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DEC 28, 2017 @ 08:00 AM 1,024 👁

# Private Equity Power Boost: Why Private Equity-Owned Franchises Thrive

**Forbes Finance Council**

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Consumers probably haven't noticed -- and there's no reason why they should, though the business world has -- but private equity-owned franchises are flourishing.



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For most of the 21st century, private equity firms have found franchises attractive investments, but lately, the relationship seems to be really heating up. For instance, as Reuters recently [reported](#), in late November, Roark Capital Group, which owns Arby's, bought Buffalo Wild Wings Inc for \$2.4 billion. In October, Ruby Tuesday was [purchased](#) for about \$335 million by NRD Capital. And, in the last two years, JAB Holdings [bought](#) Panera Bread and Krispy Kreme Doughnuts.

But the trend isn't only in restaurants. In recent weeks, for instance, [in-home care services](#) and [fitness centers](#) (notably Planet Fitness) have been purchased by private equity groups. Even [an eyelash extension franchise](#) is considering a sale to a private equity firm.

I have my own experience in this dynamic between private equity firms and franchises. Over the years, as managing director of the Richmond, Virginia-based [Boxwood Capital Partners](#), we've invested in online yoga retailers, coffee wholesalers, snack retail websites and office supply stores. On January 31, 2015, [we bought](#) the remaining controlling shares of a frozen yogurt chain, [sweetFrog Frozen Yogurt](#), a process we began by becoming a minority investor in April 2012. Working together with hundreds of fantastic franchise partners, we have since turned sweetFrog into the nation's [fastest-growing](#) frozen yogurt chain.

So, why do private equity-owned firms find franchises so appealing? There are multiple reasons, although I will state the obvious: not just any franchise will work. Obviously, a private equity group wants to avoid purchasing a poorly run, mismanaged franchise. But, assuming the firm buys a quality franchise with a lot going right or at least a lot of potential, some of the pros include the following:

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- **A continuous royalty stream.** Of course, you hope that there will be steady income with any business you buy, but every month or quarter, depending on how it's structured, each franchise is sending in its royalty fee, which is usually **5-9% of the gross sales**. Much of that is invested back into the franchise, but it isn't hard to see that the more franchises you end up with, the wider your profit margins and the stronger the potential for continued growth.

- **You have an army of people working for and with you.** You don't have only employees building profits; you have *entrepreneurs*. The people who own the franchises want to succeed as much as you do. So, you wind up working with owners who are invested in the business model and working as hard as they can, hiring the best people they can find and marketing aggressively, knowing that their own sales and profits will only rise.