,537	\$6,694,409
Capital Stock/Owners Capital	815,465	815,465	815,465	815,465	577,204	577,204
Additional Paid in Capital	298,985	298,985	298,985	298,985	298,985	298,985
Treasury Stock	(42,940)	(42,940)	(42,940)	(42,940)	(42,940)	(42,940)
Retained Earnings/Accumulated Earnings	1,416,242	1,416,242	1,416,242	1,416,242	1,502,241	1,502,241
Current Profit and Loss	123,904	195,454	233,277	238,808	(23,035)	(55,041)
Draw/Dividends/Distributions	(248,908)	(259,455)	(269,855)	(391,070)	(50,735)	(55,322)
Total Equity/Capital	\$2,362,748	\$2,423,752	\$2,451,175	\$2,335,490	\$2,261,721	\$2,225,128
Total Liabilities and Owners Equity	\$8,066,177	\$8,080,532	\$9,473,040	\$9,069,386	\$8,719,257	\$8,919,537

Calculation of Total Draw/Dividends/Distributions:

Chg in Monthly Shareholder Receivable	\$0	\$0	\$0	\$0	\$0	\$0
Chg in Monthly Notes Payable Shareholder	-	-	-	-	-	-
Chg in Monthly Draw/Dividends/Distributions	69,259	10,547	10,400	24,318	50,735	4,587
Total Monthly Draw/Dividends/Distributions	\$69,259	\$10,547	\$10,400	\$24,318	\$50,735	\$4,587
				TTM Total		\$281,019

Profit and Loss Comparison:

SOI	\$162,456	\$161,113	\$142,895	(\$79,647)	\$74,347	\$75,915
Less G&A	\$111,892	\$89,563	\$105,072	\$130,963	\$97,382	\$107,922
Computed Profit and Loss from Income Statement	50,564	71,550	37,823	(210,610)	(23,035)	(32,006)
Chg in Monthly B/S Current Profit and Loss	50,564	71,550	37,823	(210,610)	(23,035)	(32,006)
Variance	-	-	-	-	0	-
Working Capital	(190,600)	(498,644)	(273,727)	(242,714)	(316,912)	(217,661)

Avg Daily Sales	60,655	61,029	60,825	61,801	61,747	61,999	TTM LTO
LTO	3.1	8.2	4.5	3.9	5.1	3.5	4.4

Web FFS
Snapshot





Questions?



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